

# How to Reduce the Incidence of Fraud in Municipal Operations

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A large, thick teal circular graphic that frames the text "KNOW GREATER VALUE".

**KNOW**  
**GREATER**  
**VALUE**

# Table of Contents

- Presenter Information
- Experience
- Fraud Prevention and Awareness
- Types of Victims
- How Occupational Fraud is Committed
- Occupational Fraud By Category
- Most Common Fraud Schemes in Government
- Agencies
- Detection of Fraud Schemes
- Industry of Victim Organizations
- Occupational Fraud in Government
- Fraud Investigations
- Key Controls and Procedures

# Reducing Fraud in Municipal Operations

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# Experience

- 30 Years experience in Forensic Accounting for municipalities specializing in:
  - Saving in elimination of wasteful spending, millions for Municipalities
  - Operations Efficiency reviews
  - Implementing fraud prevention and awareness programs
  - Conducting Fraud investigations and obtaining recoveries
  - Outsourced Validation of extraordinary expenditures
  - Employee interviews for tips in areas of fraud

# Fraud Prevention & Awareness

- U.S. organizations lose approximately 5% of annual revenue to fraud
- Occupational frauds are more likely to be detected by a tip than any other means
- Small entities generally do a poor job of proactively detecting fraud
- Size of the loss is strongly related to the position of the perpetrator
- Corruption was the most common scheme in every global region

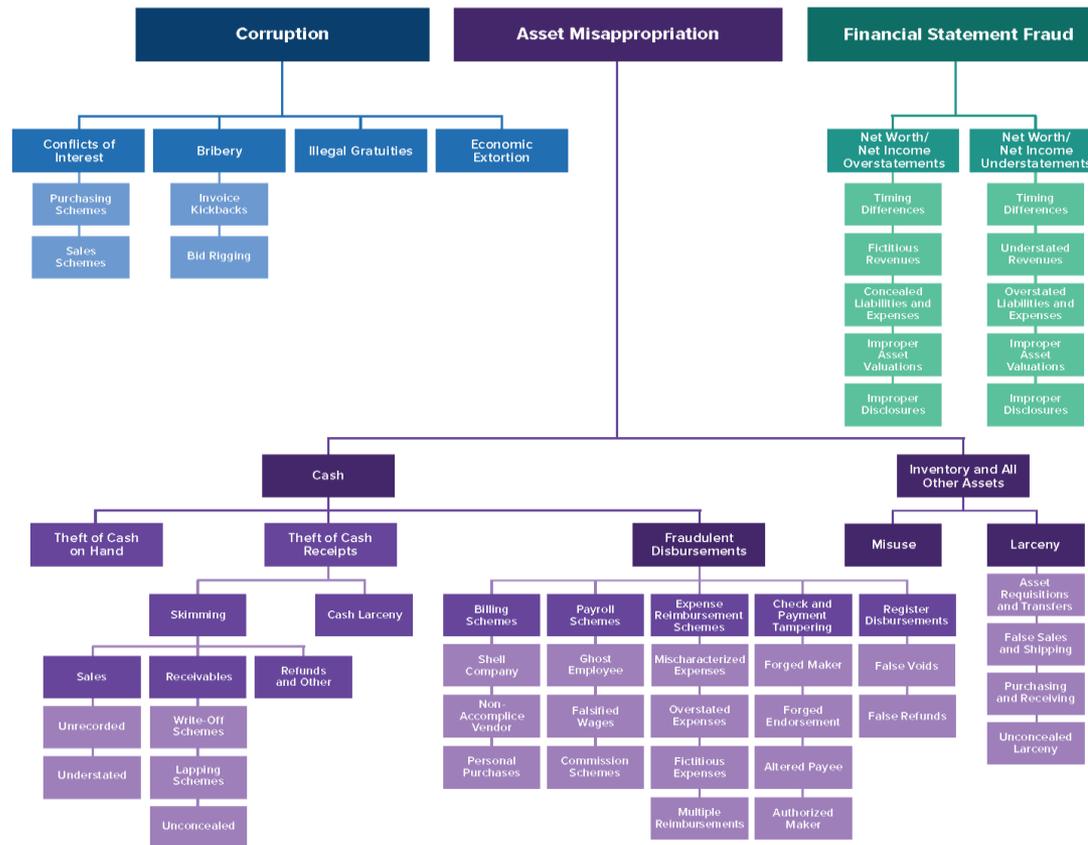
(Source: Association of Certified Fraud Examiners Report to the Nations)

# Types of Victims



# How Occupational Fraud is Committed

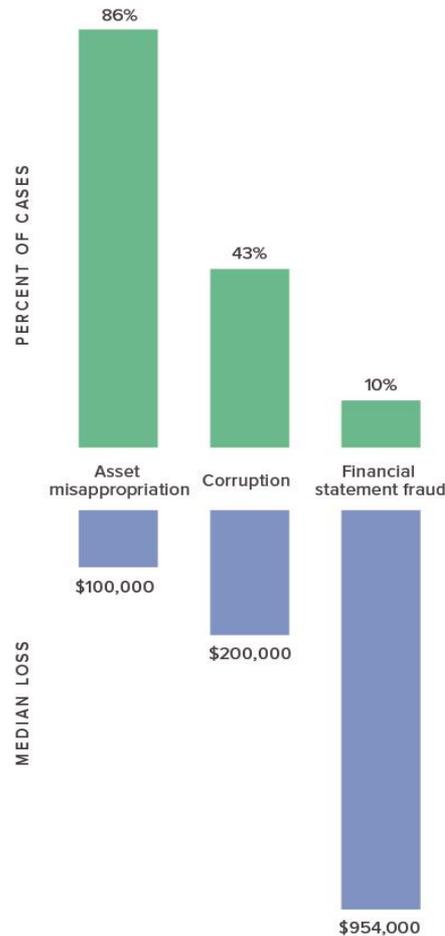
FIG. 3 Occupational Fraud and Abuse Classification System (the Fraud Tree)<sup>3</sup>



<sup>3</sup> The definitions for many of the categories of fraud schemes in the *Fraud Tree* are found in the Glossary of Terminology on pg. 86.

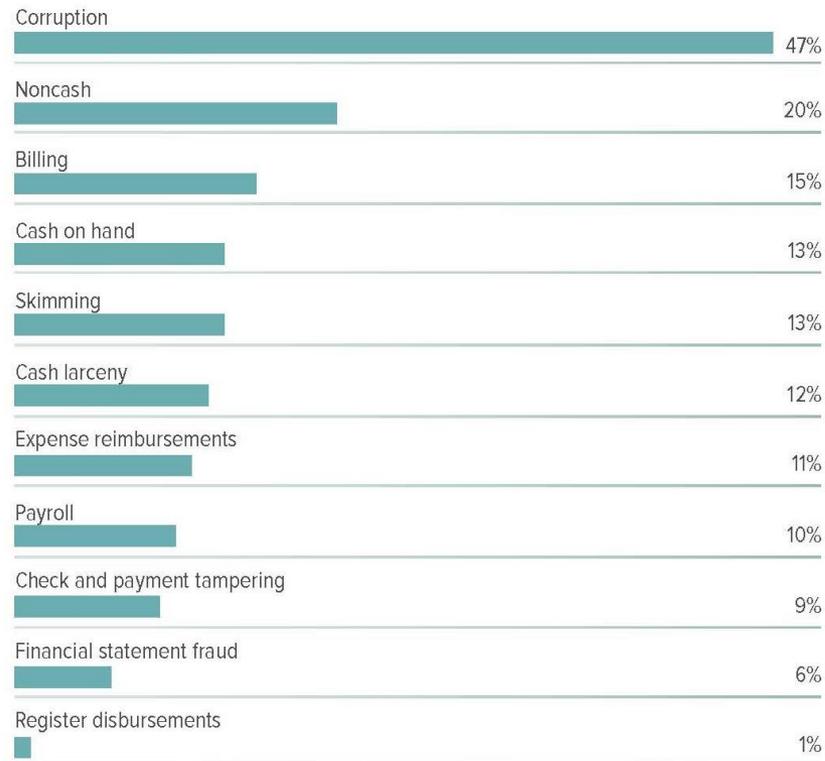
# Occupational Fraud By Category

FIG. 2 How is occupational fraud committed?



# Most Common Fraud Schemes in Government Agencies

FIG. 2 What are the most common occupational fraud schemes in government agencies?



# Detection of Fraud Schemes

FIG. 9 How is occupational fraud initially detected?

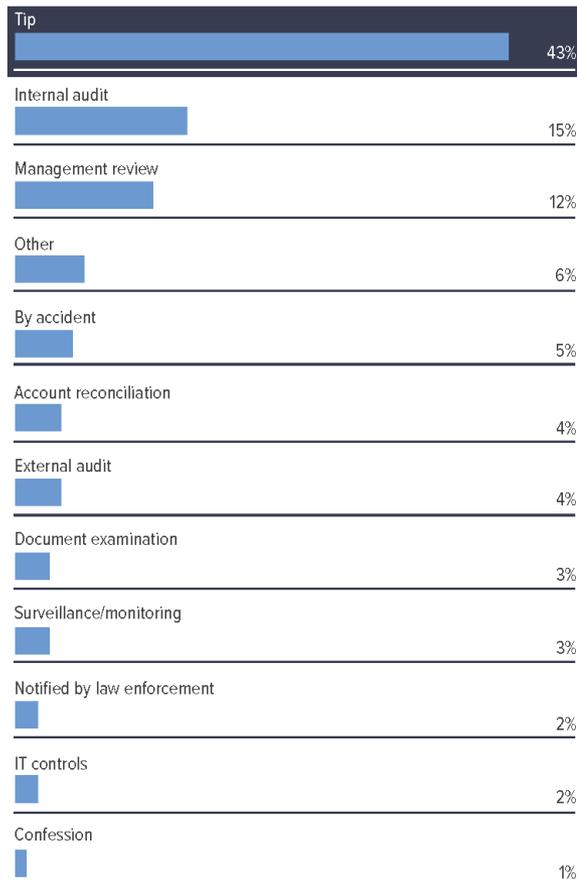
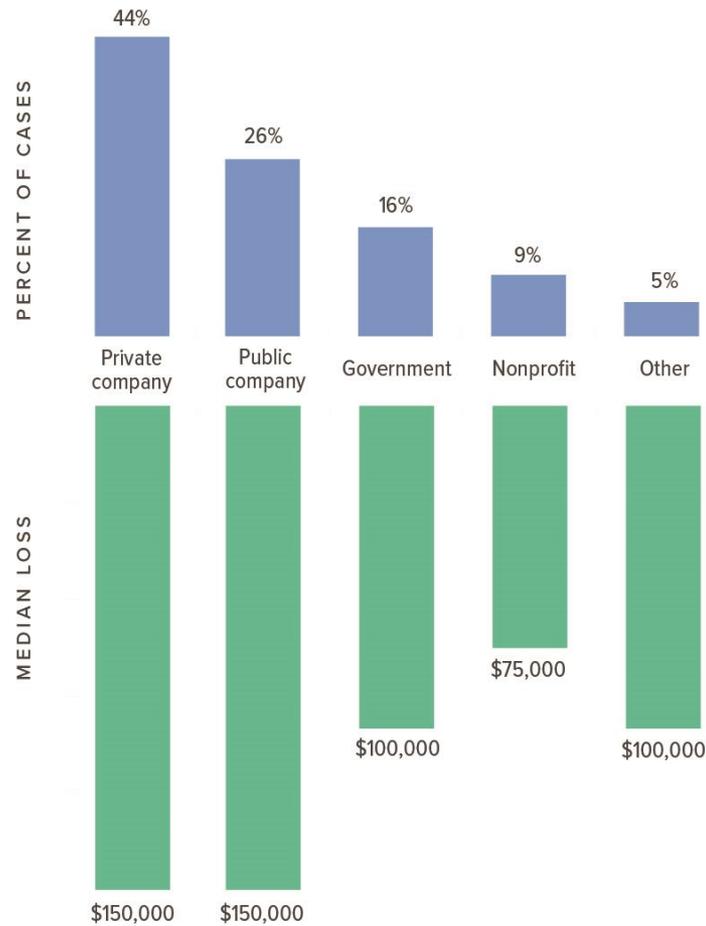


FIG. 10 Who reports occupational fraud?



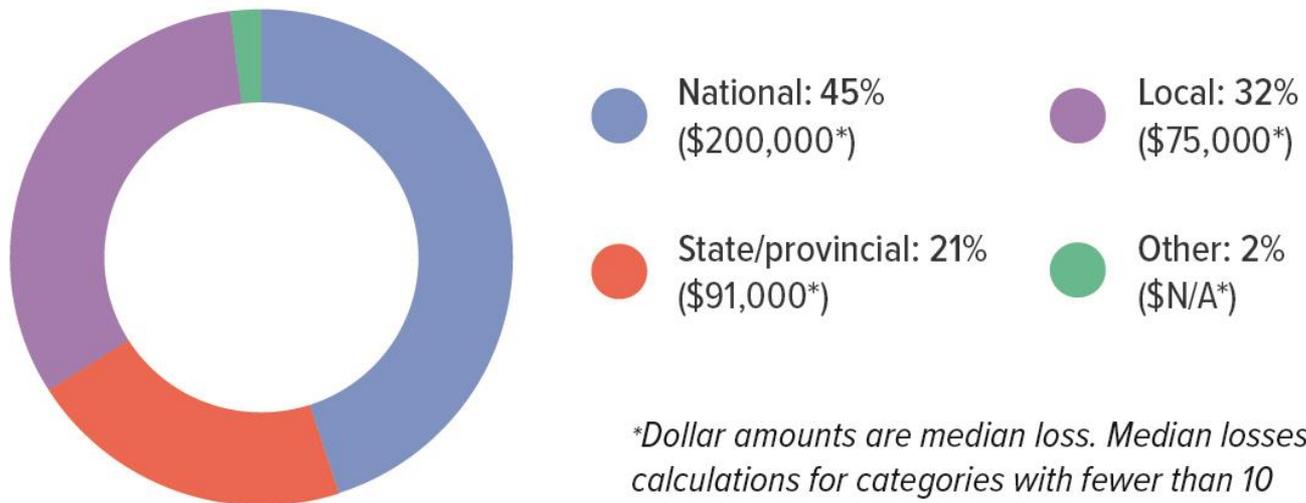
# Industry of Victim Organization

FIG. 14 What types of organizations are victimized by occupational fraud?



# Occupational Fraud in Government

FIG. 15 What levels of government are victimized by occupational fraud?



*\*Dollar amounts are median loss. Median losses calculations for categories with fewer than 10 cases were omitted.*

# Municipal Frauds

- UNUSED SICK & VACATION PAY CASE
- PAYMENTS IN LIEU OF TAX
- PARKING METER CASE
- SNOW PLOWING & SLAT SPREADING CASE
- POLICE OVERTIME CASE
- ECONOMIC DEVELOPMENT CORP CASE

# UNUSED SICK AND VACATION PAY CASE



# UNUSED SICK AND VACATION PAY CASE

- NJ Spotlight reported that unused sick and vacation pay in New Jersey is almost \$1.9 billion for public workers

# PAYMENT IN LIEU OF TAX CASES



# PARKING METER CASE





# SNOW PLOWING AND SALT SPREADING CASE



# POLICE OVERTIME CASE





# ECONOMIC DEVELOPMENT CORP CASE



# Key Controls and Procedures-Physical Controls

- Physical security of assets
- ID tag and inventory of all assets
- Keys, combinations & passwords
- Employee access limited
- Video security cameras
- Limited access to records
- Fraud Hotline Tips
- Computer security – physical, passwords, and software
- Computer monitoring
- Computer limited access to outside environment on web and internet
- Annual analysis of needs versus results and value for each operation

# Key Controls and Procedures-Policy and Procedure Controls

- Detailed Policy and procedure manual reviewed by and signed off by each employee annually
- Segregation of Duties
- Detailed job descriptions
- Conflict of interest policy and signed disclosures
- Related party policy and signed disclosures
- Employee authorization for credit check and background check if hired
- Review of reports prepared daily, monthly, quarterly, and annually
- Review budgets versus actual review and explanations

# Key Controls and Procedures-Policies & Procedures

- Lock box for receipts
- Procedures to handle cash
- Daily deposits versus holding checks or cash
- Handling bounced checks
- Overpayments resolution and documentation
- Unused checks security
- Multiple signatures on checks
- Check run match to signed checks before issuance and copied and saved
- Independent person perform bank reconciliations
- Review outstanding checks
- Review check sequence
- Check receipts date with deposit dates
- Review all bank statements for any unusual items
- Review assessments
- Review tax bills
- Review receivables

# QUIZ QUESTION

- What is the estimated unused sick and vacation pay benefits for public employees in New Jersey

# Key Controls and Procedures

- Exception reports for overtime or special payroll
- Tracking of used and unused sick and vacation time and pay
- Monthly and annual report of unused sick and vacation by department by employee and approval and signature each year by employee and supervisor and copy to finance/ HR
- Review termination of all benefits for terminated employees
- Review termination of payroll payments on employee termination
- Review employee report by name for relatives
- Review employee report by address for same address
- Run comparison of employee address to vendor addresses to determine if employee running business as employee
- Dependency check and verify for health benefits
- Cross training
- Use of hand readers and remote check in via technology
- Perform payroll payout/ visit each employee by surprise at least annually

# Additional procedures and controls

- Workers compensation review to eliminate potential double charges and overcharges by brokers collecting fees for services from municipality and commissions where referred
- Evaluate workers comp and health coverage to mandate use of in City Hospital facilities to negotiate substantially lower prices and help City Hospitals
- Establish Inspector General office to perform background checks on vendors etc. and compliance with policies

## Additional Procedures and controls

- Institute a Contract Administrator to oversee all City contracts and ensure that the City receives VALUE from all work and services provided
- Institute conflict of interest policy signed annually
- Institute related party disclosures policy signed annually
- Use hand reader system for work time tracking

# Additional Procedures and controls

- Revamp system for tracking and approval of all overtime, sick and vacation and review monthly reports and obtain support and approvals for all depts. and by employee
- Perform Forensic audit of parking authority operations.
- Evaluate garbage contracts for pick up and City vs. outsourcing various wards
- Evaluate internal audits reports and savings produced if any for the function
- Evaluate various departments and detailed job descriptions to justify or not each position held

# Additional Procedures and controls

- Evaluate overtime cost and analyze to determine ways to eliminate OT
- Review personnel to identify ghost employees being paid with no observable function or benefit to the City
- Revamp compliance with contract provisions for vendor submission of financial viability( financial statements) for all work and insurance and prevailing wages
- Review all City leases and areas for savings and renegotiation

# Additional Procedures and controls

- Evaluate operations of City and Board of Education for savings available by sharing services and possibly outsourcing services that are shared (e.g. Parks and grounds, snow plowing, leaf and lawn maintenance, building maintenance, etc.)
- Evaluate snow plowing costs and systems to minimize standby costs and obtain better rates on hourly snow plow charges (Experienced that vendors collaborate to push up prices)
- Evaluate the Water and Sewer departments and specifically inventory of pipes and valves and controls over pilferage

A large teal circular graphic on the left side of the slide, containing the text "KNOW GREATER VALUE" in bold, dark blue capital letters.

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