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FINANCIAL RESPONSIBILITIES

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Presented by:

Katherine Heck, Government Finance Advisor

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The Budget Process

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The Budget Process: Key Players

- Legislative Body
- Governing Body
- Budget Committee: Advisory v. Official

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The Town Meeting

- Approves all appropriations
- Votes to create and fund common municipal funds
- Citizen authority to propose appropriations by petition
- May amend separate articles to reduce or zero out appropriations
- May amend budget to reduce (or increase) total bottom line appropriation
- Can zero out line item appropriations in DRA budget form

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Governing Body*

*21:48 Governing Body. – the term "governing body" shall mean the board of selectmen in a town, the board of aldermen or council in a city or town with a town council, the school board in a school district or the village district commissioners in a village district.

- Prepares warrant, drafts separate warrant articles
- Pay all sums of money received to the town treasurer
- Prepare manifest to pay all town expenses
- Maintain records of all town financial transactions
- Publish in annual report, the general fund balance sheet based upon audited financial statements
- Establish and maintain appropriate internal control procedures
- Annually review and adopt an investment policy
- Ensure all funds totaling $500 or more are remitted by departments, town clerk and tax collection to the treasurer
- Submit proposed budget to the Budget Committee or Town Meeting.

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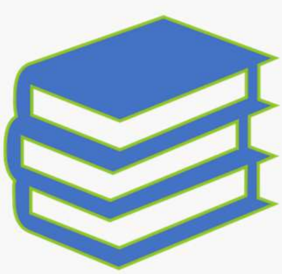
Schools



- RSA chapter 189 would seem to grant school boards all the relevant authority.
- **BUT** RSA 21-N:9 (II)(p) & RSA 186:8 require the state Board of Education to adopt rules pertaining to the duties of superintendents. Now in Ed. 302.01-302.02.
  - –Serves as the executive officer of the districts within the SAU;
  - –Responsible for developing and maintaining an accounting system and financial reporting procedures for all funds.

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Budget Committee

- Review current year’s expenditures
- Review proposals, request information
- Prepare budget
- Schedule and hold budget hearings
- Forward final proposed budget to governing body
- **Does not control spending**
- 10% Rule in towns with official budget committee

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Whose Budget Is It?

- Budget = recommended “plan” for spending
- Only the voters adopt a budget!
- Budget cuts & *Brentwood School District v. Brentwood Budget Committee* case

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Transfer of Appropriations RSA 32:10

- Governing body may transfer money from one line to another
- Transfer authority is the same over the default budget
- Voters cannot restrict transfer authority
- Special warrant articles – can transfer into, but not out of

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"Separate" Articles

"Special" Articles, RSA 32:3, VI:
- Petitioned
- Bonds
- Capital reserve/town-funded trust funds
- Designated non-lapsing, non-transferable, special

- Nontransferable, RSA 32:10, I(d)
- Can be encumbered for one more year
- Can be designated initially as nonlapsing for up to 5 years

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No Means No – RSA 32:10, I (e)

- *IF*
- Budget line item reduced to zero or
- Separate warrant article with appropriation defeated reduced to zero.
- ***THEN***
- That “purpose” is deemed to be one where no appropriation is made.
- No money may be spent for that defeated purpose during the ensuing fiscal year.

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Estimated Tax Impact

- RSA 32:5, V-b
- Must be adopted by legislative body
- Governing body determines
- Only an estimate!

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The Property Tax Process

Appraisal

↓

Assessment

↓

Collection

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	Gross Appropriations		$20,207,555
−	Revenues	−	$8,024,656
+	Overlay (5% Max)	+	$4,406
+	Veterans Credits	+	$438,750
=	Net Municipal Tax Effort	=	$12,626,055
÷	Local Assessed Property Valuation	÷	$1,411,324,700
=	Tax Rate per $1,000 Valuation	=	$8.95

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Property Tax Calculation

- $300,000 assessment
- $300 X $8.95 = $2,685

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The 3-Finger Rule

$1,411,324,700
Local Assessed Value

$1,411,324 = **$1.00**
$141,132 = **$.10**
$14,113 = **$.01**

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Estimated Impact on the Tax Rate

$400,000 Fire Truck

$400,000/1,411,324 = $0.28

$25,000 CBA Cost Item

$25,000/1,411,324 = $0.02

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Can you ESTIMATE Cost for Your Municipality?

2021 Net Local Assessed Valuation = $__________

$1.00 on the tax rate = $_________

$.10 on the tax rate = $_________

$.01 on the tax rate = $_________

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Poll Question?

How many municipalities on this call are SB 2 towns?

- Yes, we adopted the SB 2 ballot in our community
- No, we are a traditional town meeting town
- Neither- we are a charter, city or town

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SB 2 & Default Budgets: RSA 40:13

- Governing body calculates, unless delegated to budget committee
- As long as statutory formula is used, default budget may be higher or lower than last year's budget
- Default budget is amount of the same appropriations as contained in the operating budget authorized for the previous year . . .
  - reduced and increased, as the case may be, by debt service, contracts, and other obligations previously incurred or mandated by law, and
  - reduced by one-time expenditures contained in the operating budget and by ***salaries and benefits of positions that have been eliminated in the proposed budget.***
  - RSA 40:13, IX(b).

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Default Budget Terms Defined

"One-time expenditures": Appropriations not likely to recur in the succeeding budget.

"Contracts": Contracts previously approved, in the amount so approved, by the legislative body in either the operating budget authorized for the previous year or in a separate warrant article for a previous year.

"Eliminated positions" does not include vacant positions under recruitment or position redefined in the proposed operating budget.

Default Budget Procedure

- Disclosed and presented for questions and discussion at first budget hearing
- Line item changes must be available at budget hearing:
  - Appropriations in last year's budget
  - Reductions and increases, including identification of specific items that constitute a change by account code and the reason for change
  - One-time expenditures
  - Reductions for eliminated positions
- Discussion and debate of default budget at deliberative session (not amended)

Lapse of Appropriations
RSA 32:7

- All appropriations shall lapse at the end of the fiscal year and any unexpended portion thereof shall not be expended without further appropriation, ***UNLESS:***
- Encumbered by legally-enforceable obligation
- Nonlapsing fund
- Appropriation to capital reserve fund
- Unanticipated moneys
- Special warrant article:
  - Governing body can encumber one more year
  - If article was labeled as nonlapsing (up to 5 years)

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Financial Duties of the Governing Body

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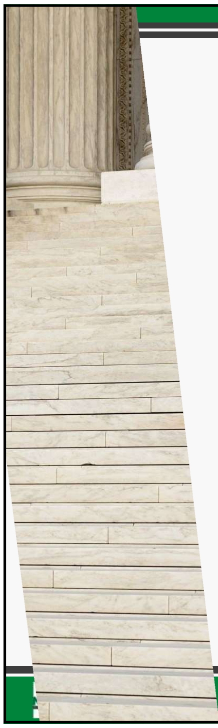

Towns, Cities, & Village Districts

- RSA 41:9 – Financial Duties of Towns
- RSA 47:6 – Financial Supervision by City Councils
  - **But** RSA 47:1 – "All the powers vested by law in towns, or in the inhabitants thereof, shall be exercised by the city councils."
- RSA 52:3, II – Powers of Village District Commissioners
  - Districts "shall have all the powers in relation to the objects for which it was established that towns have or may have in relation to like objects, and all that are necessary for the accomplishment of its purposes."

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Select Boards & Town Treasurers RSA 41:9

- Select board must pay all money received by it on behalf of the town to the town treasurer immediately, with a statement about who it is from and why given.
- Select board must draw orders upon the treasurer for the payment of all accounts and claims against the town allowed by them, and take proper vouchers therefor.
- Select board must annually review and adopt an investment policy for the investment of public funds, and shall advise the treasurer of such policies
- Select board is responsible for establishing procedures to ensure that all funds paid to the town from any department shall be remitted to the treasurer at least on a weekly basis or daily whenever such funds total $1,500 or more.
  - Remittances to the treasurer from the tax collector must follow RSA 41:35
  - Remittances from the town clerk must follow RSA 261:165.

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Additional Financial Duties

- Select boards must keep a fair and correct account of all moneys received, all accounts and claims settled and all orders drawn by them, and of all their other financial transactions in behalf of the town.
  Select boards must publish in the annual report, or post at the annual meeting, the general fund balance sheet from the most recently completed audited financial statements or from the financial report filed pursuant to RSA 21-J:34, V.
- Select board must insert an article in the warrant recommending such action as they deem appropriate when there is an accumulated general fund deficit,
  – That may include, but is not limited to, raising additional taxes.
- Select board is responsible for establishing and maintaining appropriate internal control procedures to ensure the safeguarding of all town assets and properties.

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RSA 47:6
Specific Requirements for City Councils

- City council must ensure that no money is paid from the city treasury unless previously granted and appropriated,and shall secure a just and prompt accountability from all persons entrusted with the receipt, custody or disbursement of the money or funds of the city, or the care of its property.
- At least yearly, the city council or board of aldermen shall review and adopt an investment policy for the investment of public funds, and shall advise the treasurer of such policies.

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RSA 49-C City Charter Cities

RSA 49-C:15: City Charter Cities shall have elected bodies which have all the powers and discharge all the duties conferred or imposed upon city councils.

- *I.e.* follow RSA 47:6.

However, RSA 49-C:23 provides additional budget control and fiscal process requirements for City Charter Cities – E.g.

- At least quarterly reporting of the city's finances to the elected body by the chief administrative officer.
- Establishment of a fiscal control function, including pre-audit of all authorized claims against the city before payment. The head of such function need not be a resident of the city or the state at the time of selection, shall not be treasurer, and shall be chosen solely on the basis of executive and administrative qualifications and actual experience in and knowledge of accepted practices in respect to the duties of municipal fiscal management.

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Schools

RSA chapter 198: School Money

- Important to be familiar with the complex web of federal and state funding for school districts, alongside apportionment formulas, such as those contained in RSA 194-C:9, I.
  - E.g. The school administrative unit board shall apportion the total amount of the budget among the constituent school districts in the following manner: the apportionment shall be based 1/2 on the average membership in attendance for the previous school year and 1/2 on the most recently available equalized valuation of each district as of June 30 of the preceding school year.

RSA 197:5-a

- The school board, if the school district is not controlled by the municipal budget act, shall prepare a budget for the annual or any special meeting upon a form prescribed and provided by the commissioner of revenue administration and shall post the same with and at the same time as the warrant for the meeting is posted.

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What are Internal Controls?

Anything that helps safeguard assets.

Anything that helps make more effective and efficient use of those assets.

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What Are Internal Controls?

- Municipal, county and school internal controls are similar:
- Offices, buildings, vehicles are locked .
- Computer passwords are changed periodically and not shared.
- Invoices are reviewed and approved before payment.
- Checks and cash are secured.
- Authorization is required for certain activities or transactions.

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What are Internal Controls?

Internal control is a process.

Dynamic – ongoing and active

Iterative

Each process is defined and implemented by a set of policies and procedures- a series of ongoing actions and activities that occur throughout the organization.

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Objectives of Internal Controls

- Ensure accurate, reliable records.
- Promote operational effectiveness and efficiency.
- Encourage adherence to policies, rules, regulations and laws.
- Protect assets.

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A process: a means to an end, not the end itself.

Accomplished by people, not merely policy, procedures and forms.

Reasonable, but not absolute, assurance that assets and resources are safeguarded.

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Importance of Internal Controls

Ensure	Ensure objectives are accomplished.
Reduce	Reduce fraud opportunities.
Prevent	Prevent loss of funds or other resources.
Establish	Establish standards of performance.
Assure	Assure compliance with laws, regulations, policies and procedures.
Preserve	Preserve integrity.
Eliminate	Eliminate adverse publicity.
Assure	Assure public confidence.

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Responsibility for Internal Controls

- Governing body ultimately responsible
- Management primarily responsible
- Auditors can assist management in meeting its control responsibilities

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Types of Internal Controls:

- Preventive – Designed to stop an unwanted outcome before it happens.
  - Reading/understanding policies
  - Review/approve purchase orders
  - Passwords to stop unauthorized access
- Detective – Designed to find and correct errors that have already occurred.
  - Cash counts/reconciliation
  - Expenditures vs. budget
  - Reviewing payroll reports

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Poll Question?

- Do you think your municipality has adequate internal controls in place?

- Yes
- No

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The Framework of Internal Controls

The Control Environment.

Risk Assessment.

Implementing Control Activities.

Information and Communication.

Monitoring.

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The Control Environment

- Set the tone at the top – internal controls are important!
- Integrity and ethical values - must be clearly communicated in writing and by example.
- Commitment to competence – sound personnel policies including job descriptions, hiring policies, background checks, job qualifications, performance evaluations.
- Authority and responsibility – clear lines of authority. If everyone if responsible, then no one is responsible. Provide all of the authority necessary and only the authority necessary.

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The Control Environment

SET THE TONE AT THE TOP – INTERNAL CONTROLS ARE IMPORTANT!

INTEGRITY AND ETHICAL VALUES - MUST BE CLEARLY COMMUNICATED IN WRITING AND BY EXAMPLE.

COMMITMENT TO COMPETENCE – SOUND PERSONNEL POLICIES INCLUDING JOB DESCRIPTIONS, HIRING POLICIES, BACKGROUND CHECKS, JOB QUALIFICATIONS, PERFORMANCE EVALUATIONS.

AUTHORITY AND RESPONSIBILITY – CLEAR LINES OF AUTHORITY. IF EVERYONE IF RESPONSIBLE, THEN NO ONE IS RESPONSIBLE. PROVIDE ALL OF THE AUTHORITY NECESSARY AND ONLY THE AUTHORITY NECESSARY.

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What is Risk?

- When working toward its objectives, every organization faces a wide range of uncertain internal and external factors = Risks.
- **The effect of this uncertainty on the organization's objectives is called risk, which can be either positive, representing opportunity, or negative, representing a threat.**
- Risk should always be assessed in light of setting and achieving your organization's objectives. If there are no objectives, there is no risk.
- This risk assessment process is both active and frequent.

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Risk Assessment: Changes Effecting Risk

- Changes in operations - economic, political.
- Changes in personnel.
- Changes in IT systems.
- Rapid growth.
- Change in structure, staff reductions.
- Change in programs, activities, services or vendors.

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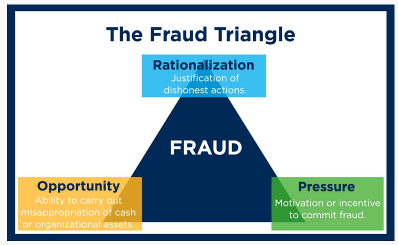
Risk Assessment – Consider Fraud Risks

Embezzlement/Conversion
- Cash, securities, broker/dealers, investment managers

Mechanical errors
- Incorrect amounts
- Improper amortization of premiums and discounts Incorrect payees
- Wire transfer failures

Judgement Errors
- Inappropriate securities selection Poor market timing (?)
- Selection of an insolvent dealer or depository

Cover Up
- Fraud
- Delaying or avoiding recognition of losses



Financial Stress – personal, business, illness.

Addictions – gambling, drugs, alcohol.

Disaffection - an employee believes they are being, or have been, mistreated.

Past Problems.

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Risk Assessment – Consider Inherent Risk

Cash – the more easily an asset can be converted to personal use, the more likely it is to be stolen.

Complexity – the more that can go wrong, the more that is likely to go wrong.

Decentralization.

Unfamiliarity-An unresponsiveness to previously identified internal control weaknesses sends a negative message about management's attitude!

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Risk Assessment: Fraud Risks

- **Financial Stress** – personal, business, illness.
- **Addictions** – gambling, drugs, alcohol.
- **Disaffection** - an employee believes they are being, or have been, mistreated.
- **Past Problems**.

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Questions To Ask Regarding Risk Assessment

Where is the potential risk?

What is the likelihood of an unwanted occurrence and what would be the impact?

What compensating controls can be implemented?

Does the cost of the controls exceed their benefit?

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Appropriate Control Activities

Authorization controls	Record controls	Security of assets
Segregate duties	Reconciliation	Verification
Analytic review	Personnel policies	Document policies and procedures

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Sample Risk Assessment: Transfer Station Operation

Change Risk ⇓	Inherent Risk ⇓	Fraud Risk ⇓
Rapid Growth	Cash	Financial Stress
Staff Turnover	Decentralized	Past Personnel Issues

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Sample Control Activities: Transfer Station Operation

Change Risk ⇓	Inherent Risk ⇓	Fraud Risk ⇓
Rapid Growth *Reports	Cash *Remit Daily *Receipts	Financial Stress *HR Resources
Staff Turnover *Supervision *Segregation	Decentralized *Reports	Past Personnel Issues *Clear Expect. *Evaluation

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Risk Assessment

Changes effecting risk

Inherent Risk

- Unfamiliarity
- Complexity

Fraud Risk

- Opportunity

Risk Assessment Matrix

Probability	Severity: Catastrophic - 4	Critical - 3	Marginal - 2	Negligible - 1
Frequent - 4	High (16)	High (12)	Serious (8)	Medium (4)
Probable - 3	High (12)	Serious (9)	Serious (6)	Medium (3)
Remote - 2	Serious (8)	Serious (6)	Medium (4)	Low (2)
Improbable - 1	Medium (4)	Medium (3)	Low (2)	Low (1)

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Who Is Responsible?

EVERYONE plays some role in effecting internal controls.

All personnel should be responsible to communicate:

Problems in operations	Deviations from established standards or expectations	Violations of policy, law or regulations

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Potential Exposure

Cash, decentralization, no segregation of duties, change, potential for fraud.

Where does the money come from, where does it go?

"When cash passes through hands sometimes it sticks!"

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Laws Governing Segregation of Duties

- RSA 669:7 Incompatible Offices:
  - Cannot hold 2 of the following: Selectman, treasurer, moderator, trustee of trust funds, tax collector, auditor, highway agent.
  - Cannot hold 2 of the following: Treasurer, moderator, trustee of trust funds, selectman, head of police dept on full-time duty.
  - Cannot be treasurer and town clerk, (*deputies included*).
  - Cannot be selectman and full-time town employee.
  - No official handling funds shall hold office of auditor.
  - No selectman, moderator, town clerk, or inspector of elections shall serve as supervisor of checklist
  - Cannot be budget committee member-at-large and selectman, town manager, school board member (except coop), full-time town, village district or school district (except co-op) employee, or village district commissioner

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Implementing Control Activities

Segregate	Segregate incompatible duties – duties where someone is able to both commit an irregularity and then conceal it: • Authorize a transaction • Record the transaction • Maintain custody of the asset resulting from the transaction
Provide	Provide compensating controls when segregation not possible – vacation, periodic rotation of duties, have someone else do the job and see if there is any noticeable change.
Appoint	Appoint a Deputy.

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Segregation of Duties- Best Practice

Separation of duties protects the organization and the individual by ensuring that no one person has the ability to control all of the steps involved in handling and accounting for money received by the local government.

Custody

Record Keeping

Authorization

Reconciliation

The ideal is that any one person performs no more than 2 functions; three people are needed for the four functions.

Segregation of Duties- Best Practice

	Receipt of Goods/Custody of Assets	Record Keeping/Document Prep	Authorization/ Approval	Reconciliation Prepared By	Reconciliation, Independent Approver
Receipt of Goods/Custody of Assets	Same Function	Incompatible unless a compensating control is built	Incompatible	Incompatible unless a compensating control is built	Incompatible
Record Keeping/Document Prep	Incompatible unless a compensating control is built	Same Function	Incompatible	Incompatible unless a compensating control is built	Incompatible
Authorization/ Approval	Incompatible	Incompatible	Same Function	Incompatible	Compatible
Reconciliation Prepared By	Incompatible unless a compensating control is built	Incompatible unless a compensating control is built	Incompatible	Same Function	Incompatible
Reconciliation, Independent Approver	Incompatible	Incompatible	Compatible	Incompatible	Same Function

Policies reflect management or board statements of what should be done to effect internal control.

Such statements should be in writing	Explicitly stated in management communications	Implied through management actions and decisions.

Procedures consist of actions that implement a policy – actions should be described in writing, and this written documentation typically results in the formation of a policy.

These are actions that permeate an entity's activities and that are inherent in the way management operates the entity.

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Most Common Internal Control Deficiencies

- Lack of written financial policies and procedures.
- Inadequate cash and receipts procedures.
- Inadequate reconciliations.
- Lack of personnel policies.
- Lack of personnel evaluations.

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Limitations of Internal Controls

- Judgement – decisions made by people under pressure and time constraints, based upon information on hand.
- Breakdowns – lack of understanding, simply making mistakes.
- Management Override – high level management override prescribed policies and procedures.
- Collusion – 2 or more individuals circumventing controls.
- Cost vs. Benefit – risk and effect must be weighed against the cost of establishing controls.

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What is Fraud?

A representation

About a material point

Which is false

Intentionally so

And acted upon by the victim

To the victim's damage

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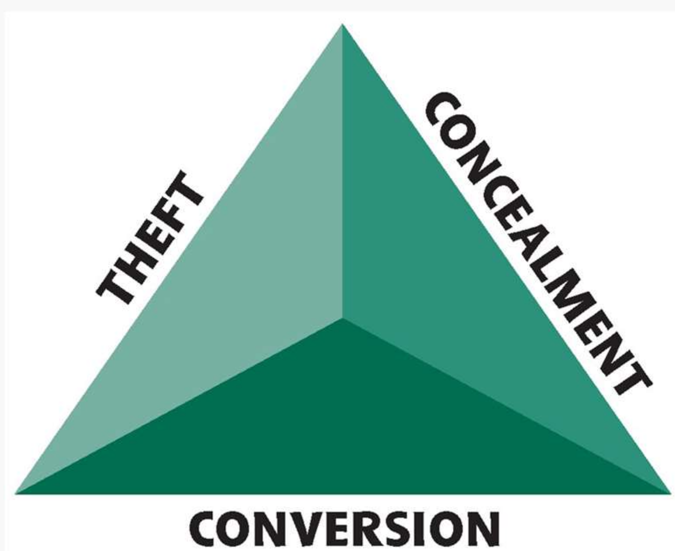
Elements of Fraud



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The Fraud Triangle

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The Fraud Triangle

- Greater the perceived pressure, the less rationalization needed.
- Greater the rationalization, the less pressure needed.
- Greater the opportunity, the less pressure or rationalization needed to motivate the fraud!

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Poll Question?

- Which side of the fraud triangle can the governing body remove through policy and procedure?
- A. Rationalization
- B. Opportunity
- C. Pressure

Monitoring

Periodic

- Separate evaluation of internal controls:
  - Independent Auditor – material weakness, reportable condition, non-compliance, significant deficiency
  - Insurance Carrier (Property/Liability) - internal control assessment

Ongoing

  - Management and Leadership analysis.

3 MAIN FRAUD CATEGORIES

Asset Misappropriation
- Theft of Cash
- Skimming
- Theft of Inventory or Assets
- Fraudulent Disbursements thru Invoices, Payroll, Expense Reports, Voids, Refunds, Check Tampering

Corruption
- Bribes
- Conflicts of Interest
- Illegal Gratuities
- Economic Extortion

Financial Statement Fraud
- Intentionally misrepresenting the values such as:
  - Revenue
  - Expenditures
  - Assets
  - Liabilities
  - Equity
  - Improper Disclosures

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CYBERSECURITY

Role of every employee in cybersecurity

Weapons and tactics used against local governments

Detecting and defending against cyberattacks

—
These assessments are offered free of charge to local governments.

NH CYBERSECURITY REPORTING : https://onlineforms.nh.gov/app/?allowAnonymous=true#/formversion/0998f17f-50bd-4a02-bdef-c3130222d805

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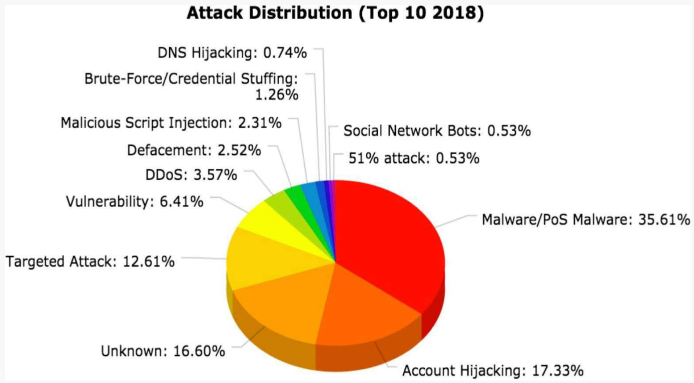
Cyber Threat Statistics

- Ransomware
- Hacks
- Data Breaches
- Phishing
- Email Compromise
- Spoofing

Hackmageddon statistics



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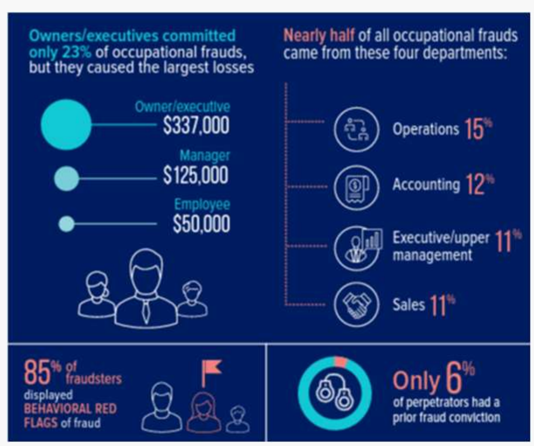
Internal Fraud

The Association of Certified Fraud Examiners (ACFE) defines Occupational Fraud as:

"The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets



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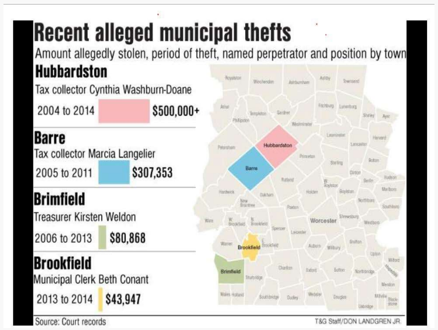
MUNICIPAL Fraud Cases

ALLEGED MUNICIPAL THEFT



Source: http://www.telegram.com/article/20160102/NEWS/160109825

BIGGEST MUNICIPAL EMBEZZLER IN UNITED STATES HISTORY

Rita Crundwell and the Dixon Embezzlement

THE $53 MILLION BAMBOOZLE: How the trusted comptroller of a small Illinois town became the biggest municipal embezzler in U.S. history, according to the feds—and no one noticed

BY BRYAN SMITH

PUBLISHED SEPT. 24, 2012

18 COMMENTS

Rita Crundwell leaves a Rockford, Illinois, courthouse after a hearing on her embezzlement case in August 2012. PHOTO: RAY WHITEHOUSE

UPDATE (11.14.12): Rita Crundwell pleaded guilty to fraud on November 14 in federal court in Rockford.

MARKETPLACE

Source: www.chicagomag.com/Chicago-Magazine/December-2012/Rita-Crundwell-and-the-Dixon-Embezzlement/

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CONCORD, N.H. - Ex_school official to plead guilty

A former Keene School District treasurer and former banker will plead guilty to embezzling $365,500 in school scholarship money, the US attorney's office says. George McDonnell, 56, of Keene, former vice president of commercial lending at Savings Bank of Walpole, will plead in US District Court, the US attorney's office said. He faces up to 30 years in prison, a $1 million fine and three years' probation.

Ex-Dorchester Town Clerk to Admit Theft

Plea Bargain Calls for 6-Month Jail Term, Restitution of Stolen $4,500

By ROBERT M. COOK
Newfound Area Bureau

HAVERHILL — A former Dorchester town clerk charged with stealing $4,500 from car registrations fees has agreed to plead guilty to the charges and make restitution to the town.

Lynn Carter, 36, served as Dorchester's town clerk during a 15-month period from 1995-96. During that span, she allegedly embezzled almost $4,500 from car owners who registered their motor vehicles at the town office.

Court documents in Grafton County Superior Court indicate that Carter, who currently lives in Massachusetts, filed her intent to plead guilty to the felony theft charge.

Carter resigned as town clerk after she was indicted in Grafton County in January following an investigation conducted by the Dorchester Police Department and the Grafton County Sheriff's

DORCHESTER, Page 12

50 CENTS, NEWSSTAND

Fire secretary charged with padding pay

Investigation continues

By Dan Hackett
RCN Staff

EXETER — A secretary in the Exeter Fire Department was arrested Friday evening for allegedly padding her paycheck by claiming more than $1,000 in overtime.

Christine A. Lawrence, 46, of 156 Front St. in Exeter, has been charged with theft by deception.

Police are investigating further, and Lawrence is expected to face more charges. The case will probably go to a grand jury.

Police are trying to determine exactly how much money was involved. At this point, police believe Lawrence falsified at least $1,000 in overtime, which makes it a felony crime.

Lawrence had worked in the Fire Department for 9½ years. Police are reviewing pay records to determine when the alleged theft began.

Meanwhile, Lawrence has been suspended without pay from her job in the Fire Department, according to Town Manager George Olson.

Firefighters training on Pickpocket Road on Saturday privately expressed shock that Lawrence, an easygoing and friendly member of their de-

See OVERTIME, Page 8

3/15/01 - ASHLAND, N.H. Ex-town official says she stole $1m

A former town manager who pleaded guilty to stealing $111,300 of town money told authorities she actually stole close to $1 million over a decade by raiding town accounts whenever she wants money. "No area was sacred," said Rosemarie McNamara. McNamara was sentenced to two years in jail.

NHMA

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Common Fraud Themes

Smaller Organization typically have **fewer anti-fraud controls** which increase the risk of fraud.

Median **duration** of a fraud scheme is **16 months**.

Internal Control weaknesses were responsible for over 50% of Fraud!

Only **4% of fraudsters had a prior conviction**.

Majority of Victim organizations **recovered nothing**.

Source: 2022 ACFE Report

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Red Flags

Employee Red Flags

- Employee lifestyle or behavioral change Significant personal debt and credit problems Refusal to take vacation or sick leave
- Lack of segregation of duties in vulnerable areas.

Management Red Flags

- Reluctance to provide information to auditors
- Management decisions are dominated by an individual or small group Weak internal control environment
- Excessive number of checking accounts or frequent changes in banking accounts Excessive number of year-end transactions
- High employee turnover rate
- Service contracts result in no products

- **Cash Receipts and Disbursements**
- **Records and Reports**
- **Purchasing**
- **Fixed Assets**

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Police Chief	Extortion, permits/fees, drug escrow account
Office Manager	Payments to self from secret checking account
Assistant to BOS	Payments to fictitious vendors
Tax Collector	Cash from property taxes
Town Clerk	Cash from motor vehicle fees

NH Fraud Cases: Opportunity

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Secretary to Town Manager	Transfer station revenue
Planning Department Employee	Cash from permits
School District Treasurer	Bank fraud – scholarship funds
Secretary to Fire Department	Overtime wages
Town Manager	Cash, fees, credit card, abatements, pay advance, financial statements

NH Fraud Cases: Opportunity

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Red Flags

- Access to too many functions
- "Special" accounts with limited controls
- Funds not in the custody of the Treasurer
- Absence or delay in reporting or reconciliations
- Absence of supporting documentation
- Vendors complaining of late or non-payment

Red Flags

- Infrequent and untimely deposits
- Loose controls over cash receipts
- Unusual financial relationships
- Excessive abatements, credits or voided transactions
- Manual checks or checks written to "cash"
- Unusual transfers between accounts

Red Flags

- Change in the frequency, amount or percent of cash receipts
- Insufficient cash flow with relatively high fund balance
- Unused vacation time

Who Best To Detect Fraud?

Employees performing routine duties are in the best position to identify discrepancies, unusual transactions, or deviations from standard operating policies and procedures that may warrant further inquiry and investigation.

An effective fraud prevention program insures that all employees recognize that fraud prevention and detection is part of their job responsibilities!

Who Is Responsible?

EVERYONE plays some role in preventing and detecting fraud.

All personnel should be responsible to communicate:

Problems in operations	Deviations from established standards or expectations	Violations of policy, law or regulations

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Fraud Awareness and Prevention Policy

- Definitions and examples of fraud
- Policy of zero tolerance
- Responsibility to report and reporting procedures
- Confidentiality, retaliation, and false allegations
- Disciplinary action
- Fraud prevention and detection is everyone's responsibility
- Employee acknowledgement that they read and understand the policy

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Additional Resources

- **Review the sample fraud prevention policies with key components highlighted**
- **Read *State of NH vs. Rosemarie McNamara***
- All the Queen's Horses tells the story of Rita Crundwell as self, the perpetrator of the largest case of municipal fraud in American history.
  - How could one woman steal $53 million without anyone noticing?

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THANK YOU!

? Questions

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