

The Case of the Phony Employee

And Other Real Life Frauds in Schools

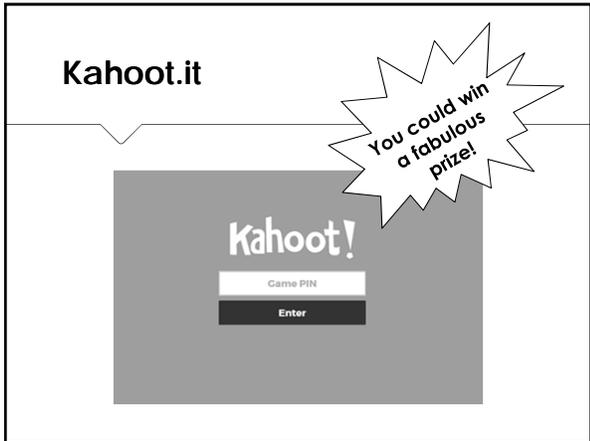
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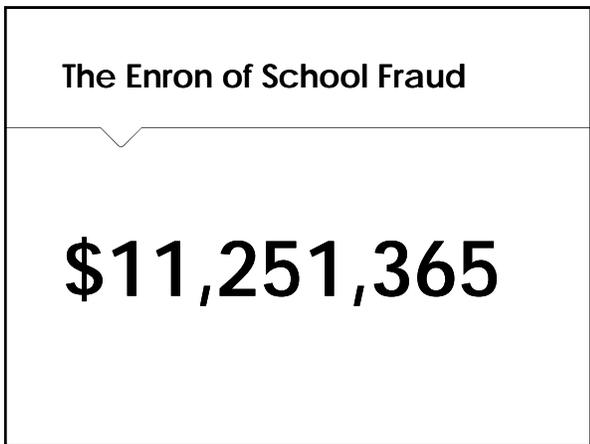
Shelby County Public Schools

- Approximately 7000 students
- About 1000 regular employees
- Annual budget (general fund) \$65 million
- KY has 173 school districts
- No charter schools (yet)
- 2/3 have fewer than 3000 students
- Largest has 94,000 students (metro Louisville)
- Smallest has 109 (independent)









The Victim

Roslyn Union Free School District

- North shore of Nassau County, New York
- 5 square miles
- 3300 students in five schools
- Class size: low to mid 20s; graduation rate of 95%
- 610 employees
- FY 2014 operating expenditure budget = \$69.4 m

Cast of Characters

- Superintendent – Frank Tessone
- Asst. Supt. For Business – Pamela Gluckin
- Account Clerk – Debra Rigano (Gluckin's niece)
- Andrew Miller – Partner in CPA Firm; audits the Roslyn district; vendor of their financial management system
- Stephen Signorelli – Superintendent's domestic partner; owner of WordPower (Roslyn vendor)
- Albert Razzetti – Internal Claims Auditor (part-time)

THE TIP OF THE ICEBERG



Pamela Gluckin

- Became CFO at Roslyn in 1999
- Owned waterfront home in Bellmore NY; oceanfront home in Westhampton Beach NY; oceanfront home in Florida; Jaguar

**“She never appeared to me to be
ridiculously extravagant”**

– Andrew Miller

Gluckin’s Fraud - 2002

- A Home Depot clerk thought Roslyn purchases were odd; large amounts of construction materials from a store 50 miles away; delivery address did not match any district facilities
- Andrew Miller led the probe; found \$250K in district credit card purchases for Gluckin and her family’s personal benefit
- Miller and Tassone confronted Gluckin; she confessed and gave resignation, administrator’s license, restitution
- Tassone recommended the Board leave it at that

**“We truly believed what we did was in the best
interests of the school community” – Roslyn School
Board President**

**Turns out, the construction
materials were delivered to the
home of John McCormick, Jr.
A contractor and Gluckin’s son**

2004 - Another Tip

"We believe that Dr. Frank Tassone participated in this embezzlement scandal so as to support HIS lavish lifestyle, with the help of Ms. Gluckin. He submitted...his personal credit card statements, bills for personal vacations and trips, and various household bills...and included them in the cover-up."

-Anonymous letter

2004 - Another Tip

- Andrew Miller participated in the forensic audit
- Uncovered payments to phony vendors that could be traced directly to Gluckin
 - One owned by Gluckin with her home address
 - One owned by her husband

Tassone's Fraud

- Andrew Miller reports to the board president that they have uncovered \$1m and it involves Tassone
- Tassone brushed it off when confronted; said expenses are within his contract terms

"You don't want to appear overpaid. He lived the opposite way. He acted as if he was entitled to it - to the car, to the clothes, to the money."

-Fellow Long Island Superintendent

The Enron of School Fraud - What

- Direct payments of personal expenses
- Cash advances
- Increases to salaries and vacation accruals
- Unsubstantiated payments to related party vendors
- Payments and gifts to others

SUMMARY OF MISAPPROPRIATED FUNDS

Apparently Misappropriated Expenditures:	
Personal credit cards	\$5,902,544
Private mortgages and loans	\$1,137,939
Home Depot	\$609,000
Food	\$594,121
Salaries and benefits	\$582,786
Gluckin-owned companies	\$255,537
Computers and electronic equipment	\$249,883
Private automobiles	\$206,798
Insurance premiums	\$160,171
Travel expenses	\$133,619
Other personal expenses	\$112,983
Apparent Misuse of District Funds:	
Related party consultants	\$1,074,547
Postage and shipping	\$166,945
Other questionable expenditures	\$64,492
Total	\$11,251,365

Personal Credit Card Payments

District funds were used to pay balances on 54 personal accounts with 74 cards issued to 13 specific individuals, including 3 employees: Tassone, Gluckin, and Rigano

	Tassone	Gluckin	Rigano
Cash Advances	\$541,596	\$559,176	\$27,128
Balance Transfers	\$177,899	\$461,981	\$13,620

Travel

- Tassone's travel included Las Vegas, New Orleans, Canada, St. Thomas, Morocco, Hawaii, Puerto Rico, Thailand, Indonesia, Argentina, and London
- The London travel included the Concorde and \$1,800/night accommodations

	Tassone	Gluckin	Rigano
Airfare	\$162,250	\$63,075	\$18,068
Hotels	\$137,285	\$30,158	\$5,022
Cruises	\$139,387	\$680	\$0

The London travel also included Joel Nash, who is not a district employee. He's a personal trainer who advertises his services as an erotic masseur.

Personal Mortgages and Loans

Type of Loan	Debtor	Location	Amount
Residence	Gluckin	NY	\$377,827
Vacation home	Gluckin	NY	\$262,637
Vacation home	Gluckin	FL	\$295,367
Residence	Gluckin's daughter	NY	\$22,829
Personal loan	Gluckin		\$46,881
Student loan	Gluckin's daughter		\$81,637
Residence	Tassone	PA	\$45,114
Vacation home	Rigano	FL	\$5,647

Gluckin's residence
in NY
\$840K



Gluckin's vacation
home in NY
\$2.1m





Gluckin's vacation
home in Florida
\$2.7m



Related Party Consultants

Vendor	Owner	Amount
WordPower	Stephen Signorelli	\$803,570
FCP Consultants	Frances Pertusi (Razzetti's sister)	\$218,477

INDIVIDUALS BENEFITING FROM THE FRAUD

Pamela Gluckin	\$4,634,012
Frank Tassone	\$2,407,965
Stephen Signorelli	\$892,704
Harvey Gluckin	\$375,059
Deborah Rigano	\$334,452
Marcella Pagnotta	\$270,818
Frances Pertusi	\$222,138
Patricia McCormick	\$122,022
Marilyn Silverman	\$106,822
Madelyn McGovern	\$74,305
Ken Stubbolo	\$46,886
Kim McCormick	\$41,891
Joel Nash	\$25,194
Jayson Stoller	\$16,375
Samuel Masello	\$15,408
Tara McCormick	\$13,287
John McCormick	\$11,074
Bernadette Burns	\$9,076
David Schoob	\$8,186
Neville Archambault	\$7,925
Thomas Gulincki	\$7,277
Elaine Heintz	\$6,862
Cynthia Mullins Simmons	\$6,314
Albert Razzetti	\$6,200
Tom McCormick	\$3,074
Richard McGovern	\$2,170
Ron Magalik	\$1,560
Steven Kaplan	\$1,529
Robert Gluckin	\$506
Not Traceable to an Individual	\$1,580,274
Total	\$11,251,365

The Enron of School Fraud - How

- Collusion
- Management overrides
 - Emergency check process was misused
- No pre-numbered POs and POs not required
- Internal Claims Auditor, Razzetti, did not review invoices
- Treasurer paid claims prior to review

The Enron of School Fraud - How

- Phony vendors
- Lack of board oversight
 - No routine financial reports
 - Authorized Tassone to make budget transfers with no limit
- Lack of policies/procedures
 - Travel
 - Credit cards
 - Payroll
 - Cash disbursements and accounts payable

The Enron of School Fraud – The Fix

- Policies that apply to everyone
- Compliance with statutes/regulations
- Budget variance reports/analysis
- Vendor approval process

\$2,407,965



4 years in prison

\$4,634,012



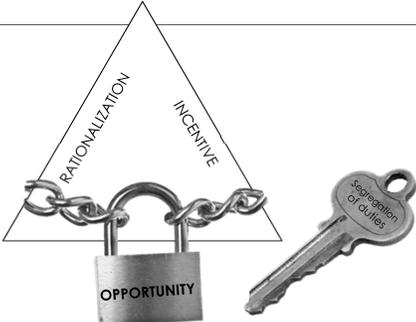
5 years in prison

Adding insult to injury...

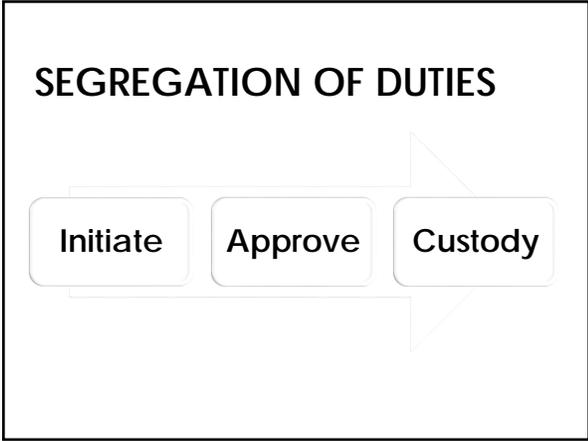
They are both receiving their pensions

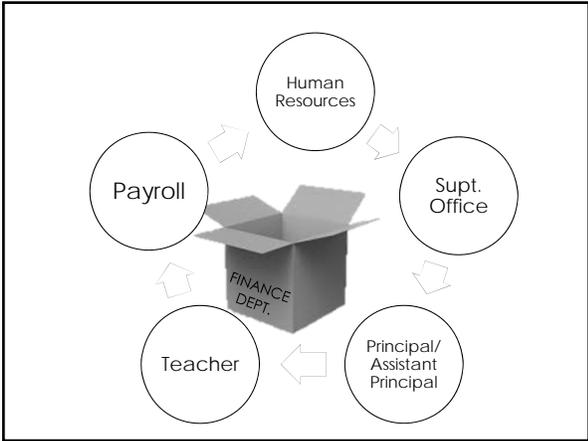
- OTassone - \$173,000 annually
- OGluckin - \$42,000 annually

The Other Really Bad Triangle



We control the opportunities through internal controls





Prevent Phony Vendors

- The accounts payable clerk cannot also create/edit vendor records
- Require W-9, phone number, google some
- Search for matching addresses

Other AP Controls

- Never pre-sign
- No signature stamps
- Control the check stock
- Void check procedure
- Credit card procedures
- Rounded invoice amounts
- Amounts just below thresholds
- Payees are acronyms

Travel

- Specific written travel policy
- Require itemized receipts
- Watch payee name
- Double-dipping

Payroll

- Person preparing the payroll cannot also have access to add/activate employees
- Analytical review of payroll
- Watch for bank account changes
- Procedure for changing pay rate
- Approval process for extra pay

Cash Receipts

- Receipts must be written immediately
- Bookkeeper should not open mail
- Watch for check-cash swaps
- Bank statement review
- Reduce cash when possible

Fundraisers

- Approval process
- Profit-Loss statement
- Cash receipts controls

Cash Disbursements

- Require purchase orders
- Dual signatures
- Invoice review
- Bank statement review

Boosters

- They aren't you, but they are
- Financial reports
- Approve them and their fundraisers
- Tipline

Other Key Controls

- Tone at the top
- No management overrides
- Take swift and immediate action if fraud
- Fraud training
- System access – this is huge!

\$600,000



Payroll Fraud - What

- \$600,000 over 7 years
- Payroll manager moved a retired substitute teacher employee record from inactive to active each pay period
- Changed the bank account number to her own
- Got caught while on a cruise

Payroll Fraud - How

Payroll manager had complete control of the entire process

- Add/change employees
- Change bank information
- Prepare payroll
- Prepare reports for review
- Ability to void/purge
- Transmit and authorize direct deposit file
- Contact person for banking questions

Payroll Fraud – The Fix

SEGREGATION OF DUTIES

- A different person activates/initiates employee records
- A different person authorizes direct deposit file
- A different person is the contact for the bank

\$593,180



18 years in prison

\$9 million



Accounts Payable Fraud - What

- \$9 million over 14 years
- Paid personal expenses with school funds
 - Two homes
 - Vacations
 - Carolina Panthers season tickets
 - Boat and jet skis
 - Gold and silver coins
- Also paid personal expenses and wrote additional payroll checks for an unnamed co-conspirator

He didn't have enough money available to pay for the construction of his \$2.1m home on Lake Norman so he made the staff take a 5% pay cut and blamed it on the poor economy

Accounts Payable Fraud - How

- Lack of segregation of duties
 - He was Headmaster and CFO
 - Control of bank accounts at school and affiliated church
- Lack of oversight

Fun Fact:
He worked as an accountant until convicted of federal tax violations in 1990. He then obtained a nursing degree. In 1991, he volunteered as church treasurer and was hired as the school's headmaster in 1996.

Accounts Payable Fraud - How

- To conceal the theft, he
 - Opened 29 checking accounts
 - Acquired 26 credit cards
 - Took out 7 loans
 - Created 9 limited liability companies

He even created a fake document from an accounting firm, which posed as an audit that said the school had a clean financial bill of health

Accounts Payable – The Fix

- Segregation of duties
- Independent review of invoices, credit card statements
- Strong credit card usage procedures

"It takes an especially ruthless person to steal money intended to educate children."
-FBI Special Agent in Charge

\$9 million



5 years in prison

The Mysterious Co-conspirator

- Turned out to be the pastor
- About \$1m
 - Additional salary payments
 - Personal expenses including college tuition, medical bills, cars, and credit card bills
- Has not yet been sentenced

**Accounts Payable Fraud -
What**

- \$105,426 embezzled
- Phony vendors
- Paid the phony vendors with district credit card
- Overstated budgets

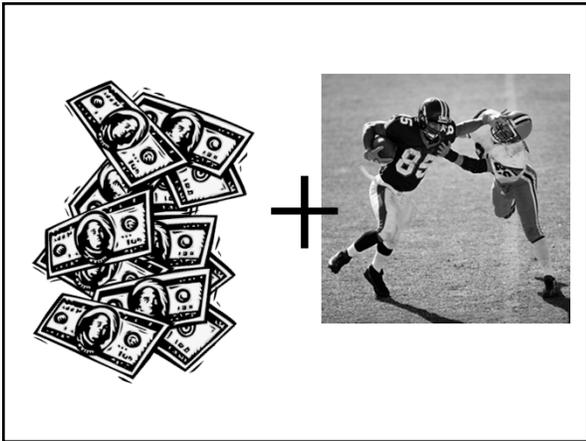
And get this: she created a website for one of her phony vendors and paid the web hosting fees with district funds.

**Accounts Payable Fraud -
How**

- Lack of segregation of duties
- Lack of management oversight

Accounts Payable – The Fix

- A different person creates vendor records
- Vendor approval process
- A different person reviews invoices prior to payment
- Strong credit card usage procedures



Ticket Fraud - What

- Unknown amount of cash taken
- Gate receipts were noticeably lower than previous years

Ticket Fraud - How

- Same two ticket takers at every game
- Tickets were not given to all patrons, particularly students

Ticket Fraud - The Fix

- Post signs at entrances to give free admission if patron is not given a ticket
- Rotate the ticket takers, including pairings
- Do Ticket Reconciliations and review the results



Inventory Fraud -What

- Undetermined amount
- "Theft Ring" of custodians and cooks
- Stole food and cleaning supplies

Inventory Fraud - How

- Collusion
- Lack of oversight

Inventory Fraud - The Fix

- Require approval of supply orders
- Analytical review of supply expenses
- Anonymous tip line

Final Thoughts

- Recognize fraud can happen in your schools or district
- **Create segregation of duties and dual controls**
- Review all statements and invoices
- Reduce the amount of cash on hand
- Don't throw away protocol because of friendships or trust

TRUST IS NOT AN INTERNAL CONTROL

Even a Bhuddist Monk Will Steal

- Stole \$263K from his Temple in Louisiana
- He was the presiding monk from 2010 – 2014
- Had access to 3 accounts from which he withdrew funds, sometimes returning funds
- Gambling problem
- Sentenced to 30 months in prison



Resources

- 2016 Report to the Nations
<https://www.acfe.com/rtn2016/resources/downloads.aspx>
- KY School Accounting Policy (The Redbook)
<http://education.ky.gov/districts/FinRept/Documents/Redbook%202013%20Edition.pdf>

Questions & Your Stories

- Has your entity been a victim of fraud?
 - Describe the fraud
 - How was it discovered?
- What other internal controls do you have in place to prevent fraud?
- Questions?