

ACCOUNTING

in the headlines

What internal control principles were violated at a Texas school district that allowed its superintendent to embezzle more than \$750,000?

Beaumont Independent School District (BISD) is a public school district in Beaumont, Texas. It has three high schools, six middle schools, and 16 elementary schools, serving approximately 21,000 students.

In February 2015, Patricia Lambert, former BISD Assistant Superintendent, was indicted for theft connected with her position in the school district. Lambert allegedly defrauded the school district for more than \$750,000.

The story of Lambert at BISD begins in 2002, when Lambert was hired by the district as a teacher and then was promoted two months later to assistant principal of a middle school in the district. Two years later, Lambert was promoted to principal and transferred to another middle school in the district. In 2006, she was assigned to Central Medical Magnet High School (CMMHS) as principal. As principal, she was responsible, among other things, for managing personnel and financial oversight for certain aspects of CMMHS. In 2014, Lambert was promoted to assistant superintendent, a position in which she remained until her retirement in 2014.

During the course of her employment, she is charged with embezzling more than \$750,000 from BISD. Here are descriptions of the schemes in which she participated/orchestrated:

- 1) **CMMHS Booster Club funds:** Lambert took control of the CMMHS Booster Club from the parents who had been running it. She gained full access to the booster club's funds, which were not subject to BISD oversight or audits. She began taking money from the booster club; she wrote at least checks for more than \$24,381 payable to her children or herself from the booster club funds. Lambert also purchased clothing, clothing accessories, and electronics for her own personal use from the booster club funds.
- 2) **CMMHS activity fees:** During Lambert's tenure at CMMHS, she also directed that certain fees be directed to the booster club where she had control of the funds. For students to obtain copies of their official transcripts, they had to pay a small fee, usually less than \$5. Those transcript fees were directed to the booster club account by Lambert where she had access, without audit or supervision, to the funds.
- 3) **CMMHS Medical Magnet tuition funds:** She also directed money from the Medical Magnet program to the booster club account. Students in the Medical Magnet program could earn college credit while in high school; these students were required to pay tuition and fees. Lambert required that all tuition and fees be paid in cash or via money order; all funds were deposited into the booster club account. BISD paid the college and CMMHS was supposed to reimburse BISD for the tuition but it did not. In addition, Lambert charged students \$1,000 per semester for the college credit program. However, the colleges only charged the school \$275 per year.
- 4) **CMMHS scholarship donations:** Some scholarships from private donors were deposited to the booster club account, rather than used for the donor's intent.

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- 5) **Booster club reimbursement for travel:** Lambert also wrote checks out of the booster club account to reimburse herself for school district travel, even though she had already been reimbursed by BISD for the travel.
- 6) **CMMHS cash fund:** Students at CMMHS would have to pay a \$10 fine when found with a cell phone in class or when they lost their student ID. These fines went into a cash fund. In addition, there was a snack area set up near the cafeteria where students could purchase candy and chips. The inventory of candy and chips was paid for by the booster club. A portion of all of these cash fees and sales were deposited into Lambert's personal bank account.
- 7) **Printing services purchased through Lambert's son:** From 2007 – 2013, Lambert directed that all printing and graphic work for CMMHS be done through her son's companies. These items included pamphlets, flyers, banners, football programs, and instructional materials. In addition, he filled orders for both BISD and CMMHS booster club for CMMHS logo clothing and keepsake items. During the time that Lambert's son did the work for CMMHS and BISD, he had no employees other than himself, nor did he have any other work. He had no equipment to print or produce any of the items ordered. He would take the orders to other printing businesses to fill the orders and then he would add a markup of up to 300% for his services. The dollar value of the printing and graphics work billed by Lambert's son to BISD and CMMHS was approximately \$480,000 over the six year period.

Lambert has been indicted by a grand jury on federal charges for theft in the Eastern District Court of Texas on February 4, 2015.

As a side note, before she joined BISD in 2002 as a teacher, Lambert was convicted of extortion in Louisiana after running a kickback scheme with teachers for whom she secured pay raises and job promotions.

Questions

1. For each of the seven schemes allegedly run by Lambert, comment on what internal control principles would likely have been violated.
2. For each of the seven schemes listed, describe controls that could have been put into place to prevent the type of fraud that Lambert is charged with committing.