

Fraud/Internal Controls/ Prevention

How to Responsibly Manage Government Accounts

September 2025



Agenda

- Fraud Overview
- Committing Fraud
- Where it ends
- Where it begins
- Best Practices
- Prevention



Fraud Overview

Types of Fraud

Internal Fraud

Internal Fraud occurs when an employee misappropriates funds and/or property.

- Payroll, time, ghosting
- Reimbursements
- Online bill payments
- Credit card purchases
- Fake audits or bonds
- Non-approved purchases
- Not always monetary, often supplies
- Etc.



External Fraud

External Fraud is when an individual outside the organization deceives an employee to gain misappropriated funds.

- Cyber theft attacks (email scams, phishing, ransomware, etc.)
- Side deals with vendors
- Credit card scams

Is sloppy recordkeeping fraud?
Stay tuned.



Committing Fraud

Why Fraud is Committed

Personal
financial pressure
Addiction



Lack of capacity and/or
internal controls.
Elected officials and
management are not
“in the game”

Rationalization

“I didn’t get a raise.”

“I’ll pay it back. It’s only a loan.”

How Fraud Happens

Most often **abuse of power & trust**

- Employee gains trust
- Divides and conquers staff and/or elected officials
- Elevates ego of either an elected official or supervisor

Lack of proper controls or oversight

- Employee recognizes little to no segregation of duties
- Officials and/or Management lack of knowledge

And soooooo it begins....

- Usually, a first-time offender
- Seizes opportunity



Impacts of Fraud

Financial loss

- Never retrieve the full amount
- Occurs over years

Prosecution robs time

- Elected officials - their cost
- Management - taxpayer cost

Increased audit costs

Erosion of employee moral and trust

Public mistrust



Where it Ends

Where it Ends

The end results of fraud are bestowed upon elected officials.

- Increased financial burden for taxpayers
- Public scrutiny
- Issues discovered for years to come
- Places burden on remaining and/or new employees

Don't SLEEP at the table.



Where it Begins

Elected Officials' Constitutional Oath

PA Constitution, Chapter 10 § 1002

“Before entering upon the duties of their offices, the members of council shall take and subscribe an oath or affirmation of office.

53 Pa.C.S. § 1141

"I do solemnly swear (or affirm) that I will support, obey and defend the Constitution of the United States and the Constitution of this Commonwealth and that I will discharge the duties of my office with fidelity."

Elected Officials' Duty | Third Class City

Third Class City Code § 12435(1) Local Self Government

Council shall have the power to enact, make, adopt, modify, repeal and enforce, in accordance with this part, ordinances, resolutions, rules and regulations not inconsistent with or restrained by the Constitution of Pennsylvania and laws of this Commonwealth that are either of the following: (1) Expedient or necessary for the proper management, care and control of the city and its finances and the maintenance of the peace, good government, safety and welfare of the city and its trade, commerce and manufactures.

Elected Officials' Duty | Boroughs

Boroughs § 1203 Reserved powers

The council may make and adopt all ordinances, bylaws, rules and regulations not inconsistent with or restrained by the Constitution of Pennsylvania and laws of this Commonwealth as may be expedient or necessary for the proper management, care and control of the borough and its finances and the maintenance of peace, good government, safety and welfare of the borough and its trade, commerce and manufactures.

Elected Officials' Duty | First Class Township

First Class Township Code § 1501.5 Corporate Powers

The board of commissioners may make and adopt any ordinances, bylaws, rules and regulations not inconsistent with or restrained by the Constitution and laws of this Commonwealth as may be expedient or necessary for the proper management, care and control of the township and its finances, and the maintenance of peace, good government and welfare of the township and its trade, commerce and manufactures.

Elected Officials' Duty | Second Class Township

Second Class Township Code § 607(1) Duties of Supervisors

The board of supervisors shall be charged with the general governance of the township and the execution of legislative, executive and administrative powers in order to ensure sound fiscal management and to secure the health, safety and welfare of the citizens of the township.

If You Suspect Fraud

As an elected official, if you suspect fraud is occurring or has occurred in your government accounts, take legal action.

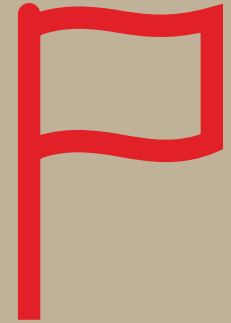
It is not your money!



Internal Control Best Practices

Best Practices

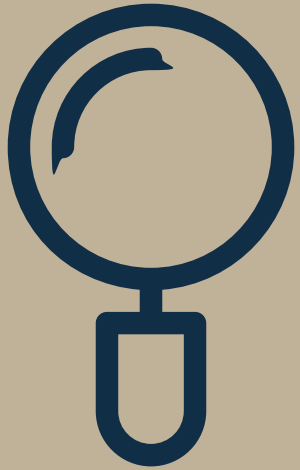
- Two elected officials and one bonded person should sign all checks. The bonded person should sign last.
- Treasurer bond should be in the amount of the largest amount of money on hand throughout the year.
- Always monitor bills paid online, payroll and credit card statements.
- Set up a finance committee and/or review financials prior to meeting.



Look for **red flags** like
sloppy or **poor**
bookkeeping, inability to
produce records, or
delayed audits.

Best Practices (cont'd)

- Set an employee expense limit.
- Computers are to be used for business only....no personal use, social media, shopping, etc.
- All financial records should be concise, and easy to understand.
- If a long term, trusted employee leaves, reevaluate your procedures....time often leads to lack of oversight, break bad habits.
- Passwords should be accessible by at least two people.



Always be inquisitive, not
accusatory, if you see
something wrong.

**Most people are
not stealing.**

Best Practices (cont'd)

- Audits should be reviewed, and elected official communication established with either the elected auditors or CPA
- Provide cyber security training for all employees with access to computers
- Elected officials and appointed should take advantage of all training available

Best Practices (cont'd)

To reduce chances for fraud, make sure to segregate key financial duties.

Different people should:

- Sign off on deposits
- Go to the bank
- Reconcile the accounts

Is **capacity** an issue???????



Prevention

Prevention Tactics

Knowledge and education are the best aids in fraud prevention.

Steps you can take are as simple as **reviewing and learning local government laws and codes** and using the **chart of accounts** in your accounting practices.

Register for trainings through DCED "Basic Training Series or your municipal association.



Outsourcing May Be A Solution

Why?

- Minimum staffing and/or frequent turnover creates
 - No segregation of duties
 - Data entry issues
 - Sloppy recordkeeping
 - Late fees/Tax compliance penalties
 - Jeopardizes bond rating
 - Delayed financial reporting
 - Inconsistencies
 - Budget to actual discrepancies

• Benefits

- Reduces the risk of fraud
- Often access to advanced technology
- Consistency
- Expertise and accuracy
- Timely payments
- Aids with limited capacity
 - Alleviates time for staff
- Often a cost savings



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Shared Municipal Financial Management

Best Practices That Build Capacity, Controls & Confidence

PACOG • Turtle Creek Valley Council of Governments

Amanda Settelmaier | Natalie Merola

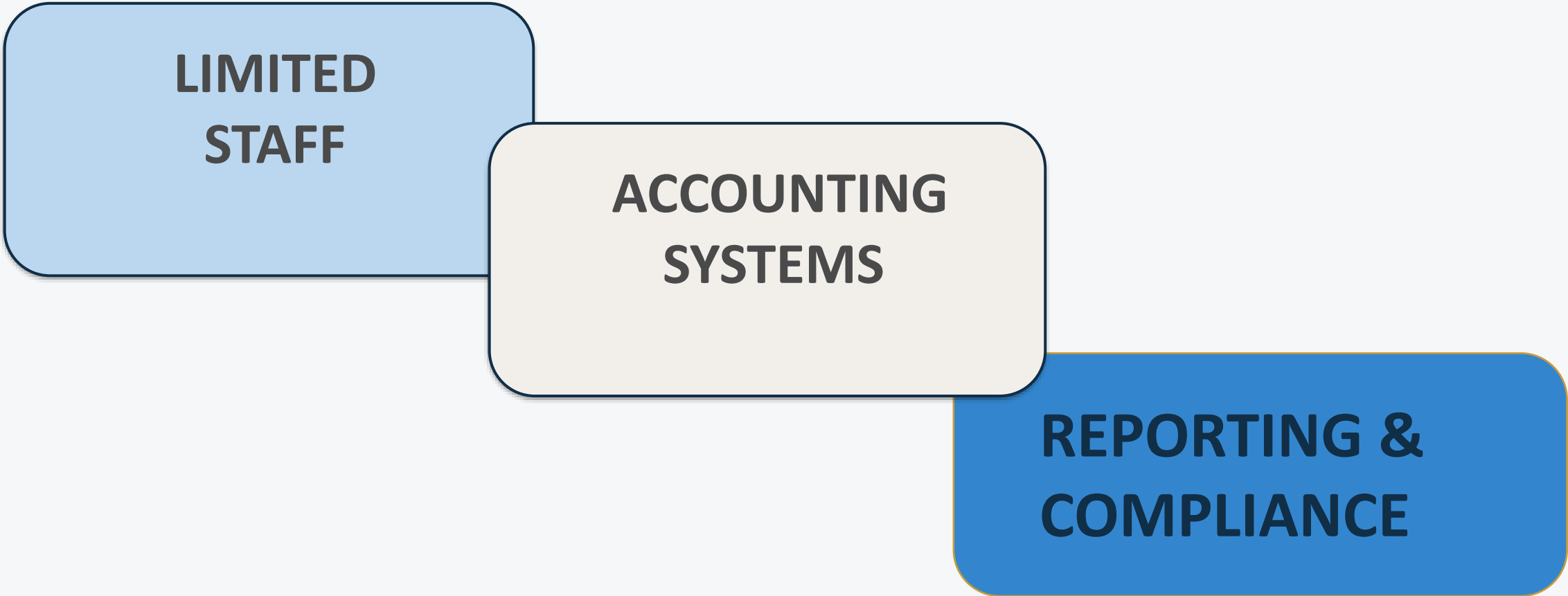
From fraud awareness to practical financial operations

LET'S TALK

**WHAT ARE THE BENEFITS OF A FINANCIAL
MANAGEMENT PROGRAM FOR YOUR MEMBER
TOWNS ? WHAT FINACIAL SOFTWARE DO YOUR
TOWNS USE?**

The Small-Municipality Challenge

Best practice have to work in the real world.



**LIMITED
STAFF**

**ACCOUNTING
SYSTEMS**

**REPORTING &
COMPLIANCE**

“Why” — “How”

Building the structure that makes good controls possible.

1 Recognize the Need among COG Members

- Are member managers participating in high level activities?
- Are towns meeting reporting requirements/deadlines?

53 Pa.C.S. §§ 2301-2316, formerly
Act 177 of 1996

2 Structuring the Program

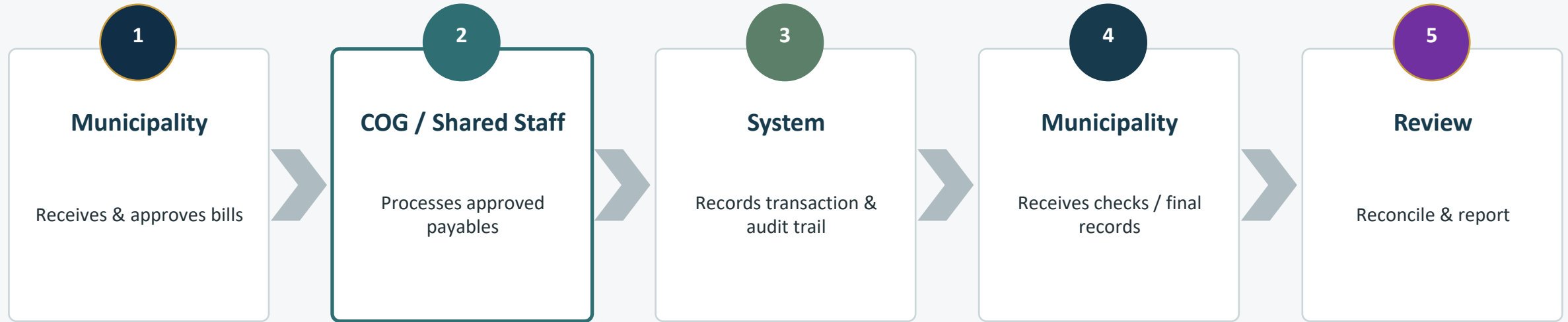
- Learn
- Convene Stakeholders
- Understand Needs and Limitations

3 Use Shared Capacity

- Professional Tools
- Hire Best Skill sets Possible
- Budget for Ongoing Training

A Practical Accounts Payable Workflow

Separate approval, processing and review.



Key principle: no single person should control the entire process from invoice to reconciliation.

Best-Practice Financial Controls

Simple controls become powerful when they are consistent.

Budget Alerts

Flag expenditures that exceed or approach budget before they become surprises.

Reconciliations

Perform timely bank and account reconciliations with documented review.

Approval Trail

Keep clear evidence of who approved, processed and reviewed each transaction.

Monthly / Quarterly Reports

Give officials usable financial information throughout the year — not only at audit time.

State Reporting

Coordinate submissions and maintain a calendar for required reports and deadlines.

Access Controls

Match software permissions to job responsibilities and review access as roles change.

Technology Is a Control — If the Workflow Is Right

Software should reinforce good process, not replace it.

Alerts, Permissions, Audit Trails

Budget thresholds, exceptions and unusual activity- reduce duplicate entries -Role-based access; limit who can enter, approve or change

Mark bills for payment

General Fund Checking]

Locate

Department

<all>

Due Date	Department	Invoice	Reference	EFT	Type	Lookup	Vendor	Description	User Abbr
8/09/2026	<none>	123				GUA1	GUARDIAN	Test bill	CD

Paying the selected bills will cause the bank account to be overdrawn by -6,591.03.
Are you sure you want to pay these bills?

YesNo

Check date

8/10/2026

Current balance

91,408.97

1 Bills marked for

100,000.00

New balance

-6,591.03

Generate

Report

Close

Reporting Should Help You Manage — Not Just Meet a Deadline

Turn accounting data into decision support.

Run: 8/26/2026 8:00 AM	Page: 1
Check Register	

Check	Date	Vendor / Description	Check / Payment
0010091	1/14/2026	[MUN1] MUNI-LINK LLC (Invoices 3361, 3362, 3363)	3,123.89
0010103[VOI	2/17/2026	[MUN1] MUNI-LINK LLC (Invoices 3848, 3849, 3850, 3921, 3926, 3927)	4,949.54
0010103	2/17/2026	[MUN1] MUNI-LINK LLC (Invoices 3848, 3849, 3850, 3921, 3926, 3927)	
0010102	2/17/2026	[MUN1] MUNI-LINK LLC (Check Number Fix)	4,949.54
0010132	3/25/2026	[MUN1] MUNI-LINK LLC (Invoices 4307, 4308, 4309, 4310, 4311)	3,449.54
0010140	4/13/2026	[MUN1] MUNI-LINK LLC (Invoices 4806, 4807, 4808, 4809, 4810)	3,455.53
0010154	5/14/2026	[MUN1] MUNI-LINK LLC (Invoices 5305, 5306, 5307, 5308, 5309)	3,455.53
0010163	6/03/2026	[MUN1] MUNI-LINK LLC (Invoices 5763, 5764, 5765, 5766, 5767)	3,455.53
0010171	7/24/2026	[MUN1] MUNI-LINK LLC (Invoices 6082, 6206, 6346, 6347, 6350)	3,455.53
0010174	8/13/2026	[MUN1] MUNI-LINK LLC (Invoices 6510, 6634, 6774, 6775, 6778)	3,455.53
Total Checks:			33,750.16

Move from “What happened?” to
“What’s next?”

Analytics + budget forecasting

In Summary

A well-functioning finance program needs:

Political Will

**People with the best
possible skill sets**

Fund Accounting Software

**Investment in Ongoing Training
& Cross-Training**

**Ongoing Subsidy Support
for financially stressed
places**

Shared services can make professional financial capacity attainable at a scale that works for smaller municipalities.