



Fraud Control Policy for Local Church Schools

Table of Contents

1. Introduction
2. What is Fraud?
3. How Fraud Occurs
4. Fraud Prevention
5. Fraud Response
6. Roles and Responsibilities in Fraud Response and
Control
7. Contact Details
8. Glossary

1. Introduction

Over the past years, we notice that large frauds have led to the downfall of entire organizations, massive investment losses, significant legal costs, incarceration of key individuals, and erosion of confidence in capital markets.

Recognizing that addressing fraud risk is a normal requirement for the conducting of business by all organizations, the Arkansas-Louisiana Conference of Seventh-day Adventists (ARKLA) has strengthened its local church schools risk management practices, internal controls, and standards.

The aim of this Fraud Control Policy is to safeguard the reputation and financial viability of local church schools through improved management of fraud risk. It sets out explicit steps to be taken in response to reported or suspected fraud, as well as measures that will be taken to prevent or minimize the risk of fraud. The Policy has been developed based on good practice examples of fraud risk control strategies, of fraud response plans found in the public and not-for-profit sectors, and on the specific needs and requirements of local church schools.

This Policy applies to all the local church schools (Schools). It is an integral part of the School's internal control policy framework and should be read and applied in conjunction with the North America Division Church and School Accounting Manual. In addition, the definitions that appear in the Glossary are to be interpreted within the context of this Policy.

2. What is Fraud?

For purposes of this Policy, fraud is defined as the use of deception by an individual with the intention of obtaining an advantage for himself or herself, for a third party or parties, avoiding an obligation, or causing loss to another party. The term fraud is used to describe offences such as, but not limited to, deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, and collusion. This Policy is intended to apply to both internal and external fraud as defined in the Glossary.

3. How Fraud Occurs

Some frauds arise because of lack of proper internal control policies and procedures. Other frauds may be the result of failures to follow proper control procedures, carelessness in carrying out checks, inadequate separation of duties of staff, or management override of internal controls.

Four basic elements are usually present when fraud occurs:

- Individual(s) to carry out the fraud – inside or outside of the organization;
- Assets to be acquired used or disposed of fraudulently;
- Intent to commit the fraud; and
- Opportunity to do so.

Management must ensure that the opportunities for fraud are minimized. A high probability of being caught will deter those who might otherwise engage in fraud. Opportunities to commit fraud may be reduced by ensuring that a sound system of internal control, proportional to risk, has been designed and implemented and is functioning as intended.

4. Fraud Prevention

Every employee in our Schools has a responsibility as well as obligation to contribute to the management of fraud risk.

- Principals and Head Teachers (Principals), Business Managers, and Departmental Directors all set the tone and lead in the promotion of risk management, internal controls, and an anti-fraud culture throughout the Schools.
- The Local School Board (Board) designs, implements, and operates the control actions, recruits the right people, and ensures that physical and IT services promote computer and data security.
- Departmental Directors and the Principal should reinforce the existing preventive controls like exit interviews, background checks, employee training, segregation of

- duties, and annual performance evaluations for new and current employees.
- Employees should conduct themselves with integrity and demonstrate awareness of the importance of ethical practices in their day-to-day work.
 - Fundamental to sound management are governance structures that demonstrate and reinforce leadership, stewardship, ethical behavior, transparency, accountability, and performance. In schools this refers to the specific role of the Board to oversee the Schools internal controls and risk management practices.

Schools expect all people and organizations associated with them to be honest and fair in their dealings with the School. Schools will not tolerate any level of fraud or corruption. Any detected case will be thoroughly investigated, with disciplinary or criminal sanctions pursued where appropriate and possible, and losses recovered by any lawful means. Schools are also committed to ensuring that opportunities for fraud are reduced to the lowest possible level of risk, that effective controls are maintained to prevent fraud, and that systems and procedures are reviewed and improved following detected cases of fraud.

There are four major facets to a School's strategy for effective fraud prevention:

4.1 A Culture of Honesty and Ethics

The most persuasive and effective method of preventing fraud is the promotion by School Administrators of an ethical and transparent environment that encourages employees at all levels to actively participate in protecting the School's reputation and resources.

This involves:

- Having a clear statement of ethical values in the School's Working Policy, which all employees have an obligation to comply with and to promote with third parties, and which the organization applies and enforces consistently;
- Establishing, disseminating, and enforcing a clear fraud control policy, including sanctions for wrongdoing;
- Clarifying and addressing conflict of interest cases;
- Promoting staff awareness of fraud and training staff in anti-fraud and corruption strategies;
- Establishing and applying personnel policies that focus on the honesty and integrity of employment candidates and require background checks sufficient to the level and sensitivity of the position; and
- Maintaining staff morale, reasonable working hours, and common basic standards in local working conditions.

4.2 Risk Management and Internal Control

Risk management is at the heart of effective fraud control, especially through the development of risk criteria and implementation of effective controls. The School will undertake a comprehensive evaluation of its overall vulnerability to fraud as well as the

scope and magnitude of fraud risk in specific areas yearly or more frequently as part of an ongoing risk assessment process.

Findings will be reported to the Board, the ARKLA Education Superintendent, the ARKLA Treasurer and the External Auditors.

The K-12 Board, and the ARKLA Education Superintendent:

- Expect the Principal to exercise proactively his/her responsibility for the overall and specific management of fraud risk.
- Expect the Principal to monitor the implementation of actions designed to reduce fraud risk.

The Principal will:

- Establish internal controls to detect, report, and deter fraud that are cost effective and commensurate with the magnitude of identified risks.
- Ensure that the School's employees are comfortable reporting fraud without fear of reprisal.
- Initiate and facilitate fraud detection and reporting.
- Determine whether each risk, judged according to its probability and severity, should be prevented, mitigated, transferred, or accepted.
- Report on the implementation of actions designed to reduce fraud risk.

Further roles and responsibilities are set out in Section 6.

4.3 Awareness and Training

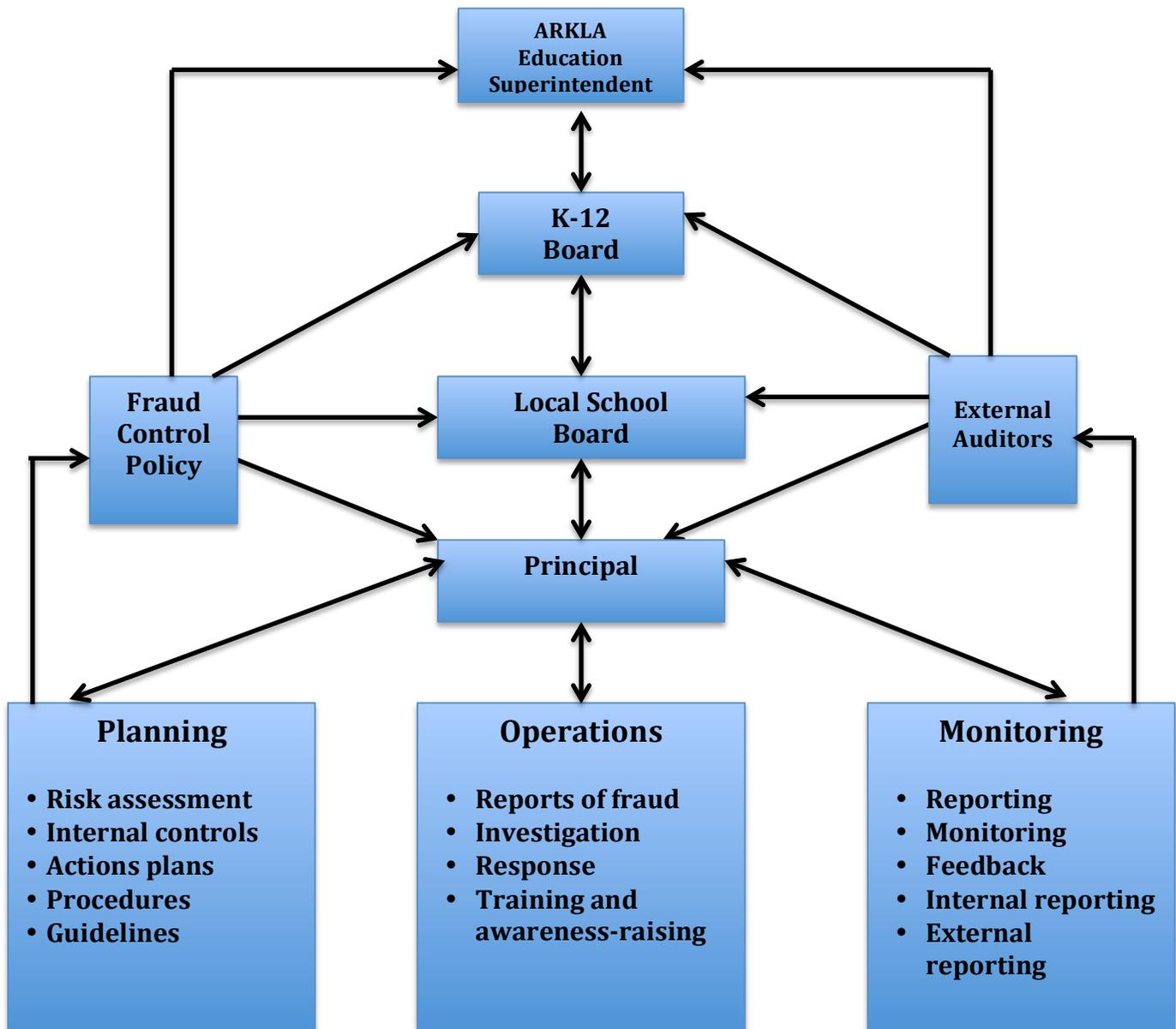
Fraud awareness and training reinforces fraud prevention and detection. Schools will ensure that all employees are aware of their responsibilities for fraud control and ethical behavior. Training will be provided for new employees and review training for current employees. Training will include the following subject areas:

- Definition of fraud – illustrate the breadth of fraud and the fact that it can involve the pursuit of tangible and intangible benefits;
- Need for ethical behavior and the fact that fraud avoidance is everyone's responsibility;
- Education on what things to look for that could indicate that fraud may have been committed;
- Steps to take if fraud is reasonably suspected;
- Responsibilities for handling allegations and inquiries into cases of fraud in Schools;
- The role of the External Auditors, the Principal, and the Board;
- Available remedies and measures to be applied when fraud is established; and
- Measures to ensure that third parties are aware of the School's Fraud Control Policy.

4.4 Oversight Process

Independent reviews by the External Auditors will examine the effectiveness of internal controls and review operations for evidence of fraud. The results of such reviews will be reported directly to the K-12 Board and to the ARKLA Education Superintendent and will be followed-up by the Board.

Figure 1: Internal Fraud Prevention Responsibilities



5. Fraud Response

5.1 Delegation Structure

The Board has overall responsibility for the organizational response in the case of a reported or suspected fraud. Authority for the response can be delegated to the Principal, as appropriate, though overall management of the response to suspected fraud would be maintained at least at the level of a Departmental Director. Care should be taken to ensure that those involved in overseeing fraud response do not have managerial responsibilities in the area(s) affected. If the Principal and the Treasurer are involved in fraud, the ARKLA Education Superintendent will have the responsibility for the organizational response.

5.2 Reporting Allegations of Fraud

ARKLA Employees' Responsibility

School employees should be aware of the potential for fraud, and should report any reasonably suspected fraud. Concerns that should be reported include, but are not limited to, employee committing or attempting to commit:

- Any dishonest or fraudulent act;
- Forgery or alteration of documents or accounts;
- Misappropriation of funds, supplies or other assets;
- Impropriety in the handling or reporting of money or financial transactions;
- Profiting personally from an official position or enabling family members or others to do so;
- Disclosure of official activities or information for advantage;
- Accepting or seeking value from third parties by virtue of official position or authority;
or
- Theft or misuse of property, facilities or services.

External party actions, which should be reported, include:

- Being offered a bribe or inducement by a supplier;
- Receiving fraudulent (i.e., intentionally inaccurate, rather than erroneous) invoices from a supplier; or
- Known instances of corruption, deception, or misuse by a supplier.

If an employee becomes aware of a suspected fraud he/she should take note in writing of any pertinent details, including what was said or done by whom, the date, the time, the location, and the names of the individual(s) involved.

Employees *should not*:

- Contact the suspected perpetrator to get facts or demand restitution;
- Discuss the case facts or allegations with anyone outside of the organization; nor
- Attempt to personally conduct investigations or interviews.

Reporting process

Depending on the circumstances of who is thought to be involved in the suspected fraud, the School employee should report the suspected fraud to one of the following, in order of preference:

- Employees should report the suspected fraud to the Principal or to the Treasurer if they are not involved in the fraud allegations.
- The Principal is required to report the concern to the External Auditors or to the Board, or to the ARKLA Education Superintendent, who will report the details to the External Auditors.
- If the Principal or Treasurer is a potential suspect, then employees should report the concern directly to the Board or to the ARKLA Education Superintendent, or to the External Auditors.
- If employees prefer to report anonymously, they can do so through the ARKLA treasurer's phone number, email address account, or by fax. Email or letter can also send a report to the External Auditors.
- Reports of fraud should include all known details, including all individuals alleged to be involved, the location, the time, and any relevant actions or statements.
- All information provided to the External Auditors and Legal Adviser will be treated confidentially. All reasonable allegations will be treated seriously and systematically. They will be properly investigated. Confidentiality, in so far as possible, will be maintained for all reports made in good faith, and where reports are made anonymously, such anonymity will be respected.

However, if criminal activity is to be reported to the police, the identity of the person reporting may eventually have to be disclosed to enable external investigators or the police to pursue criminal investigation effectively.

If an allegation is determined to have been made frivolously, in bad faith, maliciously, for personal gain, or for revenge, disciplinary action may be taken against the person making such an allegation.

Principal and Treasurer Responsibility

If informed of a fraud, the Principal and Treasurer should listen carefully and with respect to employees, ensure that every report is treated seriously and sensitively, and give every allegation a fair hearing. The Principal and Treasurer should obtain as much documentation and information as possible regarding the alleged fraud, including any notes or evidence, and they should reassure employees that they will be protected and

will not suffer any reprisal for having reported allegations made in good faith. The Principal and Treasurer are required to prepare a written report of the details of any suspected fraud that has been reported to them.

The Principal and Treasurer should not confront the alleged perpetrator or carry out an investigation themselves. Instead, the matter should be reported immediately to the External Auditors. All suspected fraud should be reported immediately or in a timely manner.

5.3 Initial Reaction to Allegations of Fraud

- The Principal will act promptly to determine a course of action appropriate to the seriousness of the alleged offence. Appropriate actions could range from taking the individual out of his/her position into another position during the investigation, or leave with pay, leave without pay, or suspension. In all cases the course of action will be determined in consultation with the ARKLA Legal Adviser. If the suspected person(s) are allowed to remain on the premises and/or continue with their employment duties, arrangements must be made to keep the person(s) under close surveillance.
- The Principal, the ARKLA Treasurer, or the ARKLA Education Superintendent will inform the individual(s) concerned of the allegations against him or her, and the course of action to be taken.
- Simultaneously the Principal, the ARKLA Treasurer, or the ARKLA Education Superintendent will ensure that all information in the possession of the individual suspected is secured for investigation.
- The Principal, the ARKLA Treasurer, or the ARKLA Education Superintendent, in consultation with the External Auditors, will mitigate the risk of future losses by immediately adjusting procedures in order to protect assets and to preserve evidence, including, if necessary, suspending payments (such as of salary or invoices).
- Adventist Risk Management (ARM) will be notified immediately of any loss or damage to School insured property.
- Depending on the legal status of the School, it may have a legal obligation to report the case to the appropriate government body in order to protect the School's reputation or legal status.
- The School may have a legal obligation to provide early notification to parties such as donors and constituents who may potentially suffer losses, since a concern is under investigation.

5.4. Investigation Procedure

Depending on the magnitude and the complexity of the fraud, investigations will be carried out either in-house or by the External Auditors. The decision whether to use internal or external investigation services, or a combination of both, will be made by the Board and the K-12 Board on the advice of the Legal Adviser. Investigations will be conducted without regard to any person's relationship to the organization, position or length of service. The External Auditors will keep records of all actions in the

investigation, to ensure success in any future criminal, civil or disciplinary action.

The External Auditors will determine who should not be involved in the investigation to avoid a conflict of interest situation for employees and Departmental Directors with close working relationships with the individual(s) in question.

The Principal and the Treasurer will ensure that full access is given to the External Auditors and any external body requested to assist them to immediately search the work area in question, including any files and computers. All searches are to be conducted in a lawful manner, to ensure that evidence is admissible in court, if required. The External Auditors will keep records of any action or handling of evidence.

Interviews, if necessary, will be structured and documented as much as possible. The External Auditors will develop the procedure, in consultation with the Legal Adviser.

The External Auditors will issue a report detailing the findings and conclusions of every concluded investigation, including recommendations for future action. Results of investigations will not be disclosed to or discussed with any person apart from the External Auditors, Legal Adviser, ARKLA Treasurer, ARKLA Education Superintendent, the Board, the K-12 Board, and anyone with a legitimate need to be involved. This is important to avoid damaging the reputation of those suspected of wrongdoing and subsequently found innocent, and to protect the School from potential civil liability and loss of reputation and goodwill.

5.5 Managing External Relations

In the case of substantiated fraud, the School will take immediate steps to mitigate potential loss of the School's reputation and credibility with donors and constituents who are involved in funding or delivering work in the particular context in question.

Where an investigation confirms that an act of fraud was committed, the Principal will disclose the details of the fraud, the assets/resources affected, and the efforts being made to remedy the situation to any constituents, vendor or donors with an interest in the affected area. This must be done in a timely manner and with great care to be transparent and responsible while at the same time not unduly alarming donors or constituents.

It is worthwhile noting that in some cases donors and constituents who interact closely with School employees may be aware of the issues and they will be looking to the Board to remedy the situation swiftly and with integrity and transparency.

In high profile cases of fraud, the Principal will manage and monitor any media response. He or She can release information only when the Board, in consultation with the Legal Adviser, approves it. The Principal will retain a complete record of any information released, including the content and the recipient.

5.6 Recovering Assets

Where the School has suffered financial loss or loss of other material assets, efforts will be made to seek restitution from the individual(s) responsible for the fraud. This can be done through the following methods:

- Making arrangements for voluntary payment;
- Making deductions from benefit payments or a pension scheme if permitted by law;
- Considering an insurance claim;
- Taking civil action to obtain a judgment for the loss;
- Obtaining compensation orders in criminal cases; or
- Considering any other appropriate means of recovery.

5.7 Disciplinary Action

Where the External Auditors' investigation reveals that a School Employee has committed a fraud, the Principal, in consultation with the Legal Adviser, the ARKLA Education Superintendent, the Board, and the K-12 Board, will pursue disciplinary or legal action. Where appropriate, criminal prosecution should be pursued. Otherwise, depending on the nature of the case, one or more of the following options may be applied, consistent with the perpetrator's relationship with School and the rights and obligations therein under applicable law:

- Counseling;
- Loss of privileges;
- Greater scrutiny or increased controls;
- Transfer to another institution;
- Demotion;
- Suspension;
- Termination;
- Immediate dismissal; or
- Disciplinary action could also be brought against the Departmental Director whose failures have contributed to the commission of fraud or an employee deliberately making an allegation in bad faith.

5.8 Follow-up Action

Following a case of fraud, the Principal will ensure that all Departmental Directors and employees in the affected area are debriefed on the process and outcome of the investigation. There should also be a follow-up with the individual(s) who reported the initial suspicion of fraud, to provide assurance that their claims have been taken seriously.

Depending on the circumstances, the Principal will consider the need for communication with employees, donors and constituents on a larger scale. The Principal will ensure that the organization conducts a thorough review of operating procedures in the areas affected by the fraud and that improvements are made where necessary.

Lessons learned will be disseminated throughout the organization, where applicable, to strengthen the system of internal control and to foster an anti-fraud culture. A report on actions taken will be submitted to the Board and the K-12 Board.

6. Roles and Responsibilities in Fraud Response and Control

In summary, the specific roles and responsibilities for preventing and responding to fraud in the School are the following:

6.1 The Board

- Require regular reporting from the Principal on the assessment of fraud risk and measures being taken to prevent fraud in the School;
- Require External Audit reports from the External Auditors; and
- Require management responses and follow-up actions to all external audit reports which identify weaknesses in internal control policies and procedures.

6.2 The Principal

- Set the overall tone to reinforce the message that fraud will not be tolerated in the School.
- Establish an internal control system designed to eliminate or mitigate the risks faced by the School. He/She will be accountable for the adequacy and effectiveness of the controls designed and implemented. Managing fraud risk should be seen in the context of the management of a wider range of risks. This includes:
 - Development of an organizational risk profile, including consideration of fraud risks and regular review of the risks associated with organizational objectives; and
 - Establishment and review of a fraud control policy, including an appropriate control environment and a fraud response plan.
- Provide strong support for the External Auditors;
- Establish mechanisms for reporting suspected fraud and issues with fraud risk management;
- Ensure that employees' knowledge of fraud control policies is sufficient and that appropriate training is provided;
- Ensure that swift action is taken to respond to allegations and substantiated cases of fraud;
- Make arrangements for investigating allegations of fraud, and ensure that vigorous and prompt investigations are carried out without delay;
- Upon receiving an investigation report, determine the appropriate disciplinary and/or legal action to be taken against perpetrators of fraud and supervisors whose failures have contributed to the commission of fraud, and ensure that appropriate action is taken to recover assets;

- If necessary, communicate with major donors, vendors or constituents affected by the fraud to reassure them that all necessary steps are being taken;
- Ensure timely follow-up and strengthening of preventive measures;
- Take appropriate measures in case of frivolous or bad faith allegations; and
- Take appropriate measures if an employee is cleared of allegations made in good faith.

6.3 Departmental Directors

- Assess the risks, including but not limited to fraud risks, involved in their area of responsibility and ensure that an adequate system of internal control exists and functions to address these risks;
- Encourage employees to report reasonable suspicions of fraud, treating all allegations seriously and reporting allegations to the Principal, Board, ARKLA Treasurer or the ARKLA Education Superintendent promptly; and
- Keep records of any allegations as well as any subsequent actions taken.

6.4 The Legal Adviser

- Provide guidance to the Principal, the Board, the K-12 Board, ARKLA Education Superintendent, and the External Auditors on the course of action to be taken, the involvement of external experts or legal authorities, and the conduct of investigations;
- Provide guidance to the Principal, the Board, the K-12 Board, ARKLA Education Superintendent, and the External Auditors regarding the potential legal avenues or consequences once a fraud has been established through investigation, and the means available to recover assets and to restore the School's reputation and goodwill; and
- Communicate with and manage external criminal lawyers engaged in the particular jurisdictions in which cases of fraud arise.

6.5 School Employees

- Conduct themselves lawfully and properly in the use of the School's resources;
- Remain alert to the possibility of fraud and report suspicious behavior to their supervisor, the principal (if not committing fraud), ARKLA Education Superintendent, the External Auditors, or ARKLA Treasurer;
- If employees prefer to report anonymously, they can do so through the ARKLA treasurer's phone number, email address account, or by fax. You can also email or send a letter to the External Auditors;
- Attend in-house training courses on Risk Management and Fraud Prevention; and
- Sign and accept the Fraud Control Policy as an integral part of their employment contract with the conference.

7. Contact Details

The following contact details are provided:

ARKLA Treasurer

Rodney Dyke

Email: rdyke@arklac.org

Cellphone: 318-773-2730

Office: 318-631-6240 Ext. 204

ARKLA President

Richard Dye

Email: rdye@arklac.org

Cellphone: 318-469-1990

Office: 318-631-6240 Ext. 210

ARKLA Education Superintendent

Stephen Burton

Email: sburton@arklac.org

Cellphone: 318-517-1943

Office: 318-631-6240 Ext. 214

External Auditors

Art Nelson

Email: nelson@casscomm.com

Office: 217-626-2615

8. Glossary

Allegation	A statement or accusation by a person that an act of fraud has or may have been committed. This does not require evidence of the offence or identification of suspects, but there is usually some stated basis for the accusation.
Conflict of interest	A situation in which the impartiality of an employee in discharging his/her duties could be called into question because of the potential, perceived or actual improper and impermissible influence of personal considerations, financial or other.
External fraud example,	Fraud committed against the ARKLA Conference by an external party, for the employees of a bank institution or supplier.
External party	Any legal entity or individual other than the conference employees of the ARKLA Conference.
Fraud	The use of deception by an individual with the intention of obtaining an advantage for himself or herself or for a third party or parties, avoiding an obligation, or causing loss to another party. Fraud includes offences such as, but not limited to, deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, and collusion.
Fraud Prevention	Strategies designed to proactively reduce or eliminate internal and external fraud.
Immediate dismissal	The cessation of a term of employment by the ARKLA Conference immediately upon notice and without any separation benefits that may be provided by local conditions of service, on the basis of the employee's breach of certain terms of the ARKLA Conference working policy of employment.
Internal control	A process affected by the governing body, management, and other employees, designed to provide reasonable assurance that risks are managed so as to ensure the achievement of the organization's objectives.
Internal fraud	Fraud committed directly against the ARKLA Conference by an employee.
Investigation	A search for or collation of evidence connecting or tending to connect a person or body with conduct that infringes the law or the ARKLA Conference working policies, procedures and guidelines.
Risk assessment	A process that analyses the risks, including fraud risks, that may prejudice or prevent achievement of organizational objectives, and that determines whether those risks are to be prevented, mitigated, transferred or accepted.
Employee	For purposes of this policy, any individual who works full time or part-time within the organization.