

# Embezzlers, Swindlers, and Thieves, Oh My!



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THIS SEMINAR WAS CREATED FOR THE LIVING LEARNING ENVIRONMENT OF  
THE ATHLETIC BUSINESS CONFERENCE AND EXPO.

THE PRESENTER HAS NO FINANCIAL INTEREST THAT WOULD BE CONSIDERED  
A CONFLICT OF INTEREST.

# Learning Objectives



At the end of this session, participants will be able to:

- Identify at least one example of cash control weakness,
- Identify at least one example each of a preventive control and a detective control,
- Identify at least one appropriate solution to mitigate risk.

# Ex-Dixon Comptroller Pleads Not Guilty To \$53M Embezzlement Scheme



## Ex-Tyco CEO Dennis Kozlowski found guilty

Former finance chief Mark Swartz also convicted of looting firm

**Calvert Woman Arrested for Embezzling Cash from Non-Profit**

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June 30, 2014

### How One Investment Manager Gambled Away \$13.1-Million of Her University's Money

*By Vimal Patel*

# Ex-DePaul worker charged with theft

\$364,000 in checks taken, school says

June 29, 2001 | By Janan Hanna, Tribune staff reporter.



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A former DePaul University employee was charged with stealing more than \$300,000 from the university by allegedly sending checks to dummy vendors and pocketing the money, authorities said Thursday.

Wesley McQuerry, 37, who worked for the university's alumni relations department, is being held in Cook County Jail on \$300,000 bond, said Assistant State's Atty. John Murphy.

# Ex-director of Penn's campus rec waives hearing on theft charges

**By Joseph A. Slobodzian, Inquirer Staff Writer**

POSTED: August 06, 2014

The former director of the University of Pennsylvania's campus fitness center waived a preliminary hearing Monday on charges that she stole cash and items from the center's lost and found.

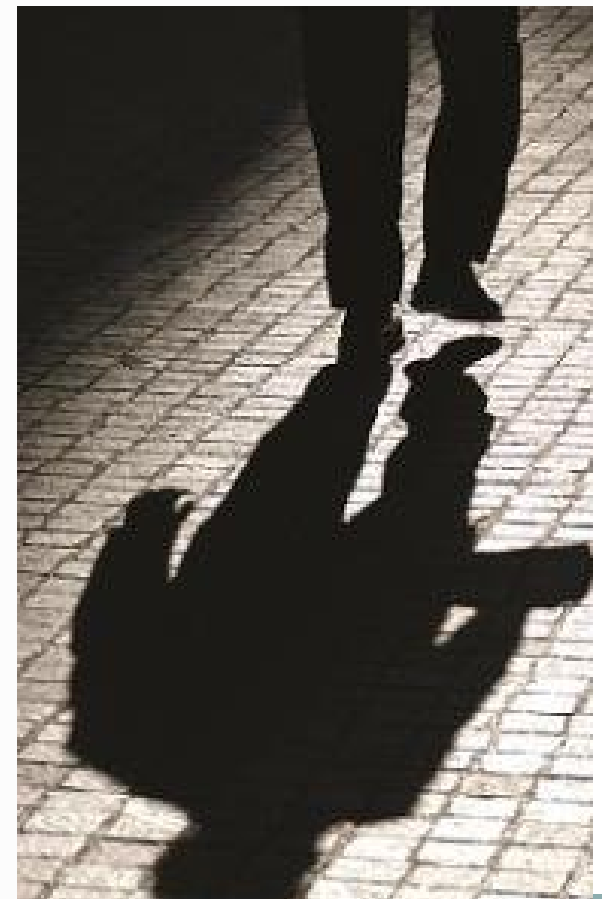
## Embezzlement Epidemic

*An investigative and security expert's advice for higher ed on preventing and uncovering embezzlers' schemes*

*By: Christopher T. Marquet*

*University Business, Jul 2011*

There has been a rash of major embezzlement cases cropping up like a pox at institutions of higher learning all around the country. While employee theft occurs daily at all types of organizations, we have tracked a disproportionate number of significant misappropriations at U.S. colleges and universities. The damage, while significant, is not only financial. Institutional reputation, alumni relations, endowment growth, employee productivity, and even enrollment, can all be negatively affected by a major defalcation.





## **Internal Controls**

- procedures used by an organization to safeguard assets, deter theft, ensure accuracy, and encourage compliance with organizational policies and procedures.



# Components of an Effective Internal Control System



- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

# Control Environment



- *Does the organization's culture encourage ethical behavior?*
- *Does the organization hire qualified and competent staff?*
- *Does it establish clear lines of authority and responsibility?*
- *Are the organization's policies comprehensive and clear?*

# Workplace Ethics



- “We want to be proud of XXX and know that it enjoys a reputation for fairness and honesty that is respected...”
- “XXX’s reputation depends on its people, on you and me. Let’s keep that reputation high.”

# Enron Ethics



- “We want to be proud of Enron and know that it enjoys a reputation for fairness and honesty that is respected...”
- “Enron’s reputation depends on its people, on you and me. Let’s keep that reputation high.”

Kenneth Lay, former chairman and chief executive of Enron, as cited in [workforce.com](http://workforce.com) “Enron’s Empty Ethics” by Patrick Kiger

# Risk Assessment



- *Does the organization systematically analyze and identify risks and assemble a risk management plan?*
- *Are the costs of the control activities weighed against the risk of inaction?*
- *Does the organization consider what the highest-risk legal areas are and consider reputational risk?*

# Most Common Embezzlement Schemes

- \* **Forging checks** payable to cash, oneself, and/or to personal vendors
- \* **Pocketing cash receipts** meant for deposit into institutional accounts
- \* **Issuing extra paychecks** and/or bonus checks through payroll to oneself
- \* **Submitting fraudulent expense reports** for reimbursement
- \* **Submitting fraudulent invoices** from phony or legitimate vendors
- \* **Abusing institutional credit card** accounts for personal use
- \* **Electronic transfers of institutional funds** to personal accounts and/or vendors
- \* **Pilfering institutional equipment** and/or inventory

# Control Activities



- *Do the controls sufficiently mitigate risk?*
- *Are policies in place to help the organization reach its goals and objectives?*

# Information & Communication



- *Do staff members have the information they need in order to do their jobs?*
- *Does management have access to the information it needs in order to monitor the effectiveness of policies, systems, and staff?*
- *Is information made available in a timely manner?*



# Monitoring



- *Are activities regularly assessed to ensure that the controls are adequate?*
- *Are internal and external audits performed periodically?*



## Types of Controls

*Preventive*

*Detective*

# Preventive Controls



- **Preventive Controls** are designed to prevent errors or irregularities from happening.
- Examples: requiring approvals, requiring passwords, locking doors, separating cash handling duties.

# Detective Controls



- **Detective Controls** are designed to identify errors or irregularities after they have occurred.
- Examples: completing an audit, conducting an inventory of merchandise, reviewing surveillance tapes, reconciling cash drawers with receipts.

# Balancing Risk and Controls



- Cost vs. benefit
- Effectiveness and efficiency
- Support of strategic objectives

# Scenarios and Discussion



- For each scenario,
  - (1) List internal control options (to decrease or limit risk, or identify theft)
  - (2) Identify the controls as preventive or detective
  - (3) Identify the pros and cons of each control
  - (4) Identify which control(s) you would choose and why

# Scenarios and Discussion



- A part-time employee puts the cash from a sale into her pocket without entering the transaction into the cash register.
- Control options:
- Preventive/Detective:
- Pros/Cons:
- What would you choose?

# Scenarios and Discussion



- A patron breaks into lockers to steal personal items.
  - Control options:
  - Preventive/Detective:
  - Pros/Cons:
  - What would you choose?



# Scenarios and Discussion



- A full-time employee steals money out of the cash bags before making the deposit.
- Control options:
- Preventive/Detective:
- Pros/Cons:
- What would you choose?

# Internal Control Checklist



- **General Controls**
- Organization maintains written, updated departmental procedures, including financials procedures manual.

# Internal Control Checklist



- **Cash Receipts**
- A payer is given a receipt copy after the transaction.
- Cash register totals are compared at least daily to total collections (either a blind close, or by a different person than the cash handler).

# Internal Control Checklist



- **Inventory**
- A periodic physical count is performed by persons other than those who maintain custody of the inventory and/or inventory records.

# Internal Control Checklist



- **Information Security Access**
- Departmental procedures require passwords be at least 6 characters in length, and that they contain both alpha and numeric characters. Users can't reuse an old password.
- Written procedures require access levels be determined by job duties.

# Internal Control Checklist



- **Workstation Security**
- Departmental procedures require users to log-off if a workstation will be left unattended for a specified time period.
- Identification numbers, serial numbers and equipment descriptions are recorded and stored in a secure location in the department or elsewhere within the organization.

# Article Discussion



- *Highlights*
- *Recommended Actions*

# Learning Objectives



Now that you have completed this seminar, you should be able to:

- Identify at least one example of cash control weakness,
- Identify at least one example each of a preventive control and a detective control,
- Identify at least one appropriate solution to mitigate risk.



If you have any questions or concerns regarding this seminar, please contact  
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<http://www.centersusa.com/resources-presentations>