Fraud Risks in Local Government: An Analysis of Audit Findings

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Internal controls are the first line of defense against fraud, and according to the fraud triangle, opportunity is one of the determinants of fraud. Controls serve to reduce opportunities for fraud to occur, and to provide for early detection when it does occur. When strong controls are lacking, or when controls are in place but are not actually followed, the environment for fraud is enhanced.

Organizations of all types and sizes are subject to fraud. The 2010 Report to the Nations on Occupational Fraud and Abuse, published by the Association of Certified Fraud Examiners, is based on 1,843 fraud cases examined by its members in more than 100 countries between January 2008 and December 2009. The Report identified the entity types which were victims of fraud, as shown in Table 1:

Table 1
Fraud Victims, by Type of Organization

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Percent of Fraud Cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private companies</td>
<td>42.1%</td>
<td>$231,000</td>
</tr>
<tr>
<td>Public companies</td>
<td>32.1</td>
<td>200,000</td>
</tr>
<tr>
<td>Government</td>
<td>16.3</td>
<td>100,000</td>
</tr>
<tr>
<td>Not-for-profit</td>
<td>9.6</td>
<td>90,000</td>
</tr>
</tbody>
</table>


The Report also presented data with respect to victim size, measured in terms of number of employees, as shown in Table 2:

Table 2
Fraud Victims, by Entity Size

<table>
<thead>
<tr>
<th>Size of Organization</th>
<th>Percent of Fraud Cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 100 employees</td>
<td>30.8%</td>
<td>$155,000</td>
</tr>
<tr>
<td>100 – 999 employees</td>
<td>22.8</td>
<td>200,000</td>
</tr>
<tr>
<td>1,000 – 9,999 employees</td>
<td>25.9</td>
<td>139,000</td>
</tr>
<tr>
<td>More than 10,000 employees</td>
<td>20.6</td>
<td>164,000</td>
</tr>
</tbody>
</table>


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For small organizations (under 100 employees), the frequency of fraud cases exceeded that of larger organizations, and the median loss was comparable to that for the largest of the four size categories reported. The Report cites the limited amount of financial and human resources available for fraud prevention in small organizations as a major driver of the results. In addition, leadership of small organizations typically has closer relationships with, and trust in, their employees, and thus may engage in less oversight.

**FRAUD RISKS IN LOCAL GOVERNMENT**

The above data indicate that nearly one in six fraud cases involves a government entity, that nearly one in three involve an entity with fewer than 100 employees, and that over half involve an entity with fewer than 1,000 employees. When sorted by industry, government and public administration had the third highest number of cases, 176, following banking/financial and manufacturing (ACFE, 2010, p. 33). Thus, municipal governments, especially smaller entities below the county or city level – such as towns and villages – may be especially vulnerable to fraud. Many towns and villages are quite small and lack professional financial staff. Primary oversight is provided by an elected Town/Village Board; these elected officials are often not professional managers with a control orientation. The result is likely to be a weak control environment that provides enhanced opportunities for fraud to occur.

Previous studies (Ziegenfuss 1996, 2001) have documented that fraud is a concern in state and local governments, and that management and control systems were not well equipped to deal with it. A survey by Cox and Wichmann (1993) found that government managers rated their control systems fairly highly – 3.0 to 3.9 on a scale of 1 to 5 (superior). However, a KPMG survey found that lax controls were the most significant reason for fraud in government (Wade, 2007). Recent research by Barra (2010) found that, if fraud does occur, the amount taken will be greater if controls are present. This somewhat counter-intuitive finding reflects the fact that the presence of controls increases the employee’s cost of committing fraud, and hence requires a greater potential gain to be undertaken. Barra found that separation of duties was most effective in deterring fraud by non-managerial employees, while the presence of effective penalties was more effective in the case of fraud by managerial employees. She further found that the
effectiveness of separation of duties as a preventative control depends on the presence of
detective controls in the system and the probability that these controls will detect the fraud.

The current study examines fraud risks in towns and villages, as represented by internal
control deficiencies reported in a series of audits carried out by the New York State
Comptroller’s Office. The comptroller has fiscal oversight of all governmental entities within
the state, and regularly examines the control systems of these units. The Comptroller’s Office
employs more than 200 professional auditors, who are responsible for the audits of
municipalities, State agencies, and public authorities. Some auditors hold advanced degrees, and
many have professional certifications in the accounting and auditing fields. They include
Certified Internal Auditors, Certified Fraud Examiners and Certified Public Accountants, along
with several other certifications.

Lengthy, detailed audit reports are publicly available, providing insight into the control
issues faced by town and village governments. While the study is limited to a single state, it is
not unreasonable to believe that the findings may be representative of similar municipalities
around the country.

According to the National League of Cities, the 2002 Census of Governments identified
87,525 local government units in the United States, of which 35,933 are city, town, and village
governmental units.¹ New York State has 4,720 local governmental units. The largest single
category in New York is towns (932), followed by fire districts (867), school districts (685) and
villages (553). Thus, towns and villages are among the four most common types of local
governmental units.

TOWNS AND VILLAGES IN NEW YORK STATE

The entire land area of New York State is divided into 62 counties. These counties in
turn contain 932 towns, 62 cities, and 14 Native American reservations as non-overlapping
governing entities. New York City occupies five counties, comprising its five boroughs –
Manhattan, Brooklyn, Queens, the Bronx, and Staten Island. The remaining 57 counties are thus
subdivided into 932 towns, 61 cities, and 14 reservations. Villages are the smallest incorporated
municipal government unit in the state. Villages overlap towns; that is, villages are located

within the boundaries of one or more towns. With over 1,400 entities, towns and villages are by far the most common form of local government within New York. According to the 2010 Federal census, about 46 percent of the 19.5 million residents of New York State lived in towns and villages. When New York City is excluded, about 80 percent of the population of the remaining 57 counties lived in towns and villages. Thus, towns and villages are the local governments serving a large percentage of New York’s population.

Towns are the most common governing units within counties; they cannot cross county borders. All residents of New York who do not reside in a city or on a Native American reservation live in a town. Towns vary greatly in physical size, from 451 square miles (the Town of Webb, Herkimer County) to 0.7 square miles (Town of Green Island, Albany County). Population also has significant variation, ranging from 756,000 (Town of Hempstead, Nassau County) to 38 (Town of Red House, Cattaraugus County).

Villages lie within one or more towns; towns may or may not contain any villages. Five towns consist entirely of a single village. Of the 553 villages in the State, most lie within a single town; 70 cross town lines, and nine cross county lines. The Village of Saranac Lake lies within three towns and two counties. When formed, villages must have at least 500 residents and an area of less than five square miles. Villages are the lowest level of incorporated municipalities within the state. Informal communities, usually called “hamlets,” exist, but they do not have governance functions.

**Governance in Towns and Villages**

Towns do not have a separate executive branch of government, as the town board exercises both legislative and executive functions. There is a town supervisor who presides over the board, but who lacks veto power. The town supervisor along with the town clerk/treasurer – both typically elected positions – oversee the administrative functions of the town. Towns also have a judicial branch, previously referred to as a Justice of the Peace, but now known as Justice Court or Town Court. Fiscal governance is, therefore, a shared responsibility of the supervisor, the town clerk or treasurer, and the town board. In addition, the Justice Court has fiscal responsibilities for the funds it handles.

Villages are governed by a board of trustees, typically consisting of the mayor and four trustees. The mayor is a voting member of the board, but does not have veto power unless provided by local law. The mayor also serves as the village executive, though some larger
villages employ a full-time village manager. There also may be a judicial branch, the village Justice Court.

In addition to the local court function, towns and villages provide a variety of services to their residents, often including police services, street and highway maintenance, parks and recreation, utility (water) and sanitation (sewer and garbage) services, and others. Not all units provide all services. For example, some villages do not have a police force, but they utilize the town police. Some towns do not have a police force, but these utilize the services of the county sheriff and the state police.

Both towns and villages have the authority to levy real property taxes. Town taxes are typically integrated with the county tax, though the town may serve as collection agent. Village taxes are usually levied separately.

As municipal entities with taxing powers, towns and villages are under the general financial oversight of the state government. The state establishes many of the control and governance practices that municipalities are expected to follow. The New York State Comptroller’s Office exercises oversight in the form of municipal audits. About 40-45 towns and villages are audited annually, an audit rate of about 3 percent.

THE COMPTROLLER’S AUDIT PROCESS

Audits by the Comptroller’s Office typically cover one to several years. Since the audits are not tied to financial statements, the time periods audited need not correspond with the municipality’s fiscal year(s). After a preliminary examination, the auditors select areas worthy of detailed examination; these areas vary from audit to audit. Each audit contains a description of the methodology employed. The example in Figure 1 is drawn from the 2006 audit of the Town of Catlin in Chemung County, covering the period January 1, 2002 to May 15, 2006, a period of 52.5 months.

Figure 1
Example of Audit Methodology

<table>
<thead>
<tr>
<th>AUDIT METHODOLOGY AND STANDARDS</th>
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We reviewed the financial operations of the Clerk to determine if she properly accounted for all moneys received and disbursed in her official capacity for the period January 1, 2002 to May 15, 2006.
In order to accomplish our objective we interviewed appropriate Town officers and employees, observed Clerk operations and tested selected accounting and real property tax records, reports and transactions. We also obtained information from the Town’s bank pertaining to the composition of certain deposits.

Clerk Fees

We reviewed source documents and reports relating to dog licenses, marriage licenses, building permits and zoning fees issued during our audit period. We verified that fees were recorded by tracing them from source records to press-numbered duplicate receipts and to the cash receipts book. We verified that fees were remitted to the proper parties by comparing amounts received on the cash receipts sheets to the Clerk’s monthly reports and reports made to Chemung County and New York State Agencies.

We judgmentally selected eight bank deposits and compared the composition of the deposit detail (as provided by the Town’s bank) to the detail recorded in the cash receipts book. We verified that disbursements were supported and proper by reviewing cancelled checks, check registers, and bank statements, and we determined whether remittances of clerk fees were made on a timely basis. We verified that checks were accounted for. We compared known liabilities to available cash assets for the Clerk’s bank account as of May 15, 2006.

Real Property Taxes

We reviewed records to determine if the Clerk properly collected and remitted all Town and County real property taxes in 2004. We reviewed all 2004 real property tax bills and corresponding tax receipts entries. We compared dates taxes were received as noted on duplicate tax receipt forms and in the tax receipts register to deposit dates. We verified that interest and penalties on delinquent taxes were collected properly by recalculating such charges and comparing to amounts actually recorded. We verified that all disbursements were proper and supported by reviewing cancelled checks, check registers and bank statements. We determined if the Clerk properly settled 2003, 2004 and 2005 taxes with the Chemung County Treasurer by reconciling total taxes levied, collected and unpaid to tax collector settlement sheets. We judgmentally selected 19 bank deposits made in 2004 and compared the composition of the deposit detail (as provided by the Town’s bank) to the cash receipts book.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to adequately assess those municipal operations within our audit scope. Further, those standards require that we understand the municipality’s management controls and those laws, rules and regulations that are relevant to the municipality’s operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

THE CURRENT STUDY

This study analyzes 307 audit reports for towns and villages issued by the New York State Comptroller during the seven years 2003-2009. These 307 reports resulted in 234 usable audits that reported deficiencies in internal controls, as shown in Table 3:

Table 3
Population of Audits Analyzed

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>Number of Audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total audits of towns and villages, 2003-09</td>
<td>307</td>
</tr>
<tr>
<td>Less: Budget reviews of towns and villages</td>
<td>(48)</td>
</tr>
<tr>
<td>Audits of governance and internal controls</td>
<td>259</td>
</tr>
<tr>
<td>Less: Audits with no recommendations for improvements in controls</td>
<td>(24)</td>
</tr>
<tr>
<td>Less: the link to one village audit was inoperable, and hence no results are reported for that village</td>
<td>(1)</td>
</tr>
<tr>
<td>Usable audits reporting deficiencies, and recommendations for improvements, in controls</td>
<td>234</td>
</tr>
</tbody>
</table>

Of the 307 audits, 48 audits were excluded because they consisted solely of reviews of the unit’s annual budget, addressing the adequacy of the budget process, the reasonableness of estimates, and other matters; they contained no assessment of the unit’s control system. Twenty-four audits were “clean opinions,” in that controls were judged to be satisfactory and operating effectively. One audit report was inaccessible due to a bad link. This left 234 audit reports each containing between one and 36 recommendations for the correction of control and governance deficiencies. A total of 1,593 recommendations were included, an average of 6.8 per audit.

The scope of audits varied considerably. Some addressed a broad range of the municipality’s operations and controls, while other focused on a single element, such as the police department or a particular capital project. Also, certain control deficiencies may be cited more than once in a given report. For example, lack of segregation of duties might be identified in the clerk/treasurer operation, the justice court, and the water and sewer department.

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2 Audit reports for towns are available at [http://www.osc.state.ny.us/localgov/audits/towns/index.htm](http://www.osc.state.ny.us/localgov/audits/towns/index.htm); audit reports for villages are at [http://www.osc.state.ny.us/localgov/audits/villages/index.htm](http://www.osc.state.ny.us/localgov/audits/villages/index.htm). Reports for the years 2003-05 are no longer on the site; each year, the sixth-oldest year is dropped off. Copies of reports no longer on site are available from the author.
Many of these entities are indeed small. While data as to number of employees was not available, two surrogates for size are the population base and the size of the tax levy. Of the 234 towns and villages in our sample, 51 (22%) had fewer than 1,000 residents, and 128 (55%) had fewer than 3,000. Regarding the annual tax levy of the town or village, 74 (32%) had less than $500,000, and 127 (54%) had less than $1,000,000. Both indicate that many municipalities lack the resources to have professional-quality internal control systems.

**FINDINGS**

**Lack of Controls**

The primary way to prevent fraud is to reduce opportunities for fraud to occur. One major tool of prevention is the presence of a strong system of internal controls. Controls need to exist, be operational, and be subject to review and oversight in order to be effective. The audits addressed all of these areas.

The first requirement of a system of internal controls is that controls actually exist, and are documented in written policies and procedures. There were 145 citations of deficiencies here (10.4% of the total deficiencies), ranging from a need to establish controls, to a need for better controls, to a need for written policies and procedures to make the controls operational.

The other end of the process is reporting and oversight. A good control system provides regular reporting to one or more oversight bodies, who effectively review the reports. In the case of towns and villages, the first line of oversight is the Town/Village Board. Secondary oversight is provided at the state level, both via reporting requirements and via the state’s audit function. In the 234 audits studied, there were 127 (9.2%) recommendations for improved reporting and oversight.

Before considering specific control areas, the above results suggest there is considerable room for improvement in both the existence and documentation of an adequate control system and in the reporting and oversight function.

**Basic Control Procedures**

Five elements are typically set forth as constituting the basic elements of a system of internal controls. Each of these elements has a role in preventing fraud:

1. Segregation of duties, separating incompatible tasks such as cash handling and record-keeping.
2. A system of authorizations for transactions to occur.
3. Independent checks on transactions and records.
4. Physical safeguards of assets.
5. Adequate documents and records.

These five elements constitute the foundation of an internal control system, designed to insure that transactions are valid and are properly reflected in organizational records, so that the organization’s assets are protected and are properly used. Absence of any of these elements enhances the opportunity for fraud to occur. Most organizational fraud is committed by inside individuals, so these controls are designed to minimize such opportunities, or to quickly detect fraud if it does occur. Each of these five elements was cited as a deficiency in many of the 234 town and village audits, accounting for 42.8% of all control deficiencies cited.

Lack of segregation of duties was the focus of 68 (5.0%) recommendations. Generally, the deficiency was that the same person handled cash and maintained records. Recognizing that many of these entities are small, with limited personnel, upon finding a lack of segregation auditors then looked for the presence of compensating controls. For example, expanded review and oversight by the Town/Village Board might be expected where small staff size vests too many duties in one or two people. If such compensating controls were found, the control system would be judged satisfactory; otherwise a deficiency was cited.

Municipalities in New York must pre-audit and approve claims before expenditure payments are made. Authorization deficiencies occur where this process is lacking or is not working properly, as was the case in 65 (4.7%) audits. Additionally, nine (0.6%) audits found a failure to certify payrolls.

Independent checks take the form of reconciliations and of audit processes. A need for reconciliations of various kinds was cited 118 (8.5%) times – in the justice court operations (57), by the clerk-treasurer (primarily a lack of bank reconciliations, 31), in water and sewer operations (reconciling both customers’ accounts and water usage, 27), and in property tax collections (3). Towns and villages in New York are not required to have an independent audit, though many do. Where an external auditor is not engaged, the Town/Village Board is expected to perform that function. Lack of an adequate audit was cited 110 times (7.9%).

Physical safeguard concerns take various forms, in total accounting for 112 (8.1%) of the control deficiencies. Lack of timely deposit of cash receipts was cited 45 times; failure to make
such deposits – keeping cash on hand for extended periods – exposes funds to greater risk of loss. Various inventory issues were cited in 35 audits. Inventory concerns for towns and villages include fuel inventories, trash bags that are sold to constituents to facilitate garbage pickup, and other consumables, as well as fixed assets generally; deficiencies might occur in record-keeping, reconciliations, and/or physical protection. Finally, security of the information technology system was cited in 32 audits, primarily in the last two years of the seven-year study period. Among the security concerns were access rights, password policies, physical security of the equipment, adequate backup of records, and provisions for disaster recovery.

Finally, inadequate records were the subject of 117 recommendations (8.4%), primarily in the clerk-treasurer’s office, but also in the justice court, payroll office, and property tax receiver’s office.

Thus, deficiencies involving the five basic control procedures were the subject of 599 recommendations by the state auditors, 42.8% of the total. So many deficiencies in the five basic elements of an internal control system signify that many towns and villages are at high risk for fraud to occur.

**Controls against Expenditure Fraud**

The 2010 ACFE Report to the Nations found that 67% of the frauds\(^3\) in government and public administration involved expenditure issues: billing frauds, check tampering, payroll fraud, and expense reimbursement (ACFE, 2010, p. 34). In addition to the presence of adequate controls in general and the five basic control procedures discussed above, several additional specific controls help to prevent expenditure fraud. Purchases need to be properly authorized and ordered from appropriate and cost-effective vendors. Legal requirements mandate competitive bidding for certain purchases, and the municipality should have specific purchasing policies in place for acquisitions not requiring bids. In addition, the acquisition of professional services should usually be based on a request for proposals, and should be documented by a written agreement. Auditors cited 45 towns and villages for inadequate procurement policies, or non-adherence to existing policies. Lack of compliance with competitive bidding requirements was cited 29 times, deficiencies in the acquisition of professional services 20 times, and

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\(^3\) Percentages here and in subsequent citations add to more than 100%, as many fraud cases involve multiple types.
contracting issues 12 times. In addition, as included above, there were 65 cases of inadequacies in the processing and approval of claims for payment.

A second major area of expenditure controls is the payroll and benefits area. There were 43 recommendations in response to deficiencies here, most involving issues of qualification for, and calculation of, benefits. Additional issues included calculation of pay, authorization and calculation of overtime or extra compensation, and the determination of separation payments.

Finally in the category of expenditure controls, there were nine recommendations regarding deficiencies in employee reimbursement policies, nine on vehicle use policy, six relating to the use of municipal credit cards, and four on cell phone policy. In total, 165 recommendations were made to enhance controls over public expenditures.

**Controls against Revenue Fraud**

The 2010 ACFE Report to the Nations found that 67% of the frauds in government and public administration involved revenue issues, primarily skimming and cash larceny (ACFE, 2010, p. 34). In addition to the presence of adequate controls in general and the five basic control procedures discussed above, several specific controls help to prevent revenue fraud. Municipalities draw revenues from various sources, some of which may be paid in cash. Cash receipts are especially vulnerable to fraud. One basic control is the issuance of press-numbered receipts when payments are received. Lack of such receipts was cited in 25 audits. Additionally, 23 recommendations related to the handling of parking tickets, and six to the handling of property tax collections. Another 44 found various other issues with the municipalities’ cash handling, banking, and investment processes.

**Corruption**

The 2010 ACFE Report to the Nations found that 32.4% of the frauds in government and public administration involved corruption issues (ACFE, 2010, p. 34). Corruption is a form of organizational fraud involving self-dealing, conflicts of interest, bribes, kickbacks, and the like. Many of the procurement and claims processing controls discussed earlier are intended to help prevent these occurrences. Ten municipalities were also cited for conflict of interest issues, usually involving purchases from entities connected to members of the Town/Village Board.

**Other Control Issues**

As noted earlier, many towns and villages are small and lack professional staff to handle the financial functions. As a result, training of personnel regarding controls and procedures is
important. There were 18 recommendations for improved training among the 234 audits. Deficiencies in the administration of grant funds was cited 20 times. Some municipalities operate business type activities, such as airports, landfills, marinas and the like; 46 recommendations dealt with these operations. Finally, 78 recommendations covered a broad range of control issues not classified above.

Was Fraud Occurring?

While the comptroller’s audits were not specifically seeking fraud, they often found cases where funds appeared to be missing, or where cash shortages were evident. Some of these occurrences may be due to poor record-keeping, making reconciliation difficult, and some may be due to fraud. Where fraud appeared to be a possibility, the audit reports recommended that recovery actions be undertaken, and sometimes recommended that the matter be referred to law enforcement authorities. In all, 69 instances found missing funds or unexplained cash shortages, or recommended recovery actions for inappropriate payments. These amounted to 5.0% of the control deficiencies cited. These 69 occurrences occurred in 59 different municipalities, representing 25% of the 234 towns and villages where deficiencies of some sort were found. While the ultimate disposition of these cases is not reported, numerous instances of at least potential fraud did surface in the audits.

Summary of Audit Findings

Over the seven-year period 2003-09, 215 of the state’s 1,485 towns and villages (14.5%) were audited by the state comptroller’s office (in 19 cases, an entity was audited more than once during the seven-year period, thus there were 234 audits of 215 distinct entities). The municipal control environment, designed in part to prevent fraud, was often found to be weak. Of 258 control audits, only 24 (9%) were deemed to have a good control system that was operating effectively, hence leading to a “clean” audit opinion (no recommendations for improvement). The remaining 234 audits (91%) identified control deficiencies and contained recommendations for improvement, ranging in number from 1 to 36 and averaging 6.8 recommendations per audit. Not all recommendations involved control deficiencies, but most did (some were budgeting or other management issues). A summary of the deficiencies discussed in this paper appears in Table 4:
Table 4  
Summary of Internal Control Deficiencies

<table>
<thead>
<tr>
<th>Type of Control Deficiency</th>
<th>Number of Recommendations</th>
<th>Percent of Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>INADEQUATE CONTROLS (controls lacking, need improvement, or need written policies and procedures to implement)</td>
<td>145</td>
<td>10.4%</td>
</tr>
<tr>
<td>INADEQUATE REPORTING AND OVERSIGHT (at Board level or higher)</td>
<td>127</td>
<td>9.2</td>
</tr>
<tr>
<td>BASIC ELEMENTS OF CONTROL:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segregation of duties</td>
<td>68</td>
<td>5.0</td>
</tr>
<tr>
<td>Proper authorization (deficiencies in claims approval and payroll certification)</td>
<td>74</td>
<td>5.3</td>
</tr>
<tr>
<td>Independent checks (deficiencies in reconciliation process, lack of audit)</td>
<td>228</td>
<td>16.4</td>
</tr>
<tr>
<td>Physical security (lack of timely cash deposits, inventory issues, and IT security)</td>
<td>112</td>
<td>8.1</td>
</tr>
<tr>
<td>Adequate records and documents</td>
<td>117</td>
<td>8.4</td>
</tr>
<tr>
<td>OTHER EXPENDITURE CONTROLS (procurement policies, lack of competitive bidding, professional service acquisition, payroll issues, reimbursement policy, policies re vehicle use, credit cards, and cell phones)</td>
<td>177</td>
<td>12.7</td>
</tr>
<tr>
<td>OTHER REVENUE CONTROLS (lack of proper receipts, issues with parking tickets, property tax collections, cash handling, and banking)</td>
<td>98</td>
<td>7.1</td>
</tr>
<tr>
<td>CORRUPTION (conflicts of interest)</td>
<td>10</td>
<td>0.7</td>
</tr>
<tr>
<td>OTHER (need for training, grants administration, business operations, and various others)</td>
<td>162</td>
<td>11.7</td>
</tr>
<tr>
<td>FINDINGS OF POTENTIAL FRAUD (missing funds, unable to reconcile, recommendations for recovery actions)</td>
<td>69</td>
<td>5.0</td>
</tr>
<tr>
<td>TOTAL FRAUD-RELATED INTERNAL CONTROL RECOMMENDATIONS</td>
<td>1,387</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
The remaining 206 recommendations dealt with various budgetary and financial management matters.

**CONCLUSION**

As noted at the outset, all entities are at risk for fraud. Towns and villages are especially at risk, as they tend to be small organizations with limited personnel. Such financial personnel as exist are often clerical rather than professional. Primary oversight is in the hands of elected officials – town and village board members – who may have little expertise, training, experience, or interest in internal controls. Hence, weak control systems are not uncommon. The findings of the New York State comptroller’s audits over a seven-year period demonstrated that internal control deficiencies abound in towns and villages. Lack of effective controls coupled with weak oversight increase local governments’ susceptibility to fraud. In 25% of the towns and villages, findings suggested that fraud may have occurred.
REFERENCES


