Embezzlement—Preventing Fraud

Introduction

Oversight of financial affairs in a city or village is the responsibility of municipal officials. Inadequate oversight can lead to abuses such as embezzlement and misuse of and/or misappropriation of funds. Local officials need to improve their internal controls to prevent fraud and abuse from occurring. Simple things, like properly separating duties, enacting active supervisory oversight, and thorough internal audits of properly maintained books and records, go a long way toward preventing fiscal malfeasance. According to the Association of Certified Fraud Examiners' (ACFE) 2016 Report to the Nations on Occupational Fraud and Abuse, 39 percent of fraud was detected through tips, while only 23 percent was detected through internal controls.

Local officials must educate their employees about what constitutes fraud, how to report fraud, and have a zero-tolerance for fraud within the organization. Well-designed internal controls, education to bring greater awareness to the issue, and constant vigilance by local officials are necessary components to safeguard the public's money and provide assurance to all citizens that their funds are being used only for legitimate purposes.

Internal Controls

Internal controls are the policies and procedures by which you maintain your financial records and engage in financial transactions on a daily basis. Simply put, internal control consists of all the measures taken by the local government for the purpose of:

- Protecting resources against waste, misappropriation, and inefficiency;
- Ensuring accuracy, timeliness, and reliability in accounting and operating data;
- Maintaining compliance with applicable laws and regulations (local, state, and federal); and
- Evaluating the level of performance of departments and personnel.

Examples of internal control include job descriptions, purchasing procedures, reconciliation of bank accounts, etc. Safeguarding cash and other assets of the local government and ensuring that funds are expended properly take on greater significance in the public sector. Under law, elected and appointed officials have both the authority and the responsibility to manage the resources for the greater public good.

Audits

State law requires an audit annually for local units over 4,000 in population; biennially for local units under 4,000 in population, (MCL 141.425). An audit requires the external auditor to perform a study and evaluate internal control, and it also requires the auditor to report any significant deficiencies to the governing body. The Department of Treasury expects any reportable conditions to be addressed by the local unit by either correcting the deficiency or documenting why it is in disagreement.

State Requirements

Public Act 2 of 1968 and Public Act 71 of 1919 require the state treasurer to develop uniform accounting procedures to be followed by all local units of government. The required financial policies that must be passed by local governing bodies are: investment, credit card, and automated clearing house (ACH).

See Fact Sheet: Investment Policies for Surplus Funds for a sample investment policy. Email info@mml.org for sample credit card and ACH policies.