



*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

# Ethical Challenges and Fraud Risks Facing Governments

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.



The information herein has been provided by CliftonLarsonAllen LLP for general information purposes only. The presentation and related materials, if any, do not implicate any client, advisory, fiduciary, or professional relationship between you and CliftonLarsonAllen LLP and neither CliftonLarsonAllen LLP nor any other person or entity is, in connection with the presentation and/or materials, engaged in rendering auditing, accounting, tax, legal, medical, investment, advisory, consulting, or any other professional service or advice. Neither the presentation nor the materials, if any, should be considered a substitute for your independent investigation and your sound technical business judgment. You or your entity, if applicable, should consult with a professional advisor familiar with your particular factual situation for advice or service concerning any specific matters.

CliftonLarsonAllen LLP is not licensed to practice law, nor does it practice law. The presentation and materials, if any, are for general guidance purposes and not a substitute for compliance obligations. The presentation and/or materials may not be applicable to, or suitable for, your specific circumstances or needs, and may require consultation with counsel, consultants, or advisors if any action is to be contemplated. You should contact your CliftonLarsonAllen LLP or other professional prior to taking any action based upon the information in the presentation or materials provided. CliftonLarsonAllen LLP assumes no obligation to inform you of any changes in laws or other factors that could affect the information contained herein.

# Learning Objectives

At the end of this session, you will be able to:

- Describe key concepts in ethics
- Identify common ethical challenges facing government officials
- Identify recent cases of fraud in state and local governments
- Identify key concepts in fraud awareness and prevention



# Speaker Introduction

Signing Director  
*CLA's Forensics Practice*

Emilie has more than 23 years of experience in litigation, forensic accounting engagements, fraud investigations, and internal control assessments for governmental, nonprofit, and for-profit entities. She has extensive experience in client and third-party data extractions, database reconstructions, normalization and validation techniques, and performing research, reconciliation and data analytics in support of specialized forensic investigation services.



**Emilie  
Deveraux**  
CFE





# Ethics in Business

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer).  
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# Ethical Leaders Start at Home

## Personal Ethics

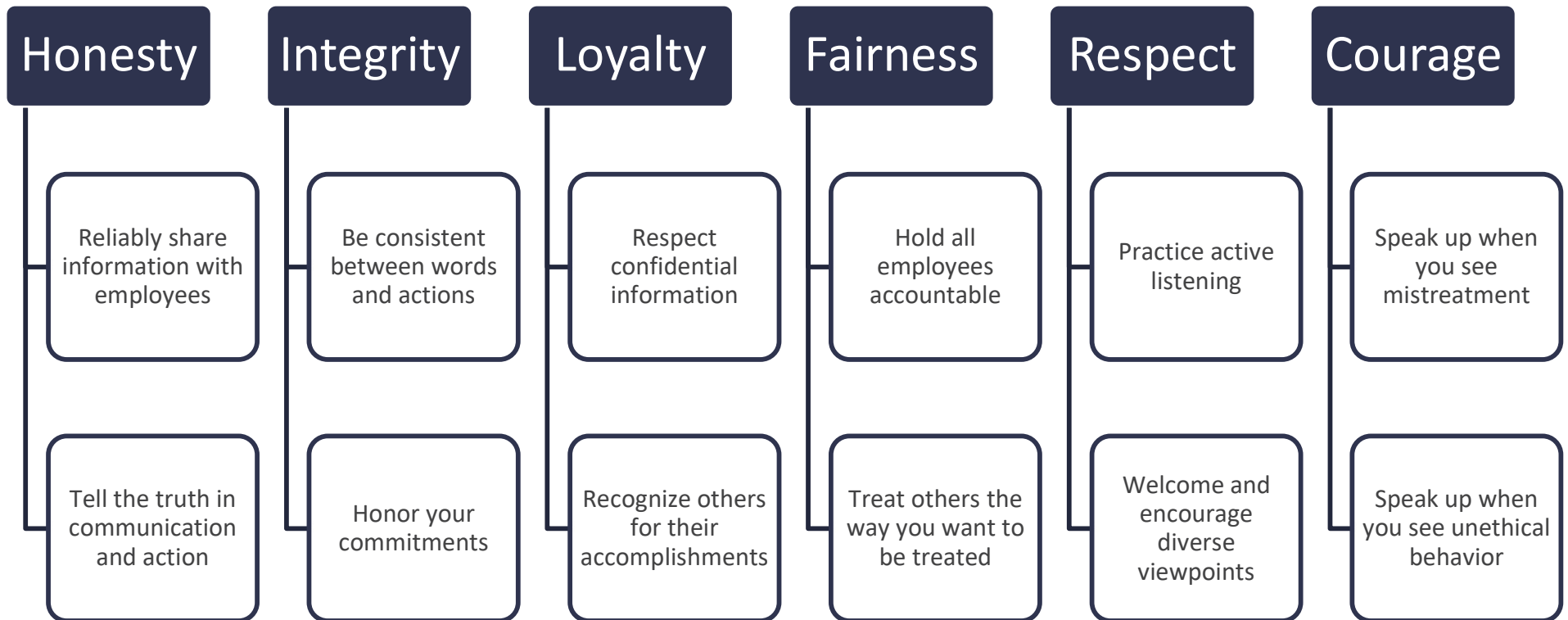
- Values
- Moral choices
- What we do when no one is looking
- Can change over time or by situation or role
- Defined by:
  - Faith, spirituality
  - Upbringing, family
  - Laws, civil rights, academia

## Business Ethics

- Personal Ethics
  - Values of the employees
- Organizational Culture
  - Tone at the top
  - History of the company
  - Perception of what is acceptable
- Organizational Systems
  - Policies and rules in place
  - Regulatory oversight
  - Code of ethics and how it's monitored and enforced



# Principles of Ethics in Business



# Why is Ethics Important in Business?

- Helps employees make good decisions; leads to happier, more satisfied employees
- Reduces liability
- Ensures high quality customer service
- Most importantly, keeps everyone off the front pages!



This Photo by Unknown Author is licensed under [CC BY](#)





# Breakdowns in Business Ethics

## Moral Muteness

- Not speaking up when witnessing unethical behavior
- Unwillingness to discuss ethics
- Discussing practices/decisions in a way that obscures your moral position and ethical beliefs (Bird & Walters, 1989)

## Ethical Fading

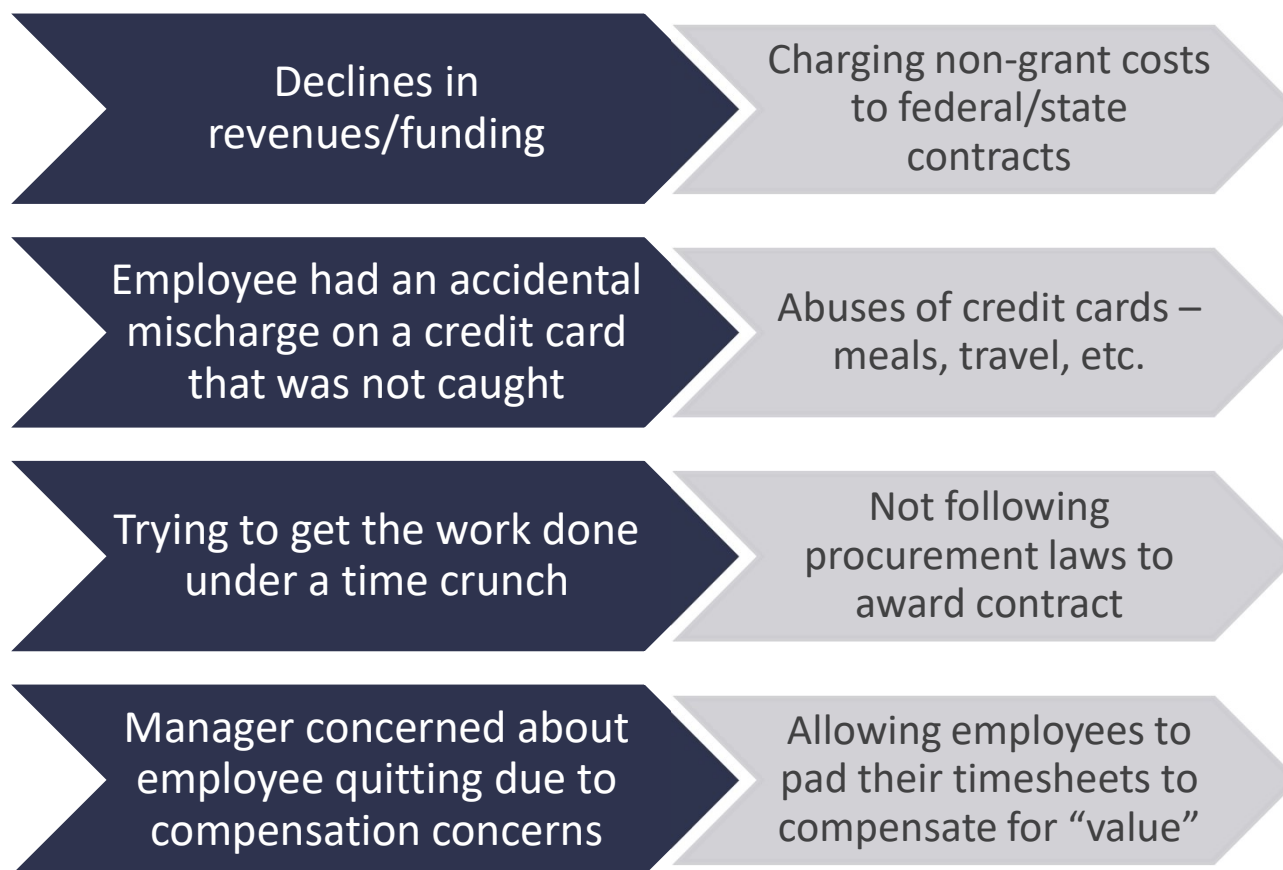
- Erosion of the ethical standard of a business in which employees become used to engaging in or condoning bad behavior

## Situational Influence

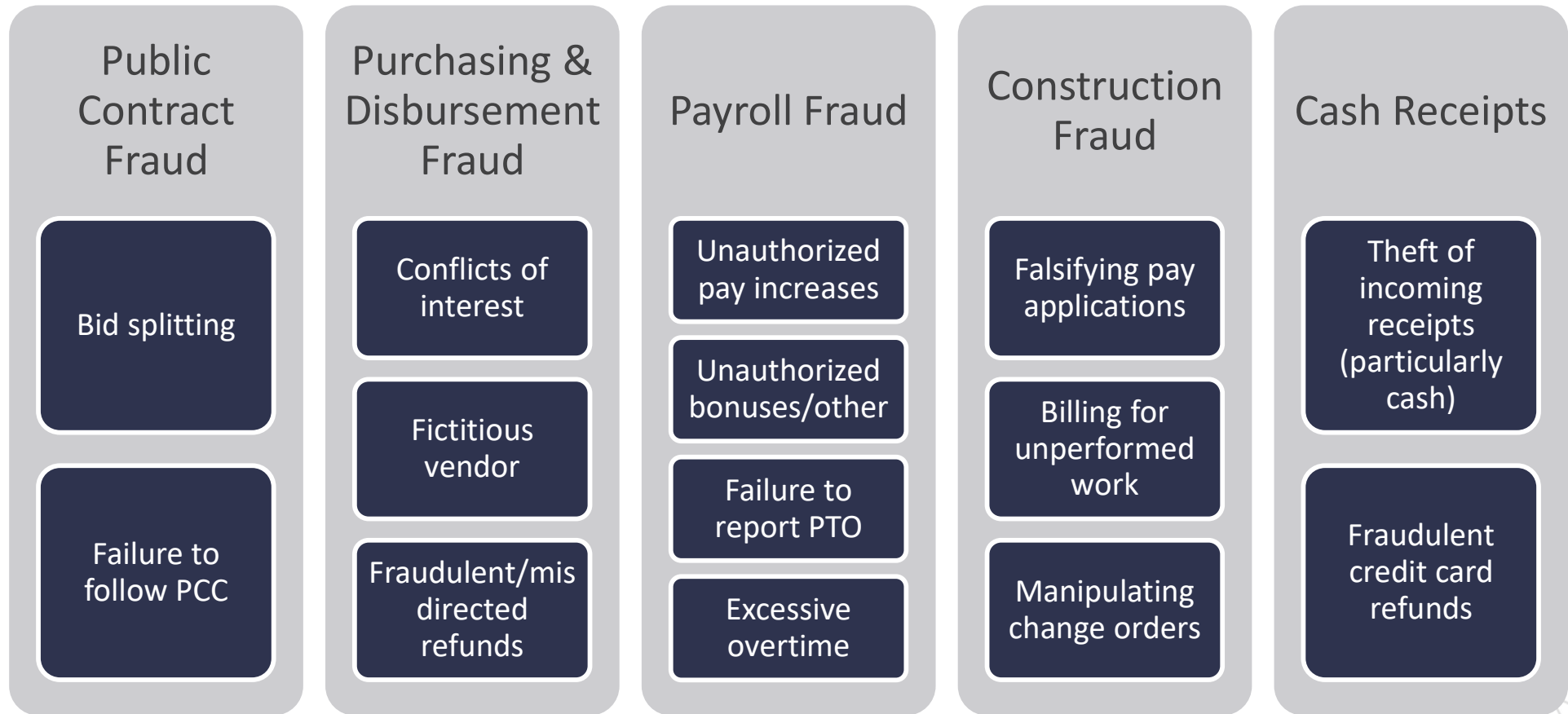
- Intent to please authority figure
- Focused on achieving a goal



# Examples of Ethical Challenges Leading to Fraud



# Fraud in State and Local Governments





# Recent Cases of Fraud in State & Local Governments

## Case Study #1

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer).  
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# Tribal Housing Department

- Allegations that Covid Relief funds were being mismanaged
- Allegation that funds were used to renovate homes for relatives and friends of housing employees rather than qualified tribal members
- Allegations of exorbitant renovations
- Allegations of collusion with and kick-backs from contractors



# Factors Leading to Fraud





# Recent Cases of Fraud in State & Local Governments

Case Study #2

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer).  
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

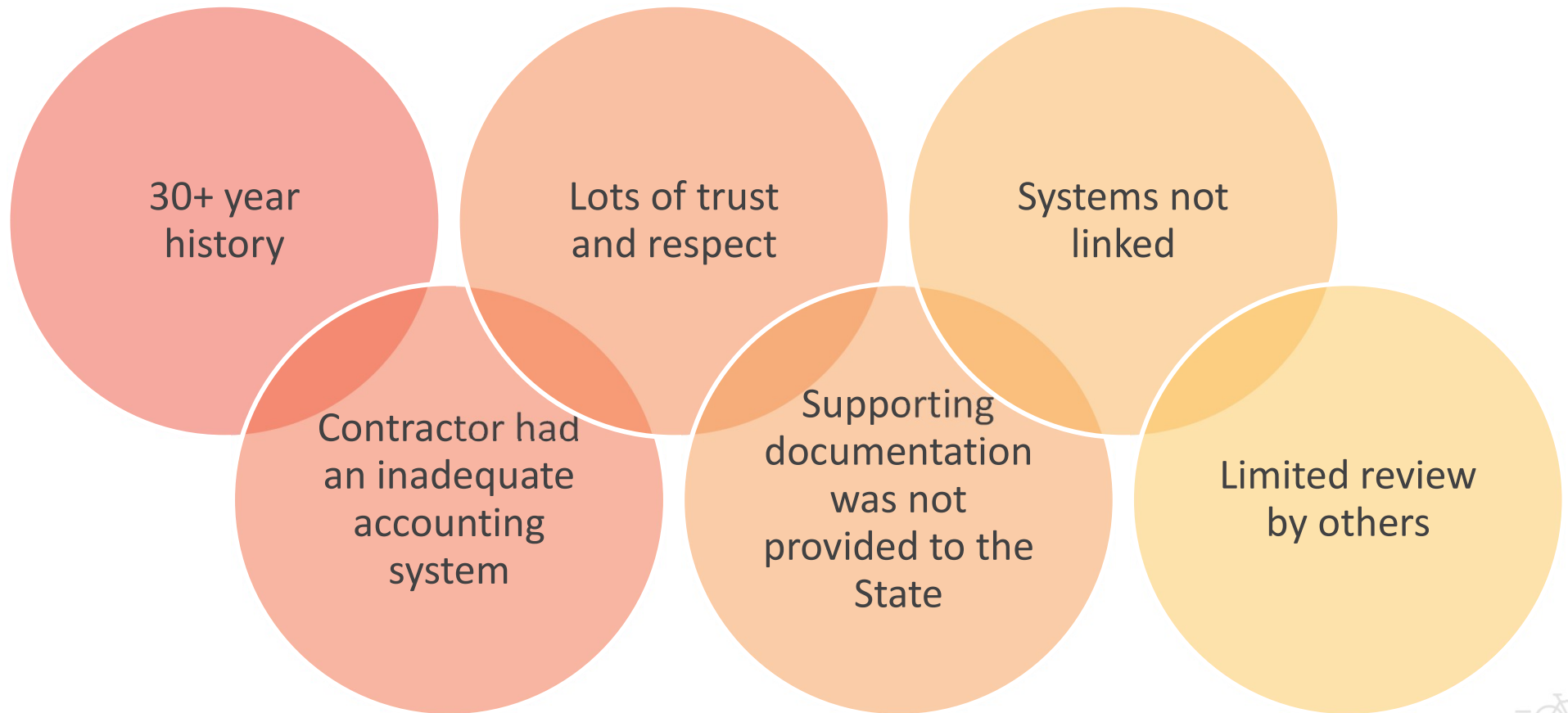
# Overview – Transportation Coalition Service Contractor

- Contractor operated demand response transportation for the City as well as for urbanized areas
- Received payment for this contract by way of reimbursement requests submitted to the City and through the State Department of Transportation as a sub-recipient.
- The City owned the busses, and the contractor employed drivers and administrators to administer the bus route services
- Contractor was submitting reimbursement requests for the same expenses to both the City and the State resulting in \$285,000 in duplicate reimbursements paid to the contractor





# Factors Leading to Fraud



# Discovery of Discrepancies

Discovered because of a Single Audit performed by the FTA

Forensic audit conducted by the City identified certain expenses that were duplicated

Prompted a more complete investigation of all reimbursement requests and payments



# Forensic Investigation

Interview of staff at the City and the State transportation departments

Analysis of financial records, reimbursement requests and support provided for reimbursement

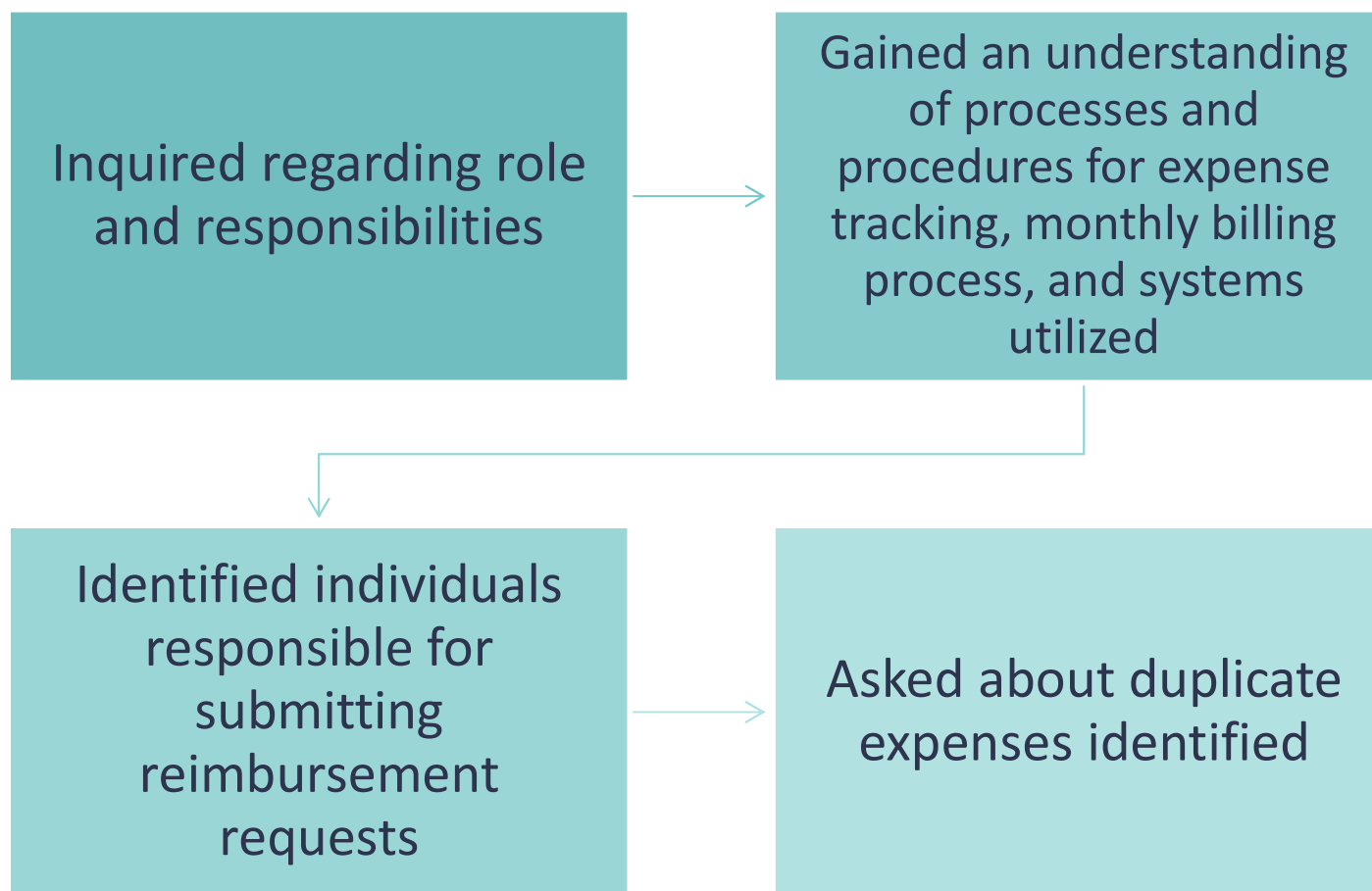
Identification of expenses submitted to both entities for reimbursement

Interview of subject

Report of findings, including recommendations



# Interview of Subject



# Conclusions

Identified over  
\$285,000 in  
duplicated  
expenses

- Reimbursement requests made for the same expenses to both the City and State
- Total expenses requested and reimbursed from both jurisdictions exceeded the total expenses in contractor's P&L for 12 of the 16 months

New procedures  
were  
implemented

- Require supporting documentation for all expenses
- Communication between jurisdictions prior to reimbursement of expenses
- Verification that vendors have adequate accounting systems in place to support any and all expenses associated with the project

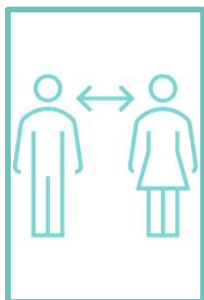




# Key Concepts in Fraud Awareness & Prevention

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer).  
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# Recommendations to Mitigate Fraud Risk



At least two people are looking at every transaction (adequate segregation of duties)



Ensure secondary approval by someone with knowledge of the business area



Trust is NOT an internal control – ensure proper and sufficient supporting documentation for all transactions



Ensure regular and timely reconciliation of asset accounts; ensure the reconciliations are reviewed



# Recommendations to Mitigate Fraud Risk



Conduct regular monitoring and management review



Mandatory job rotation and/or vacations



Implement the use of positive pay with your bank (if available, include payee/account name positive pay)



EFT/ACH/Wires – Third-party services that verify bank account information



Require confirmation when vendor change requests are received



Ensure adequate IT and system controls (multi-factor authentication, firewalls, etc.)





# Median Loss & Duration by Detection Method

FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

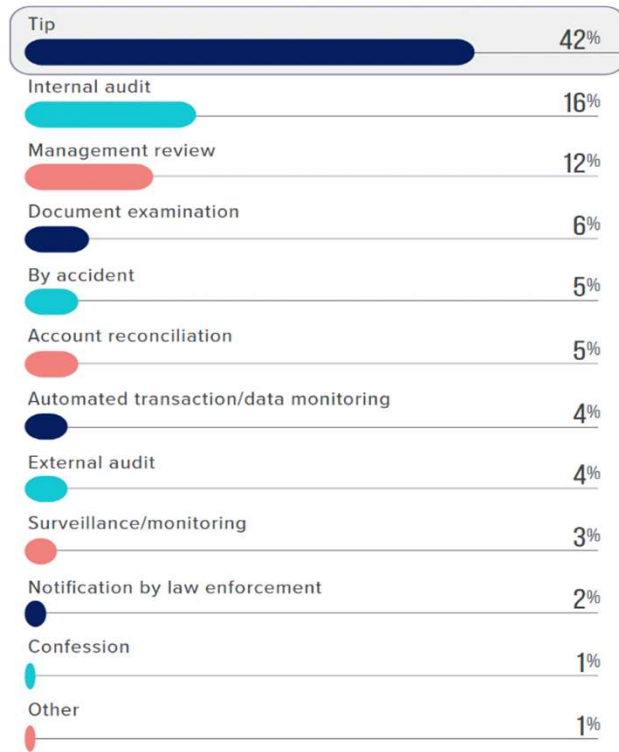
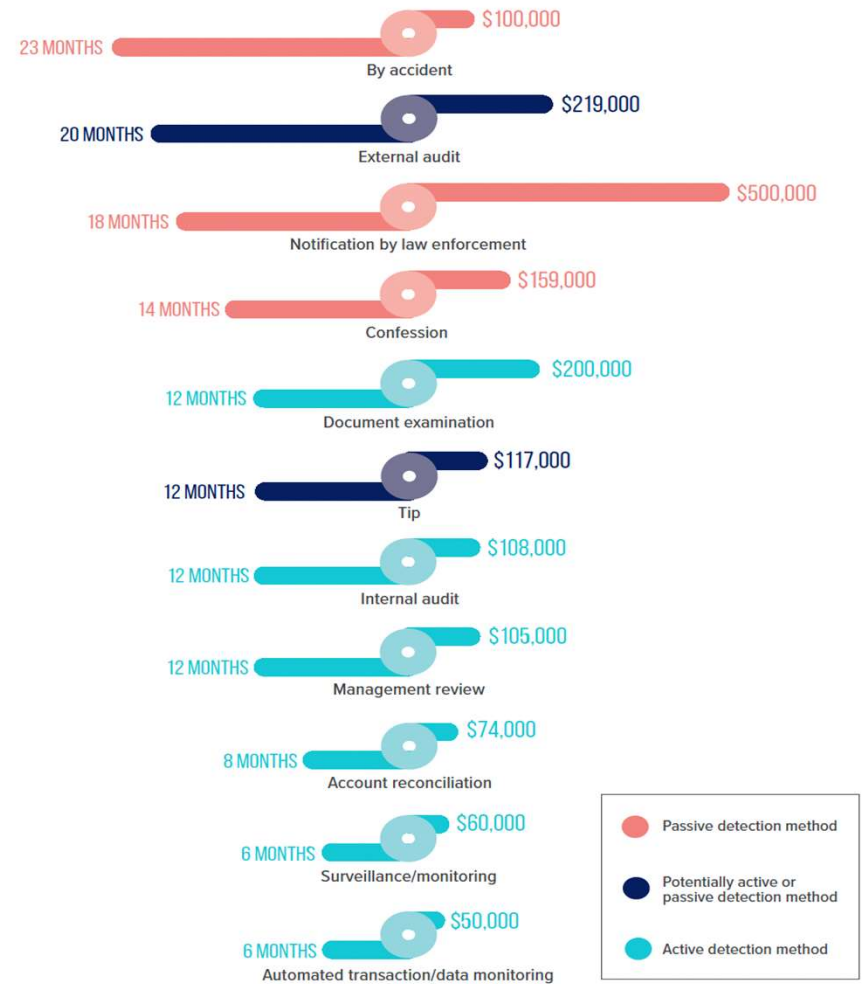


FIG. 12 HOW DOES DETECTION METHOD RELATE TO FRAUD LOSS AND DURATION?



# Limitations for Mitigating Fraud Risk

- No set of internal controls guarantee prevention of fraud
- What is your fraud risk tolerance?
  - Lower tolerance = more controls
- Critical component to detecting fraud – monitoring and management review
  - Vendor master change report
  - One-time/temporary vendor number
  - Manual check request or refunds
  - Payroll change report
  - Monthly reconciliations



# Attributes of an Anti-Fraud Program

- ❑ Person or office responsible for anti-fraud, ethics, and compliance
  - ✓ Empowered by management and governance
- ❑ Lead by example (“tone at the top”)
  - ✓ Management and governance promote an environment of integrity
- ❑ Encourage transparency and accountability
  - ✓ Review, oversight, monitoring
- ❑ Well-developed anti-fraud and ethics policy and/or code of conduct
  - ✓ In writing, communicated to and acknowledged by employees
- ❑ Well-developed and updated written policies and procedures
  - ✓ Kept current and acknowledged by employees



# Attributes of an Anti-Fraud Program (continued)

- ❑ Regular technical training of employees on policies, procedures, applicable laws, ethics, fraud awareness, etc.
  - ✓ Internal or external instructors
- ❑ Strong compliance/internal audit programs
  - ✓ Internal, outsourced, or combination – prioritized by management and governance
- ❑ Established fraud and ethics hotline
  - ✓ Anonymous, confidential, protect whistleblowers – prioritized by governance
- ❑ Reinforce good behavior and don't reinforce bad behavior
  - ✓ Follow through on reports of misconduct – encourages people to come forward





# Questions?

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

Emilie Deveraux, CFE  
Signing Director, VFLI  
(Valuation, Forensics, Litigation, Investigations)  
[Emilie.Deveraux@CLAconnect.com](mailto:Emilie.Deveraux@CLAconnect.com)  
505-222-3531



CLAconnect.com



CPAs | CONSULTANTS | WEALTH ADVISORS

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.