

Fraud in Government Organizations

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Abstract

This paper examines fraud in government organizations and seeks to identify the high level of fraud committed against these organizations. The focus is on the monetary value of the fraud, and the fraud impact on the government organization, the city, state or country, and the citizens. The paper also addresses the factors that contribute to the acts of fraud, the internal control system of the affected government organizations, and the effectiveness of the internal controls within these organizations. This paper highlights important recommendations that can be implemented to help protect government assets and deter acts of fraud against these organizations.

Key words: fraud-impact, government organizations, internal-controls, monetary-value

Type of Research: Developmental paper – in progress

Introduction

Fraud continues to be a challenge to government units across the globe. The types of fraud committed against these organizations include embezzlement, bribery and corruption, asset misappropriation, and financial statement fraud. The Association of Certified Fraud Examiners reported that fraud poses a tremendous threat to organizations all over the world. These fraud related activities create huge burdens for the organizations affected. What financial impact does fraud have on these organizations? How are these organizations protecting their assets against fraud? Are the methods of protection and detection working?

Financial Impact

Rita Crundwell, city comptroller and treasurer for the City of Dixon, Illinois worked for the city from 1983 to 2012 and embezzled more than \$53 million from the City of Dixon. Her fraud was conducted over a period of 20 years. She opened an account in the name of the City of Dixon with Fifth Third Bank and she was the only signatory on the account. She transferred funds from the Dixon City's Money Market account into the Fifth Third Bank account, and used the money for her own personal expenses. As a result of the theft, the City showed a deficit budget for several years. Salaries for city workers were stagnant, and the city's infrastructure suffered.

Demetrius McMillan of Washington, D.C., an employee with the District of Columbia Department of Human Services cheated the government of \$1.4 million. McMillan colluded with several individuals to embezzle money from the Department of Human Services by issuing benefits to these individuals via electronic benefit cards. The co-conspirators were not entitled to the benefits. Nevertheless, they accepted them and gave McMillan a kickback. Within the three months that McMillan committed the fraud, he was able to make seven hundred and seventy-nine illegal payments. Issuing these payments to unentitled recipients would deprive families of the assistance needed during a time of crisis.

In addition, The Department of Justice, United States Attorney's Office of the District of Puerto Rico put out a press release on July 5, 2018 indicating that the Mayor of the Municipality of Sabana Grande, Miquel G. Ortiz-Velez, was indicted on two counts of theft of government money and property, along with wire and mail fraud. He faces a potential money judgement of \$2.9 million. Miquel Ortiz-Velez engaged in deception by fraudulently obtaining federal funds from the United States Department of Education and the Puerto Rico Department of Education based on material misrepresentation. While the country was severely devastated by hurricanes, the mayor was indicted for fraud.

Protecting Assets

Fraud is difficult to understand and even more difficult to prevent. Strong internal controls are always recommended as a deterrent to fraud. However, when these controls are not properly implemented and when top level employees exhibit poor ethical behavior it flows through to lower level employees and fraud occurs. Unfortunately, fraud is committed in environments where the internal controls are not being applied. Some government organizations have implemented strong internal controls to deter fraud; however, overriding and ignoring these controls will allow fraudulent behavior to continue.

It is important for organizations to establish proper ethical behavior for all employees. This ethical behavior must be instilled from the top executives and channeled all the way through to the clerks at the bottom. Fraud perpetrators are responsible for their own actions and the decision to commit fraud or not to commit fraud depends on exercising self-control. What impulsive or compelling force causes a fraud perpetrator to act, rather than refrain from acting? How does the ability to control one behavior override the thoughts of rationalization for fraud perpetrators?

Effectiveness of Controls.

To maintain strong governance, there must be adequate separation of duties to prevent fraud. Persons who authorize transactions should not have control over any of the related assets. In the case of the City of Dixon's fraud, Ms. Crundwell should not have been able to request, authorize, cut and receive a check from the Fifth Third Bank without any additional required signatures. This is a clear indication that there was no separation of duties. Operational responsibilities should be separated from record keeping responsibilities. The department responsible for record keeping should be different from the department that reports to the comptroller. Ms. Crundwell was in charge of this bank account and while she kept records of transactions within this account, she chose not to disclose the information. There was no one within the City of Dixon that was overseeing her duties and this allowed her to perpetuate the fraud over an extended period of time. Ms. Crundwell had physical control over the all assets and all records, and this allowed her to embezzle the government's funds. No independent checks were made on her performance by the external auditors and the bank did not query the dollar amounts of her transactions.

In the case of Mr. McMillan, controls were in place and oversight was required for amounts over \$2,000. Nonetheless, Mr. McMillan was able to evade detection by making payments for less than, but close to \$2,000.

Conclusion

In the accounting profession, we are called to be honest and true to self and others. Organizations are encouraged to hire honest employees. How is it determined at the point of hiring that a person is honest? All government agencies should have policies and practices in place to eradicate the deceptive behavior of fraud. Employees should be educated on the subject, and should be provided a system that will enable them to report any suspicious fraudulent activities. If policies and procedures are not put in place, employees' moral values may be easily swayed to commit fraud when an opportunity exist.

Opportunity to commit fraud must not exist within an organization and must be strategically eliminated. All monetary payments should have co-signatures regardless of the amount. An employee should not be assigned duties that interrelate or are interdependent. An employee should not be allowed to place orders, make payments for the items ordered, and receive the items when delivered. Duties as simple as this, once assigned to the same person, presents great opportunity for that employee to misappropriate the assets of the organization.

Additionally, government organizations should have transparency as a way to monitor their activities. Transparency closes the door to opportunity to commit fraud and demands accountability from elected officials and top-level employees. With this responsibility, care will be given to oversight to ensure that fraud does not exist within the organization. Whether a fraud is small or large, it should be met with severe punishment to help deter others from embezzling funds that are entrusted to their care.

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