

How to Prevent Fraud in Your Township

A study conducted by the Association of Certified Fraud Examiners (ACFE) revealed in their 2006 Report to the Nation on Occupational Fraud and Abuse that nearly 5% of all organizations' net income is lost each year to fraud.

Fraud is classified into one of three major categories: asset misappropriations, corruption, and fraudulent financial reporting. Asset misappropriations are by far the most common, representing 92% of all reported incidences of fraud.

Misappropriation of assets is defined as "any scheme that involves the theft or misuse of an organization's assets". The median loss suffered by a victim organization per incidence is approximately \$150,000.

Due to its liquidity and ease of access, cash is the number one targeted asset of organizations and is most susceptible to fraud. Theft of cash can occur when money is received (cash receipts) or as part of the cash disbursement process.

Asset misappropriations are the number one frauds committed against governmental agencies. Since most cash receipts for governmental entities is in the form of taxes received via electronic transfer, cash disbursements frauds tend to be the dominant way in which the theft of governmental funds occur.

The following table depicts the primary frauds reported by governmental agencies, listed in order of cases reported:

Scheme	Percentage
Billing	17.6%
Non-Cash	17.6%
Payroll	16.9%
Expense Reimbursements	15.5%
Skimming	14.9%
Check Tampering	9.5%
Cash Larceny	8.8%

Note: Total is greater than 100% because fraud schemes can fit into multiple categories.

Full recovery of losses sustained by a victim organization is rare and those that do result in full recovery suffered small losses, averaging \$50,000. The best defense a governmental agency has to minimize or even eliminate losses is fraud prevention.

There are many processes or procedures that can be implemented to prevent fraud, even for small townships. Fraud prevention starts with a "tone at the top" mindset and attitude. Involvement and oversight by the board is a critical element to the success of any fraud prevention program.

Following "tone at the top" is the implementation of sound internal controls over the various transaction cycles, including cash receipts, cash disbursements, and financial reporting. Implementation of a good internal control environment includes both preventative and detective controls as well as adequate segregation of duties.

Additional measures include the creation of fraud hotlines or other means of anonymous reporting, fraud awareness and ethics training to employees, managers, and even board members, creation of an internal audit function (if practical), conducting surprise audits, or having external audits. There are also specific controls that pertain to the various transaction cycles which can further strengthen a township's ability to prevent and detect fraud.

Certified Fraud Examiners (CFEs) have the ability to assist townships with implementing good internal controls, evaluating existing controls for potential weaknesses, investigating allegations of fraud, or answering any other questions you may have regarding fraud prevention and detection. To locate a CFE in your area, please visit www.acfe.org or feel free to contact us directly.

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At the 100th Annual Educational Conference of the Township Officials of Illinois this past November, TOIRMA sponsored a session by Heinold-Banwart, Ltd. titled "How To Prevent Fraud In Your Township." Above is a summary of the presentation.