

Case Study – Lack of Internal Controls

True Story: Beaumont Independent School District

- Misappropriation of funds
 - \$500,000 over six years by an administrator
- Falsified education information; criminal record under a former last name
- Crimes exceeded the amount in indictment
 - Stole more than \$750,000 from a booster club fund
 - Awarded a lucrative printing contract to her son
 - Conspired to alter student test results
- How? Lack of internal controls!



Lack of Internal Controls – Discussion Questions



- What are some specific examples of internal control weaknesses?
- What are some realistic improvements that you would recommend that you feel could have detected and/or prevented the resulting fraud and misappropriation of funds?

Lack of Internal Controls: Beaumont Independent School District

Russell I. Tietz
University of Mount Union

Wendy M. Tietz
Kent State University

Linda J. Zucca
Kent State University

INTRODUCTION

This case, based on a true story, examines the embezzlement of funds by a high-ranking Beaumont Independent School District (BISD) administrator in Beaumont, Texas. Patricia Adams Lambert diverted funds for both personal financial gain and for a family member's financial gain. This activity occurred from 2007 to 2013 while she was employed by the BISD. The lack of internal controls at the organization directly contributed to the fraud. The facts of the case are drawn primarily from local media coverage and court documents (*United States v. Patricia Adams Lambert, Victoria Gauthier Steward*) in the U.S. District Court for the Eastern District of Texas Beaumont Division.

OVERVIEW

In February 2015, Patricia Adams Lambert was indicted on multiple counts of theft in connection with her administrative positions with the Beaumont Independent School District (BISD). Lambert had embezzled approximately \$500,000 during a six-year period while she was employed by the district. More specific information about the school district, Lambert, and the schemes she perpetrated is provided in the following narrative.

BEAUMONT INDEPENDENT SCHOOL DISTRICT

The BISD is located in Jefferson County, Texas, near the Texas-Louisiana border. It has three high schools, six middle schools, and 16 elementary schools with a total enrollment of approximately 20,000 students.¹ See Exhibit 1 for an organizational chart of the school district. In 2013, the poverty rate of Jefferson County was 23%, which is approximately double the national average.²

LAMBERT'S BACKGROUND

Lambert applied for a BISD teaching position in 2002. At that time, her résumé showed her to be a perfect fit: She had earned a bachelor's degree in elementary education, a master's degree in curriculum and administration from the University of New Orleans, a second master's degree from Loyola University, and coursework from Harvard University. Her listed work history included extensive experience as a teacher and an administrator, the latter most recently in New Orleans, LA. The BISD hired her as a teacher. Within two months of being hired, she was "promoted" to assistant principal of one of the district's middle schools. Her rapid career advancement continued: In July 2004, she was named the principal of another middle school in the district. Two years later, as principal, she was assigned to the then-named Central

High School in the same district. In this principal position, Lambert's duties included oversight of certain aspects of the campus, personnel management, and financial responsibility.³

Central High School was a poor-performing school in an economically disadvantaged school district, one that many students tried hard to avoid by applying to other high schools in the district. Lambert took this situation as a challenge, refocusing school curricula on medical specialties and renaming it Central Medical Magnet High School (CMMHS). Some students found the new name and focus to be unusual and amusing. Still, her hands-on interactions—including active involvement with athletics and student life—and concern won them over. The students became proud of their school and their principal. The high school was running well.

In May 2012, Lambert was promoted to assistant superintendent of the entire school district.

But something wasn't right. Accusations were made regarding teachers falsifying standardized test scores to raise the school's academic profile, and favorable contracts were being awarded to family members—so implied the rumors. Investigations were held.⁴ Lambert didn't have a master's degree from Loyola University with coursework from Harvard University. In reality, she had an undergraduate degree in elementary education from Southern University and a master's degree in curriculum and administration from the University of New Orleans.⁵

The credentials that Lambert claimed on her application to BISD omitted a criminal record under her former name, Patricia Collins. The New Orleans District Attorney's Office confirmed that Lambert, in 2001, pleaded no contest to three counts of extortion and one count of conspiracy to commit extortion. As a principal in the Orleans Parish, she nominated teachers for reading programs and then demanded kickbacks from them. Under a plea agreement, she received a six-month suspended sentence, one year of probation, and a \$750 fine.⁶

On February 4, 2015, a federal grand jury indicted Lambert on four counts of embezzlement and one count of conspiracy at BISD. She was accused of (1) stealing more than \$750,000 from a booster club fund—a fund in support of student programming,⁷ (2) awarding exorbitant printing and graphics contracts to her son, and (3) conspiring to alter results on state student tests.⁸ On December 28, 2015, she accepted a deal and pleaded guilty to one count of fraud on programs receiving federal funds and one count of conspiracy to submit false statements concerning standardized test scores. In exchange, the government dropped the other

charges, reduced her maximum prison sentence to 40 months, and agreed to not charge her son in connection with the frauds at BISD.⁹

THE SCHEMES

According to the federal indictment, filed in the Eastern District of Texas, Lambert devised several schemes to defraud the school district, parents, and students while a BISD employee.¹⁰ Following are descriptions of the schemes that she orchestrated. Exhibit 2 provides an overview of the inflows and outflows of funds related to the fraud perpetrated by Lambert. Exhibit 3 contains an estimate of the booster club revenues from 2011 to 2013.

SPENT CMMHS BOOSTER CLUB FUNDS

CMMHS's athletic booster club supported various athletic teams, primarily raising money from concession sales at football games. Typically, booster clubs are managed by the parents of currently enrolled students. In October 2006, Lambert took control of the club away from the parents. Initially Lambert administered the club's fund or closely directed the transactions through other persons. In doing so, she gained full access to club funds that weren't subject to oversight or audit by BISD administration. Shortly after assuming this control, Lambert began drawing funds from the booster club account; she used those monies for personal purposes—purchasing clothing, accessories, and electronics for personal use.

Parents who challenged her control were soon removed from the club's leadership. Booster club president Adrian Chretien was removed from office following a club meeting. "After that meeting, Chretien said in a newspaper interview, 'She told me I had been voted out.' Who voted? No one could say. Chretien recalled that Lambert's next words came as little surprise, 'Bring me my money.'"¹¹

Lambert wrote checks for more than \$24,381 from the booster club's account. The checks were made payable to her children, daughter Janell Collins and son Brian Collins. Lambert, however, deposited the checks in her personal bank account. Beyond indulging personal whims, she also used booster club funds to buy meals and gifts, including iPads and computers, for CMMHS faculty and staff; she told these recipients that she used personal funds to make these gift purchases. Lambert wrote checks from the booster club account for travel expenses related to school district business despite having been reimbursed by BISD for those same expenses.

Lambert had hired Sharon George to help with the high school's bookkeeping. George didn't have a degree or training in accounting or accounting-relevant job experience. Lambert gave her the responsibility of monitoring the booster club finances, student activity accounts, and other financial tasks. Since club monies weren't administered by the BISD, George had no problem paying "volunteers," herself included, for services and associated amounts requested by Lambert. Amazingly, Lambert used booster funds to pay a professional bookkeeper to subsequently fix George's mistakes.¹²

DIVERTED CMMHS STUDENT TRANSCRIPT FEES TO BOOSTER CLUB ACCOUNT

Other streams of high school funding were directed to the booster club account per Lambert's direction. For example, students ordering academic transcripts were required to pay a fee, usually \$5 or less, for each copy. Lambert diverted some of those student transcript fees to the booster club account. Previously, transcript funds had been deposited in the student activity account—that activity was subject to BISD oversight. Now the booster club account reflected concession sales, an expected fund source, and transcript fees, an atypical source.¹³

DIVERTED CMMHS TUITION FUNDS TO BOOSTER CLUB ACCOUNT

Lambert redirected funds from the high school's Medical Magnet Program to the booster club account.

The Medical Magnet Program was a four year college preparatory program. The curriculum was intensive in science and mathematics and included a preceptorship with a local hospital. The program consisted of academic components, which allowed students to earn college credits while enrolled in high school.

Program participants were required to pay tuition and fees. Lambert charged the students more than the colleges charged BISD: For the 2010-2011 school year, students paid \$1,000 in tuition and fees per semester; the actual costs were \$275 per student per year. BISD administration paid the colleges, and CMMHS was supposed to reimburse BISD. Lambert frequently failed to reimburse BISD for the \$275 tuition costs.¹⁴

Lambert indicated that all tuition and fees must be paid in cash or with a money order. She then directed Sharon George, the bookkeeper, to specifically deposit the money orders into the booster club account.¹⁵

DIVERTED CMMHS SCHOLARSHIP DONATIONS TO BOOSTER CLUB ACCOUNT

CMMHS received donations from businesses and individuals to be used for scholarships and other purposes. The donations were supposed to be deposited in the student activity account. Lambert diverted some of the donations to the booster club account. This diversion of funds was done without donor knowledge. Thus, the donated funds were never used in accordance with donors' wishes.¹⁶

USED CMMHS CASH FUNDS

CMMHS generated sizeable amounts of cash through a variety of means. For example, students were required to pay a \$10 fine if they were found carrying a cell phone on campus, an action against school policy. Elsewhere a \$10 fee was assessed if a student identification card was lost and needed replacement. Lambert established an on-campus concession area near the school cafeteria where students could buy candy or chips for about \$1 per package. The snack inventory was acquired by using booster club funds.

A portion of the cash proceeds generated from the fines and another portion generated from the sales of candy and chips were deposited in Lambert's personal bank account.

PURCHASED PRINTING SERVICES FROM LAMBERT'S SON

In 2007, Lambert assisted her son Brian Collins in becoming an authorized BISD vendor. From 2007 to 2013, Lambert required all CMMHS printing and graphic work to be prepared by her son's two companies, Designergy and Printica. This work included pamphlets, flyers, banners, football programs, and instructional materials. He was paid via checks and wire transfers from a BISD bank account, as well as checks drawn from the CMMHS booster club account. Lambert's son filled orders and received payments for logo-inscribed clothing, caps, t-shirts, and lab coats, among other things. Brian's companies also fulfilled keepsake orders including key chains, coffee cups, and prom memorabilia.

Brian dealt almost exclusively with his mother when conducting business with BISD and CMMHS. Lambert instructed him on which items to produce and the quantities required. During this engagement, Brian was his company's sole employee. Furthermore, his printing company business didn't own the printing or production equipment associated with order fulfillment of the requested CMMHS items. Instead, he processed the orders through other printing businesses to get the orders filled, in effect subcontracting the school's orders. After paying those vendors, Brian marked up the invoiced prices as much as 200%, which was reflected on BISD and CMMHS billing.

Lambert sometimes dealt directly with these subcontracted printing vendors. Occasionally, she gave them specific instructions about the items to be purchased. Next, she advised them on invoicing protocols to disguise who was actually producing the items ordered.

Brian billed approximately \$480,000 of printing and graphics work over the six-year period to BISD and CMMHS.¹⁷

CATERING AND FOOD SERVICE

Under Lambert's leadership, catering and food service spending skyrocketed at the high school. During the 2005-2006 school year, the high school spent about \$2,000 on food. During the 2006-2007 school year, after Lambert became CMMHS principal, the food and catering spending rose to more than \$20,000; for the 2012-2013 school year, it was more than \$100,000.

The catering and food service contract had been awarded, without competitive bid, to Dre's Place, which was wholly owned by Mandre Zachary. Zachary opened his own business as a new start after spending 14 months in jail in 2008. At that time, his criminal record included several counts of forgery and theft. Dre's Place wasn't licensed to prepare food in the city of Beaumont; its official business location was a residential address. "I was asked to put on a program for Central," a high school teacher told *The Examiner*. "I was allowed to do everything but get the food. I was told that wasn't any of my business. After the program was over, I saw the invoice for the food—it was to the tune of about \$17,500. I was amazed! For chicken wings and rice—that's just something. I was glad then that I had nothing to do with getting that food. At that point I realized something was not right."¹⁸

BISD policy states that any vendor receiving more than \$50,000 in a 12-month period must bid on the contract before it's awarded. This policy wasn't followed with Brian Collins or with local caterer Mandre Zachary. "It shows that we're not on the top of our game," said Tom Neild, a BISD trustee. "We spent that much money with a company that's not licensed—which is a huge liability. I'm disappointed. We have rules and procedures and it's short-sighted to not follow those policies we have set in place."¹⁹

EPILOGUE

On December 23, 2015, Lambert pleaded guilty to one count of defrauding federally funded programs and one count of conspiracy to submit false statements concerning standardized test scores. For her plea, she received a

maximum reduced sentence of 40 months. The government agreed that it wouldn't pursue charges against her son Brian. He had been indicted by a separate federal grand jury.

Lambert subsequently contested the amount that she was accused of stealing. Her attorney claimed that it was less than \$150,000, but federal prosecutors estimated that it could be as high as \$500,000. Hoping for a reduced sentence, she asked the court to determine the actual amount stolen. On February 25, 2016, she admitted that she had stolen a total of \$500,000 from the school district after court proceedings made the theft's extent obvious. The amount of the theft will have a bearing on the length of her sentence. Sentencing is expected later in 2016.²⁰

QUESTIONS

1. Use specific examples to identify weaknesses that existed in the internal control environment at BISD. Based on the identified weaknesses, what improvements to the control environment would you recommend?
2. List and discuss several control activities that could have been used by BISD to prevent and/or detect the misappropriation of funds perpetrated by Patricia Lambert. Pick more than one scenario, and discuss how the control activities would be applied in each scenario.
3. Do you think BISD has effectively identified risks surrounding purchases from vendors and cash receipts? Identify these risks, and suggest procedures that should be implemented in response to those risks.
4. Describe and provide examples of the internal communication types that BISD administration should employ in order to support an effective system of internal control.
5. What type of monitoring activities should BISD administration implement? Who should perform those activities, and how often should they be performed? Relate your answers to specific scenarios presented in the case.
6. What limitations might BISD encounter in establishing an effective system of internal control? Provide specific examples.

Exhibit 1. Beaumont ISD Organization Chart

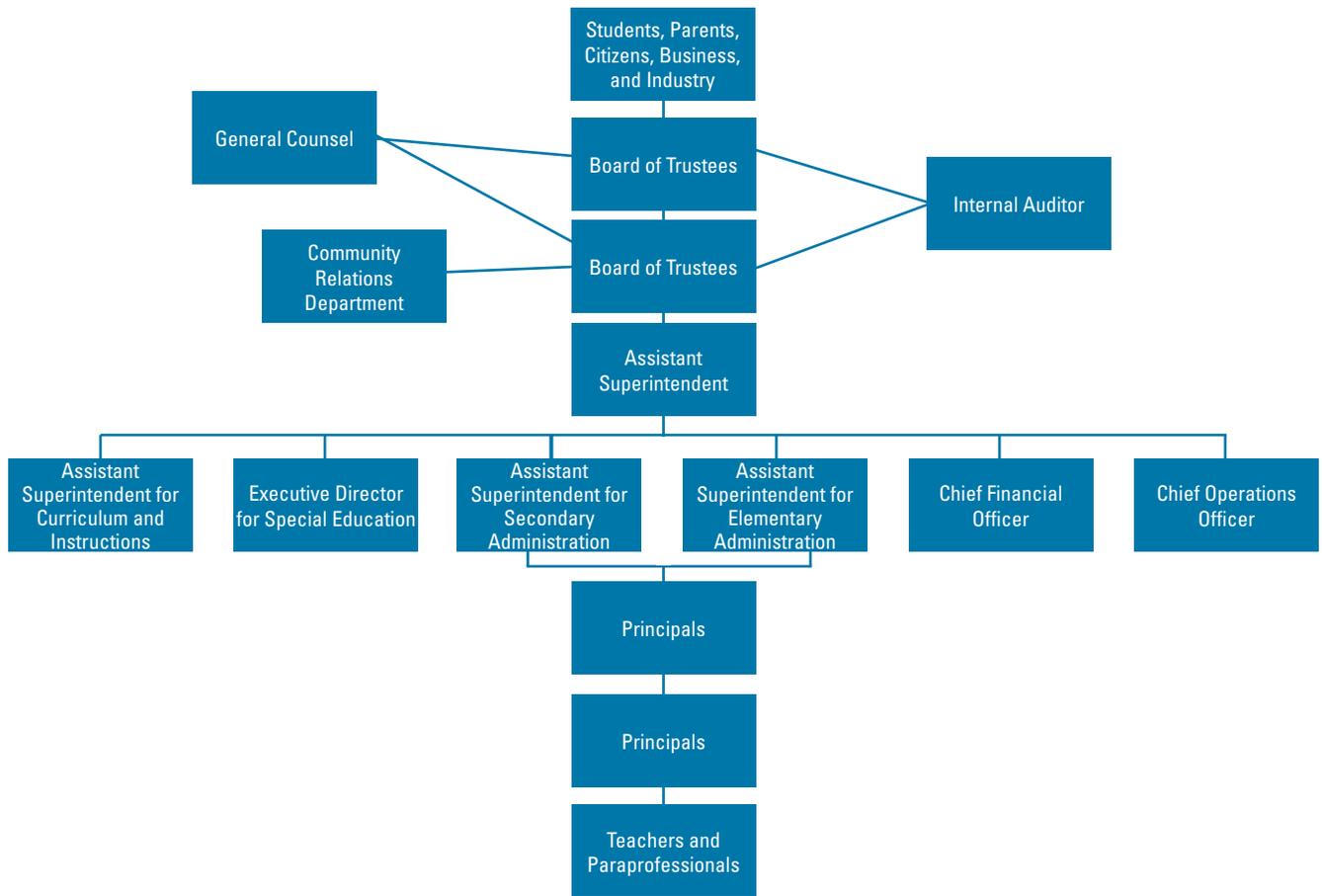
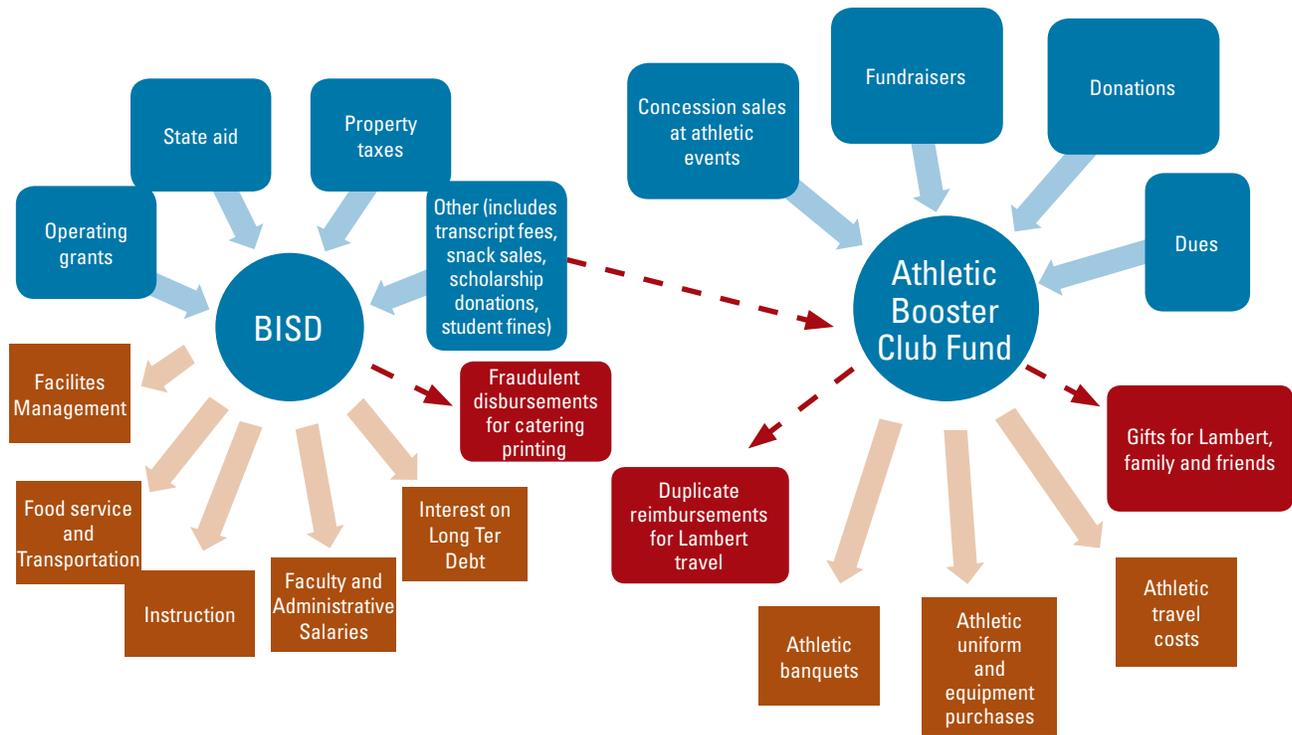


Exhibit 2. Inflows and Outflows for BISD and the Athletic Booster Club



Note: Solid lines show expected (legal) inflows and outflows; red dotted lines show fraudulent (illegal) inflows and outflows.

Exhibit 3. Estimated booster club revenues (2011-2013)

	2013	2012	2011
Concession sales at athletic vents	\$69,000	\$62,727	\$57,025
Booster club fundraisers and dues	48,751	44,319	40,290
Student transcript fees	10,000	9,091	8,264
Student ID replacement fees	2,200	2,000	1,818
Student fines (phone violations)	4,040	3,673	3,339
Medical Magnet School student tuition fees	200,000	181,818	165,289
Scholarship donations	107,000	97,273	88,430
Total Booster Club Revenues	\$440,991	\$400,901	\$364,455

Note: Booster club revenues are estimated and are included for illustrative purposes only.

ABOUT IMA®

IMA, the association of accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking, and advocacy of the highest ethical business practices. IMA has a global network of more than 80,000 members in 140 countries and 300 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe, and Middle East/Africa. For more information about IMA, please visit www.imanet.org.

ENDNOTES

¹“Beaumont Independent School District, Texas,” BallotPedia: The Encyclopedia of American Ballots. https://ballotpedia.org/Beaumont_Independent_School_District,_Texas.

²“Small Area Income and Poverty Estimates,” United States Census Bureau. www.census.gov/did/www/saie/data/interactive/saie.html?s_appName=saie&map_yearSelector=2013&map_geoSelector=aa_c.

³U.S. District Court for the Eastern District of Texas (Jefferson County) Beaumont Division, *United States of America v. Patricia Adams Lambert*, Case number 1:15-cr-0004-TH-ZJH.

⁴*Ibid.*

⁵Ms. Patricia Collins Lambert. ZoomInfo. 2016. www.zoominfo.com/p/Particia-Lambert/1265804953.

⁶“Ex-principal’s scheme brings suspended sentence, fine, probation,” *The Daily Star*, November 14, 2001, www.hammondstar.com/ex-principal-s-scheme-brings-suspended-sentence-fine-probation/article_fb736c20-cacd-598f-a1e6-f20f3eaf7520.html.

⁷The original grand jury indictment estimated the theft at \$751,603. On February 25, 2016, Lambert admitted to stealing \$500,000. She is currently awaiting sentencing.

⁸U.S. District Court, Case number 1:15-cr-0004-TH-ZJH.

⁹Jennifer Johnson, “Former BISD Administrator Pleads

Guilty to Theft, Conspiracy,” *The Examiner*, December 28, 2015, <http://theexaminer.com/stories/news/former-bisd-administrator-pleads-guilty-theft-conspiracy>.

¹⁰U.S. District Court, Case number 1:15-cr-0004-TH-ZJH.

¹¹Jennifer Johnson, “Prosecutors Set Out to Prove Extent of BISD Administrator’s Criminality,” *The Examiner*, February 29, 2016, <http://theexaminer.com/stories/news/prosecutors-set-out-prove-extent-bisd-administrator%E2%80%99s-criminality>.

¹²*Ibid.*

¹³U.S. District Court, Case number 1:15-cr-0004-TH-ZJH.

¹⁴*Ibid.*

¹⁵Johnson, 2016.

¹⁶U.S. District Court, Case number 1:15-cr-0004-TH-ZJH.

¹⁷*Ibid.*

¹⁸Jennifer Johnson, “Under Lambert, Central High’s Catering Bill Explodes to \$100,000,” *The Examiner*, October 1, 2013, <http://theexaminer.com/stories/news/under-lambert-central-high%E2%80%99s-catering-bill-explodes-100000>.

¹⁹*Ibid.*

²⁰Johnson, 2016.