

The Stealing Nun - A Bad Habit: A Case Study

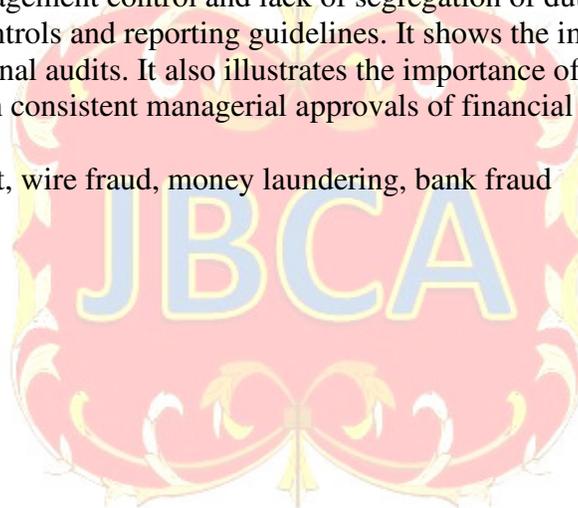
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ABSTRACT

This case is primarily concerned with evaluating how a Nun was able to steal an exorbitant amount of money from her employer over a ten-year period, totaling over \$835,000 to cover up her spending and gambling addiction. The Nun was 18 years old when vows of chastity, poverty, and obedience were taken by her. She spent the subsequent 59 years of her adult life fully committed to the church. This teaching case covers the details of a retired California Nun who was the Principal of a Catholic elementary school and allegedly stole \$835,339 from the school.

The case illustrates the importance of complying with school regulations and guidelines, the significant exposures that exist when proper internal controls are not implemented and monitored, and how management control and lack of segregation of duties effectively circumvented internal controls and reporting guidelines. It shows the impact of not having regular independent external audits. It also illustrates the importance of having proper segregation of duties with consistent managerial approvals of financial transactions.

Keywords: embezzlement, wire fraud, money laundering, bank fraud



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INTRODUCTION

A Look Back - The School's History, Mission, and Philosophy Statements.

History of the School

St. James School has been in existence for over one hundred years. From its humble beginnings in 1918 with student enrollment at mere seventy students utilizing just four classrooms, expectations were high of how successful it could be as an institution. Student growth over the next several years was consistent and steady and eventually peaked at 1,060 students.

When the doors opened at the Redondo Beach Campus on September 10, back in 1918, three Sisters of St. Joseph of Carondelet were invited by Bishop Cantwell to join the school and to teach the students enrolled.

By 1990, there was a conversion of the original four classrooms into the St. James Preschool, Parish Religious Education classrooms.

By 1997, another addition occurred, and The O'Gorman Center was named. Its purpose was to serve the parish communities and the school.

Mission Statement

The mission of the school was primarily to promote excellence in providing a Catholic education under the auspices of the Roman Catholic faith. The commitment to parents was to provide a caring, supportive, and positive environment for their children in which they would achieve competence and confidence.

Statement of Philosophy

The school's Statement of Philosophy is clear on their commitment to excellence in education. The philosophy of the school is to achieve five major goals specifically (1) Religious Development, (2) Academic Achievement, (3) Personal Development, (4) Commitment to Community Service, and (5) Social Development. As a summary, they goals included guiding the spiritual formation of the student, by attempting to influence the moral value of each student. They believe that each student was unique and has a right to an education, so the school provided individual growth opportunities. Additionally, they believed in preparing the students to actively participate in the secular and Catholic-Christian communities.

Accreditations

Both the Western Association of Schools and Colleges (WASC) and the Western Catholic Education Association (WCEA) jointly accredited St. James School.

FRAUD ALLEGATIONS

A 79-year-old Catholic nun is being charged with embezzlement for allegedly stealing over \$835,000 over a ten-year period from the Catholic Elementary school where she worked for over 28 years.

During her tenure as principal and nun for St. James School, it was alleged that funds collected from fees, charitable donations, and tuition.

In 2008 the Nun began depositing tuition checks and donations into the school's account. She began diverting the money into the Convent Saving Account. The diverted funds from the convent account were used on herself. The funds were used to pay for expenses which were not approved by the Order. Payments were made for gambling expenses incurred at Casinos, and for credit card charges. It is also alleged that the Nun falsified the school's monthly and annual financial reports to cover her tracks. She failed to produce receipts from moving the money into the convent accounts or from withdrawing money for her own use.

Nun instructed school employees to alter and destroy financial records.

The charges from Prosecutors of the Justice Department against the retired Nun include money laundering and wire fraud. She agreed to plead to the charges and at 79, the nun, already a senior could land her in prison for up to 40 years with a guilty plea to the two federal charges.

For over 28 years the nun was employed as the Principal of St. James Catholic Elementary School in Torrance, California. She was responsible for overseeing the revenues generated from tuition, charitable donations, and fees. She also had access to and managed several of the school's bank accounts that were established to pay for the living expenses of the nuns who employed by the school.

The Central District of California US Attorney's Office disclosed that the raised funds were used by the nun for gambling and personal expenses.

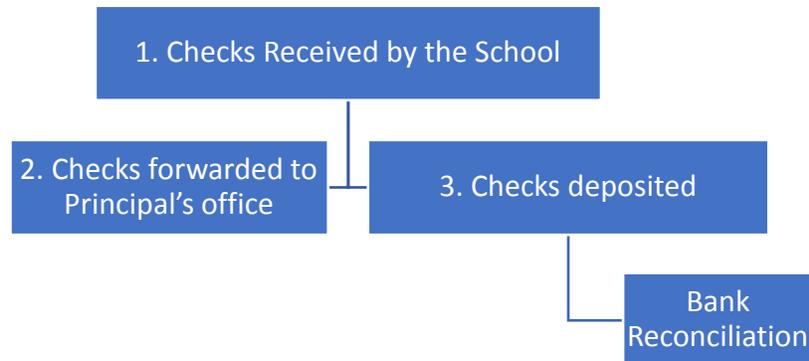
As principal, the nun was responsible for managing the funds received in the school from charitable donations, tuition, and fees. Additionally, the nun was also responsible for managing many of the bank accounts of the school. One of the bank accounts was specifically set up for covering the living expenses of the other nuns employed at the school.

In 2018 during the preparation by the Archdiocese of Los Angeles for a change of leadership, there was increasing concern over the finances of the school. When a financial review was conducted, it was discovered that Sister Mary Margaret has redirected a significant amount of the funds belonging to the school for personal expenses.

The archdiocese held a meeting with the Torrance Police Department who committed to a thorough exam of the evidence. The Police Department committed extra staff to assist in the examination and in identifying individuals who made cash donations, sent tuition payments, and provided account information.

The Financial Process

Figure 1: High-level view of the financial process



- (1) Checks were received by the school for Tuition, Fees, and donations.
- (2) Funds received were forwarded to the Principal's office for processing and deposit into the Bank.
- (3) Checks deposited in various accounts – Credit Union, Convent's Savings Account.

LEARNING OUTCOMES

Students will be able to:

1. Understand the details surrounding this case and the specific of the type of fraud occurred.
2. Identify policies and procedures that could be implemented to prevent such an embezzlement from occurring in the future.
3. Understand the tenants of the Fraud Triangle and apply each tenant to the case.

DISCUSSION QUESTIONS

Students are required to answer the following questions:

Questions could be assigned in a group format (three or four groups), and each group present in class, their assigned questions.

1. What are the specific details regarding the fraud case?

The Fraud Triangle



- Discuss how the three tenants of the fraud triangle can indicate possible fraudulent activity and provide specific examples from The Stealing Nun case. (a) what opportunities existed that enabled the fraud to occur? (b) what was the motivation that encouraged the Nun to commit the fraud? (c) what was the rationalization used by the Nun in conducting the fraud?
- Does the bank have any responsibilities from its internal and/or external auditors in identifying fraud?
- What are the "Red Flags" of fraud and explain why such indicators are important in detecting a possible fraud?
- What issues would you identify with the assigned duties of the Nun and employees involved?
- What are three recommendations and or policies you would made to the Board of Catholic School Diocese to prevent such a fraud from reoccurring?

THE OUTCOME

A 79-year-old Catholic School Principal and Nun was fined and penalized \$1.3 billion by the federal government for wire fraud and money laundering. Federal Prosecutors filed charges against the now-retired nun. Prosecutors charged the nun with one count of wire fraud and one count of money laundering for embezzling more than \$835,000 from the school. The two charges carry a maximum statutory penalty of 40 years in federal prison. The Nun admitted to a "fraudulent scheme".

She admitted to falsifying monthly and annual reports to the school administration to cover up her fraudulent conduct. She also confessed that she "lulled St. James School and the Administration into believing that the school's finances were properly accounted for, and its financial assets properly safeguarded". As soon as the nun was confronted, she admitted that she directly caused the school to experience losses totaling \$835,339, accepted full responsibility for what she had done, and cooperated completely with law enforcement.

The Nun's lawyers said that the nun is "very remorseful" and "sorry for any harm she has caused." Nun to plead guilty to federal charges.

The Archdiocese revealed that the community was "shocked and saddened" by the revelations.

The Nun admitted to stealing the money from the school for more than ten years before the theft ended in 2019. The stolen funds were used to cover in part, the expenses occurred with her gambling habit.

DISCLAIMER

This fraud case and the teaching notes were prepared by the author and are intended to be used for class review and discussion and not for providing a decision nor opinion on whether the appropriately or inappropriately handling of the case. The incidents described in this case are based on a real-life situation as reported in several blogs and newspapers.

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