**Private Scho****ol Choice Programs (Choice) &**

**Special Needs Scholarship Program (SNSP)**

**Fraud Risk Guide**

**For the Year Ending June 30, 2023**

The AICPA Statements on Auditing Standards (SASs) require the auditor to specifically identify and assess the fraud risks that may result in a material misstatement of the financial statements. The auditor is then required to respond to those risks while gathering audit evidence. This guide includes an evaluation of fraud risk factors that may be present at schools participating in the Private School Choice Programs (Choice) and Special Needs Scholarship Program (SNSP). The auditor should consider these fraud risks when completing the Enrollment Audits to determine any required procedures to address the risks. Additionally, the auditor should consider any risk factors identified in this checklist when assessing fraud risk for the financial audit and how to address those risks in the financial audit.

1. **Complete an evaluation of the fraud factors present at the school.**

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| **Procedure** | **Performed By and Date** | **Comments/Workpaper Reference** |
| * 1. Complete an evaluation of the risk of fraud based on the fraud risk triangle. Professional literature indicates that in order for fraud to occur, the following must exist:
* Opportunity: Circumstances, such as ineffective controls, the absence of controls, or the ability to override controls, enable management or other employees to commit fraud. For example: The administrator is the only individual completing Choice/SNSP paperwork and there is no review.
* Rationalization: Management or other employees are able to justify why it is acceptable to commit fraud.
* For Example: I “deserve” the money.
* I educated these children.
* I *KNOW* these children are low income (Choice only).
* I should be able to make some money from this school.
* I will only take some money for a little while.
* Incentives/Pressures: Management or other employees have incentives or pressures to commit fraud such as the following:
	+ - Need the money to continue running the school
		- Unable to pay teachers/vendors
		- Personal financial distress – foreclosed on house, trouble paying bills
		- Need to live a lavish lifestyle-nice car, house, etc.
		- Medical problems
		- Drug or alcohol addiction
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| 1.2 Hold a discussion among engagement team members regarding the susceptibility of the school’s financial statements and accounts to fraud. Consider:* Fraud surrounding:
	+ Management override
	+ Revenue recognition
* Risks inherent in the audit
* Continuing risks from prior year
* Risks due to changes at the school
* Financial viability risk
* Discuss completion of audit procedures that address the identified risks
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| * 1. Identify changes that may have an effect on net eligible education expenses or enrollment counts including the following items.

General:* + - * Significant changes in the number of pupils
			* Changes in operating systems (attendance or the general ledger)
			* Outstanding litigation with a teacher, parent, vendor, other school, etc. [check Wisconsin Circuit Court Access (WCCA) at http://wcca.wicourts.gov/index.xsl for any outstanding litigation against the school, operating organization, administrator, or other key school employees]

Funds Availability/Financial:* + - * Availability of funds from operating organization or outside contributors
			* Any debt coming due in the next year
			* Likelihood that any Paycheck Protection Program loan will be forgiven.
			* Determine any COVID-19 related financial impacts for the school.

Operational Structure/Ownership:* + - * Any changes in the ownership or operating structure (especially if it represents a significant change from prior year)
			* Additional costs/changes to operations such as a change in providing transportation for their students/other students or a change in providing food nutrition to their students/other students
			* Change in other operations-day care, partnership school, school district 4K program, etc.
			* First year in the SNSP or Choice program
			* New/different property locations

Personnel/Duty Changes:* + - * Changes in personnel/high turnover
			* Change in who is obtaining and reviewing applications
			* Change in the individual completing the accounting
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| * 1. Inquire of management and personnel about the risks of fraud and how they have been addressed. Recommended inquiries are included in Appendix A.
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| * 1. Determine whether the entity has entered into any significant unusual transactions. If so, determine the nature, terms, and business purpose of those transactions. Also, determine whether the transactions involve related parties. SAS AU-C 240.11 defines significant unusual transactions as, “Significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature.” Inquiries related to this are in Appendix A.
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| * 1. Perform preliminary analytic procedures. Review the analytics to determine if there have been abnormal changes in enrollment, eligible cost, ineligible cost, debt, revenue, etc. Investigate any abnormal changes and determine if they may be an indicator of fraud. Recommended analytic procedures include:
	+ Prior year balances compared to current year net program asset balances.
	+ Prior year balances compared to current year eligible education expenses.
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| * 1. Fraud risk assessment areas should include the following. These areas represent enrollment audit risks specific to the Choice program and the SNSP (these risks may also have a financial impact).
		+ *Engagement Risk* - Program eligibility determinations being made by individuals on behalf of an organization that have an ownership or other vested interest in the school.
		+ *Program Eligibility Issues* - Contentiousness with parents or the DPI on specific count eligibility issues.
		+ *Auditing Difficulties* - Lacking or incomplete:
			- * Income determinations (Choice only),
				* Residency determinations,
				* Paper applications (SNSP only),
				* IEP/services plan determinations (SNSP only),
				* Classroom records (if required),
				* Official attendance records, and/or
				* Other records needed for audit.
		+ *Susceptibility to Fraud* - The susceptibility of the count to fraud, given that eligibility documents are not provided to the department and that state aid payments are made through quarterly electronic fund transfers to the school’s bank account.
		+ *Personnel* –
			- The lack of competence and experience of personnel assigned to accept and approve applications.
			- The lack of competence and experience of personnel in using the Online Application System (Choice only) or SNSP Portal (SNSP only).
			- High staff turnover or lack of understanding of application and count requirements.
		+ *Need for Judgment* - How issues are addressed and resolved, and judgment required of school administrators and designees in accepting required application documentation.
		+ *Nature of Applicants* - The number of applications and complexity associated with applications received by the school regarding:
* Number of applicants
* Parent/guardian situations
* Continuing or new applications (Choice only)
* Recent legislative changes that may affect the complexity of the application process
* The ability of applicants to provide income documentation (Choice only)
* Complexity surrounding the IEP/services plan requirements (SNSP only)
	+ *Virtual Instruction* – Consider the risk associated with taking attendance in a virtual environment.
	+ *Remote Auditing* – Consider the increased risk if the auditor will be completing procedures remotely.
	+ *New Schools* - Consider the risk associated with implementing the program and gaining an understanding of the program requirements in a short period of time.
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| * 1. The areas identified below represent financial statement risks specific to the Choice program/SNSP; therefore, fraud risk assessment areas should include the following:
		+ Costs are eligible education expenses
		+ Owned buildings and rental agreements are properly recorded
		+ All cash flow expenditures and revenues (including offsetting revenues) are properly recorded
		+ Choice only: Any control, payment, or other concerns noted in the Choice Fiscal & Internal Control Practices Report
		+ Choice only: Schools being able to charge tuition to students in grades 9-12 with income above 220% of the federal poverty level. Consider the fraud risk associated with schools inappropriately charging tuition/fees to other Choice students.
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**Section 2: Consider any Risk Factors Identified & Determine How to Address them in Enrollment Audit Related Procedures**

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| **Procedure** | **Performed By and Date** | **Comments/Workpaper Reference** |
| * 1. Based on fraud risk factors identified, consider how to address those risks when completing the Enrollment Audit procedures. Some examples of how a firm may modify their procedures to address identified fraud risks include:
		+ Completing procedures for the Enrollment Audit onsite rather than off site.
		+ When completing the Student Information System (SIS) testing, complete testing that allows for the auditor to review the SIS access for different individuals, including those who have a financial interest in the school and those that do not.
		+ When completing procedures to understand the school processes, asking more than one individual what the process is.
		+ Consideration of what records should be used as original classroom records, if needed.
		+ Consider what attendance records should be used when schools are providing virtual instruction.

Other procedures may be identified based on the fraud risks identified by the school and the auditor’s determination of how to address the fraud risks. If the auditor becomes aware of fraud or suspects fraud may be occurring at the school, the auditor should communicate that to the DPI Auditors as soon as possible. |  |  |

**Appendix A: Sample Risk & Fraud Questionnaire**

Below are sample fraud and risk assessment questions developed for the Choice program/SNSP. The auditor should determine what questions are appropriate based on their relationship with the client, area(s) with significant changes, identified potential fraud risks, and knowledge of the client. Other inquires may be deemed appropriate based on the specific facts and circumstances of the school. Generally, the auditor should make inquiries of the individual who signs the management representation letter. Other inquiries should be based on the risks identified at the school and the ability to properly address management override of controls (for example speaking to the administrator alone may not allow the auditor to properly address the risk of management override).

**Choice Administrator, Office Staff Person, and Accountant:**

1. Are you aware of any fraud at the school?
2. Have there been any changes in the processes (paying bills, receiving cash, recording Choice/SNSP pupils, keeping attendance, etc.)?
3. If the school is providing virtual instruction-What procedures do you have in place to ensure that attendance is properly taken in a virtual environment? Do you have any processes/procedures you complete to ensure it is correct?
4. Has there been a change in any key personnel? How has this change affected the controls in place?
5. What processes/procedures do you (not the school, the individual specifically) complete to get comfortable that:
	1. Bills are paid when due?
	2. Teachers are paid on a timely basis?
	3. All cash received is properly deposited?
	4. Attendance is recorded properly?
	5. Choice application documentation is received within the application period and only eligible applications are approved?
	6. Only eligible SNSP applications and transfer requests are approved?
6. What types of controls do you have in place to ensure that the same person is not receiving bills, paying bills, and reviewing the bills paid?
7. What do you consider to be the greatest risk for the school? How has the school addressed this risk?
8. How do you ensure all expenses are recorded at the proper amounts?
9. How do you ensure all revenues are properly recorded and included in offsetting revenues as appropriate?
10. What procedures do you complete to ensure that the school is able to meet financial obligations as they come due?
11. What keeps you up at night?
12. What do you consider to be the school’s greatest opportunity area?
13. What change(s) in the current year have most affected you/the operation and running of the school?
14. How would you define integrity?
15. What area/process/improvement has the greatest opportunity for improvement? What would these improvements be?
16. What procedure completed do you believe provides the greatest level of comfort that:
	1. All Choice/SNSP students are properly eligible?
	2. All expenses and offsetting revenue are properly recorded?
	3. Attendance is tracked correctly?
	4. Other?
17. What projects have you been working on?
18. How has COVID-19 impacted the financial position of the school and the operations of the school?
19. Has the school entered into any unusual transactions? If so, please describe the nature of the transaction and why the school entered into the transaction.

**Teacher:**

1. Are you aware of any fraud at the school?
2. Have there been any changes in the processes for keeping attendance?
3. What is your process for recording attendance? Has this changed in the current year?
4. If the school is providing virtual instruction-How do you ensure that attendance is taken correctly in a virtual environment?
5. Has there been a change in any key personnel? How has this change affected the controls in place?
6. What processes/procedures do you (not the school, the individual specifically) complete to get comfortable that:
	1. Attendance is recorded properly?
7. What do you consider to be the greatest risk for the school? How has the school addressed this risk?
8. What keeps you up at night?
9. What do you consider to be the school’s greatest opportunity area?
10. What change(s) in the current year have most affected you/the operation and running of the school?
11. How would you define integrity?
12. What area/process/improvement has the greatest opportunity for improvement? What would these improvements be?
13. What procedure completed do you believe provides the greatest level of comfort that:
	1. All Choice/SNSP students are properly eligible?
	2. Attendance is tracked correctly?
	3. Other?
14. Are you aware of someone changing the attendance records so that a pupil meets the attendance requirements for the SNSP/Choice program?
15. How has COVID-19 impacted the operations of the school?

**IT Person:**

1. Are you aware of any fraud at the school?
2. Have there been any changes in the IT processes for paying bills, receiving cash, recording Choice/SNSP pupils, keeping attendance, etc?
3. Has there been a change in any key personnel? How has this change affected the controls in place?
4. If the school is providing virtual instruction-What procedures do you have in place to ensure that attendance is properly taken in a virtual environment? Do you have any processes/procedures you complete to ensure it is correct?
5. What processes/procedures in the software ensure that:
	1. Bills are paid when due?
	2. All employees, including teachers, are paid on a timely basis?
	3. All cash received is properly deposited?
	4. Attendance is recorded properly (if a program is used to track attendance)?
6. What do you consider to be the greatest risk for the school? How has the school addressed this risk?
7. What keeps you up at night?
8. What do you consider to be the school’s greatest opportunity area?
9. What change(s) in the current year have most affected you/the operation and running of the school?
10. How would you define integrity?
11. What area/process/improvement has the greatest opportunity for improvement? What would these improvements be?
12. What projects have you been working on?
13. How has COVID-19 impacted the IT functions?
14. If the school has recently added or changed their Student Information System (SIS):
	1. What challenges did the school have with the implementation of the SIS?
	2. How did the school address any issues?
	3. What changes have been made?
	4. How are changes to the system tracked and monitored?

**Board of Directors Member:**

1. What is your level of involvement in the day to day operation and/or review of the school?
2. Are you aware of any fraud at the school?
3. Has there been a change in any key personnel? How has this change affected the controls in place?
4. What processes/procedures do you (not the school, the individual specifically) complete to get comfortable that:
	1. Bills are paid when due?
	2. All employees, including teachers, are paid on a timely basis?
	3. All cash received is properly deposited?
	4. Attendance is recorded properly?
	5. Choice application documentation is received within the application period and only eligible applications are approved?
	6. Only eligible SNSP applications are approved?
5. What do you consider to be the greatest risk for the school? How has the school addressed this risk?
6. What procedures do you complete to ensure that the school is able to meet financial obligations as they come due?
7. What keeps you up at night?
8. What do you consider to be the school’s greatest opportunity area?
9. What change(s) in the current year have most affected you/the operation and running of the school?
10. How would you define integrity?
11. What area/process/improvement has the greatest opportunity for improvement? What would these improvements be?
12. What procedure completed do you believe provides the greatest level of comfort that:
	1. All Choice/SNSP students are properly eligible?
	2. All expenses and offsetting revenue are properly recorded?
	3. Attendance is tracked correctly?
	4. Other?
13. What projects has the Board implemented in the last year? What changes are anticipated in the future? What prompted these changes?
14. How has COVID-19 impacted the financial position of the school and the operations of the school?
15. Has the school entered into any unusual transactions? If so, please describe the nature of the transaction and why the school entered into the transaction.