

Fraud and Embezzlement

It Won't Happen in *MY* Organization, or could it?

NCGFOA
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Presenter

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65th North Group**

- Certified Fraud Examiner (CFE)
- Certified Internal Control Auditor (CICA)
- Certificate in Internal Control from IIA and COSO
- 12 Years City and County Manager
- ICMA – Credentialed Manager
- PhD in Financial Management with a Dissertation Specific to Local Government Internal Control
- Over 400 Fraud Cases Investigated
- Extensive Experience with Local Government Fraud Risk Reduction and Internal Control
- Government Internal Control Articles Published in ProQuest, ICMA, GFOA, and ALGA

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Presentation Agenda

- **Why this topic?**
 - Extensive Local Government Fraud – hundreds of incidents EVERY YEAR
 - Outside of the Organization
 - Inside of the Organization
- **News Quotes**
- **Case Studies**
- **What you Can Do**
- **Questions**



Actual Quotes in the News

Former Surprise (AZ) employee stole \$836,000 (AZ Central.com, Apr 27, 2016). Finance employee, \$836,000, over 8 years - A Maricopa County grand jury indicted a former Surprise city employee on 15 counts relating to accusations of theft and fraud involving more than \$800,000 in city funds. A subsequent investigation by the city concluded Sanchez had stolen from the city for at least seven years.

“It's pretty embarrassing for the city to have that happen right under our noses.”

- Councilman Roland Winters

Actual Quotes in the News

Columbia County Sheriff's Office Employee Arrested after Embezzlement investigation (iape.org, May 3, 2018) Justice Department Employee, \$650,000 over 16 years

“When Columbia County Commissioners realized that a long-term county employee was embezzling funds, we were shocked. Our first thoughts were, ‘how could this person, this trusted employee of 30 years, do this? What kind of person can work in community justice – ironically an area that works to help make our community better”

- Commissioner Alex Tardif

Actual Quotes in the News

Former Briarcliff fire chief pleads guilty to embezzling more than \$120,000 from the fire department (lohud.com, July 2, 2018) Fire Chief, \$120,000, over 4 years –

“After he resigned, new oversight was put in place... This is a reminder to employ strong checks and balances and internal controls to guard public funds.”

- Comptroller Thomas P. DiNapoli

Actual Quotes in the News

Audit finds former city worker stole \$350,000 (stamfordadvocate.com, June 30, 2010) Benefits coordinator, \$350,000, over 8 years –

"What's amazing to me is that he was able to do that, and it was able to continue with relative impunity. To amass that amount, to me that's really startling."

– Mayor Michael Pavia

Actual Quotes in the News

Township Clerk Accused of Embezzling \$250K (phillymag.com, Apr 6, 2018) Clerk, \$264,577, over 5 years –

“Whether you are a business or a government agency, you are vulnerable to fraud. You must have strong oversight and robust systems in place to prevent theft. Valley Township was victimized by this trusted employee, acting merely to amuse herself, and now the taxpayers will foot the bill.”

– Chester County District Attorney Tom Hogan

Actual Quotes in the News

Former Strongsville City Schools employee indicted for stealing highpriced items, including a barn (news5cleveland.com, May 15, 2018) Maintenance Foreman, \$65,000, 5 years –

“This man was shameless. He treated the school district like his exclusive personal home improvement store – a new home generator, a utility shed, a furnace, air conditioner and water heater. Nothing was off limits, apparently.”

– State Auditor Dave Yost

Actual Quotes in the News

(kyma.com, Mar 2, 2018) Calexico, CA \$600,000 –

“This comes at a time when the city is laying off employees and asking others to take pay cuts. We’re definitely going through a hard time financially. When you hear these things, it hurts. It hurts to feel that anybody could be skimming off the top or anything like that, specifically an employee,”

– Council Member Armando Real

Actual Quotes in the News

(pasadenastarnews.com, Nov 30, 2016) Pasadena, CA, \$6,400,000 –

It wasn't the amount stolen that bothered him. It was how long it went unnoticed.

“The fact that this guy was able to get away with it for more than a decade, that's the part that is staggering,” - Mayor Terry Tornek

Actual Quotes in the News


(desmoinesregister.com, Nov 18, 2015)

“City clerk burned down city hall to cover fraud”




Is this *REALLY* an issue?

- There have been hundreds – upon hundreds – of recent local government fraud and embezzlement incidents in the United States.
- Can be committed from people either outside or inside of the organization.
- Fraudsters are always working to find new ways to commit their crimes - controls that “might” have worked last year might be ineffective this year.



Does anyone know of a fraud / embezzlement incident from your own organization or another organization?



Fraud Triangle

- Pressure
- Rationalization
- Opportunity

Local Government Fraud and Internal Control

- ✓ The importance to not believe your controls are good just because you have policies, professional staff, and an annual “clean” audit.
- ✓ An audit IS NOT A FRAUD RISK ASSESSMENT
- ✓ Preventive and detective controls cover numerous aspects of local government operations.

Internal Controls



Preventive controls to stop something before it happens



Detective controls to identify something soon after it happened



To serve as a deterrent

Examples of Fraud in Local Government

Fraudulent
Vendor Payment
Account Changes

Phishing Schemes

Social
Engineering
Schemes

Theft of
Inventory

Theft of Cash or
Checks

Purchasing
Schemes

Theft of Fuel

Payroll Fraud

Permitting
Schemes

False Refunds,
Voids, and
Chargebacks

Worker's
Compensation
Fraud

Conflicts of
Interest

Much More

Ransomware

Numerous organizations hit with ransomware attacks

- City of Knoxville, TN
- City of Hartford, CT
- City of Baltimore, MD
- Wimer, TX
- Pensacola, FL
- New Orleans, LA
- Galt, CA
- St. Lucie County, FL
- Borger, TX
- Keene, TX
- Lake City, FL
- MANY MORE

Ransomware

- **What Can You Do?**

- Active Anti-Phishing Campaign
- Click-through Rate of Less than 5%
- IT Disaster Response and Recovery Plans in Place
- Regular Table-Top Exercises
- Training for All Employees
- Positive Recognition for Policy Compliance

Vendor Payment ACH Fraud

- Examples of vendor payment ACH fraud in local government organizations
 - City of Erie, CO (\$1 million)
 - Rock Island County, IL (\$115,000)
 - City of Chandler, AZ (\$92,000)
 - City of Laredo, TX (\$1 million)
 - Cabarrus County, NC

Vendor Payment ACH Fraud

- What Can You Do?
 - Branded ACH Change Form (sent by mail)
 - **NEVER** Make a Change Based Solely on Their Email Request
 - Multi-Factor Authentication
 - SMS v. program or web-based
 - Passwords
 - Last two invoice amounts and invoice numbers
 - Verify Banking Information with the Bank
 - Call the Vendor at their known number when they set up the account
 - Refuse ACH Process

Embezzlement

- Hundreds of recent examples of embezzlement in local government organizations
 - All sizes of cities, counties, school, and special districts
 - Employees from just about any job classification imaginable
 - Employees whose average age is in their 50s and 60s
 - Committed over numerous years
 - Many in the millions of dollars

Fraud and Theft in Government

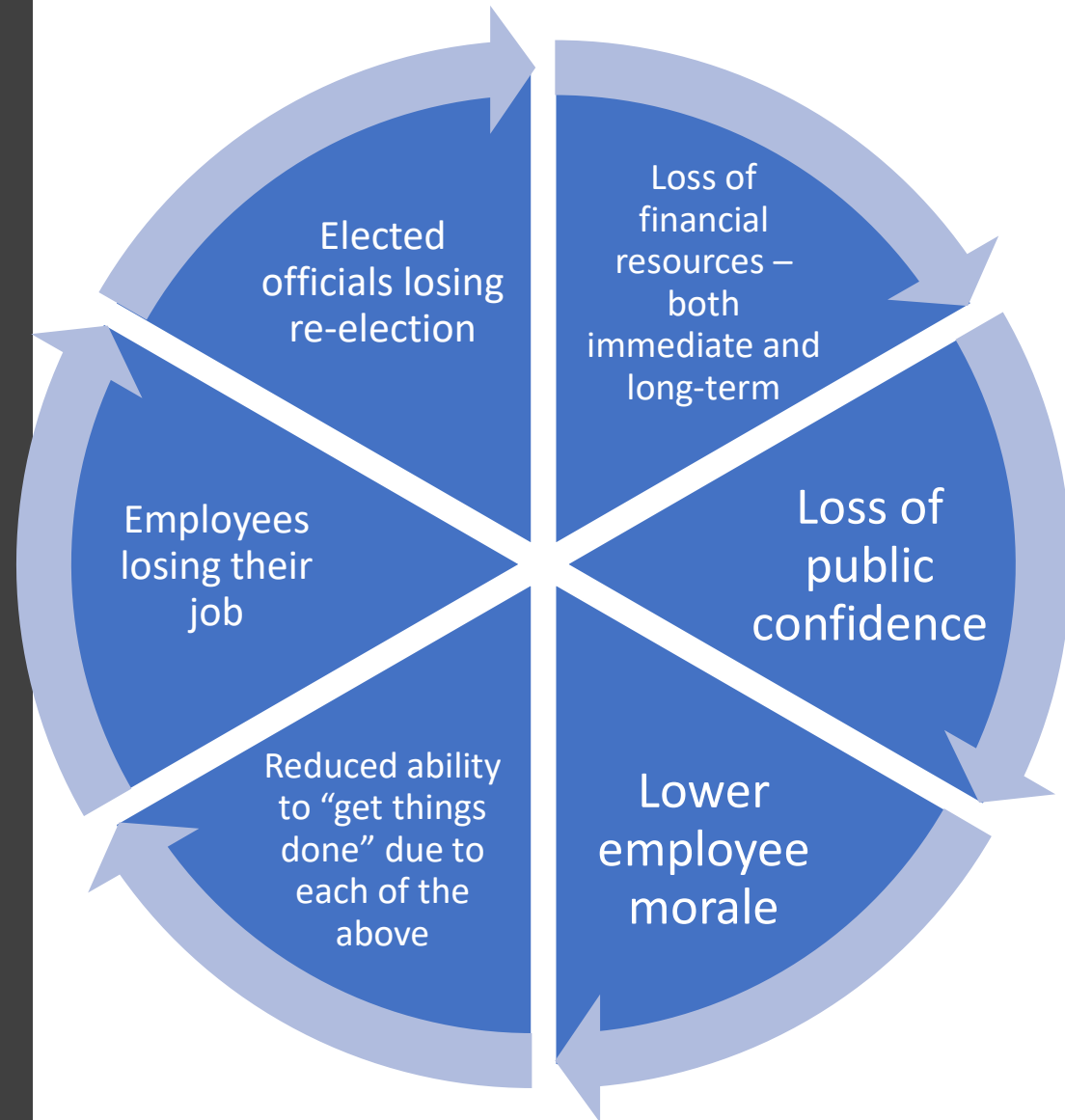
Organization	State	\$\$ Loss	Length in years	Position	Employee Age
City of Ferndale	MI	\$4,000	1	Public Works Employee	41
Shaunee County	KS	\$13,216	1	Human Resources Assistant	38
City of Mansfield	WI	\$73,000	5	Court Clerk	67
City of Philadelphia	PA	\$119,000	7	Recreation Dept. Employee	58
Freemont County	CO	\$220,000	7	County Clerk	36
Radford Schools	VA	\$261,295	10	Lunch Worker	61
City of Kingman	AZ	\$1,113,599	8	Finance Director	60
Cameron County	TX	\$1,251,578	9	Sheriff's Supervisor	53
City of Austin	TX	\$1,300,000	12	Library Clerk	53
Hennepin County	MN	\$4,080,000	8	I.T. Employee	41
Muscogee County	GA	\$7,000,000		Superior Court Clerk	64
City of Dixon	IL	\$53+Million	20+	Treasurer / Comptroller	60

A close-up photograph of a brown hen sitting on a nest made of straw. Two brown eggs are visible in the foreground. The background is filled with more straw, creating a textured, natural setting.

“A school administrator in Illinois has been accused of stealing \$1.5 million worth of chicken wings” - Fortune.com 2/1/2023

“The alleged embezzlement scheme took place between July 2020 and February 2022, officials say. The worker is accused of placing hundreds of unauthorized orders, including 110,000 cases of chicken wings, which were never delivered to the school or provided to children”.

Consequences



Lessons Learned from Others

Do not believe your controls are modern and effective just because you have a clean audit, professional staff in place, and nothing has ever been brought to your attention before!

According to the Association of Certified Fraud Examiners 2020 and 2022 Report to the Nations, only 4% of frauds are detected by external audit and fraud risk assessments and internal control audits are two of the top recommendations to reduce your risk.

Fraud risk vulnerability and internal control assessments can make a huge difference.



One of the following
people IS a local
government employee
embezzlement suspect

Bonus points to
whoever gets this
correct.

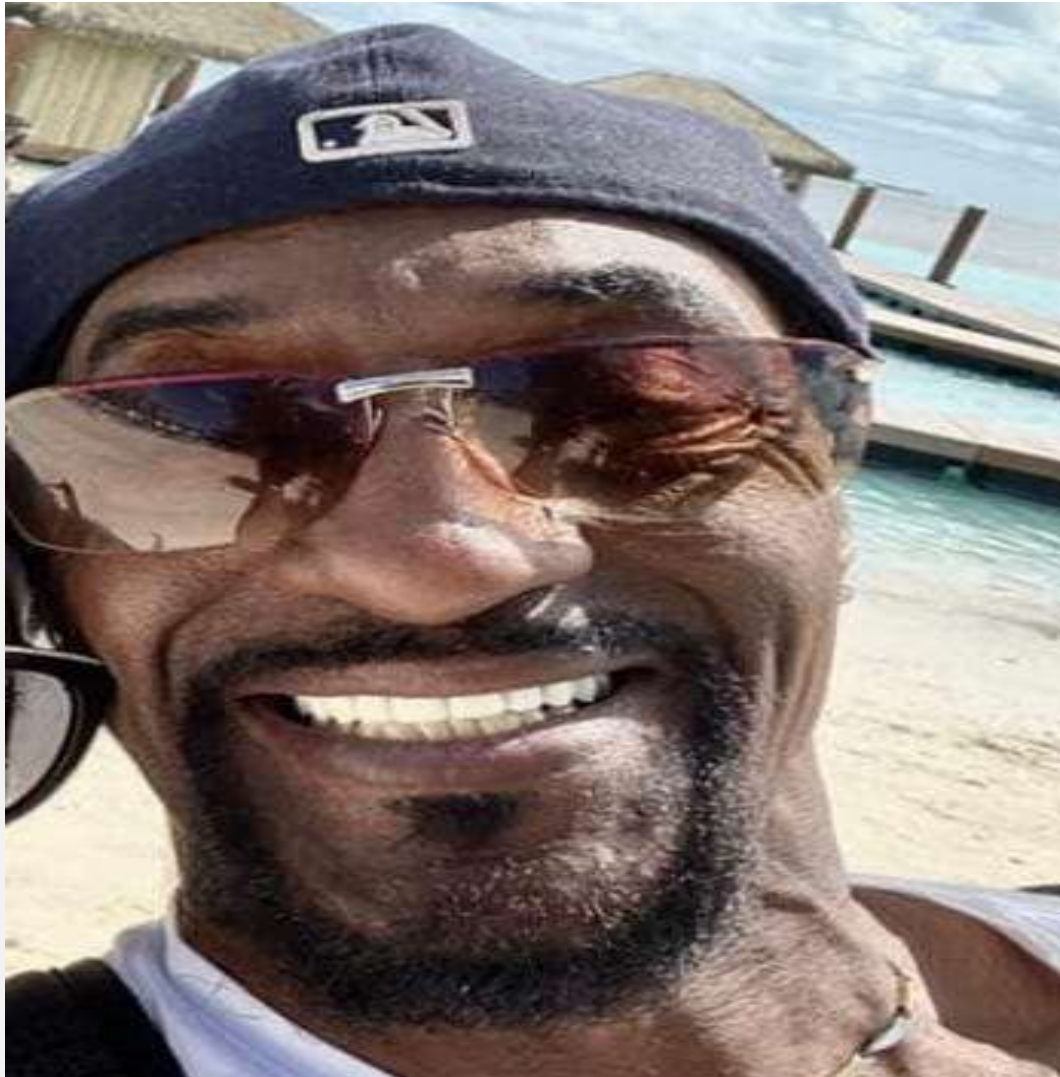
It's **ONLY ONE** of these
people.

























Trust is Essential in the Workplace

BUT

NEVER use trust as a CONTROL



Top Two Things You Can Do to Reduce Risk

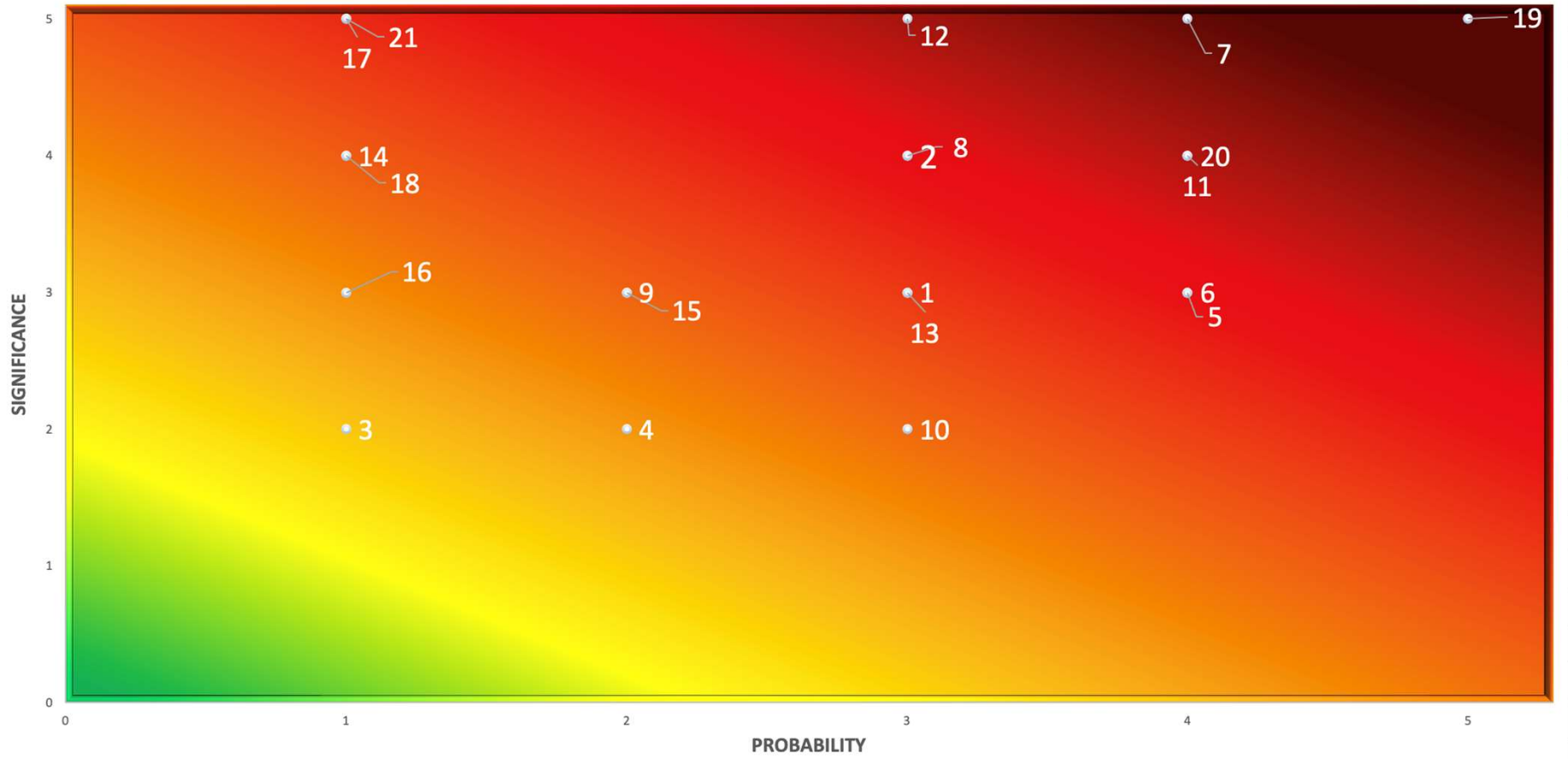
Fraud Risk
Vulnerability
Assessment

Ongoing
Disaggregated
Data Analytics

Fraud Risk Vulnerability Assessment Areas of Focus

Vendor maintenance / payments	IT and cybersecurity
Cash and check handling	Investment-related controls
Fuel theft schemes	Purchasing schemes
Utility billing	HR operations
Entity-level controls	Inventory fraud schemes
Payroll fraud	Permitting operations fraud
Subrogation	Claims management
A/P and A/R	Refunds, voids, and chargebacks
False invoices / shell companies	Travel advances / reimbursements
Worker's compensation fraud	Conflicts of interest
Scheduled drug management	Evidence handling / storage

Fraud Risk Heat Map



Disaggregated Data Analytics

Benford's Analysis	Duplicate Transactions	Even-Dollar / hundred / thousand Transactions
Food Purchases	Keywords	Split Transactions by Cardholder <u>and</u> by Department / Division
IT Purchases	MCC Codes (outliers and restricted)	Vendor's with only one Buyer
	Weekend Transactions	



Questions

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