


## Fraud in State & Local Government

Understanding Risks, Impacts, and Prevention  
AGA Idaho Centennial Chapter March 25, 2026



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# Disclaimer

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## Presenter



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## Why Fraud Matters in Government

Stewardship of public funds and public trust.

Decentralized operations and high transaction volumes.

Reliance on grants, vendors, and third parties.

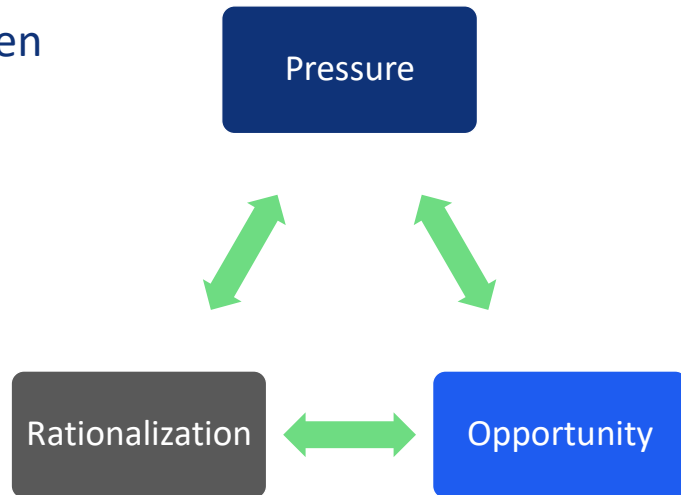
Consequences: financial loss, legal risk, reputational damage, reduced services.



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## Understanding the Fraud Triangle

Fraud typically occurs when three conditions exist.



## Pressure (Motivation)

**Financial pressures**

- debt, medical expenses, lifestyle expectations

**Workplace pressures**

- budget cuts, layoffs, unrealistic goals

**External pressures**

- family obligations, economic downturns



## Opportunity

- Weak or nonexistent internal controls.
- Lack of segregation of duties.
- Limited management oversight.
- Excessive trust in long tenured employees.
- Inadequate system access controls.



## Rationalization

- I am underpaid or underappreciated.
- I am just borrowing the money.
- Everyone does it.
- The government has plenty of money.





## Asset Misappropriation

- Payroll fraud: ghost employees, inflated hours or overtime.
- Cash theft: skimming and lapping.
- Theft of physical assets such as equipment, fuel, and supplies.

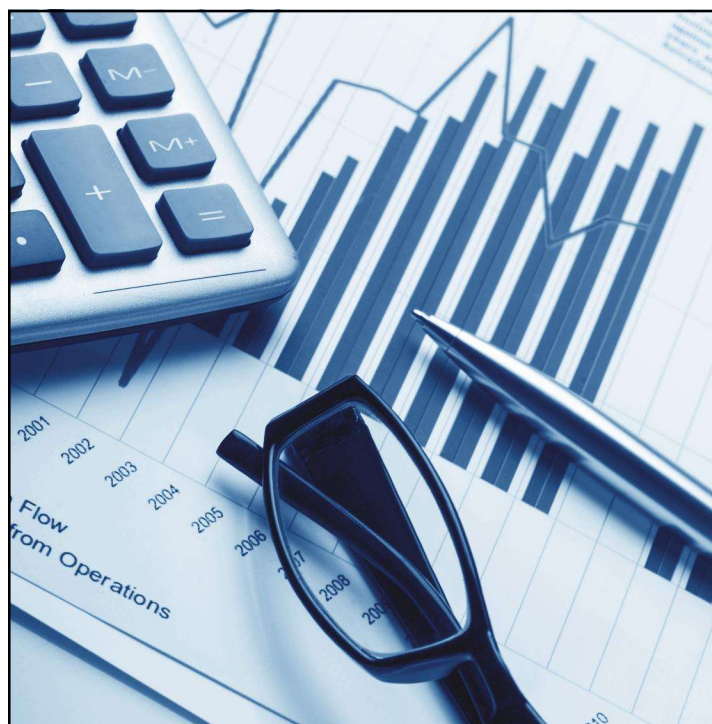
## Procurement and Vendor Fraud

Bid rigging.

Kickbacks and conflicts of interest.

Overbilling or billing for goods or services not provided.

Split purchases to avoid approval thresholds.



## Financial Statement Fraud

- Misstating revenues or expenditures.
- Manipulating fund balances.
- Improper capitalization or expense shifting.
- Concealing deficits or budget overruns.

## Grant and Program Fraud

- Misuse of restricted grant funds.
- Falsified reporting to funding agencies.
- Ineligible expenditures.
- Duplicate or inflated reimbursement claims.





## Bribery and Corruption

- Bribes for permits, inspections, or zoning approvals.
- Favoritism in hiring or contracting.
- Abuse of authority for personal gain.

## Operational Red Flags

- Missing documentation.
- Unreconciled accounts.
- Unusual journal entries.
- Vendors with PO boxes or duplicate addresses.
- Repeated emergency procurements.



## Behavioral Red Flags

- Living beyond apparent means.
- Reluctance to take vacation.
- Excessive control over processes.
- Defensive or secretive behavior.
- However, Be Careful.



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## Establish a Strong Ethical Culture

Clear tone  
at the top.

Code of ethics  
and conduct.

Conflict of interest  
disclosures.

Ethics training for  
all employees.

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## Strengthen Policies and Procedures

- Written and up to date policies.
- Clear approval authorities.
- Documented workflows.
- Consistent enforcement.



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## Improve Oversight and Monitoring

- Regular management review.
- Periodic internal audits.
- Independent external audits.
- Data analytics and trend analysis.



## Encourage Reporting and Transparency

- Anonymous reporting mechanisms.
- Whistleblower protections.
- Open communication channels.
- Prompt investigation of allegations.



## What Are Internal Controls

- Safeguard assets.
- Ensure reliable financial information.
- Ensure compliance with laws and regulations.
- Support effective and efficient operations.

## Key Internal Control Components

Control  
environment

Risk  
assessment

Control  
activities

Information  
and  
communication

Monitoring



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### Segregation of Duties

- Separate authorization, recordkeeping, and custody of assets.
- Use compensating controls when staffing is limited.

## Technology and System Controls

- Role based system access.
- Regular access reviews.
- Audit logs and exception reporting.
- Secure change management.

## Role of Leadership and Governing Bodies

Oversight responsibility of councils and boards.

Asking the right questions.

Supporting internal audit and compliance.

Ensuring corrective actions are implemented.

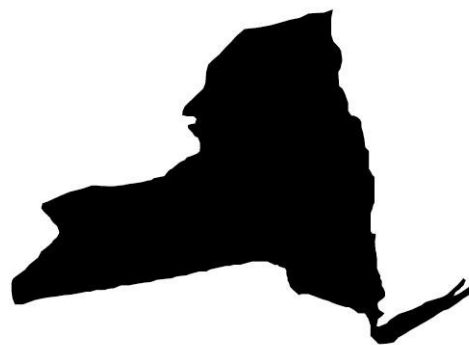


## Building a Fraud Resistant Government

- Fraud prevention is ongoing.
- Internal controls reduce opportunity.
- Ethical culture reduces rationalization.
- Oversight and accountability reduce risk.
- Protecting public resources protects public trust.

## NYC Housing Authority Bribery Scheme (2024)

- **Entity:** New York City Housing Authority.
- **Type of Fraud:** Bribery and procurement fraud.
- **Summary:** Over 70 employees accepted bribes to steer no-bid and expedited contracts.
- **Identification:** Whistleblower tips and federal analysis of vendor concentration.



hudoig.gov  
hecity.nyc

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## NYC Housing Authority Bribery Scheme (2024): Control Failure and Prevention

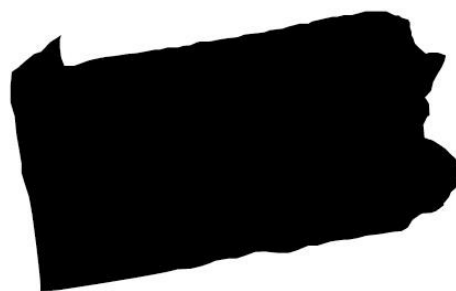
- Control Failures in Procurement:
  - Lack of oversight in no-bid and emergency contracts enabled bribery and vendor favoritism to persist undetected.
- Risks of Overreliance on Trust:
  - Excessive trust in long-tenured employees reduced management scrutiny and allowed unethical behavior to continue.
- Preventive Control Measures:
  - Independent approvals, segmented authority, and active conflict-of-interest reviews help prevent procurement fraud.
- Detective Control Strategies:
  - Vendor analytics and periodic procurement audits detect anomalies and reinforce oversight of high-risk contracts.



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## Scranton, PA Mayor Corruption Case (2020)

- **Entity:** City of Scranton, Pennsylvania.
- **Type of Fraud:** Extortion and abuse of office.
- **Summary:** Mayor extorted businesses for permits and contracts.
- **Identification:** FBI investigation using cooperating witnesses.



Justice.gov  
cbsnews.com

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## Scranton, Pennsylvania Mayor Corruption Case (2020): Control Failure and Prevention

- Control Failure Due to Power Concentration:
  - Excessive authority concentration in the mayoral role enabled extortion and favoritism without independent checks.
- Lack of Transparency and Reporting:
  - Opaque permitting processes and absence of trusted reporting channels allowed corruption to go undetected.
- Prevention Through Governance:
  - Strengthening governance with segregation of authority and ethical oversight reduces corruption risks effectively.
- Whistleblower Protections and Training:
  - Safe reporting channels and ethics training empower officials and employees to prevent abuse of power.



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## Orange County, CA COVID-19 Relief Bribery (2025)

- **Entity:** Orange County Board of Supervisors.
- **Type of Fraud:** Bribery and misuse of relief funds.
- **Summary:** Supervisor accepted bribes for directing COVID relief funds.
- **Identification:** Federal financial tracing and review of grant flows.



irs.gov  
 Orangecountyda.org

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## Orange County, California COVID-19 Relief Bribery Case (2025): Control Failure and Prevention

- Control Failures in Emergency Funding:
  - Inadequate oversight and reduced documentation increased fraud risk in emergency COVID-19 relief fund allocations.
- Transparency and Documentation Gaps:
  - Lack of standardized grant scoring and public reporting limited transparency and enabled favoritism.
- Prevention Strategies:
  - Independent reviews, multi-person committees, and public transparency deter bribery during emergencies.
- Post-Award Monitoring Importance:
  - Regular fund usage reviews with data analytics ensure compliance and prevent misuse post-award.



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## Mississippi TANF Grant Fraud (2022)

- **Entity:** Mississippi Department of Human Services.
- **Type of Fraud:** Misappropriation of federal grant funds.
- **Summary:** TANF funds diverted to ineligible and politically connected uses.
- **Identification:** State auditor forensic investigation.



osa.ms.gov  
en.Wikipedia.org



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## Mississippi Department of Human Services TANF Fraud (2022): Control Failure and Prevention

- Control Failures in TANF Fraud:
  - Insufficient monitoring and weak segregation of duties enabled misuse of millions in grant funds.
- Risks of Poor Segregation:
  - When approval, payment, and oversight are controlled by same parties, fraud risks increase significantly.
- Prevention Measures:
  - Robust controls include documented eligibility, pre-approved spending, and regular compliance testing.
- Importance of Audits and Reporting:
  - Independent audits and timely reporting improve accountability and early issue detection.

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## Illinois Statehouse Bribery – Michael Madigan (2025)

- **Entity:** State of Illinois.
- **Type of Fraud:** Bribery, wire fraud, abuse of power.
- **Summary:** Influence peddling tied to legislation and utilities.
- **Identification:** FBI wiretaps and cooperating witnesses.



Justice.gov  
Courthousenews.com

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## Illinois Statehouse Bribery Case – Michael Madigan (2025): Control Failure and Prevention

- Control Failures in Governance:
  - Concentrated political influence and weak ethics enforcement led to unchecked legislative control and misconduct.
- Inadequate Conflict Disclosure:
  - Poor conflict-of-interest disclosures and lack of rigorous enforcement undermined accountability and increased corruption risks.
- Prevention Strategies:
  - Strengthening ethics governance with enforcement, training, independent oversight, and clear consequences reduces corruption.
- Transparency and Accountability:
  - Transparent disclosure and public access to information are critical for maintaining integrity and preventing corruption.



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## City of Rochester, NY Disclosure Fraud (2024)

- **Entity:** City of Rochester, New York.
- **Type of Fraud:** Financial reporting and disclosure violations.
- **Summary:** Misleading disclosures regarding financial condition.
- **Identification:** SEC enforcement review of bond disclosures.



sec.gov  
Taftlaw.com

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## City of Rochester, New York Disclosure Fraud (2024): Control Failure and Prevention

- Control Failures in Disclosure:
  - Weak governance and insufficient reconciliation led to misleading financial disclosures in the municipal bond context.
- Lack of Independent Review:
  - Absence of formal disclosure committees and certification processes allowed inaccurate information to reach investors.
- Prevention Measures:
  - Establishing formal committees and certification processes ensures accuracy and accountability in financial reporting.
- Importance of Independent Audit:
  - Internal or external audits provide essential safeguards reinforcing disclosure accuracy and public trust.



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## Puerto Rico Municipal Bond Disclosure Failures (2023–2024)

- **Entity:** Puerto Rico public entities.
- **Type of Fraud:** Disclosure fraud and corruption.
- **Summary:** Failure to disclose material financial risks.
- **Identification:** Regulatory exams and post-default investigations.



sec.gov  
Emma.mrsb.org

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## Puerto Rico Municipal Bond Disclosure Failures (2023–2024): Control Failure and Prevention

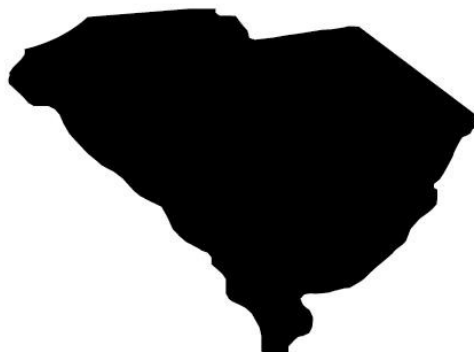
- Governance Weaknesses:
  - Systemic weaknesses in disclosure governance led to misleading financial communications and conflicts of interest.
- Monitoring Failures:
  - Limited financial condition monitoring delayed recognition and disclosure of fiscal deterioration.
- Prevention Strategies:
  - Strengthen governance with centralized oversight, standardized policies, and regular financial assessments.
- Ongoing Disclosure Responsibility:
  - Disclosure is a continuous duty involving robust controls and consistent financial monitoring post-bond issuance.



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## North Charleston, SC: City Council Bribery (2025)

- **Entity:** City of North Charleston, South Carolina.
- **Type of Fraud:** Bribery and zoning corruption.
- **Summary:** Council members accepted bribes for rezoning approvals.
- **Identification:** FBI undercover operation.



justice.gov  
abccolumbia.com

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## North Charleston, South Carolina: City Council Bribery Case (2025): Control Failure and Prevention

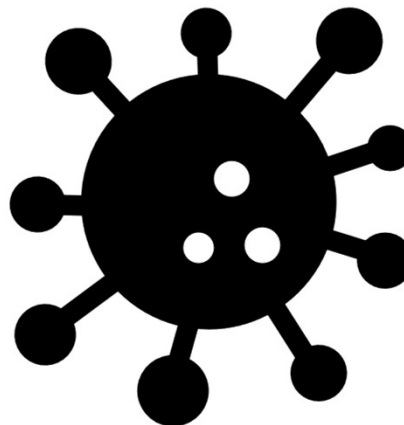
- Control Failure in Zoning:
  - Insufficient ethics oversight in zoning decisions enabled bribery and undue influence on public rezoning approvals.
- Transparency Weakness:
  - Limited transparency in rezoning processes prevented detection of improper influence and concealed corrupt actions.
- Preventive Measures:
  - Independent ethics boards and public disclosure of rezoning criteria enhance accountability and reduce corruption risks.
- Governance Lessons:
  - Strong ethical controls and transparency are essential for regulatory decisions beyond financial transactions in local governments.



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## COVID-19 Relief Grant Misuse (2020–2024)

- **Entity:** Multiple state and local governments.
- **Type of Fraud:** Grant fraud and false reporting.
- **Summary:** CARES and ARPA funds used for ineligible purposes.
- **Identification:** GAO reviews and Inspector General audits.



gao.gov  
congress.gov

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## COVID-19 Relief Grant Misuse (2020–2024): Control Failure and Prevention

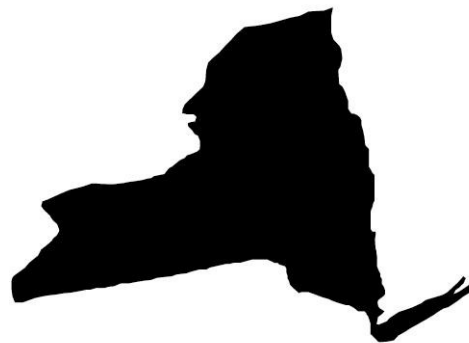
- Control Failures in Fund Distribution:
  - Rapid fund distribution prioritized speed over eligibility verification, increasing risks of fraud and misuse.
- Limited Post-Award Monitoring:
  - Insufficient oversight and fragmented data hindered timely detection of improper expenditures.
- Prevention Strategies:
  - Implementing eligibility verification, documentation standards, audits, and data analytics improves fund accountability.
- Balancing Urgency and Accountability:
  - Emergency funding requires adaptive controls to balance rapid response with compliance and oversight.



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## NYC Payroll and Overtime Fraud (2021–2023)

- **Entity:** Various New York City agencies.
- **Type of Fraud:** Payroll fraud.
- **Summary:** Employees falsified timesheets and overtime claims.
- **Identification:** Payroll data analytics and internal audits.



nbcnewyork.com  
law.justia.com

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## NYC Payroll and Overtime Fraud Cases (2021–2023): Control Failure and Prevention

- Control Failures in Payroll:
  - Weak oversight and reliance on supervisory approval led to falsified timesheets and unearned overtime claims.
- Challenges for Supervisors:
  - Supervisors often lack time and tools to detect irregularities, allowing fraudulent patterns to go unnoticed.
- Prevention Strategies:
  - Use payroll analytics, exception reporting, job rotation, and mandatory vacations to prevent fraud.
- Importance for Governments:
  - State and local governments must treat payroll as a critical control and use data analytics to improve accountability.



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## Washington Embezzlement

- **Entity:** State Agency
- **Type of Fraud:** Embezzlement
- **Summary:** Had an agency credit card, and was the only employee with access to the offices bank statement. Set up fake company, to funnel money from work card to personal bank account. Payments appeared on statement like legitimate transactions. Stole \$900k for gambling addiction.
- **Identification:** Annual audit by state auditors.



hoodline.com  
dailyfly.com

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## Control Failure and Prevention

- Control Failure:
  - The failure stemmed primarily from inadequate segregation of duties, insufficient oversight of credit card activity, and weak monitoring controls, allowing one individual to both execute and conceal fraudulent transactions.
- Lack of Segregation of Duties:
  - The employee had exclusive access to agency bank statements.
  - The same individual was authorized to initiate, approve, and reconcile credit card transactions.
  - No independent review existed to validate transactions or vendors.
- Inadequate Vendor Management Controls:
  - The employee created fictitious vendors that appeared legitimate on bank statements.
  - Vendor setup and changes were not independently reviewed or verified.
  - No periodic vendor master file audits were conducted.
- Preventive and Detective Control Enhancements Implemented:
  - Strengthen Segregation of Duties.
  - Enhanced Documentation Requirements.
  - Improved Oversight and Monitoring.
  - Audit and Accountability Measurements.



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# Questions?

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# Thank you

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