

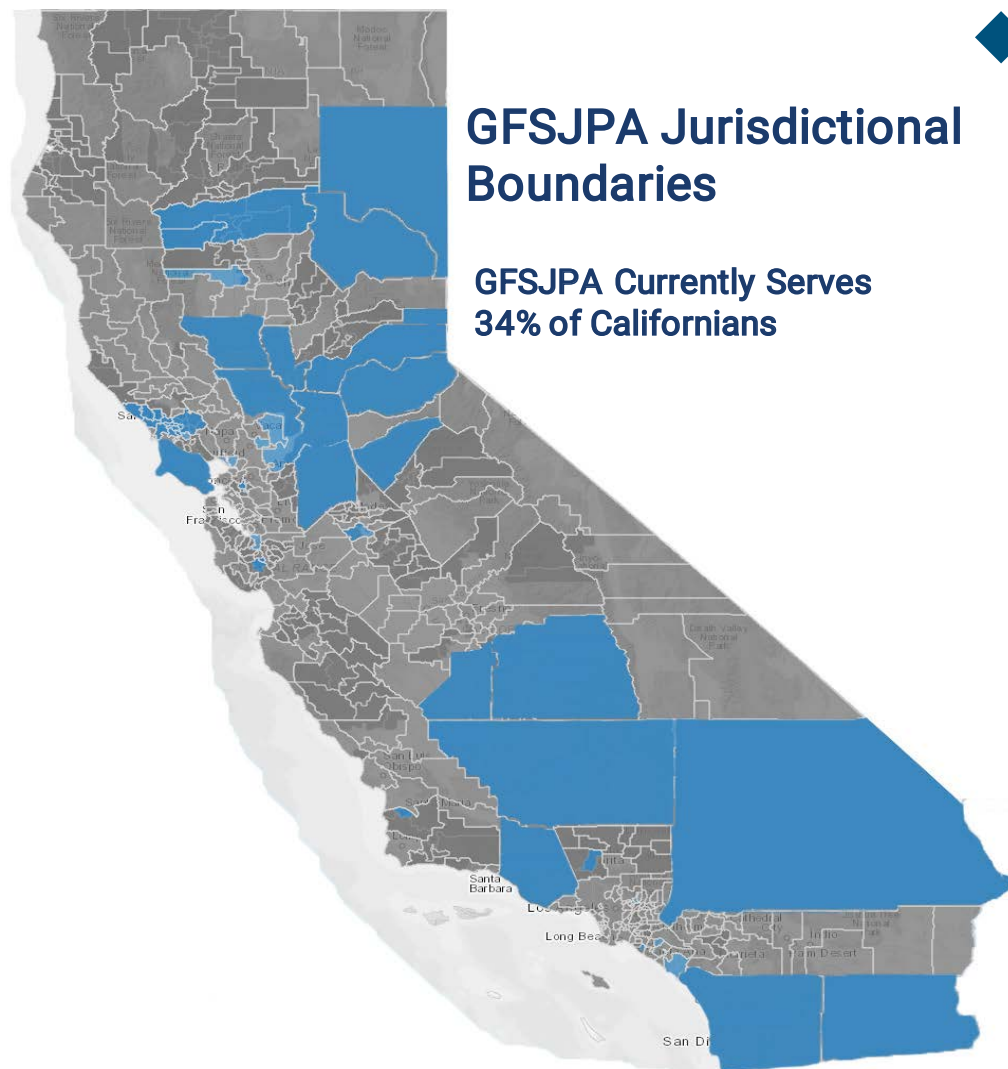
San Bernardino County Superintendent of Schools Business Services Conference

Using Systems Thinking in Managing Fraud Risk



October 24, 2025
Presented by Lori Raineri and Keith Weaver

Introduction to GFSJPA



- ◆ About Government Financial Services Joint Powers Authority:
 - ▶ Founded on July 1, 2022 by 7 public agencies
 - ▶ Over 60 public agencies are now members
 - ▶ Specialized contract services to more agencies not shown on map (including LAUSD)
 - ▶ GFSJPA assists public agencies with their financial operations and financial strategies

Note: map includes one member who has submitted a completed and signed application for membership subject to GFSJPA Board approval in September.
Population data per U.S. Census Bureau, American Community Survey 5-Year Estimates, 2022.

Agenda

- ◆ Fraud in Government
- ◆ Examples
- ◆ Introduction to Systems Thinking
- ◆ Systems Thinking for Managing Fraud Risk



Fraud Data

◆ Global data:

- ▶ 296 cases of government fraud
- ▶ Investigated Jan. 2022 – Sep. 2023
- ▶ Data drawn from a survey of Certified Fraud Examiners (CFEs) in 138 countries
- ▶ Analyzed and published by the Association of Certified Fraud Examiners



◆ Local data:

- ▶ 38 Extraordinary Audits by FCMAT
- ▶ County Offices requested the audits under Education Code Section 1241.5(b)
- ▶ Audits conducted over 10-year period FY 2015-16 to FY 2024-25



FCMAT Extraordinary Audit Findings

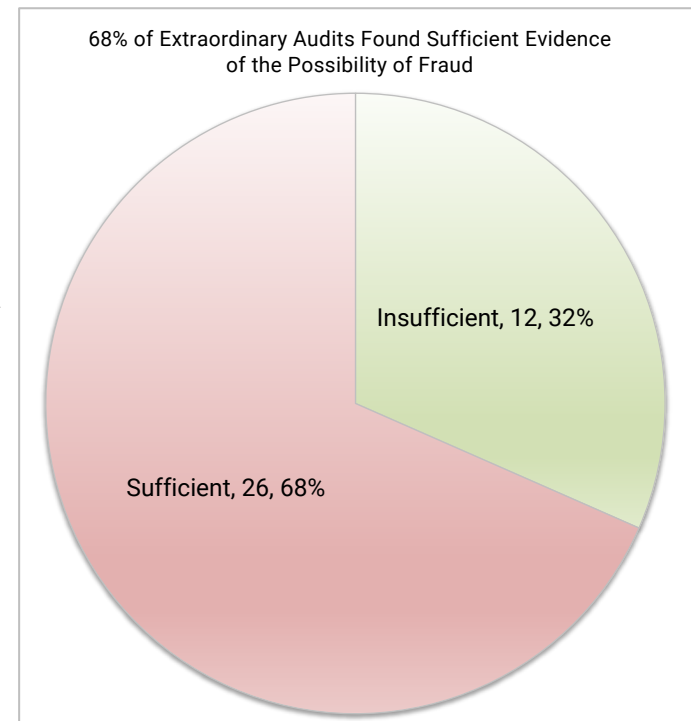
◆ Under Education Code 42638(b):

“If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.”

◆ Judgments Regarding Guilt or Innocence:

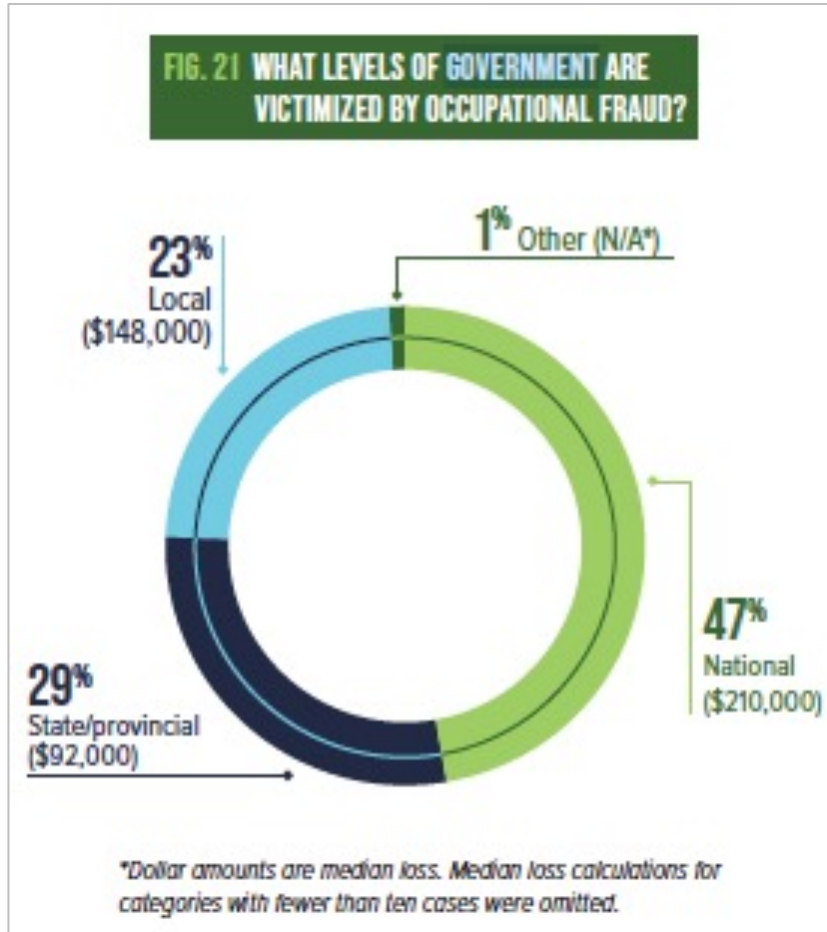
“The existence of fraud, misappropriation of funds and/or assets, or other illegal fiscal practices, is solely the purview of the courts. FCMAT is not making statements that could be construed as a conclusion that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices, have occurred.”

Sources: based on review and analysis of Extraordinary Audits published by FCMAT during FY 2015-16 to FY 2024-25.

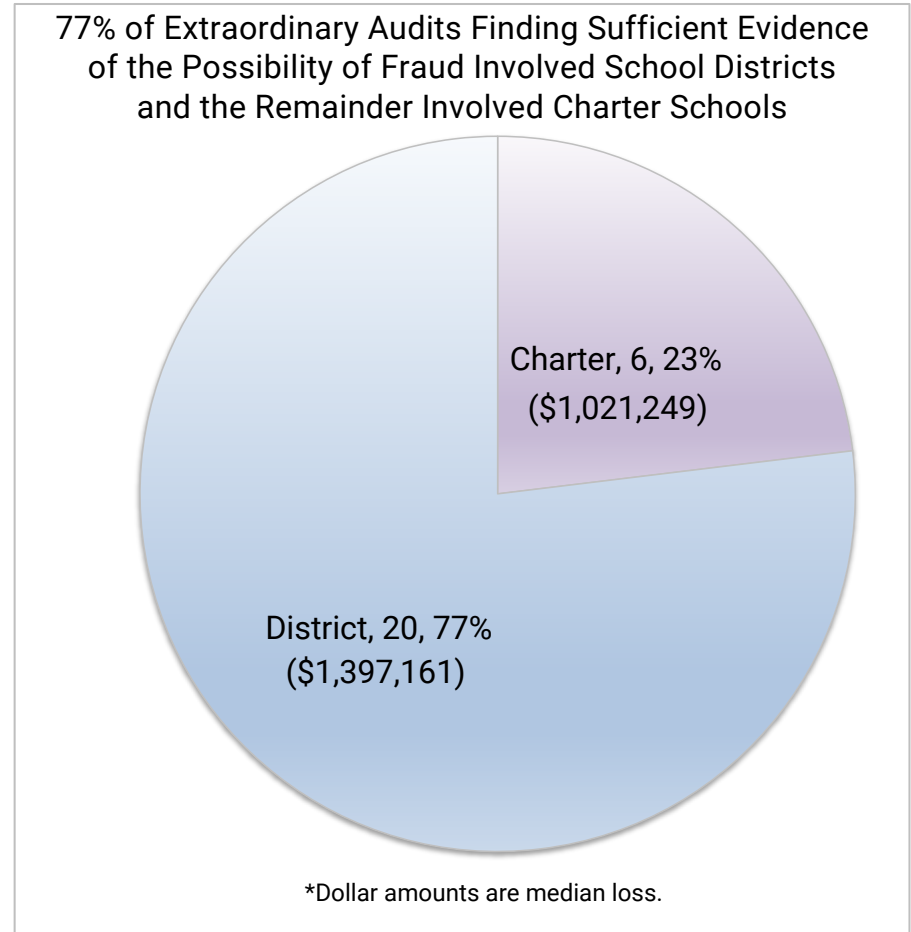


Levels of Government

◆ Global data fraud cases:



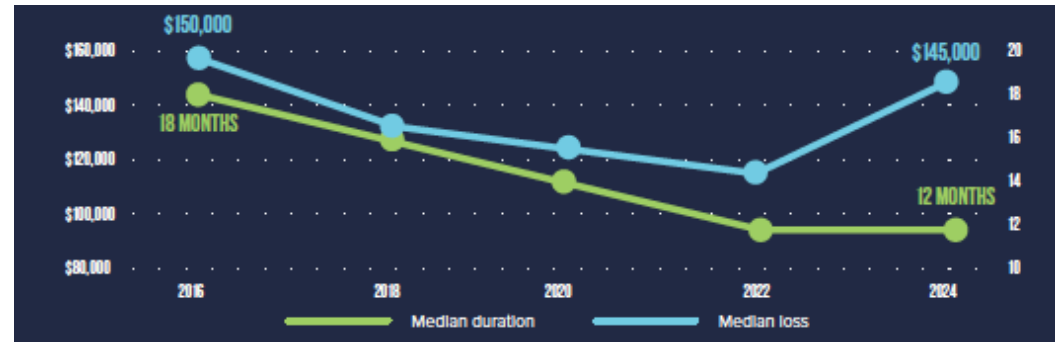
◆ Local data fraud evidence:



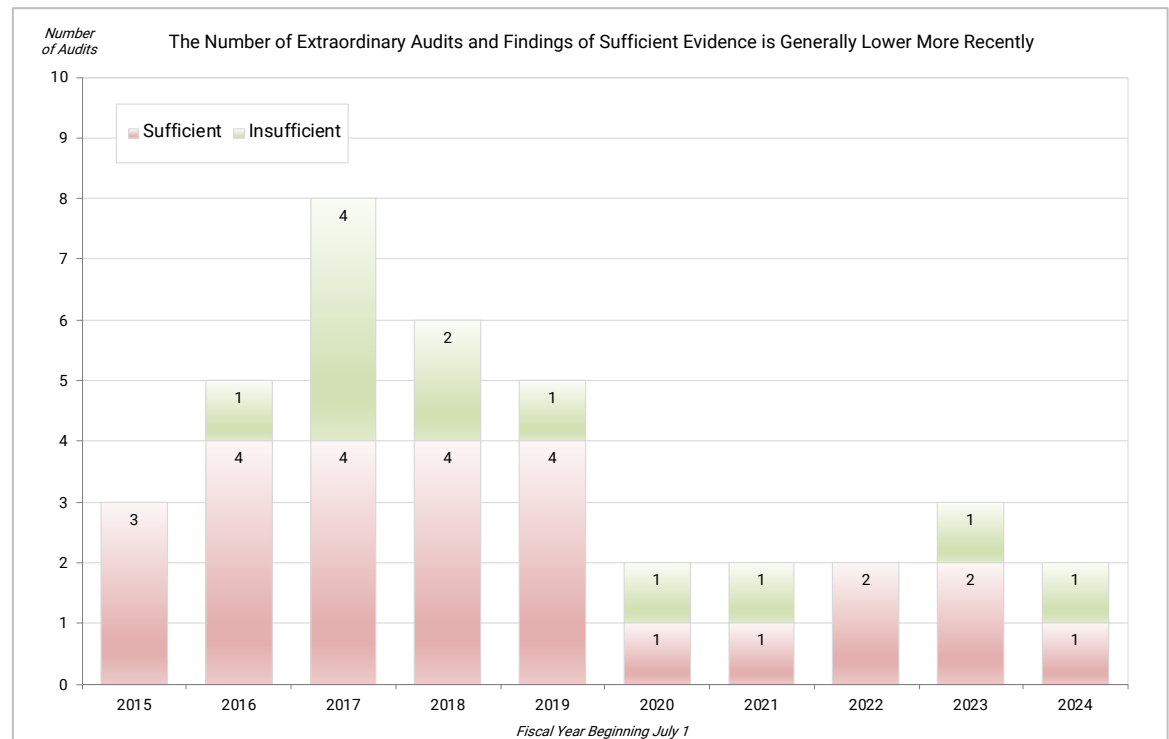
Sources: Global data per Occupational Fraud 2024: A Report to the Nations, Association of Certified Fraud Examiners. Local data based on review and analysis of Extraordinary Audits published by FCMAT during FY 2015-16 to FY 2024-25. Median loss based on review of FCMAT audits and do not necessarily represent a fraudulent amount but may be estimations, identified as irregular, or associated with the scheme. Amounts not necessarily comprehensive of all schemes if multiple.

Trend: Declines in Some Key Fraud Metrics

◆ Global data:



◆ Local data:



◆ Reasons?

- ▶ Less Fraud?
- ▶ Less Detection?
- ▶ Better Prevention?

Sources: Global data per Occupational Fraud 2024: A Report to the Nations, Association of Certified Fraud Examiners. Trends identify all survey responses (not just government fraud). Local data based on review and analysis of Extraordinary Audits published by FCMAT during FY 2015-16 to FY 2024-25. Trend identifies all audits conducted (not just those finding evidence of fraud).

Detection of Fraud Schemes

◆ Global data fraud cases:



◆ Local data fraud evidence:

Detection Method	Audits	Percentage
Tip / Complaint	17	65%
Job Turnover	6	23%
Oversight Review	2	8%
External Auditor	1	4%
Total	26	100%

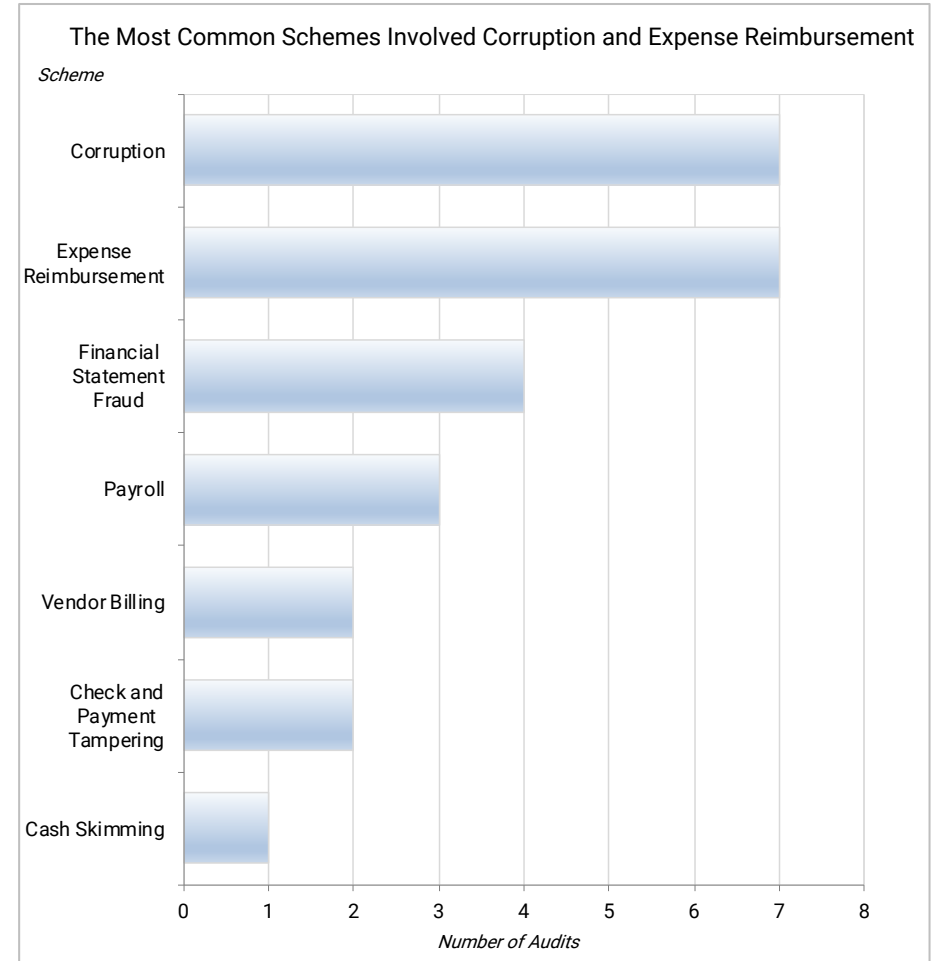
Sources: Global data per Occupational Fraud 2024: A Report to the Nations, Association of Certified Fraud Examiners. Local data based on review and analysis of Extraordinary Audits published by FCMAT during FY 2015-16 to FY 2024-25. Detection method categorized based on explanation for initiation of the audit.

Frequency of Fraud Schemes

◆ Global data fraud cases:



◆ Local data fraud evidence:



Sources: Global data per Occupational Fraud 2024: A Report to the Nations, Association of Certified Fraud Examiners. Local data based on review and analysis of Extraordinary Audits published by FCMAT during FY 2015-16 to FY 2024-25. Scheme identified is what appeared to be the primary or largest if multiple schemes.

Dollars Involved in Fraud Schemes

◆ Global data fraud cases:

Category	Cases	Mean*
Asset misappropriation	1,309	\$1,116,000
Noncash	246	\$537,000
Billing	207	\$624,000
Cash on hand	143	\$357,000
Skimming	130	\$205,000
Expense reimbursements	127	\$251,000
Check and payment tampering	109	\$787,000
Cash larceny	95	\$561,000
Payroll	74	\$383,000
Register disbursements	21	\$95,000
Corruption	662	\$2,738,000
Financial statement fraud	61	\$6,045,000

◆ Local data fraud evidence:

Category	Audits	Mean Amount
Cash Skimming	1	\$134,089
Payroll	3	\$218,720
Expense Reimbursement	7	\$582,114
Check and Payment Tampering	2	\$865,795
Vendor Billing	2	\$2,084,129
Corruption	7	\$2,936,768
Financial Statement Fraud	4	\$34,986,263

Sources: Global data per Occupational Fraud 2024: A Report to the Nations, Association of Certified Fraud Examiners. Table excerpted from more detailed table with statistical analysis. Per ACFE, *Mean amounts were calculated using loss data that was winsorized at 5% (i.e., assigned all cases in the top 2.5% and bottom 2.5% the same value as the 97.5th percentile and 2.5th percentile, respectively). Local data based on review and analysis of Extraordinary Audits published by FCMAT during FY 2015-16 to FY 2024-25. Mean amounts are averages of the amounts identified in audits. Amounts do not necessarily represent a fraudulent amount but may be estimations, identified as irregular, or associated with the scheme. Amounts not necessarily comprehensive of all schemes if multiple.

Fraud Schemes

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Involve Employees

Involve Vendors

Involve the Public Agency

Sources: Local data based on review and analysis of Extraordinary Audits published by FCMAT during FY 2015-16 to FY 2024-25. Mean amounts are averages of the amounts identified in audits. Amounts do not necessarily represent a fraudulent amount but may be estimations, identified as irregular, or associated with the scheme. Amounts not necessarily comprehensive of all schemes if multiple.

Agenda

✓ Fraud in Government

◆ Examples

◆ Introduction to Systems Thinking

◆ Systems Thinking for Managing Fraud Risk



Financial Statement Fraud

◆ In private business:

▶ Misrepresenting company financial performance

▶ Common reasons:

- Stock price manipulation
- Tax evasion



◆ In school business:

▶ Often, misrepresenting *General Fund* performance

▶ Examples:

- Concealing liabilities of the General Fund
- Transferring liabilities of the General Fund
- Overstating revenue to the General Fund



Example: Evidence of Concealing Liabilities

- ◆ District staff took a raise for classified and management to the Board for approval
 - ▶ A Disclosure of Collective Bargaining Agreement (DCBA) was not prepared and provided to the Board and COE
- ◆ Six months later, District staff took the same raise for certificated, counselor, and unrepresented management to the Board
 - ▶ Again, without a DCBA
- ◆ Eventually District staff prepared a DCBA estimating a \$12.2 million cost, but with many errors, omissions, and distortions:

Extrapolated Revised Total [^]	2017-18 Adopted	Adopted Budget Over/(Under) Revised Total [^]	2017-18 Audited Actuals	Actuals (Over)/Under Adopted Budget
\$ 217,692,607	\$ 211,547,863	\$ (6,144,744)	\$ 230,931,638	\$ (19,383,775)
74,175,956	74,001,658	(174,298)	78,711,841	(4,710,183)
100,219,396	107,480,182	7,260,786	117,335,191	(9,855,009)
\$ 392,087,959	\$ 393,029,703	\$ 941,744	\$ 426,978,670	\$ (33,948,967)

\$33.9 million budget impact *higher* than DCBA estimated

Source: table from a FCMAT Extraordinary Audit.

Example: Evidence of Transferring Liabilities

- ◆ District staff entered into a power purchase agreement (PPA) with a solar vendor to purchase power
 - ▶ District staff used bond funds (held in Fund 21) to pay an early termination provision of the agreement (which was not authorized by the bond measure or State law)
 - ▶ The power produced by the solar equipment transferred from a General Fund expense to a bond expenditure

Date	Payment	Fund
4/23/15	\$ 3,564,437	21
5/8/15	\$ 7,128,875	21
11/23/15	\$ 600,000	21
3/7/16	\$ 2,376,292	21
12/13/16	\$ 2,376,292	21
5/11/17	\$ 2,376,292	21
8/16/17	\$ 2,376,292	21
10/20/17	\$ 2,376,292	21
3/8/18	\$ 617,036	40
Total	\$ 23,792,605*	

*Rounding used in calculations

\$23.2 million of bond funds used to pay for an unauthorized PPA

Source: table from a FCMAT Extraordinary Audit.

Example: Evidence of Overstating Revenue

- ◆ Example not from a FCMAT audit but a high-profile case investigated by the San Diego County District Attorney's office:

HALL OF JUSTICE
330 WEST BROADWAY
SAN DIEGO, CA 92101
(619) 531-4040
SanDiegoDA.com

OFFICE OF
THE DISTRICT ATTORNEY
COUNTY OF SAN DIEGO

DAVID P. GREENBERG
ASSISTANT DISTRICT ATTORNEY

SUMMER STEPHAN
DISTRICT ATTORNEY

February 26, 2021
For Immediate Release

Contact: [Steve Walker](#) (619) 531-3890
[Tanva Sierra](#) (619) 531-3315
En Español [Barbara Medina](#) (619) 531-3305

Guilty Pleas in A3 Charter School Case Leads to Return of Over \$210 Million in Assets

Defendants Paying Millions in Restitution to California Public School System, Case Leads to Improved Oversight by School Districts

San Diego County District Attorney Summer Stephan announced today that two defendants have pleaded guilty connection with the A3 Charter School scheme that siphoned more than \$50 million from the State of California. The defendants pleaded guilty in San Diego Superior Court to a variety of felony criminal charges including conspiracy and conflict of interest and are assisting in the return of over \$210 million in assets. The defendants' prison sentences are up to the court and range up to ten years in prison.

Sean McManus, 48, and Jason Schrock, 44, who operated and controlled 19 California charter schools as well as four business entities, were indicted by a grand jury along with nine other defendants in May of 2019 on a several criminal counts.

Today, McManus pleaded guilty to two counts of conspiracy to misappropriate public funds and to stealing more than \$500,000. McManus faces up to 10 years in state prison. Schrock pleaded guilty to one count of conspiracy to misappropriate public funds, one felony count of conflict of interest, and also to stealing over \$500,000. Schrock faces up to nine years in state prison. McManus, an Australian national, entered his guilty plea remotely from Australia via Microsoft Teams. In his plea agreement McManus agreed to return voluntarily to the United States.

"With these guilty pleas, the defendants now admit they engaged in a devious, systematic public corruption scheme on the backs of students, their parents and the public that diverted millions of taxpayer dollars into their own pockets," *District Attorney Summer Stephan* said. "This is one of the largest fraud schemes targeting education dollars for K-12 students in the nation. Unraveling this complex scheme came as a result of over a year of persistent and dedicated work by our team of

Source: County of San Diego District Attorney. Shown is the first page of a 4-page press release.

Fraud Schemes Involving Vendors

◆ Corruption examples:

- ▶ Bribery/kickbacks from vendors
- ▶ Conflicts of interest/payments to related parties
- ▶ Vendor procurement process/award
- ▶ Political contributions/political favors



◆ Vendor billing examples:

- ▶ Double-billing for same work
- ▶ Extra billing after contract or above contract
- ▶ Unsubstantiated billing (work performed?)



◆ A common industry of vendor service: construction



Example: Evidence of Corruption

◆ District staff emailed a construction vendor:

From: [REDACTED].k12.ca.us]
Sent: Tuesday, July 26, 2016 3:59 PM
To: [REDACTED]
Subject: Misc.

“Need check for \$39,488.15
– Bank of America”

1. Need check for \$39,488.15 – Bank of America (charge to [REDACTED] HS bleachers allowance/bid savings)
2. Need to clarify scope of NHS major categories with [REDACTED] slightly lower for Phase 1 but includes significant differences in costs for electrical, HVAC, concrete, & lath/plaster/drywall categories. I will let you know ASAP
3. Are you guys around in August, [REDACTED] would like to schedule a Friday night at [REDACTED] for dinner we won at fundraiser

[REDACTED]
Assistant Superintendent, Facilities
[REDACTED] Unified School District
[REDACTED] Office
[REDACTED] Mobile
[REDACTED] [k12.ca.us](mailto:[REDACTED].k12.ca.us)

◆ Bank of America was not the District’s account

◆ Vendor disguised payment as disbursement of contingency

◆ Estimated total checks from vendor was \$2.6 million

Source: email from a FCMAT Extraordinary Audit and has been redacted for purposes of this presentation.

Example: Evidence of Vendor Billing Schemes

- ◆ District entered into an agreement with a construction vendor for:
 - ▶ Program management services: % of bond program
 - ▶ Construction management services: % of construction cost
- ◆ District received invoices for “additional services”:

Facility Report, HVAC Assessment (Invoice 36270-01 on 6/1/16)	\$115,750.00
Facility Report, Environmental (Invoice 362230-01 on 6/1/16)	\$68,000.00
DSA Closeout (Invoice 362240-01 on 6/1/16)	\$64,500.00
District Roofing Assessment (Invoice 36201-01 on 6/1/16)	\$74,500.00
PM and CM Services District-Wide Projects (Invoice 36370-01 on 4/29/15)	\$400,000.00
Reprogramming & Replanning/Tech. (Invoice 36382 on 9/15/16)	\$230,000.00
TOTAL:	\$ 952,750.00

\$952,750 billed for “additional services” in a year’s time

- ◆ The invoices appeared to request payment for
 - ▶ Work already paid (“PM and CM Services”)
 - ▶ Work that didn’t exist (“Reprogramming & Replanning”)

Source: table from a FCMAT Extraordinary Audit and has been redacted for purposes of this presentation..

Fraud Schemes Involving Employees

◆ Expense reimbursement:

- ▶ Credit cards, fuel, meals, hotels, travel, etc.
- ▶ Commonly include personal expenses



◆ Cash skimming:

- ▶ School cash centers: food services, ASB



◆ Check and payment tampering:

- ▶ Checks forged, missing, duplicate, etc.



◆ Payroll:

- ▶ Overtime, stipends, vacation, hourly, steps, etc.



Example: Evidence of Expense Schemes

◆ Expenses reimbursed and paid from unrestricted General Fund:

Description	Amount (\$)	Basis for Potential Misuse of Public Funds
Daughter's Tuition	37,563.57	Singular employee receiving full tuition
Gas for Daughter	2,437.07	Issued gas card for personal vehicle
2015 & 2016 Ford F-150 pickups	50,000.00	Charter vehicles not authorized as compensation
Electronic Devices	9,504.74	Issued to family members only
Unknown Withdrawals	51,258.08	Potential misappropriation of public funds
Payroll Advances Outstanding	8,000.00	Unauthorized additional compensation
Unapproved Christmas Bonuses	2,000.00	Unauthorized additional compensation
Fuel Purchases	46,365.30	Excessive use of fuel card
Gas Station Purchases	954.06	Potential misappropriation of public funds
Trips	22,708.77	Unauthorized/lacking apparent educational purpose
Miscellaneous Expenditures	246,002.26	Potential misappropriation of public funds
Funeral Reception	5,809.73	Inappropriate use of public funds
Legal Expenses	11,897.00	Use of public funds for personal/family expenses
Donation of Portables	362,160.00	Unauthorized disposal of public assets
Snack Bar Sales	202,500.00	Potential misappropriation of public funds
Book Publication	3,429.91	Personal expenses paid using public funds
Total	1,062,590.49	

-Private, for-profit university

-Apple watches, ipads, airpods

-Traffic tickets
-Legal counsel for DUI, robbery, assault/battery
-Bail

-Self-published a poetic book

\$1,062,590.49 over 4 years

Source: table from a FCMAT Extraordinary Audit.

Example: Evidence of Check Schemes

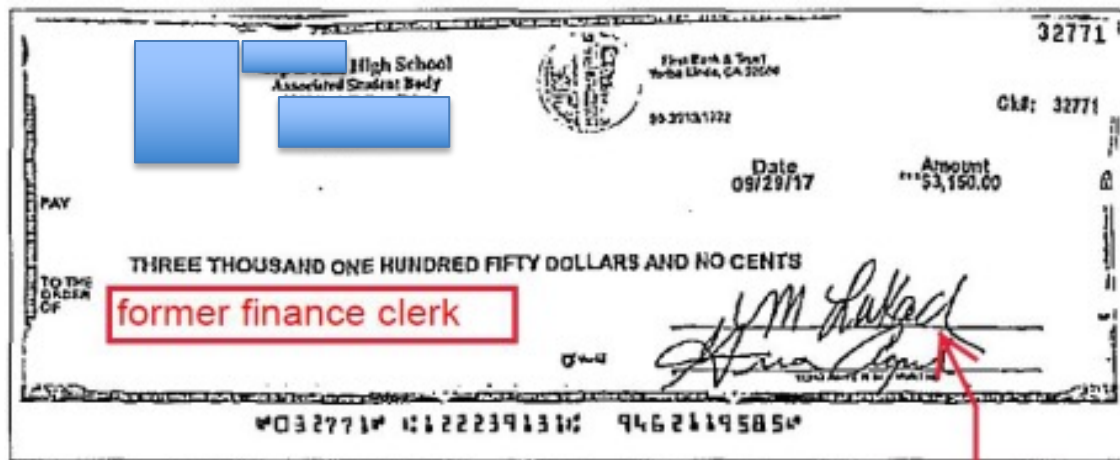
◆ Copies of the check stub and check:

High School CA 92807 32771

Vendor:	Inv#	Inv Date	PO#	Purpose	Amount
TRANSP	092917	09/29/17		MISC TRANSP DEBTS TO DO FOOTBALL TRANSP	3,150.00
Check Total:					3,150.00

Ck#: 32771 Date: 09/29/17

Appears to be for Football Transportation, paid from High School ASB to District Transportation



Actual check was paid to ASB finance clerk with forged signature

\$1,563,602.90 over 14 years

Not Authentic

Source: table from a FCMAT Extraordinary Audit and has been redacted for purposes of this presentation..

Agenda

- ✓ Fraud in Government
- ✓ Examples
- ◆ Introduction to Systems Thinking
- ◆ Systems Thinking for Managing Fraud Risk



Example Strategies for Organizational Success

◆ Breakthrough Thinking

- ▶ The focus is on a better product
 - Less focus on relationships, norms, laws



◆ Design Thinking

- ▶ The focus is on the user experience
 - Less focus on everyone else



◆ Systems Thinking

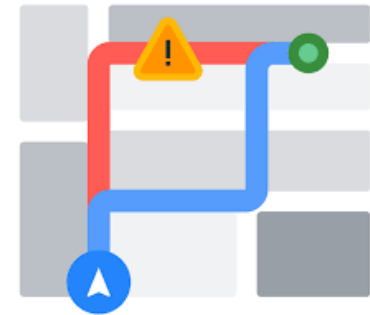
- ▶ Broad and deep; the big picture
 - More complex, comprehensive; typically, slow



Source: *Why You Need Systems Thinking Now*, Harvard Business Review, September-October 2025.

Example of Applying Strategies to a Problem

- ◆ Consider the problem of traffic:
 - ◆ Breakthrough Thinking (product)
 - ▶ App shows traffic flows and reroutes you
 - ◆ Design Thinking (user experience)
 - ▶ Widen the road and add more lanes
 - ◆ Systems Thinking (big picture)
 - ▶ Improve walkability
 - ▶ Add mass transit



Source: *Why You Need Systems Thinking Now*, Harvard Business Review, September-October 2025.

Summary Overview of Systems Thinking

SYSTEMS THINKING

Looks at the whole of the system

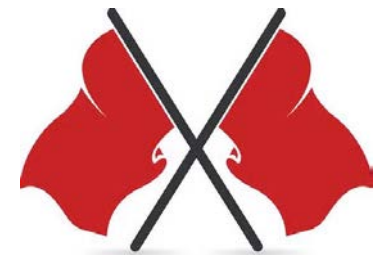
Focuses on process

Seeks to understand potential causes and the dynamic factors that might be at play, including feedback loops

Tends to think 'big picture' including factoring in incentives and the political economy when thinking about how hard it might be to solve this problem

Example: How the Story Started

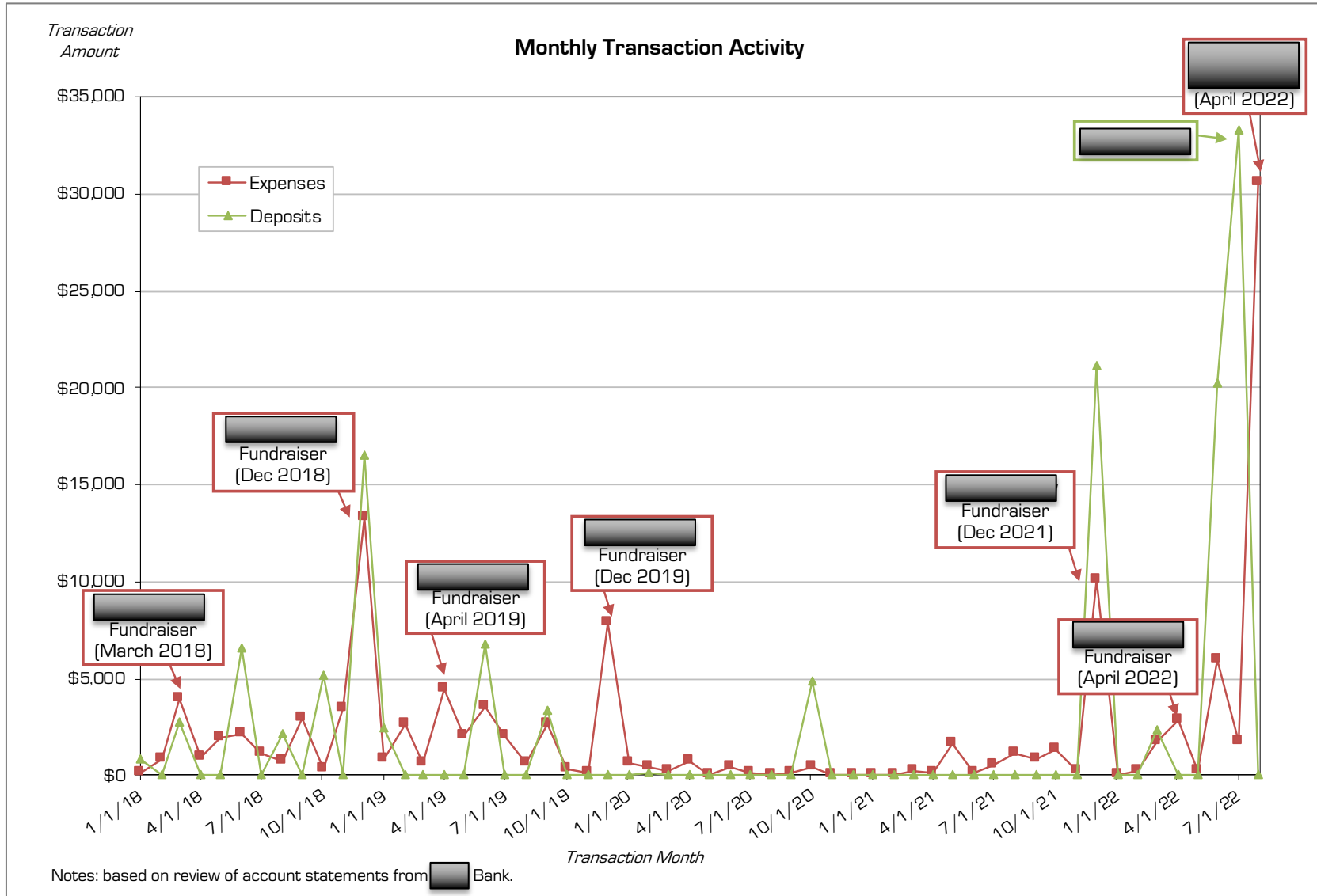
- ◆ Non-profit booster club raises questions about funds
 - ▶ Speculates commingled with ASB funds
 - ▶ ASB bookkeeper is also the booster club bookkeeper
 - ▶ Principal is relatively new
- ◆ Principal questions ASB bookkeeper
 - ▶ ASB bookkeeper then takes a leave of absence



Review Needed

- ◆ What do we call the review?
 - ▶ Assistance with financial analysis
 - Strategically not “fraud investigation”
- ◆ Goals:
 - ▶ Review financial activity
 - ▶ Identify any commingled funds
 - ▶ Identify any financial activity for further review

Big Picture Financial Activity Trends



Results of Review

- ◆ Generally, ASB account was associated with ASB activity
 - ▶ 5 exceptions, relatively de minimus in total dollars
- ◆ Bank account red flags
 - ▶ 77 bank fees, 6 corrections, 6 chargebacks
 - ▶ Relatively small dollar volumes
- ◆ Lack of receipts and supporting documentation for many transactions flagged for review
- ◆ Some expenses were not obviously school supplies or school-related activity

School or Personal?

TIFFANY & Co.



What About the Missing Funds?

- ◆ Box of checks received were discovered at the school site, “under the counter”, having never been deposited.
- ◆ School site staff were advised to notify District office if they found any other checks laying around in the future.
- ◆ District staff also developed an internal audit process.



Applying Strategies to Managing Fraud Risk

- ◆ Consider the problem of fraud risk:
- ◆ Breakthrough Thinking (product)
 - ▶ Monitoring / suspicious transaction alerts
- ◆ Design Thinking (user experience)
 - ▶ Employee processes and procedures
- ◆ Systems Thinking (big picture)
 - ▶ Business mission, operations, feedback



Agenda

- ✓ Fraud in Government
- ✓ Examples
- ✓ Introduction to Systems Thinking
- ◆ Systems Thinking for Managing Fraud Risk



Systems Thinking in Managing Fraud Risk

◆ 2 systems running in parallel:

▶ Prevent the Fraud



▶ Detect the Fraud



System of Fraud Prevention

◆ Risk Assessment



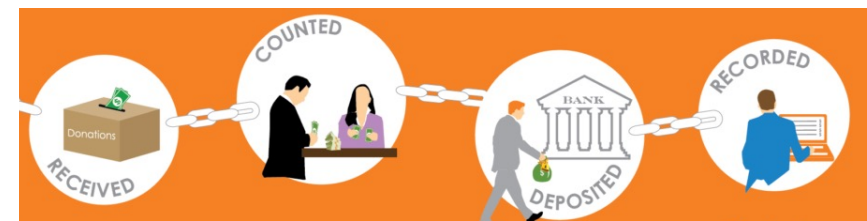
◆ Policies and Procedures



◆ Employee Training



◆ Internal Controls



Fraud Prevention: Risk Assessment



- ◆ Who: employees, vendors?
- ◆ What type of fraud?
- ◆ When in the business process?
- ◆ Where could it happen?
- ◆ Why: high dollars, high frequency?
- ◆ How could it be accomplished?

Fraud Prevention: Policies and Procedures

◆ Considerations:

- ▶ Easy reference?
 - Accessible, searchable
- ▶ Access tracked?
 - Understand questions employees face
- ▶ Monitored?
 - Tests and alerts on implementation
- ▶ Effective?
 - Issues lessen following implementation



Fraud Prevention: Employee Training

◆ Content:

- ▶ Based on risks?
- ▶ Based on issues that came up?
- ▶ Tailored to role?



◆ What's measured:

- ▶ Completion?
- ▶ Understanding?
- ▶ Effectiveness/Improvement?



Fraud Prevention: Internal Controls

◆ Segregation of duties

- ▶ Custody
- ▶ Approval
- ▶ Execution
- ▶ Recording
- ▶ Reviewing



◆ Physical controls

- ▶ Securing cash, assets, inventory, records



◆ Employee controls

- ▶ Hiring: checks, screening, qualifications
- ▶ Vacations / rotations



System of Fraud Detection

- ◆ Tip hotline
 - ▶ Phone, email, online
 - ▶ Internal vs external
- ◆ Internal audits / surprise audits
- ◆ Management reviews:
 - ▶ Budgets to actuals
 - ▶ Cash flow
 - ▶ Trends and ratios
 - ▶ High risk areas
- ◆ Reconciliations: cash, assets, inventory / bank records / District financial records



How the Systems All Operate Together

- ◆ On the front line: district staff
 - ▶ Equipped with training
- ◆ 1st line of defense: leadership
 - ▶ Establishing and overseeing policies and procedures
- ◆ 2nd line of defense: business office staff
 - ▶ Reviewing risks, identifying issues, solving problems
- ◆ 3rd line of defense: internal audits / surprise audits
 - ▶ First two lines of defense are functioning properly
- ◆ Outside groups: external audit, regulators, public



Build Up the Systems

◆ Starting out:

- ▶ Can start small
- ▶ Can start inexpensively
- ▶ But we recommend... start something



◆ Incrementally improve over time:

- ▶ Add more layers of prevention / detection
- ▶ Incorporate lessons learned
- ▶ Update annually



◆ Track results and highlight successes



Questions?

