



Fraud: Like Other Stuff... It Happens

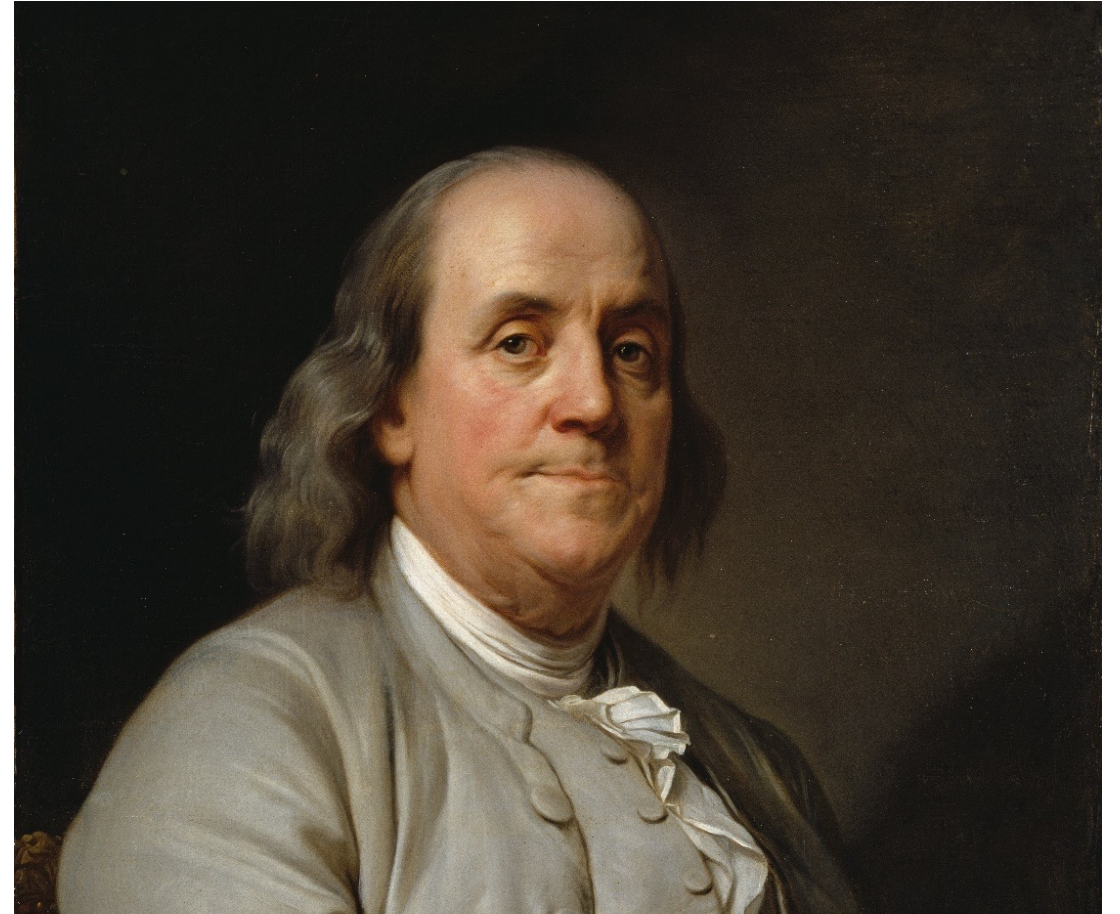
TCMA 2024 Spring Conference



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

“There is no kind of dishonesty into which otherwise good people more easily and more frequently fall than that of defrauding the government.”

- Ben Franklin



Objectives



- Review real-life fraud examples from Tennessee Comptroller's Office investigation reports
- Discuss occupational fraud and the fraud triangle
- Discuss internal controls
- Review fraud statistics and common fraudster red flag behaviors







TO RESET DATA, UNCLICK ALL OPTIONS YOU HAVE SELECTED

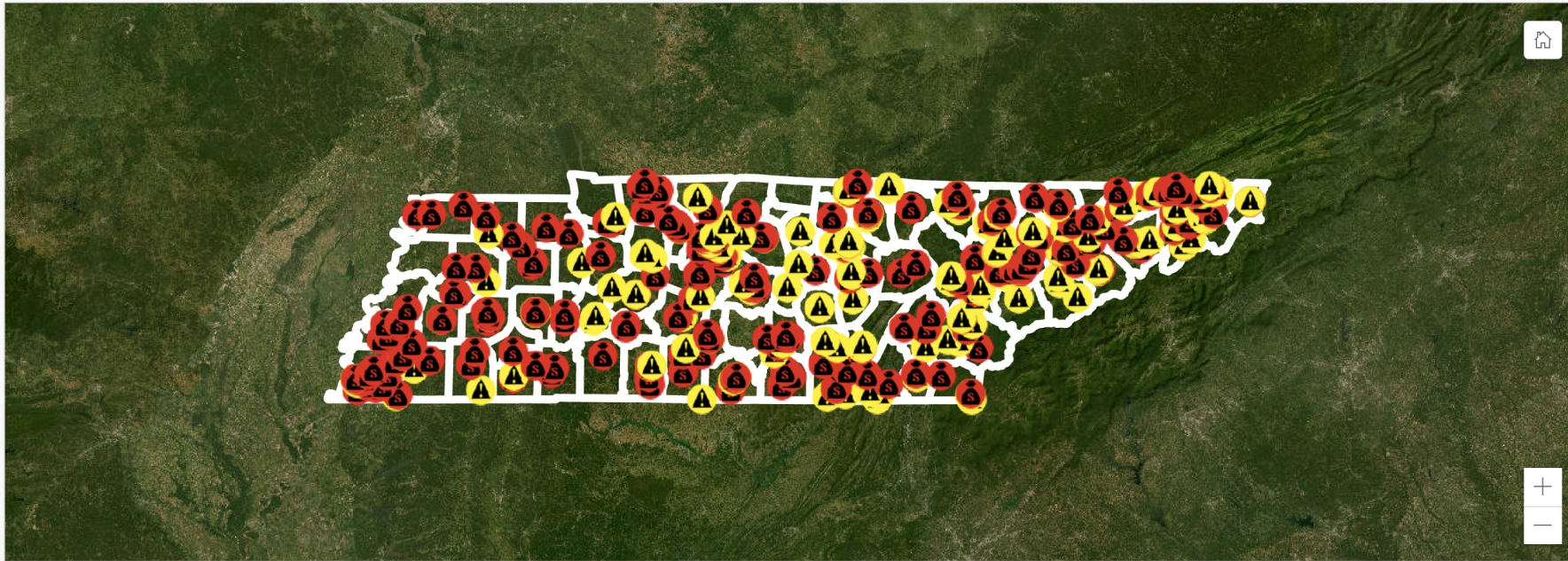
[CLICK HERE TO REPORT FRAUD, WASTE, AND ABUSE](#)

LEGEND

-  DEFICIENCIES
-  FRAUD

REPORTS RELEASED BY DATE (NEWEST TO OLDEST)

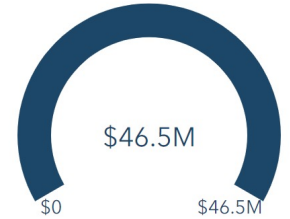
-  Entity: Morristown-Hamblen Emergency Management Agency
Release Date: 4/9/2024
-  Entity: Henderson County Volunteer Fire Department Station 7
Release Date: 4/4/2024
-  Entity: Scotts Hill Elementary School
Release Date: 4/4/2024
-  Entity: Jonesborough School Athletic Booster Club



Earthstar Geographics | Investigations 8/21/19

Powered by Esri

TOTAL FRAUD, WASTE, AND ABUSE



OF REPORTS RELEASED

418

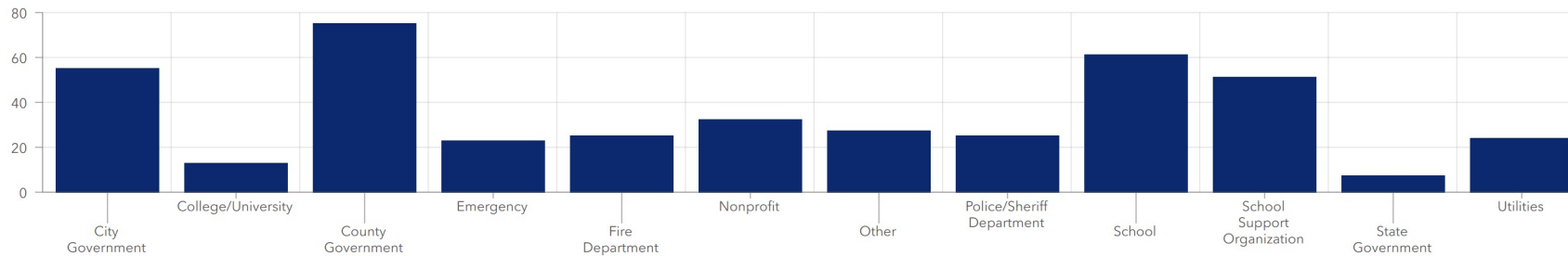
OF SUBJECTS

261

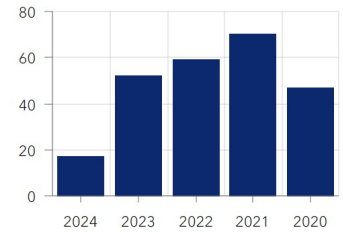
OF CRIMINAL CHARGES

1,389

CLICK ON ENTITY TYPE FOR REPORTS BY TYPE



CLICK ON YEAR FOR REPORTS BY YEAR



2020-2024

2016-2019

Case #1

Background:

- Population: 2,000
- 45 Employees
- Mayor and 5 Aldermen
- City Recorder responsible for all financial affairs
- Utilities – Water, Sewer, Natural Gas



COMPTROLLER'S INVESTIGATIVE REPORT



Case #1

RESULTS OF INVESTIGATION

1. CITY RECORDER ██████████ FAILED TO PAY PERSONAL UTILITY DISTRICT ACCOUNTS TIMELY AND INITIATED IMPROPER TRANSACTIONS
2. ██████████ USED QUESTIONABLE ANNUAL AND SICK LEAVE
3. ██████████ PAID HERSELF QUESTIONABLE COMPENSATION

On September 15, 2022, the ██████████ County Grand Jury indicted ██████████ on one count of Official Misconduct, and one count of Theft of Services over \$1,000.

The charges and allegations contained in the indictment are merely accusations of criminal conduct, and not evidence. The defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt and convicted through due process of law.

[City of ██████████ Investigation Exhibit](#)



Case #2

Background:

- Population: 4,000
- 62 Employees
- Mayor and 4 Aldermen
- Water, Sewer, Street



COMPTROLLER'S INVESTIGATIVE REPORT



Case #2

RESULTS OF INVESTIGATION

1. **EQUIPMENT OPERATOR [REDACTED] PURCHASED GASOLINE TOTALING AT LEAST \$811.23 FOR PERSONAL USE WITH A TOWN-OWNED FUEL CARD**
3. **CASH FROM THE SALE OF SCRAP METAL TOTALING AT LEAST \$2,289.76 WAS NOT REMITTED TO THE TOWN RECORDER-TREASURER**

On May 11, 2023, the [REDACTED] County Grand Jury indicted [REDACTED] for one count of Misdemeanor Theft of Property under \$1,000.

The charges and allegations contained in the indictment are merely accusations of criminal conduct, and not evidence. The defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt and convicted through due process of law.

[Town of \[REDACTED\] Investigative Exhibit](#)



Case #3

Background:

- Population: 300
- 9 Employees
- Mayor and 6 Aldermen
- Police Department



COMPTROLLER'S INVESTIGATIVE REPORT



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

Case #3

RESULTS OF INVESTIGATION

1. **FORMER POLICE CHIEF INITIATED QUESTIONABLE TRANSACTIONS FOR THE TOWN'S WEAPONS INVENTORY**

Case #3

Exhibit 1



*The two weapons
the chief allowed
former town
police officers to
keep following
their resignation.*

Case #3



The chief's town-issued weapons – CZ Scorpion and Kimber – that he purchased for \$1.00

Case #3

*Town-issued weapons –
Springfield Armory
9mms and .45mm –
that [REDACTED] police
officers purchased for
\$1.00*



Case #4



COMPTROLLER'S INVESTIGATIVE REPORT



Background:

- Population: < 500
- One part-time employee - City Recorder
- No City Hall until 2022
- City Recorder allowed to work remotely

Case #4

Background:

- 4 years behind on audits
- Auditor from the Comptroller's Office attempted to set up multiple meetings with the city recorder



Case #4

RESULTS OF INVESTIGATION

1. TOWN ██████████ CITY RECORDER ██████████ MISAPPROPRIATED TOWN FUNDS TOTALING \$8,643

Misappropriated Funds	
A) Extra Paychecks	\$ 8,243
B) Verizon Payment	400
Amount of Misappropriation	\$ 8,643

Case #4

RESULTS OF INVESTIGATION

2. ██████ FALSIFIED THE MAYOR'S SIGNATURE ON CHECKS

On December 18, 2023, the ██████ County Grand Jury indicted ██████ on one count of Theft over \$2,500 or more but less than \$10,000 and one count of Forgery over \$10,000 or more but less than \$60,000.

The charges and allegations contained in the indictment are merely accusations of criminal conduct, and not evidence. The defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt and convicted through due process of law.

██████████ [Investigative Exhibit](#)

Case #4

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed deficiencies in internal controls and compliance, some of which enabled ██████ to perpetuate ██████ scheme without proper detection. These deficiencies included:

Deficiency 1: Town officials did not ensure collections were deposited promptly

Deficiency 2: Town officials did not provide adequate oversight and did not implement adequate segregation of financial duties

Deficiency 3: Town officials did not properly maintain board minutes

Deficiency 4: The recorder did not maintain all required records

Deficiency 5: Town officials circumvented internal controls by signing blank checks

Case #5



COMPTROLLER'S INVESTIGATIVE REPORT



Background:

- Population: < 1,500
- Wastewater Treatment Plant
- Plant personnel perform sample tests and analyses on treated wastewater.
- Results are monitored to ensure pollutants are not being discharged into the water system.

Case #5

Background:

Former
plant
supervisor

Retired
supervisor

Plant
employee

Case #5

RESULTS OF INVESTIGATION

1. **PLANT PERSONNEL PERFORMED WATER SAMPLE TESTING AND ANALYSES FOR THEIR PRIVATE BUSINESS WHILE USING CITY RESOURCES**
 - A. Plant personnel were paid \$10,847.52 by the city for the same work time they were working for their private business
 - B. The plant's laboratory and equipment were used to perform testing for the private business resulting in a cost of \$10,898.04 to the City [REDACTED]
 - C. Plant personnel generated \$277,875.00 for their private business while using city resources

Case #5

RESULTS OF INVESTIGATION

2. **PLANT PERSONNEL HAD QUESTIONABLE AMOUNTS OF ACCRUED COMPENSATORY TIME**
 - A. **Plant personnel accrued compensatory time while operating their private business**
 - B. **Questionable compensatory time totaling \$15,328.69 was paid by the City [REDACTED] to the former 2020 supervisor and employee**

Case #5

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed the following deficiencies in internal controls and compliance, some of which contributed to the City of █████ Wastewater Treatment Plant personnel's ability to perpetrate their misappropriation without prompt detection:

Deficiency 1: City officials did not provide adequate supervision and oversight of plant employees

Deficiency 2: Plant personnel exceeded the amount of accumulated employee compensatory time allowed by federal law

Deficiency 3: City management did not ensure compliance with the City █████ personnel policies

Deficiency 4: Plant employees accrued incorrect and questionable amounts of compensatory time

Case #6



COMPTROLLER'S INVESTIGATIVE REPORT



Background:

- Population: > 50,000
- City Garage
- Provides preventative maintenance and repair services to city fleet and equipment
- Responsible for conducting annual safety inspections on local taxicabs

Case #6

Background:

Administrative Support Technician responsibilities include:

- Managing p-card records
- Vehicle inventory process
- City-owned gas pumps
- Data input
- Purchase order requests
- Remitting money collected by garage personnel



Case #6

RESULTS OF INVESTIGATION

- [REDACTED] CITY GARAGE ADMINISTRATIVE SUPPORT TECH [REDACTED]
[REDACTED] MISAPPROPRIATED FUNDS TOTALING \$1,653

Summary of Misappropriated Collections

Collection Type	Amount
A. Scrap Metal Sales 2020-2021	\$ 1,053
B. Taxi Inspections 2019-2021	600
Total	\$ 1,653

Case #6

On April 4, 2022, the [REDACTED] County Grand Jury indicted [REDACTED] for one count of Theft over \$1,000.

The charges and allegations contained in the indictment are merely accusations of criminal conduct, and not evidence. The defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt and convicted through due process of law.

[REDACTED] [City Garage Investigative Exhibit](#)

Case #6

INTERNAL CONTROL DEFICIENCIES

Our investigation revealed the following deficiencies in internal controls, some of which contributed to the Administrative Support Tech's ability to perpetrate █████ misappropriation without prompt detection:

Deficiency 1: City █████ officials failed to provide appropriate oversight and did not separate incompatible financial duties

Deficiency 2: City █████ officials did not ensure cash receipts were reconciled with deposits

Occupational Fraud

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.



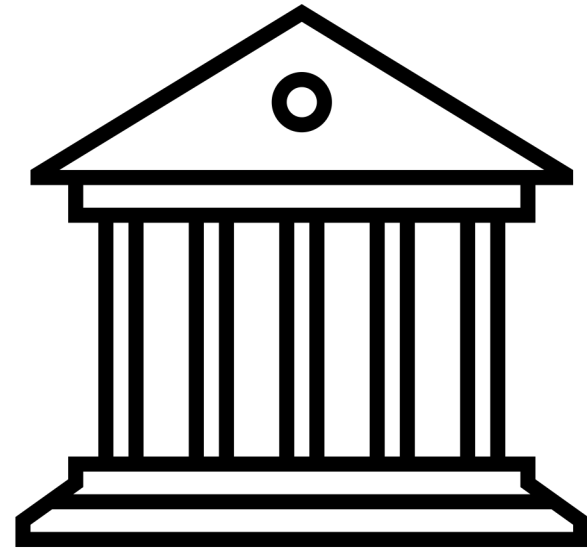
This Photo by Unknown Author is licensed under [CC BY-SA](#)



Municipal Technical Advisory Service
INSTITUTE for PUBLIC SERVICE

Why are local governments vulnerable?

- Size of municipality
- Part-time employees
- Budget constraints
- Culture
- Lack of oversight



Why are local governments vulnerable?

- Denial - “Fraud won’t happen here”
- Poor internal controls
- Poor segregation of duties
- Overreliance on certain employees
- Lack of interfacing of IT across various departments
- Tone at the top

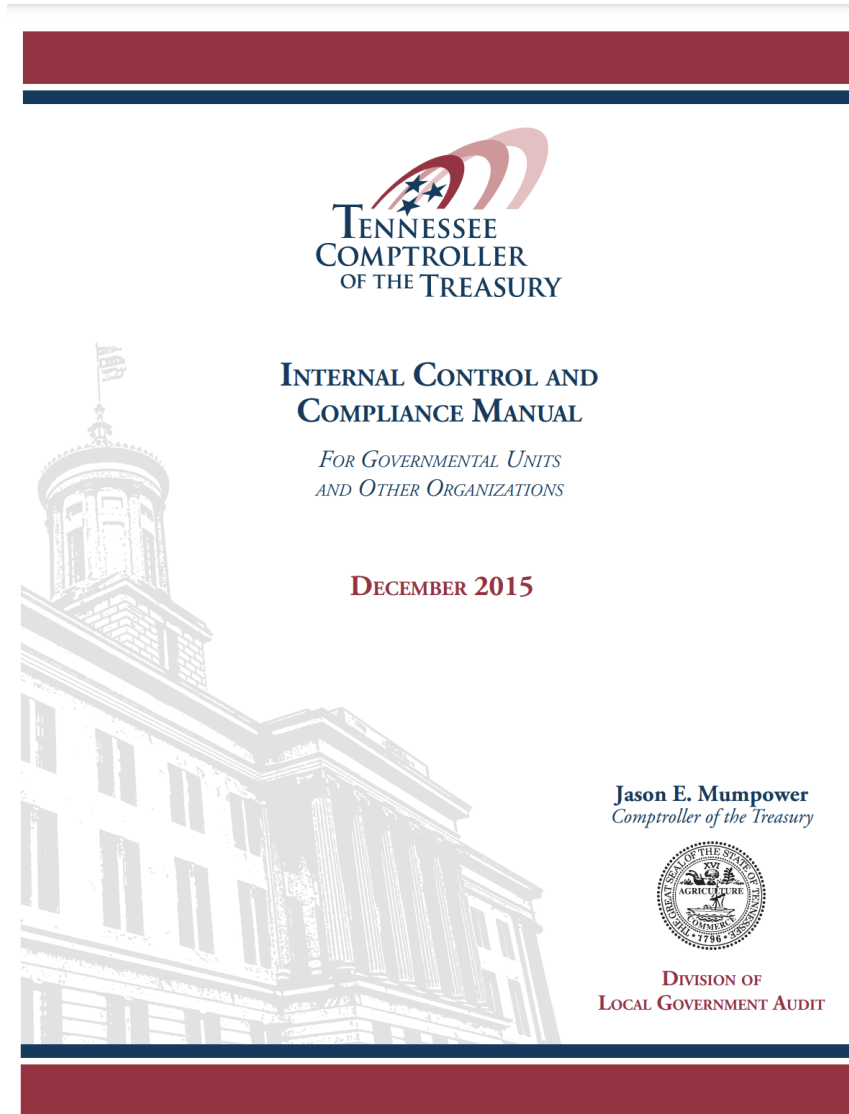
The Fraud Triangle



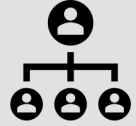




Internal Controls

TCA § 9-18-102

(a) Each agency of state government and institution of higher education along with each county, municipal, and metropolitan government shall establish and maintain internal controls...



Internal Controls - Five Components

	Control Environment
	Risk Assessment
	Control Activities
	Information & Communication
	Monitoring

Control Environment

- Integrity & ethical values
- Oversight responsibility
- Organizational structure
- Commitment to competence
- Accountability



Risk Assessment

What are our goals and objectives?

What could go wrong?

Where are we vulnerable?

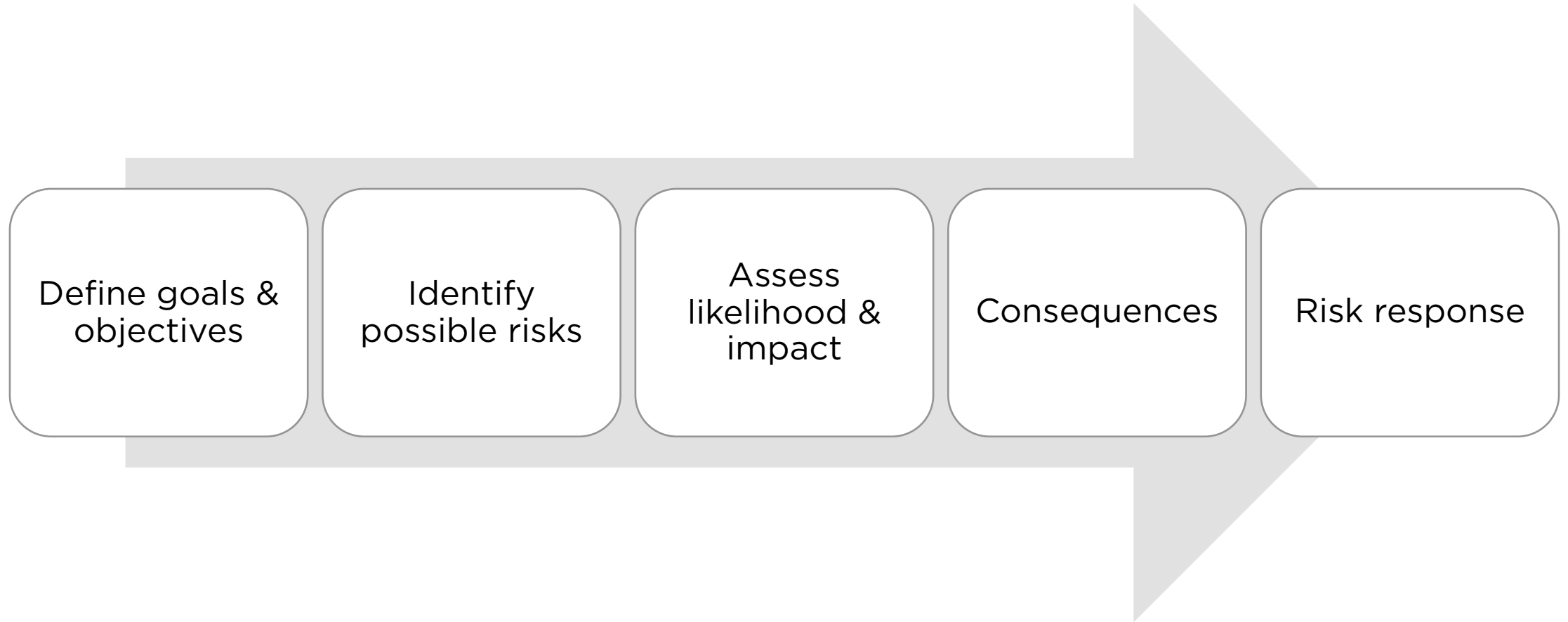
How could someone steal in this department?

What is the process for collecting money?

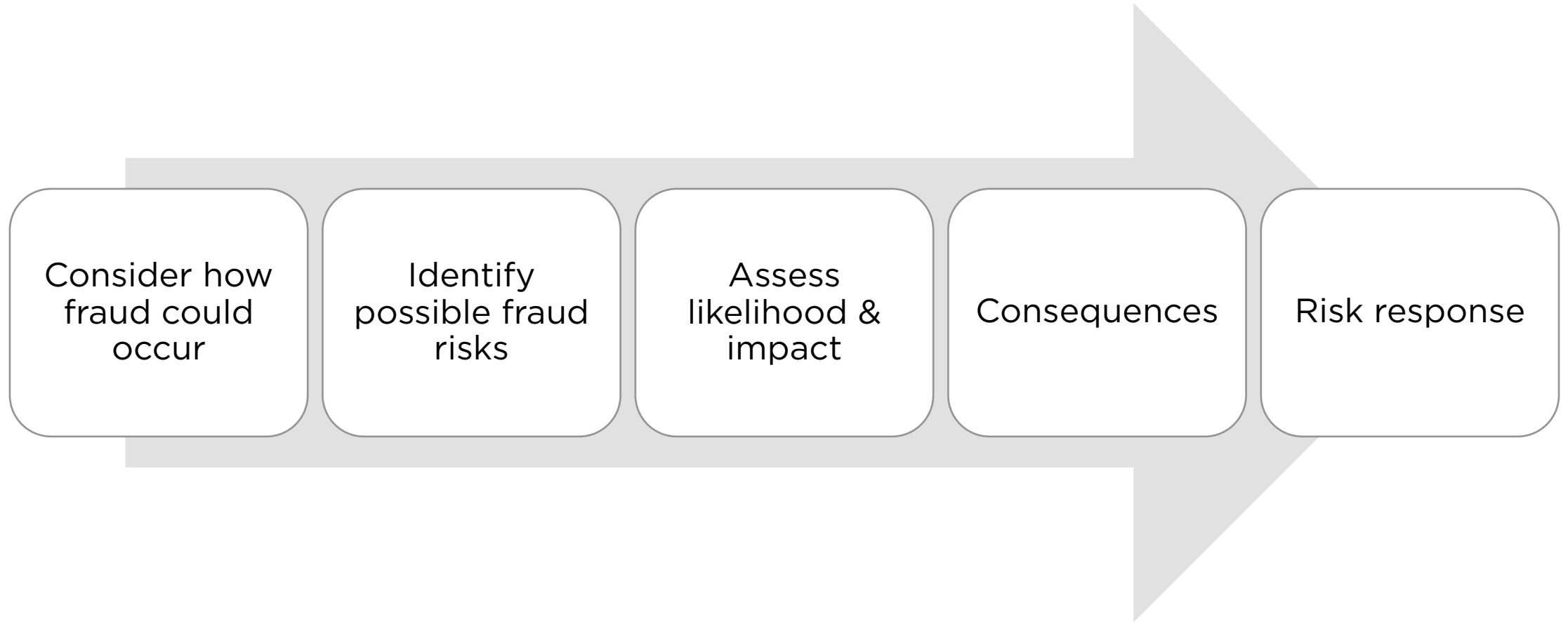
What is the process for purchasing/paying bills?



Risk Assessment



Fraud Risk Assessment



Risk Assessment Benefits

Increases awareness of department objectives, risks, fraud risks, purpose of existing controls, etc.

Analyze current controls to ensure they are sufficient.

Review updates/ changes to department - key personnel, processes, programs, budget, etc. on a periodic basis.

Control Activities

- Actions established by management through policies and procedures to achieve objectives and respond to risks

Types of Controls



Preventive

- Deter undesirable events
- Help prevent loss
- Emphasize quality
- Proactive



Detective

- Detect undesirable events
- Provide evidence of loss
- Do not prevent loss
- Provide evidence that preventive controls are functioning

Preventive Control Techniques

- Segregation of duties
- Proper authorization for transactions
- Adequate documentation
- Physical control over access
- No blank, signed forms
- Question unusual items
- Ongoing training
- Communicate internal control policies & procedures



Detective Control Techniques

- Reconciliations performed timely
- Reviews of performance – budget to actual comparison
- Physical inventories
- Review payroll payouts/reports
- Review adjustment reports
- Audits

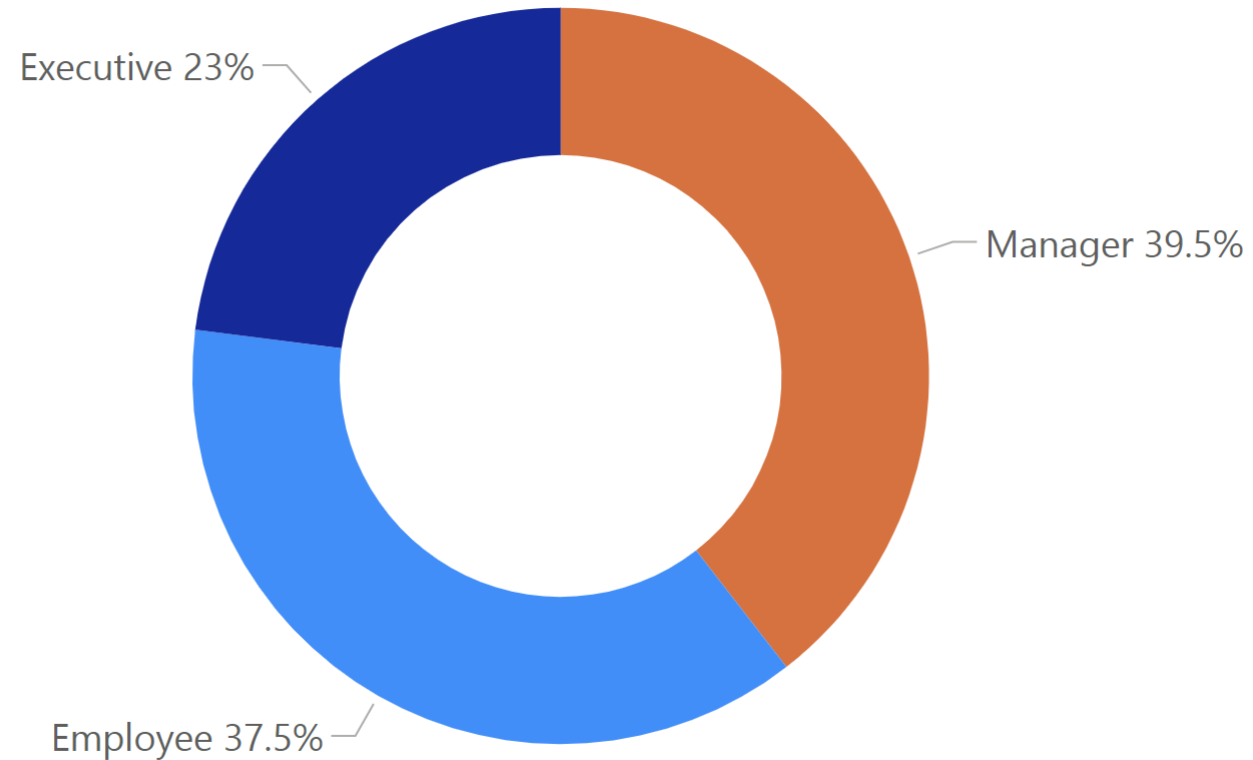


**OCCUPATIONAL FRAUD 2024:
A REPORT TO
THE NATIONS[®]**

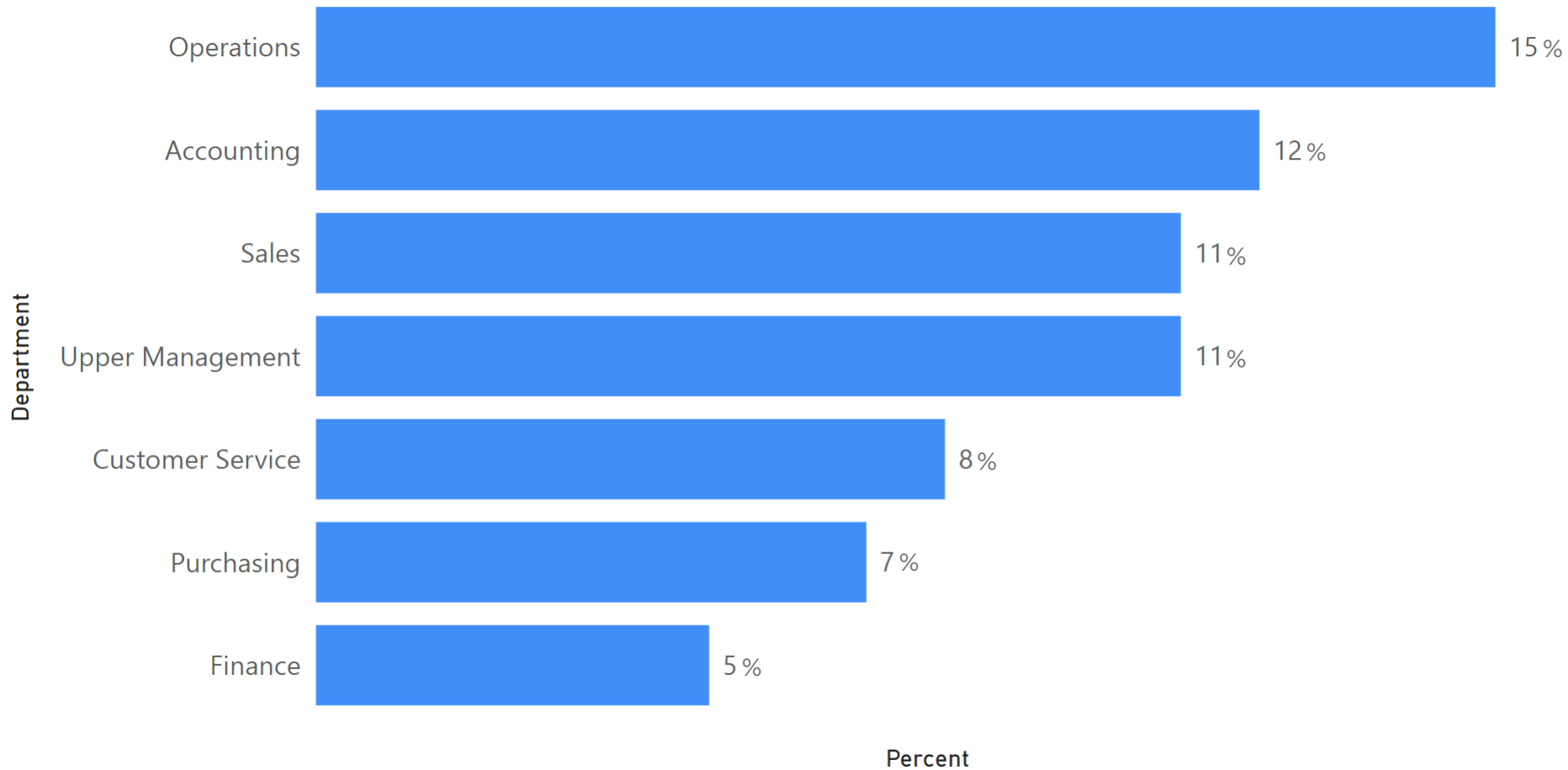
Who is the Fraudster?



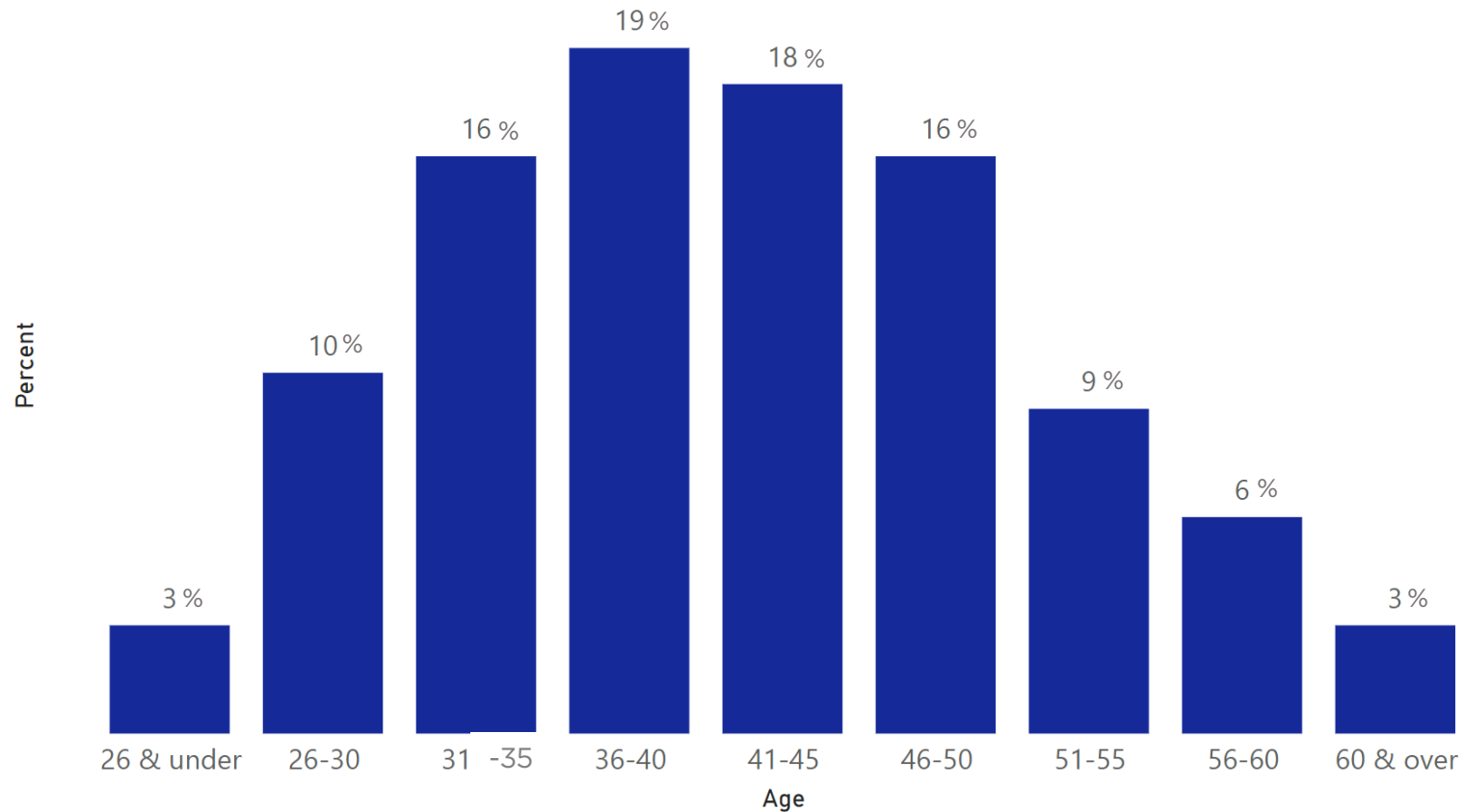
Level of Authority



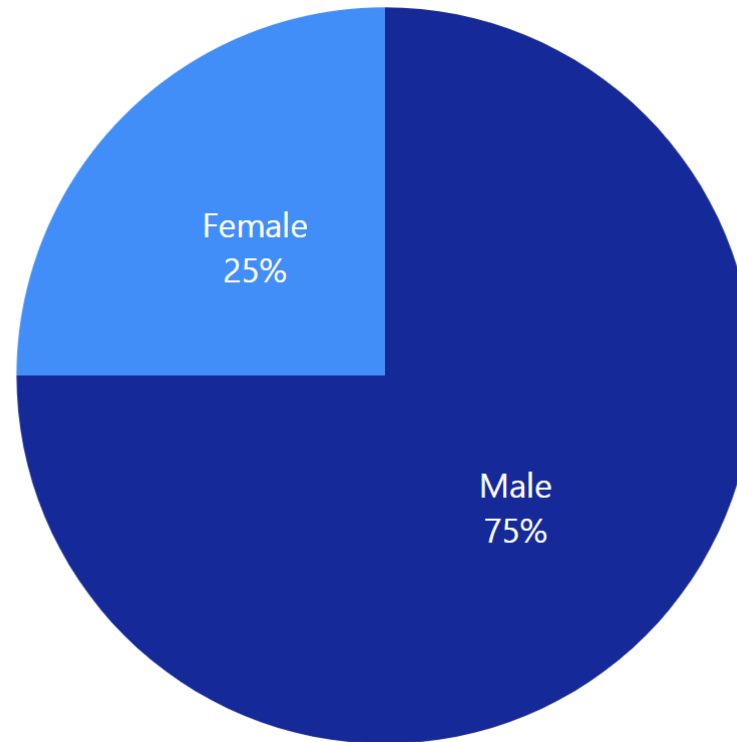
Where did they work?



How old is our fraudster?



Gender of the fraudster?



Fraudster info

- 84% displayed at least one behavioral red flag
- Only 5% had a prior fraud conviction

Our fraudster is...



Common Red Flags

- Living beyond means
- Doesn't want to cross-train
- Family problems
- Behavior
- Addiction
- Refusal to take time off
- Relationship with vendors



Other Fraud Facts

- Once discovered, nearly half is never recovered
- External auditors rarely identify fraudulent activity
- Unmodified opinions on the financial statements do not mean that fraud is not occurring
- Fraud can easily occur and your books still be in balance

8 KEY WARNING SIGNS

75% of fraudsters displayed at least one of the **8 MOST COMMON** behavioral clues; each of these **BEHAVIORAL RED FLAGS** was observed in **AT LEAST 10%** of cases.



39%

Living beyond means



27%

Financial difficulties



20%

Unusually close association with vendor/customer



13%

Control issues, unwillingness to share duties



12%

Irritability, suspiciousness, or defensiveness



12%

“Wheeler-dealer” attitude



11%

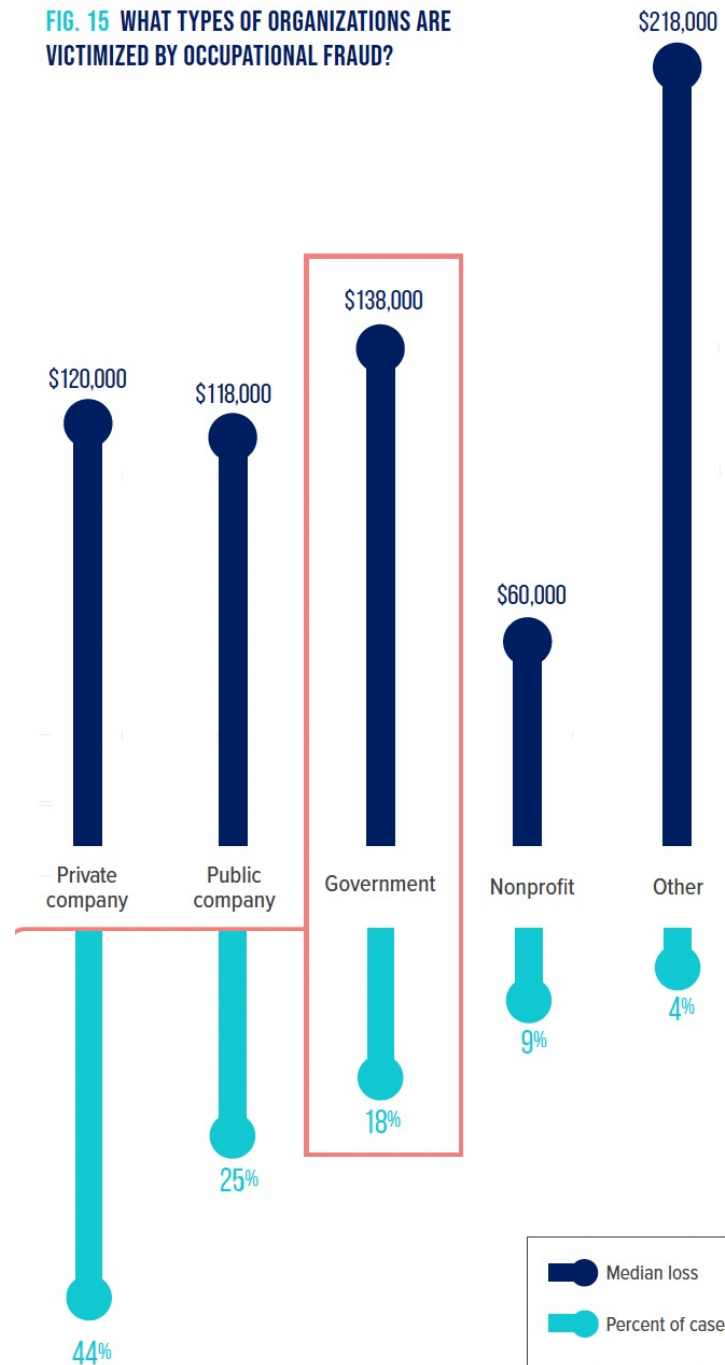
Bullying or intimidation



10%

Divorce/family problems

FIG. 15 WHAT TYPES OF ORGANIZATIONS ARE VICTIMIZED BY OCCUPATIONAL FRAUD?



Professional Skepticism

- An attitude that includes a questioning mind and a critical assessment
- Use when implementing and assessing internal controls
- “Trust, but verify.”



Suspicion of Fraud in Tennessee

- Municipal officials must report reasonable suspicion of fraud, waste, or abuse to the Comptroller's Office within five working days
- External auditors required to report fraud immediately
- Failure to take action required by a position of authority is a lapse in professional integrity



**Report Fraud,
Waste, and Abuse**



Contact Information

Eric Spencer

MTAS Finance & Accounting
Program Manager

eric.spencer@tennessee.edu

Cassie Wheeler

MTAS Finance & Accounting
Consultant

cassie.wheeler@tennessee.edu

