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FRAUD

UNDERSTANDING FRAUD SO YOU CAN BETTER PREVENT OR DETECT IT

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Advanced MEO
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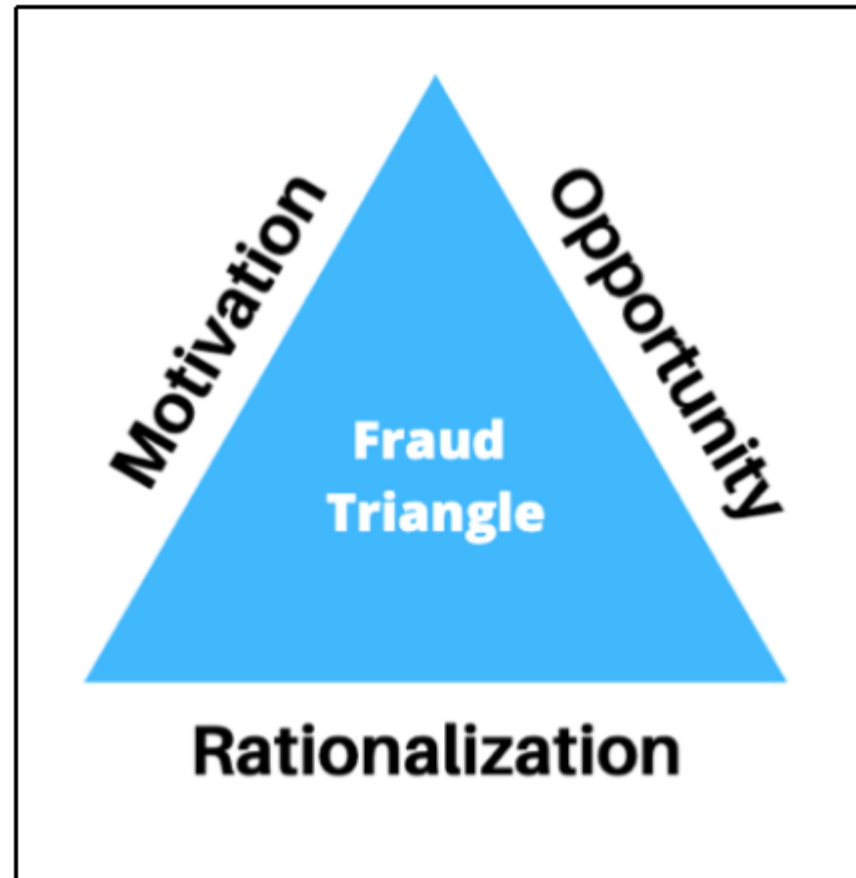
Examples from SC

- Fire 1% funds
- Hourly time sheets/cards
- Expense Reimbursements
- Wire fraud by jail/prison inmates
- Bribery with construction vendor
- Equipment-tools and power equipment
- Inventory-gasoline
- Procurement/credit card
- All the Queens Horses documentary



The Risk of Fraud

- Which of those can you control if you are not the one thinking about committing fraud?



So let's talk about the risk of fraud

- Opportunity means there is an ability for someone to commit fraud and not get caught
- Opportunity means internal controls are likely ineffective-either in design or in operation



NEVER, NEVER, NEVER THINK OR SAY...

- “It will never happen at my municipality...they would never intentionally commit fraud.”

Instead, you need to think, “it is likely going to happen at some point, so how can we best prevent or detect it timely when it does happen?”



BECAUSE THE MOST COMMON COMMENT IN FRAUD CASES I HAVE WORKED IS...

- “I never thought he/she would be the one to do it.”



YOUR MINDSET IS IMPORTANT

- Why should we be skeptical?
- Because there is EVIL! Even good people who decide to do something evil.

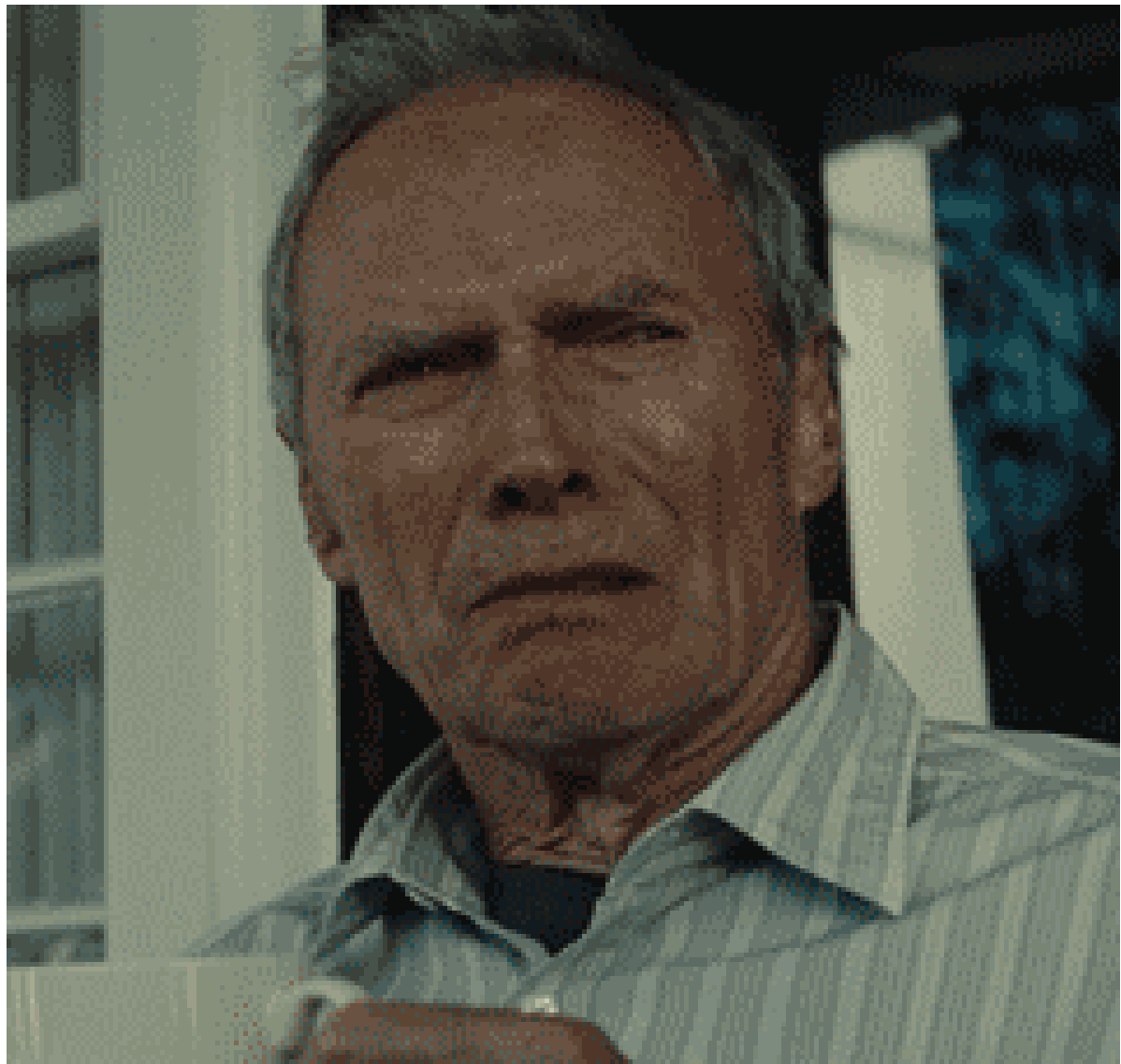


NEWS FLASH!!

- Effective and efficient internal controls are your friend, not your enemy







Let's talk about internal controls

- But there is no perfect system!
- Why?
 - It would cost too much
- Collusion is much more difficult to prevent than if just one person is committing fraud
- So, your goal is to reduce the risk of fraud/error to an acceptable level within reasonable cost constraints so that fraud can be **prevented** and/or **detected timely**
 - Assess
 - Design
 - Implement, operate and **monitor/review**



Fraud Awareness Training

- Part of a good system of controls, processes and procedures includes regularly talking about fraud at all levels of your organization
- And for the importance of fraud awareness training to be supported from the very top of your organization (in verbal support, participation in training and in the written policies)

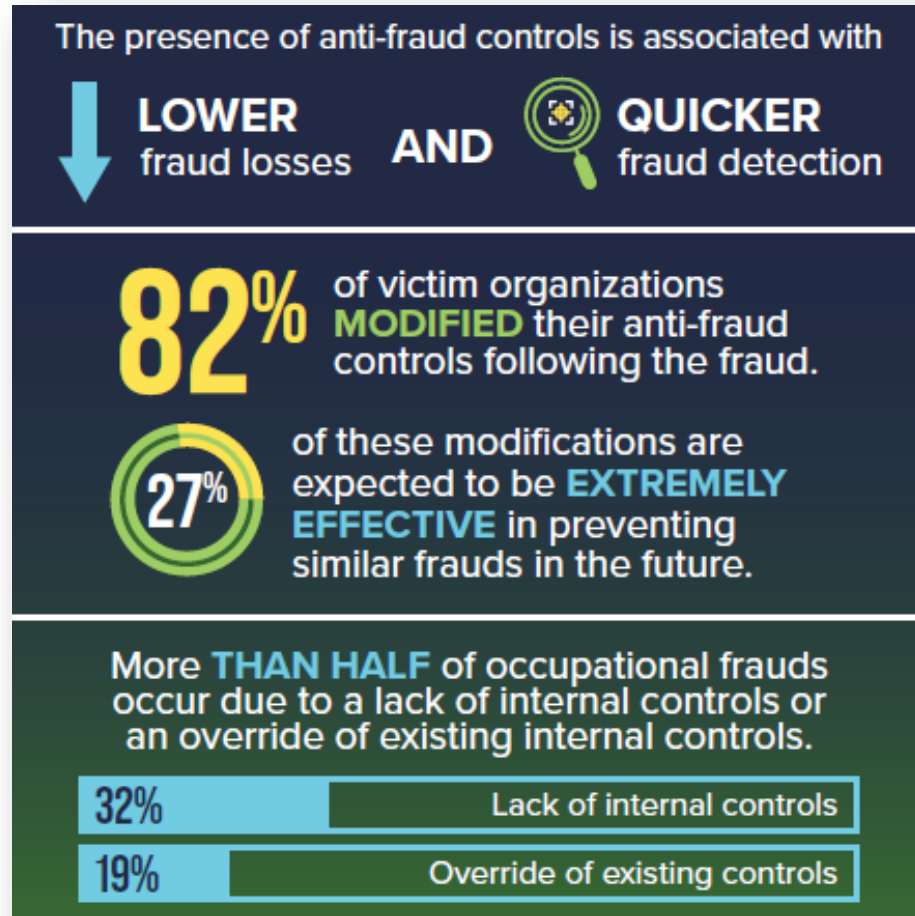


ACFE

2024 REPORT TO THE NATION

A FEW KEY FINDINGS

ANTI-FRAUD CONTROLS



CASE RESULTS



KEY FINDINGS

OUR STUDY INCLUDED

Examining the characteristics of occupational fraud that occurs at governmental organizations can help illuminate some of the issues and risks specific to these entities at all levels.

OUR STUDY INCLUDED



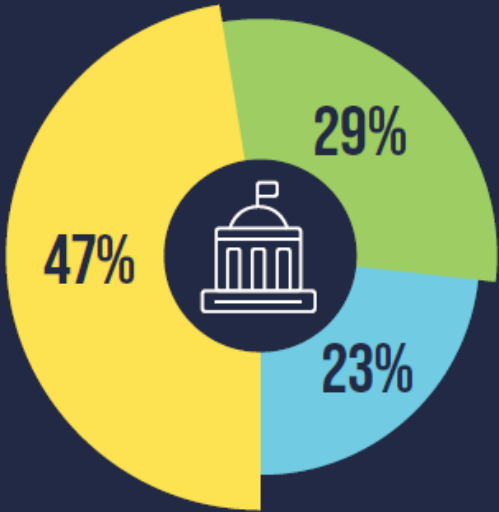
296 CASES
of occupational fraud
that occurred at
government organizations



MEDIAN LOSS
\$150,000
AVERAGE LOSS
\$2,306,000

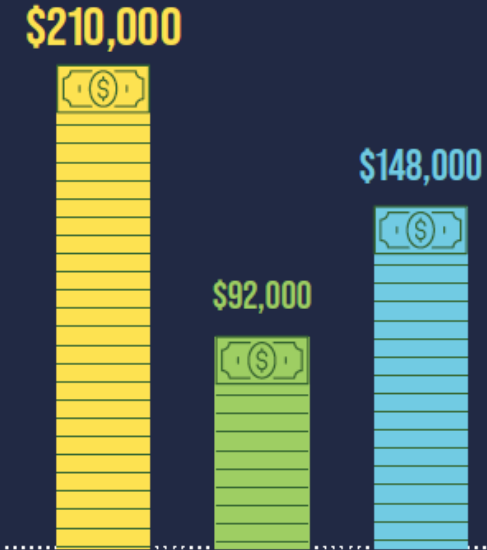


MEDIAN DURATION
12 MONTHS

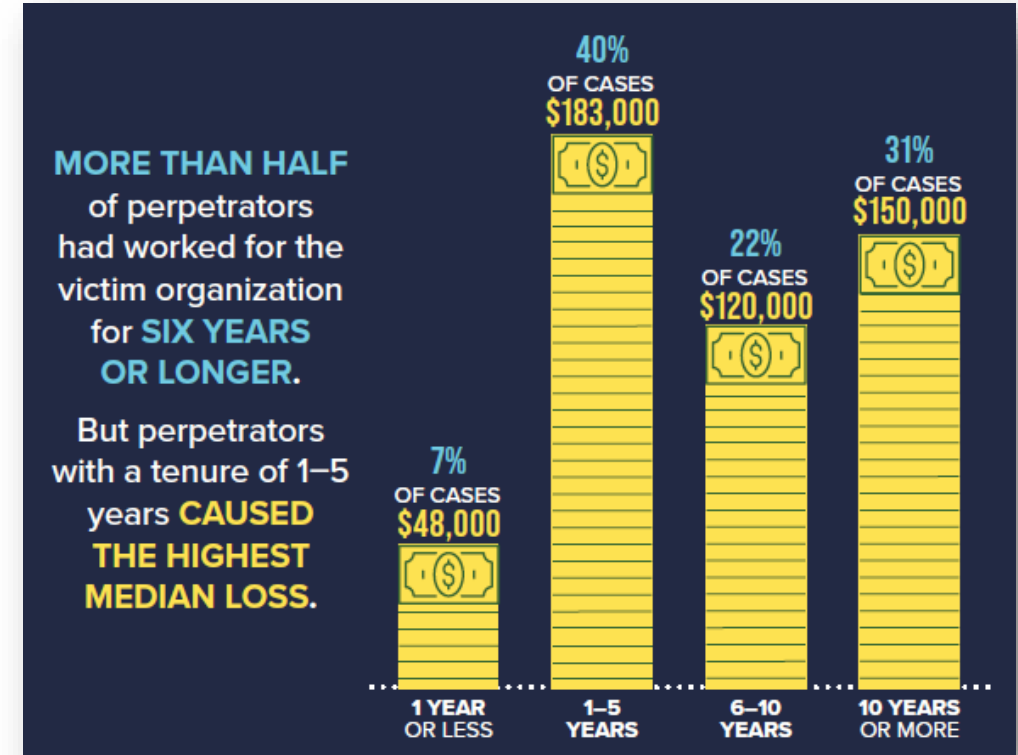
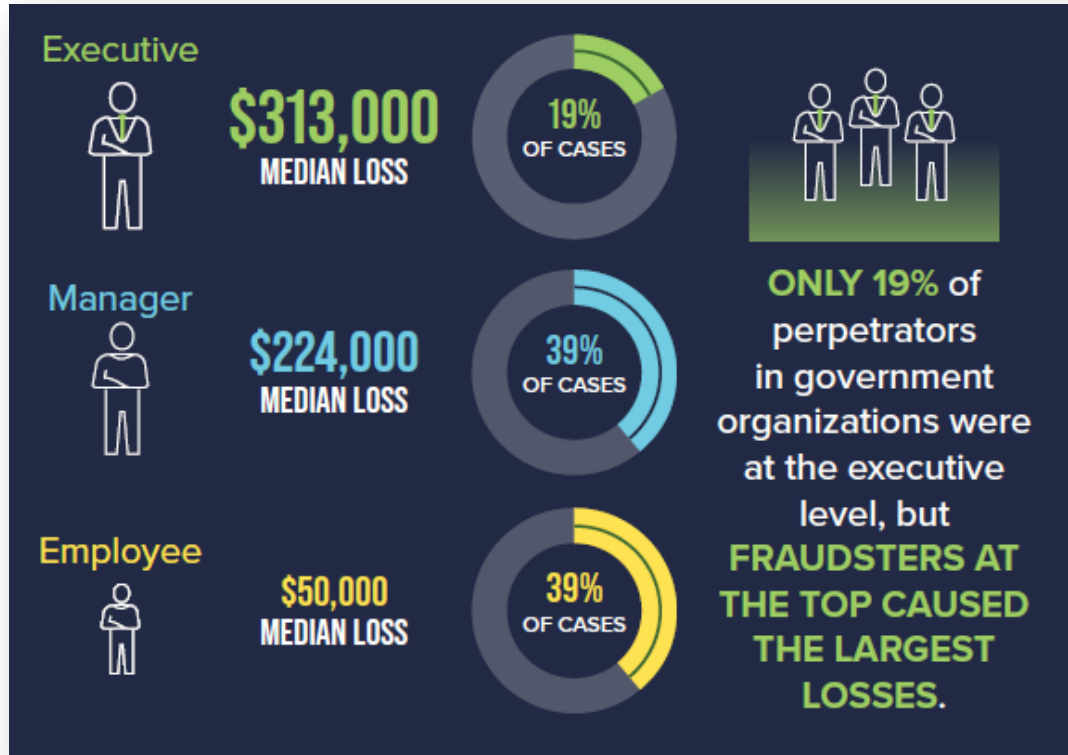


■ National ■ State/provincial ■ Local

Median losses were largest
at the **NATIONAL LEVEL**
OF GOVERNMENT



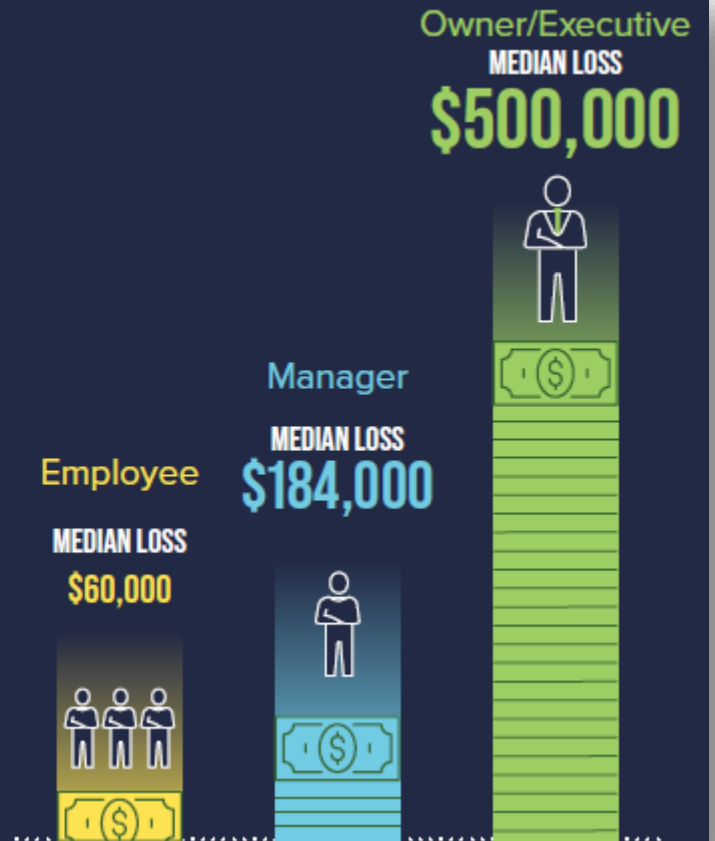
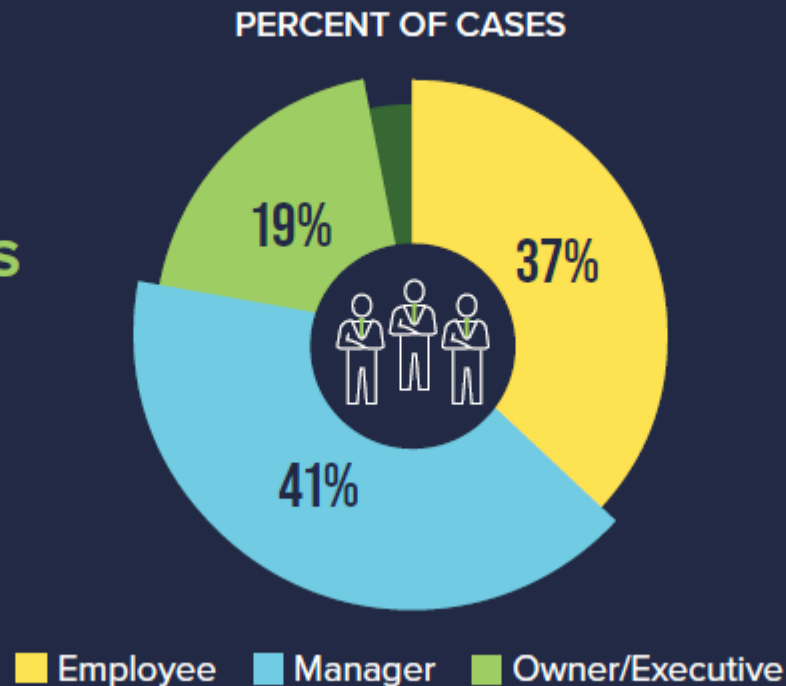
WHO COMMITS OCCUPATIONAL FRAUD IN GOVERNMENT ORGANIZATIONS?



LEVEL OF AUTHORITY



Most fraudsters were employees or managers, but **FRAUDS PERPETRATED BY OWNERS AND EXECUTIVES WERE THE COSTLIEST.**

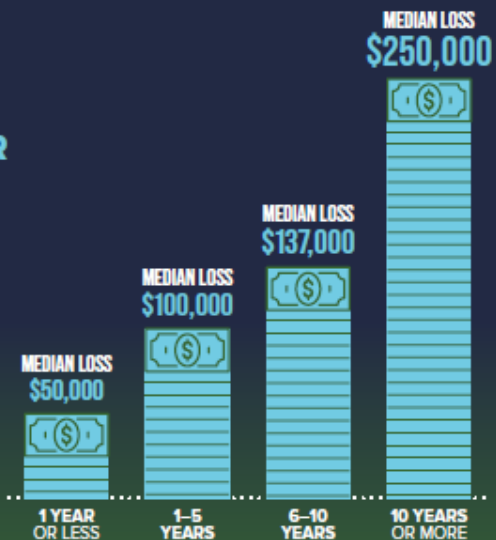


PROFILE OF A FRAUDSTER

PROFILE OF A FRAUDSTER

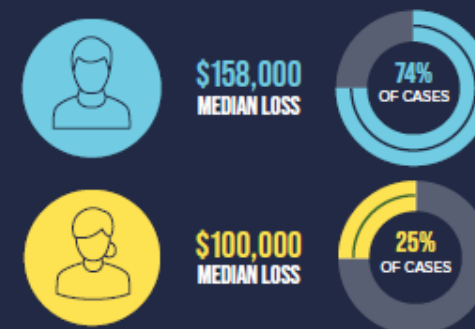
TENURE

THE LONGER a fraudster has worked for an organization, **THE MORE COSTLY** their fraud.



GENDER

WOMEN committed fewer frauds and caused lower losses.



EDUCATION

TWO-THIRDS of occupational fraudsters **HAD A UNIVERSITY DEGREE OR HIGHER.**

Fraudsters **WITHOUT A DEGREE** caused **LOWER LOSSES.**

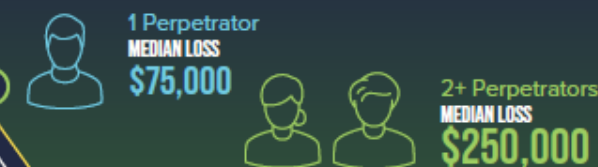
No university degree
\$100,000 MEDIAN LOSS

University degree or higher
\$200,000 MEDIAN LOSS



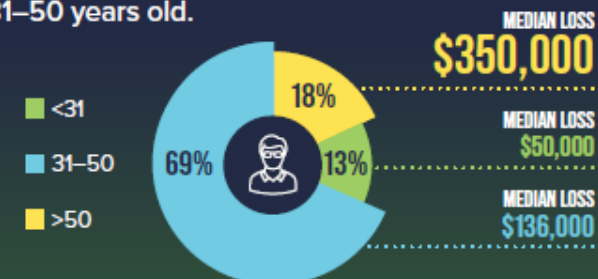
COLLUSION

FRAUDSTERS WHO COLLUDED with others caused median losses **MORE THAN 3X AS HIGH** as those who acted alone.

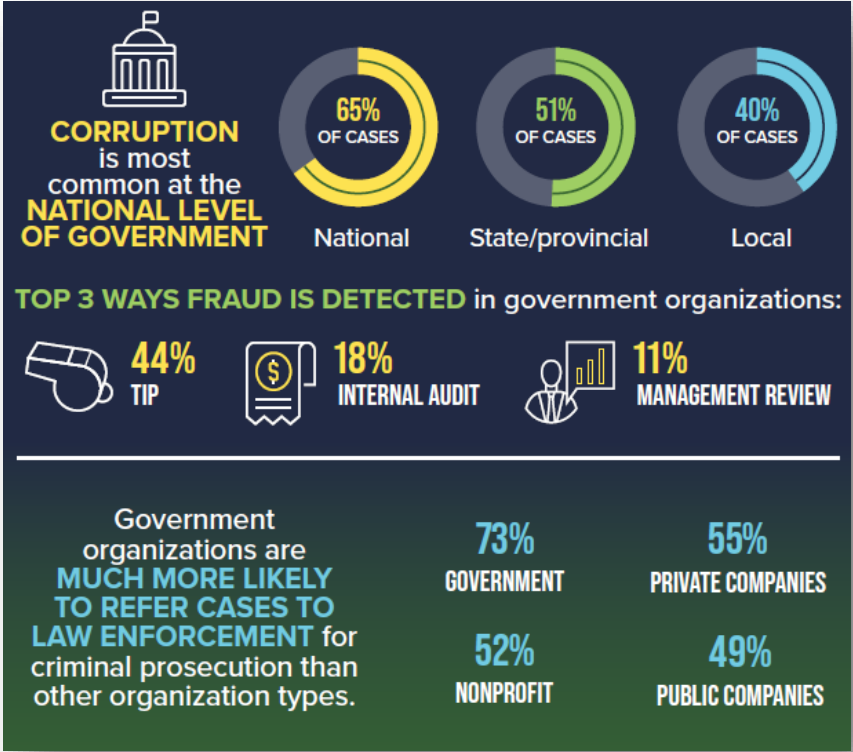
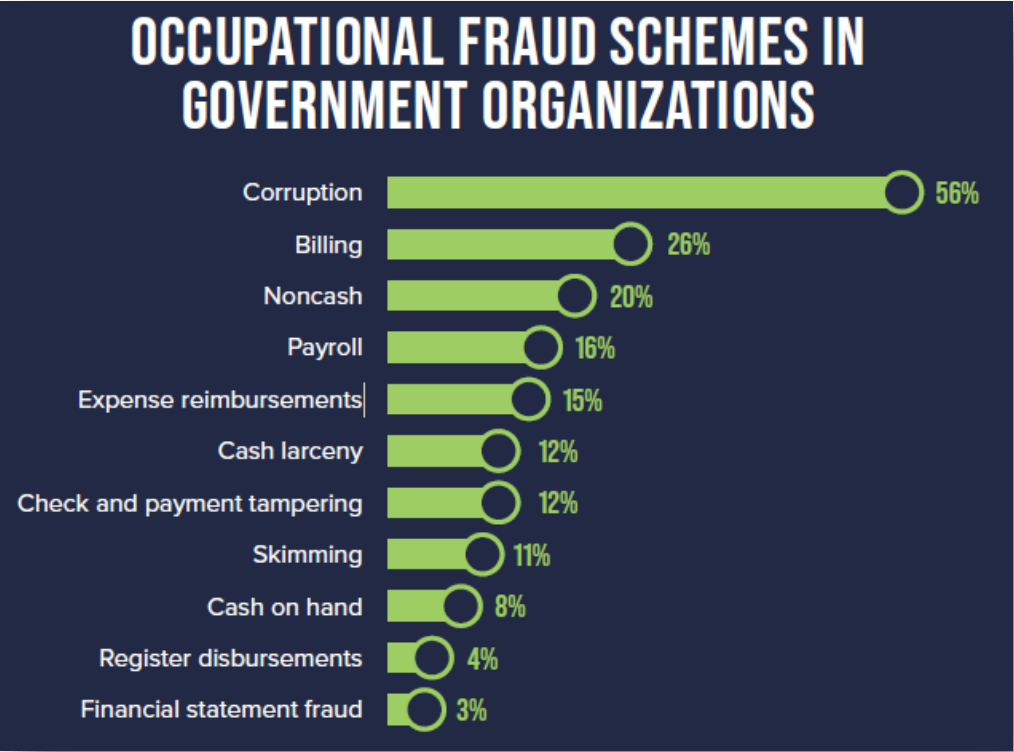


AGE **MORE THAN TWO-THIRDS** of fraudsters were 31–50 years old.

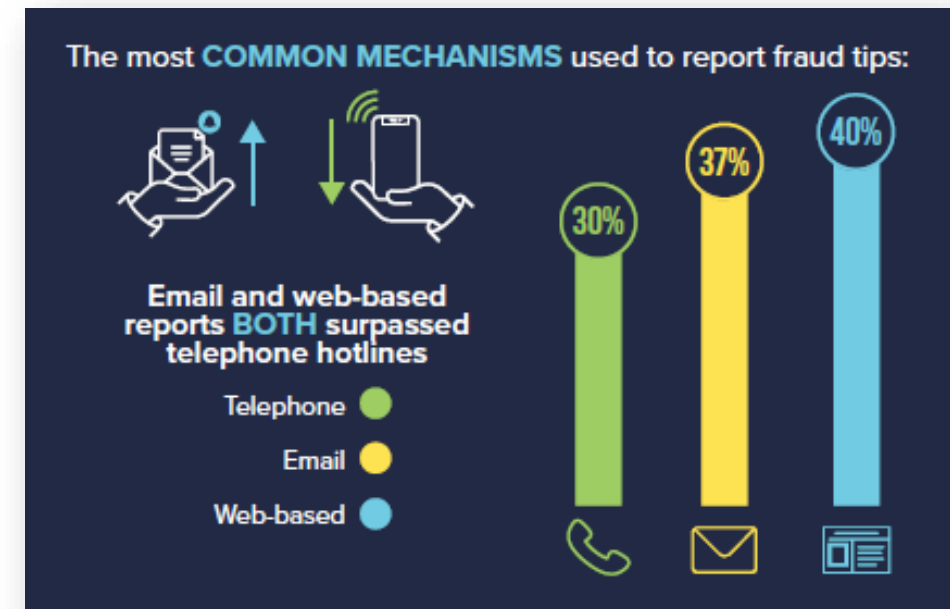
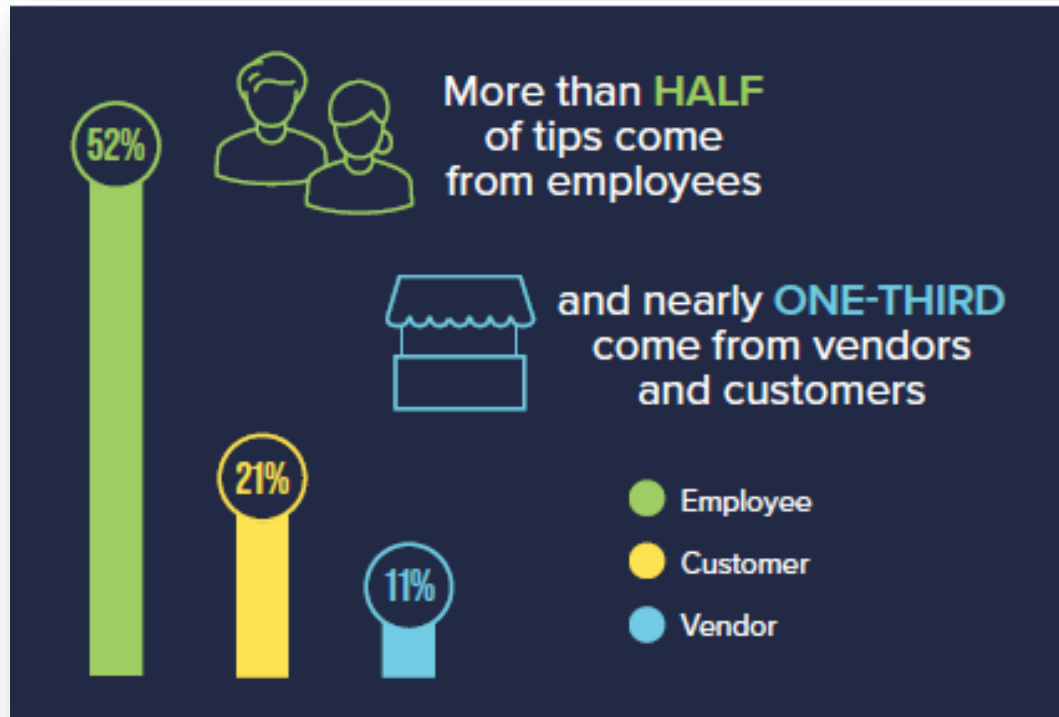
FRAUDSTERS OVER THE AGE OF 50 caused the highest median losses.



OCCUPATIONAL FRAUD SCHEMES IN GOVERNMENT ORGANIZATIONS



DETECTION



WARNING SIGNS OF FRAUD

Fraudsters commonly display distinct behaviors that can serve as warning signs of their misdeeds. Organizations can improve their anti-fraud programs by taking these behavioral red flags into consideration when designing and implementing fraud prevention and detection measures.



84% of all fraudsters displayed at least one **BEHAVIORAL RED FLAG**

FRAUDSTERS WHO DISPLAYED AT LEAST ONE behavioral red flag caused median losses that were **20% GREATER** than those who did not display any.

No behavioral red flags
\$125,000 MEDIAN LOSS



At least one behavioral red flag
\$150,000 MEDIAN LOSS

WARNING SIGNS OF FRAUD

75% of fraudsters displayed at least one of the **8 MOST COMMON** behavioral clues; each of these **BEHAVIORAL RED FLAGS** was observed in **AT LEAST 10%** of cases.



FRAUDSTERS LIVING BEYOND THEIR MEANS has consistently been the **MOST COMMON BEHAVIORAL RED FLAG** since we began tracking this data in 2008.

FRAUD AWARENESS TRAINING

THE IMPORTANCE OF PROVIDING FRAUD AWARENESS TRAINING

Providing fraud awareness training to staff at all levels of an organization is a vital part of a comprehensive anti-fraud program. Our study shows that training employees, managers, and executives about the risks and costs of fraud can help reduce fraud losses and ensure frauds are caught more quickly.

A GROWING PERCENTAGE OF ORGANIZATIONS ARE PROVIDING FRAUD AWARENESS TRAINING FOR THEIR STAFF



THE IMPORTANCE OF PROVIDING FRAUD AWARENESS TRAINING

Organizations that **DID NOT PROVIDE** fraud awareness training lost nearly **2X MORE.**

TRAINING BOTH employees and managers/executives



TRAINING NEITHER employees nor managers/executives



My recommendations:

- The risk of fraud should be an ongoing open discussion at your municipality-the more it is discussed at all levels the more people realize your Municipality takes this risk seriously. Examples include:
 - The importance of your department and county internal controls
 - Pose the question, “where do you think our internal controls are weaker and there is a greater risk of fraud or error?”
 - Encourage them to ask questions if they are not sure why they are doing certain procedures or processes
 - Educate using information from the Association of Certified Fraud Examiners 2024 Report to the Nations (you can access on their website) and specific examples at other counties/local governments

