



Internal Control Tips from the Internal Audit Department

Fraud in Governments

Who is a Fraudster?

Fraudsters are typically those persons you would not expect to steal: the trusted employee, the individual who has been around the longest, the one who understands the accounting and control processes and has a large degree of control in those processes.

Fraud Categories

The Association of Certified Fraud Examiners (ACFE) categorizes fraud as follows:

1. Asset misappropriation schemes: An employee steals or misuses the organization's resources (e.g., theft of cash, false billing schemes, or inflated expense reports)
2. Corruption schemes: An employee misuses his or her influence in a business transaction in a way that violates his or her duty to the employer in order to gain a direct or indirect benefit (e.g., schemes involving bribery or conflicts of interest)
3. Financial statement fraud schemes: An employee intentionally causes a misstatement or omission of material information in the organization's financial reports (e.g., intentionally recording fictitious revenues or understating expenses)

Fraud vs. Abuse

Abuse is closely related to fraud – a lesser form, though the distinctions can blur. Examples of abuse include:

- Employees calling in sick when they are well
- Employees driving public vehicles for personal purposes
- Employees making excessive personal phone calls during work hours
- Employees taking district-owned equipment home for personal use
- Employees using the district's copy machines for personal projects or businesses

Damages from Fraud

The ACFE's biennial fraud survey usually reports median governmental per-case damages in the range of \$100,000 to \$120,000, but fraud committed by upper-level management can easily exceed \$1 million depending on the size of the government.

Where does Fraud Happen?

The 2022 ACFE Report to the Nations found that within governments, fraud schemes included: corruption (57%), billing (21%), noncash (16%), expense reimbursements (12%), skimming (8%), payroll (16%), check tampering (9%), cash on hand (7%), and cash larceny (8%).

For more information about this or any internal control matter, please contact the Internal Audit Department at 407-317-3200, 2002897 or Internal.Audit@ocps.net.