

OFFICE OF INSPECTOR GENERAL

School District of Philadelphia

Investigative Report Synopsis

Executive Summary

The Office of Inspector General (OIG) for the School District of Philadelphia (District) received a complaint alleging that an individual submitted fraudulent bank information to change the payment method of a District supplier to electronic (ACH) payment. As a result, the District deposited two payments into the individual's account, and two additional payments were pending. The individual also made a request for payment of a prior invoice that the District already paid to the vendor. The District stopped all but two of the payments and filed a fraud claim with the bank. The payments made and pending totaled \$503,580, and the District ultimately recovered all but \$5,635. The OIG referred this matter to appropriate law enforcement authorities and initiated an internal investigation which substantiated that the District lacked sufficient policies and procedures to govern changes made to vendor information in the Oracle payment system, which led to an attempt to fraudulently obtain \$503,580 of District funds.

OIG Investigation

In October 2022, the OIG received a complaint alleging that multiple payments were deposited into a fraudulent bank account at the request of an individual who purported to be an Accounting Specialist for an approved District vendor. The individual initially telephoned the District with a request to change the payment method for the vendor to ACH payment. Then, as instructed, the individual followed up with an email and submitted the appropriate ACH forms to effectuate the change. As a result, two payments were deposited into their bank account, and two additional deposits were pending. A known employee of the vendor subsequently informed the District that no one by that individual's name worked for the company and no request to change the payment method was made. After discovering the fraud, the District stopped the two pending payments. Further review of the information submitted by the individual revealed multiple indicators of fraud. The individual requested an additional payment, which the District reported to the OIG.

Investigators met with AP about the safeguards that the District has to prevent these frauds from occurring. The District explained that Oracle does not have as many built-in safeguards as Advantage did, particularly the "prenote" process, which enabled the system to conduct a test transaction to the bank to make sure that the provided account information is valid before setting up direct deposit transfer for vendor payments. Since Oracle does not have as many built-in controls, AP was working with Wells Fargo to help put additional safeguards in place. In addition to instructing the vendor to fill out the appropriate ACH forms, employees are not to make any changes to ACH payments without speaking to the person on the phone and verifying their identity. However, the ACH Form that the individual completed was outdated and lacked a signature line for the supplier. The correct form was posted on the District's public-facing website, against guidance from the National Automated Clearinghouse Association (NACHA).

REPORT FRAUD, WASTE, AND ABUSE

PHONE: 215-400-4030

EMAIL: INSPECTORGENERAL@PHILASD.ORG

WEBSITE: philasd.org/inspectorgeneral

THIS PUBLIC SYNOPSIS HAS BEEN REDACTED AND EDITED FOR CONFIDENTIALITY. A MORE COMPREHENSIVE REPORT OF INVESTIGATION WAS SUBMITTED TO THE BOARD OF EDUCATION, SUPERINTENDENT, AND OTHER APPROPRIATE DISTRICT SUPERVISORS.

In Oracle, there is a page accessible only by suppliers where they can view and edit their account information. Suppliers can designate authorized agents to make changes, add or edit accounts for ACH payment, and view payment statuses. After a supplier adds an account number to the portal, it automatically formats to only display the last four digits of the account number, making it difficult for the District to verify. Because of this, even when a vendor makes changes to their account in the portal, it is not automatically approved. AP reviews the change and sends the vendor the Supplier ACH Form to confirm the account information. They also require either a voided check or a letter from the bank confirming the account information. In this case, the individual completed the Supplier ACH Form, confirmed other information that the District had on file such as tax identification number, and submitted a voided check to verify the bank account. Some of these actions suggest that the company may have been socially engineered or otherwise compromised, enabling the individual to confirm information on file with the District.

Considering the payments that were deposited into the fraudulent account, the stopped payments, and the additional requested prior payment, the individual attempted to fraudulently obtain \$503,580 from the District. In November, the Office of Financial Services informed the OIG that the District's fraud claim had been processed. The bank was able to recover and credit all but \$5,635 back to the District's account. This case has been referred to law enforcement authorities for further investigation.

Findings and Recommendations

The employees involved in this incident acted promptly when alerted that the company had not received recent payments and in making the subsequent determination that payments were deposited into a fraudulent account. Taking quick corrective action likely aided in the recovery of most of the money that had already been deposited into the individual's account and prevented further loss of funds. However, the few protocols that were in place to make changes to vendor accounts were significantly lacking, and created opportunity for an individual to take advantage of the system and put District assets at risk. The District must take additional steps to prevent this type of fraud against the District from reoccurring.

The OIG made the following recommendations in a Report of Investigation issued to the Board of Education, Superintendent, and appropriate District leadership on April 18, 2023:

- **The District must improve its internal controls to prevent individuals from making fraudulent requests to change payment information and to better protect District assets. To ensure good stewardship of public funds, the District must implement formal policies and procedures to govern the use of the ACH payment system, and should base those policies on the rules and guidelines laid out by NACHA and other organizations.** When a District employee receives a request to change vendor payment information, the employee must take additional steps to verify the identity of the individual, and should independently confirm directly with the vendor that the request

REPORT FRAUD, WASTE, AND ABUSE

PHONE: 215-400-4030 EMAIL: INSPECTORGENERAL@PHILASD.ORG WEBSITE: philasd.org/inspectorgeneral
THIS PUBLIC SYNOPSIS HAS BEEN REDACTED AND EDITED FOR CONFIDENTIALITY. A MORE COMPREHENSIVE REPORT OF INVESTIGATION WAS SUBMITTED TO THE BOARD OF EDUCATION, SUPERINTENDENT, AND OTHER APPROPRIATE DISTRICT SUPERVISORS.

was authorized. In addition, a signature line should be added to the Supplier ACH Form for the District employee to sign as verification that they authenticated the identity of the requestor and the legitimacy of the request. The form should be removed from the District's public-facing website to conform with nationally-recognized guidelines.

- **Going forward, in addition to developing a set of formal policies and procedures, the District should also provide training to new employees immediately upon the start of employment and annually to existing employees.** The training should educate employees on social engineering and the indicators of fraud schemes, and emphasize the importance of following the established policies and procedures to prevent instances of fraud and loss of funds in the future.

REPORT FRAUD, WASTE, AND ABUSE

PHONE: 215-400-4030 EMAIL: INSPECTORGENERAL@PHILASD.ORG WEBSITE: philasd.org/inspectorgeneral
THIS PUBLIC SYNOPSIS HAS BEEN REDACTED AND EDITED FOR CONFIDENTIALITY. A MORE COMPREHENSIVE REPORT OF INVESTIGATION WAS SUBMITTED TO THE BOARD OF EDUCATION, SUPERINTENDENT, AND OTHER APPROPRIATE DISTRICT SUPERVISORS.