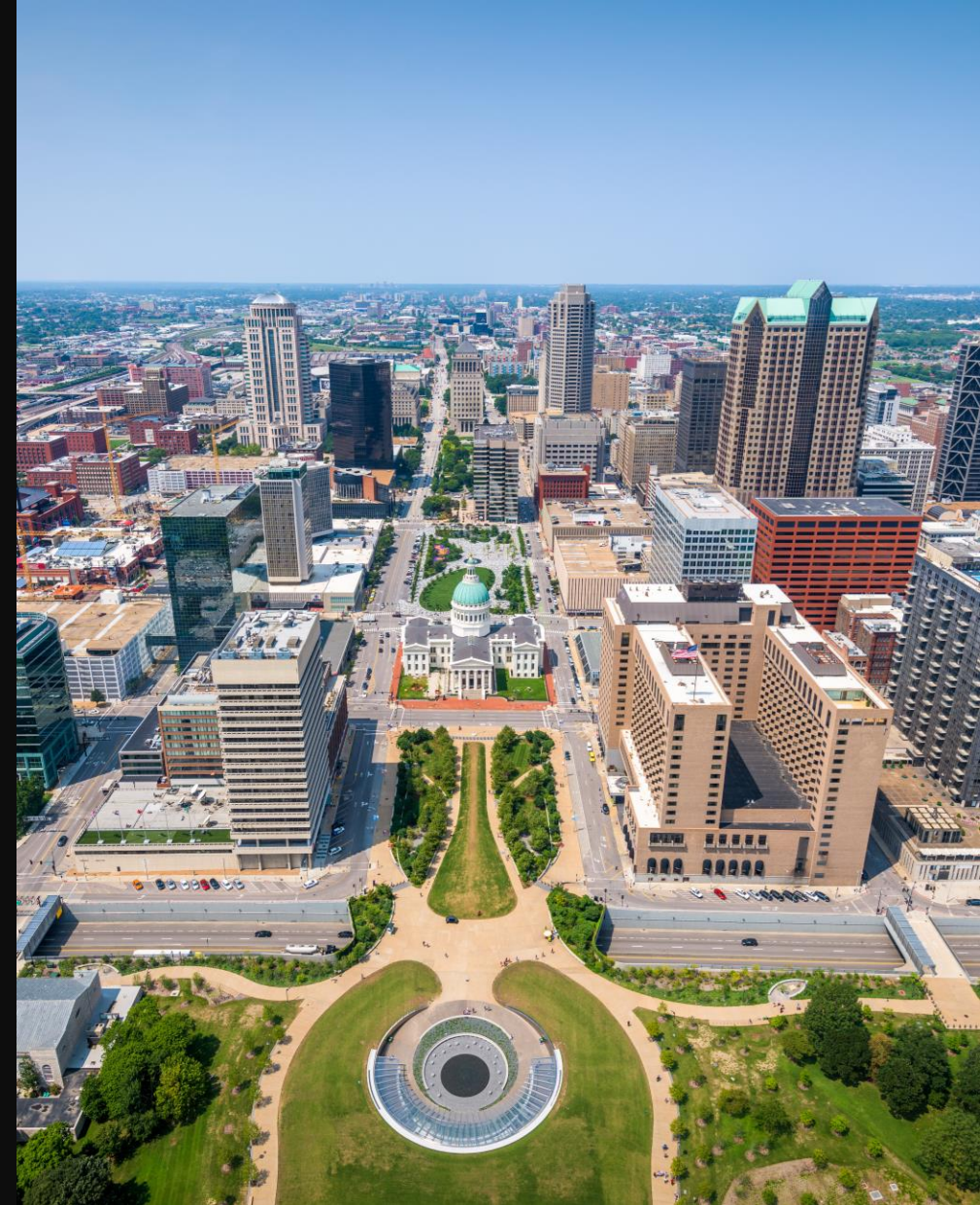


■ Fraud considerations for community colleges

April 16, 2026



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■ Agenda

I. Fraud risks for community colleges

- Conditions that make entities susceptible to fraud

II. Case studies

- Example fraud investigations

III. Recommendations and resources

- Enhancing internal controls
- Fraud training and tools



Fraud risks for community colleges



■ Conditions suited to fraud

Entities may place a higher focus on operations over robust internal controls; more trusting or less skeptical of employees.

Board members may lack the skills, knowledge, and experience to effectively oversee the financial operations and control environment.

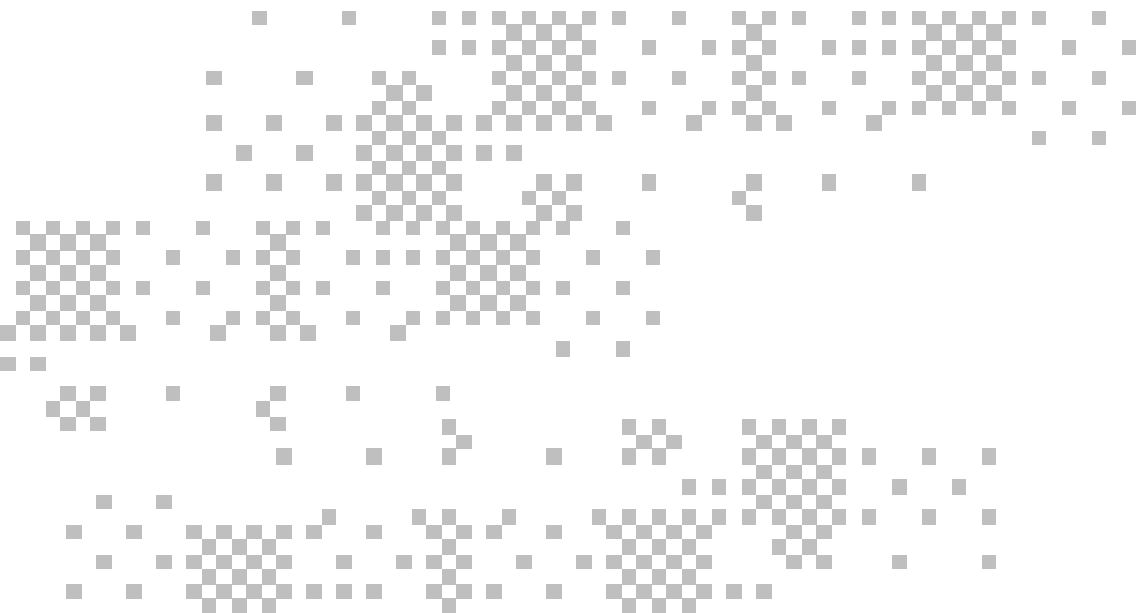
Resource constraints impact the ability to implement effective internal controls and have proper separation of duties.

Decentralized departments and/or locations can result in oversight and consistency challenges.



■ Schemes prevalent in community colleges

- Financial aid fraud based on falsified eligibility or fictitious students (“ghost students”).
- Intercepted electronic payments.
- Grant mismanagement, conflicts of interest, and noncompliance



Financial aid

Internal control recommendations



Implement software solutions to flag unusual, excessive, or duplicative applications (e.g. shared IP addresses or email domains; unusual login locations).



Require proof of enrollment activity before disbursing financial aid funds. Task professors with looking for names on rosters of students who do not appear in class.



Strengthen identify verification by using multi-factor authentication and government-issued IDs.



Educate potential and existing students on identity protection.

Electronic payments

Internal control recommendations



Perform pre-note or test deposits, along with verification of receipt.



Regularly train employees on phishing, spoofing, and social engineering schemes.



Confirm payment changes with an established contact via phone call.



Consider using a cash sweep account to keep funds segregated.

Schemes specific to grants

- Double dipping – submitting the same expenses to multiple grants or funding sources.
- Non-compliance – failure to meet requirements, including reporting and performance requirements.
- Conflicts of interest
 - Less-than-arms-length transactions – purchasing goods or services or hiring individuals from related parties.
 - Undue influence – subgrant award decisions and vendor selections made without a fair and transparent process.
- Misrepresentation – providing false information or failing to support the use of funds; inflating costs.

■ Case studies



Case studies

1 - False vendor and invoices

- An employee set up a fake vendor and submitted invoices for payment.

Internal control recommendations

- Perform due diligence on new vendors and a rotating list of existing vendors.
- Watch for lapses between paper and electronic means of approval.
- Approve invoices with appropriate “context” – including comparing to budget and reviewing payment history.

Case studies

Continued

2 - Credit card misuse

- An employee utilized a company credit card to make personal purchases.
- The employee concealed their theft by manipulating receipts and invoices.

Internal control recommendations

- Ensure supporting invoices and receipts are sufficiently detailed.
- Centralize log-ins to online vendors to ensure access to purchase history.
- Include a “reasonableness” check in the approval process.

Case studies

Continued

3 - Skimming revenue

- An employee set up a bank account under the organization's name.
- The employee oversaw opening the mail.
- When certain checks would arrive in the mail, the employee would endorse those checks for the false bank account and deposit them there.

Internal control recommendations

- Rotate who opens the mail, especially if the department is likely to receive checks.
- Ensure all revenue sources are represented in detailed department budgets.

■ Recommendations and resources



Enhancing internal controls

- Ensure the organization has an ethics policy and code of conduct.
- Offer fraud training for all levels of employees and the board.
- Implement a fraud hotline and incident management protocol.
- Obtain insurance for employee theft.
- Ensure senior management and the board are committed to an effective control environment (i.e. tone at the top)
- Conduct a formal assessment of the organization's internal controls.
- Address findings and suggestions arising from the annual audit.

Fraud training resources

- Association of Certified Fraud Examiners
 - Report to the Nations: www.acfe.com/rtnn
- Fraud- and internal controls- related CPE
 - AICPA, State CPA societies, ACFE
 - GFOA, state GFOAs
- Sikich's Forensic & Valuation Services (FVS) and Governance, Risk & Compliance (GRC) teams can facilitate training seminars.

GAO fraud tools

- The Green Book – sets standards for federal internal controls
 - <https://www.gao.gov/greenbook>
- Fraud Risk Framework – includes activities to prevent, detect, and respond to fraud
 - <https://www.gao.gov/products/gao-15-593sp>
- Anti-Fraud Resource – Specific fraud schemes that affect federal programs (underlying concepts and how to combat them)
 - <https://antifraud.gaoinnovations.gov/>
- FraudNet – if you suspect fraud, waste, abuse, or mismanagement of federal funds, report here:
 - <https://www.gao.gov/about/what-gao-does/fraud#paragraph-25426>

Questions



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■ Thank you

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