

HARRIS COUNTY DEPARTMENT OF EDUCATION
BUSINESS SERVICES

Fraud Prevention Model and Awareness Program
Introduction

Each year the Harris County Department of Education is audited by an independent audit firm. The firm looks at sample transactions from the fiscal year under audit, the internal controls in place, and the annual financial report. The transactions are sampled to ascertain whether accounting processes and procedures are being followed correctly and consistently. The internal controls are reviewed to determine if they adequately and effectively safeguard the assets (financial, physical and human assets) of the Department. The audit report is reviewed to ensure that it is free from material misstatements and that the financial results at fiscal yearend are fairly presented.

In reaction to accounting scandals at Enron, WorldCom, Tyco, etc., the American Institute of Certified Public Accountants' Auditing Standards Board issued Statement of Auditing Standard, No. 99 (SAS #99): CONSIDERATION OF FRAUD IN A FINANCIAL STATEMENT AUDIT in October 2002 and it became effective for audits of financial statements for periods beginning on or after December 15, 2002.

SAS #99 defines FRAUD as an intentional act that results in a material misstatement in financial statements. There are 2 types of FRAUD considered: misstatements arising from fraudulent financial reporting (e.g. falsification of accounting records) and misstatements arising from the misappropriation of assets (e.g. theft of assets or fraudulent expenditures).

SAS #99 requires the auditor to gather information necessary to identify risks of material misstatement due to FRAUD by the following:

- Making inquiries of management and others within HCDE
- Considering the results of analytical procedures performed in planning the audit
- Considering FRAUD risk factors
- Considering certain other information

The HCDE Fraud Prevention Model and Awareness Program supports SAS #99 by communicating to management and others an awareness and understanding of FRAUD, and educating management about FRAUD and the types of controls that will deter and detect FRAUD. The Business Office alone cannot prevent and/or detect all the types of FRAUD that may be perpetrated within the Department. It takes all HCDE employees being aware and being knowledge-able that FRAUD could occur to possibly prevent FRAUD from occurring or even detecting a FRAUD that has occurred. All personnel, especially management personnel, have the response-ability to (1) safeguard HCDE resources: financial, physical and human, and to (2) be aware of the risks of FRAUD. This Program is a great way to bring awareness to management personnel of their responsibilities in this area. This Program is also one of the ways the independent auditors have to evaluate HCDE internal controls.

[Reference: en.wikipedia.org/wiki/SAS_99]

Updated 2/12/2009. EN