Financial Fraud in the Public Sector
Trends & Mitigation Techniques

2026 Public Sector Seminar

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Speaker Bio

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Bob is a member of the Forensics & Valuation practice unit where he provides fraud investigation, forensic accounting, and litigation consulting services. His experience encompasses a wide spectrum of financial consulting matters spanning multiple industries and client types. Bob works closely with corporate stakeholders, in-house and outside counsel, auditors, and special committees on forensic and fraud investigations with an emphasis on SEC enforcement matters and fraudulent financial reporting.

His experience also includes investigations related to the Foreign Corrupt Practices Act, commercial litigation involving technical accounting issues, assisting clients with post-acquisition accounting disputes, and conducting proactive compliance-related work, such as anti-corruption assessments and broader compliance program related assessments, on behalf of public and private companies.

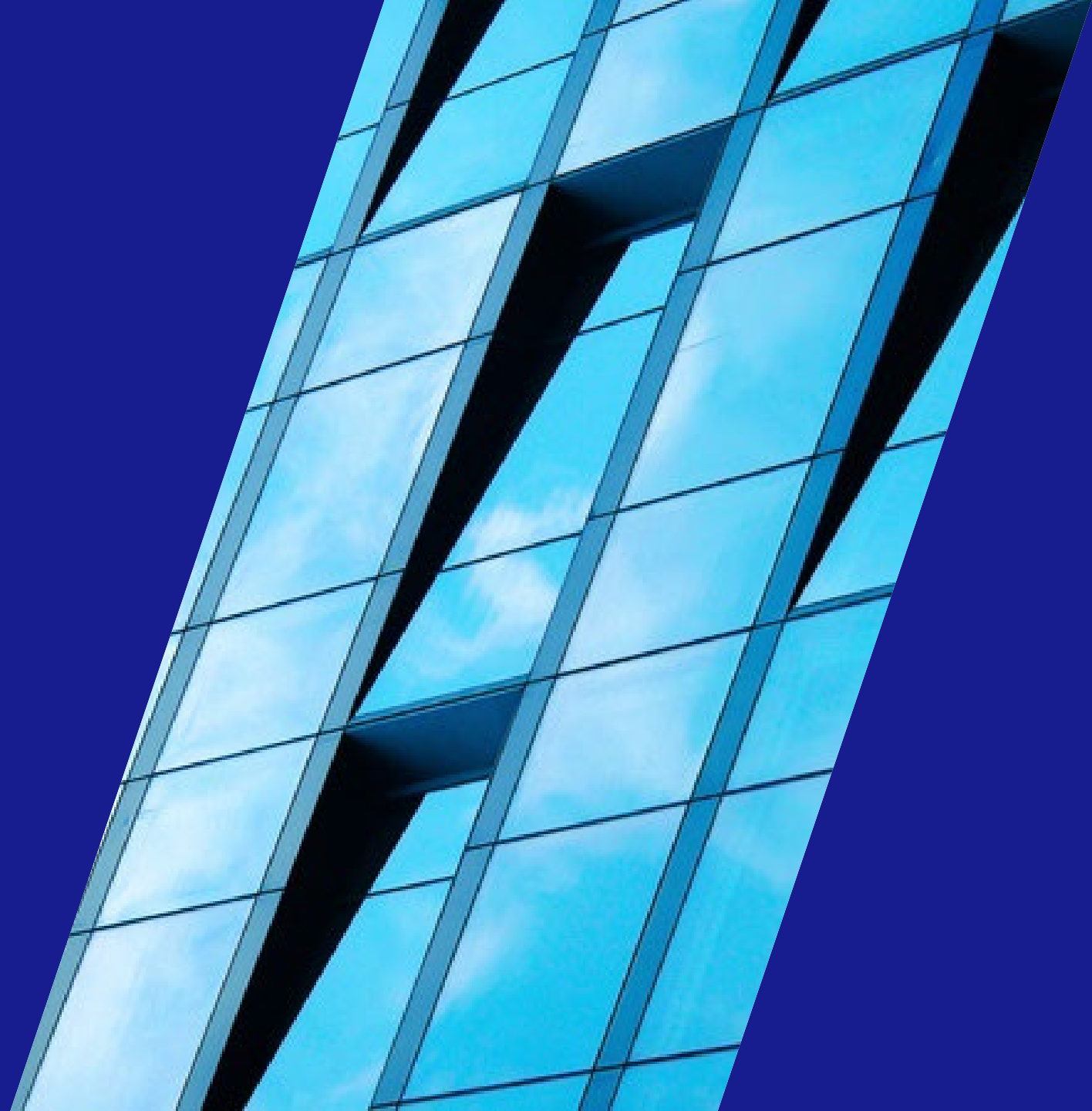
Prior to joining the Forensics & Valuation practice unit, Bob spent more than 22 years working for two global professional service firms. He also worked as an enforcement accountant in the enforcement division of the SEC, where he investigated potential securities laws violations. Bob's prior experience also included conducting financial statement audits on behalf of multinational public and private companies.

Bob is a graduate of Bates College, Lewiston, Maine, with a B.S. degree in economics, and a graduate of Northeastern University, Boston, Massachusetts, with an M.B.A. degree and an M.S.A. degree.

01

Public Sector Financial Fraud

Scope, Patterns, and Risk



Do Good People Commit Fraud?

“Corruption, embezzlement, fraud, these are all characteristics which exist everywhere. It is regrettably the way human nature functions, whether we like it or not. What successful economies do is keep it to a minimum. No one has ever eliminated any of that stuff.”

Alan Greenspan

Former Chair, Federal Reserve of the United States

Yes

- Public Servants
- Trusted Employees
- Friends
- Family Members
- Advisors
- Consultants

Donald Cressey's "Fraud Triangle"

Personal integrity may be the most important factor in keeping a person from misappropriating assets.

Association of Certified Fraud Examiners (ACFE)

Occupational Fraud 2024: Report to the Nations

- The report is published as a Biennial report
- It is based on the results of the ACFE 2023 Global Fraud Survey
- Online survey of Certified Fraud Examiners conducted from July 2023 to September 2023

Occupational Fraud

Asset Misappropriation

Definition: Employee stealing or misusing the employing organization's resources

Fact: This is the most common category of occupational fraud occurring in 89% of the cases

Examples:

- Falsified expense claims
- Theft of cash deposits
- Payroll fraud

Corruption

Definition: Employee uses dishonesty and their position of power to benefit themselves at the expense of others

Fact: Almost half (48%) of the cases in the 2024 study involved corruption

Examples:

- Invoice kickbacks
- Bribery
- Conflict of Interest

Financial Statement Fraud

Definition: Employee intentionally caused a material misstatement or omission in the organization's financial statements

Fact: Occurred in the fewest number of cases (5%) but causes the greatest median loss

Examples:

- Manipulation of revenue recognition
- Manipulation of accounting accruals
- Improper capitalization of expenses

Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

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Fraud By The Numbers

Types of Fraud Committed by Percentage

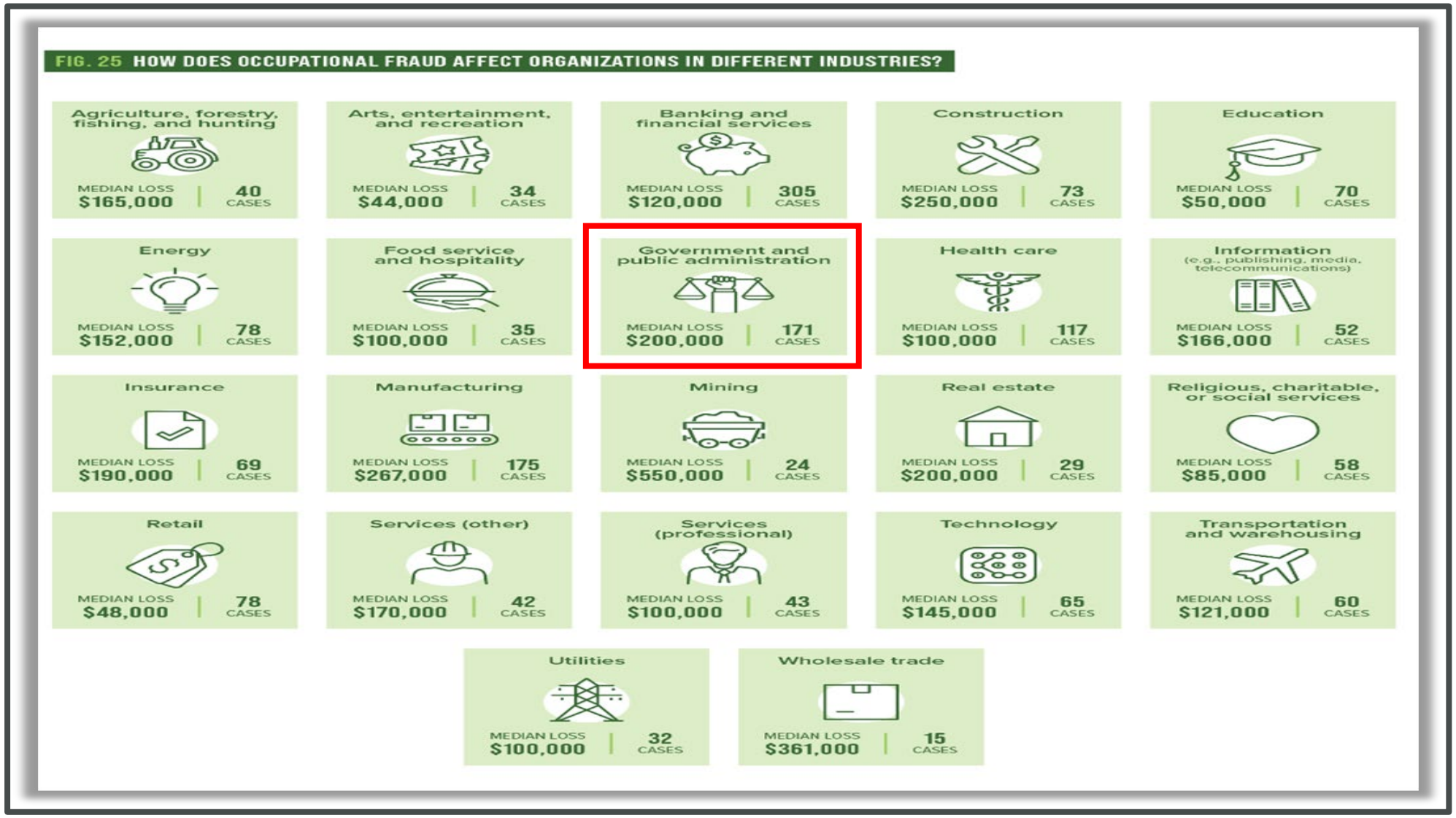
Asset Misappropriation	Corruption	Financial Statement Fraud
89%	**48%**	**5%**

Show me the Money – Median Loss due to Fraud

$120K	**$200K**	**$766K**

Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

Occupational Fraud by Industry



Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

Occupational Fraud Types by Industry

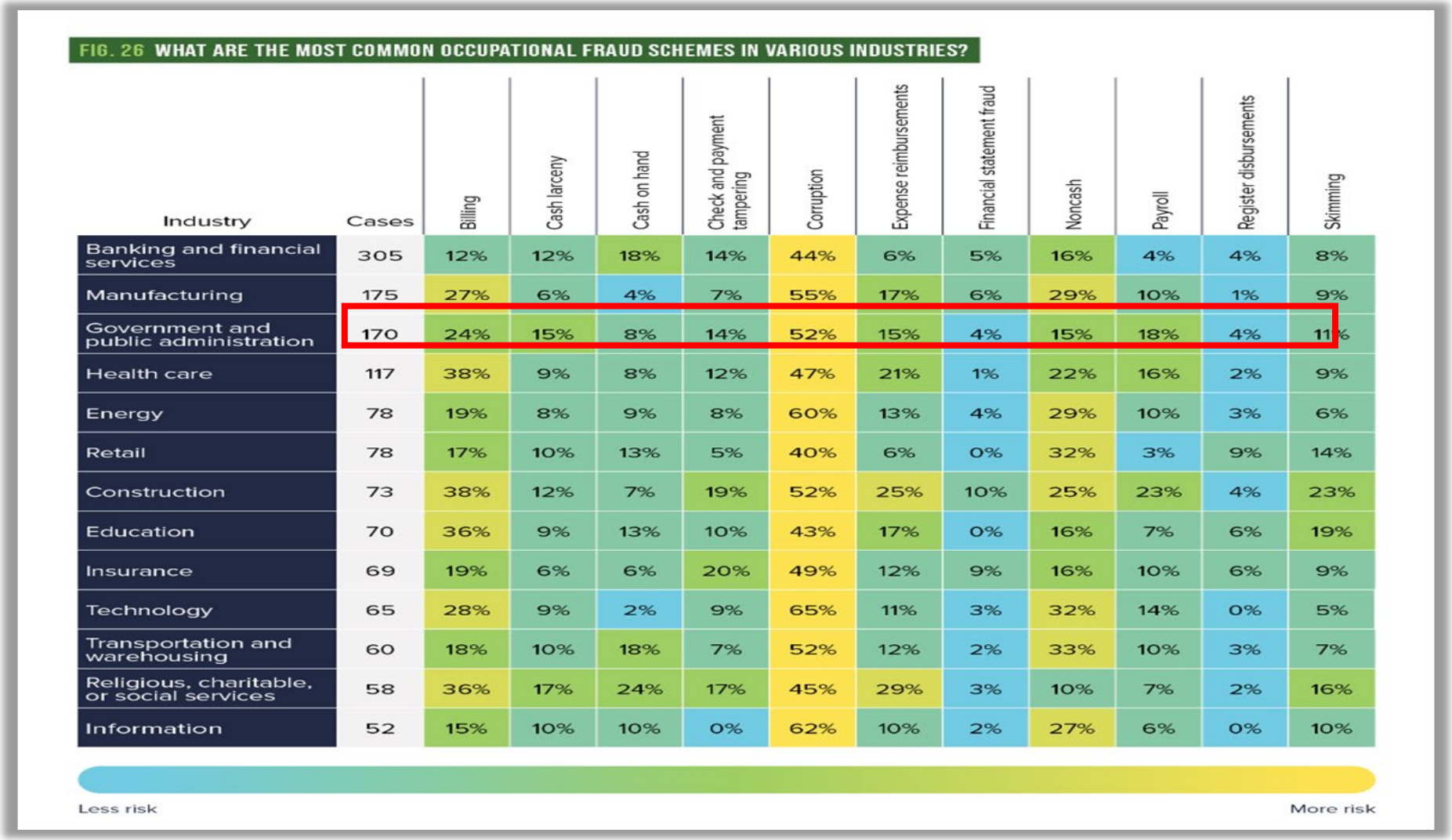


FIG. 26 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN VARIOUS INDUSTRIES?

Industry	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	305	12%	12%	18%	14%	44%	6%	5%	16%	4%	4%	8%
Manufacturing	175	27%	6%	4%	7%	55%	17%	6%	29%	10%	1%	9%
Government and public administration	170	24%	15%	8%	14%	52%	15%	4%	15%	18%	4%	11%
Health care	117	38%	9%	8%	12%	47%	21%	1%	22%	16%	2%	9%
Energy	78	19%	8%	9%	8%	60%	13%	4%	29%	10%	3%	6%
Retail	78	17%	10%	13%	5%	40%	6%	0%	32%	3%	9%	14%
Construction	73	38%	12%	7%	19%	52%	25%	10%	25%	23%	4%	23%
Education	70	36%	9%	13%	10%	43%	17%	0%	16%	7%	6%	19%
Insurance	69	19%	6%	6%	20%	49%	12%	9%	16%	10%	6%	9%
Technology	65	28%	9%	2%	9%	65%	11%	3%	32%	14%	0%	5%
Transportation and warehousing	60	18%	10%	18%	7%	52%	12%	2%	33%	10%	3%	7%
Religious, charitable, or social services	58	36%	17%	24%	17%	45%	29%	3%	10%	7%	2%	16%
Information	52	15%	10%	10%	0%	62%	10%	2%	27%	6%	0%	10%

Less risk — More risk

Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

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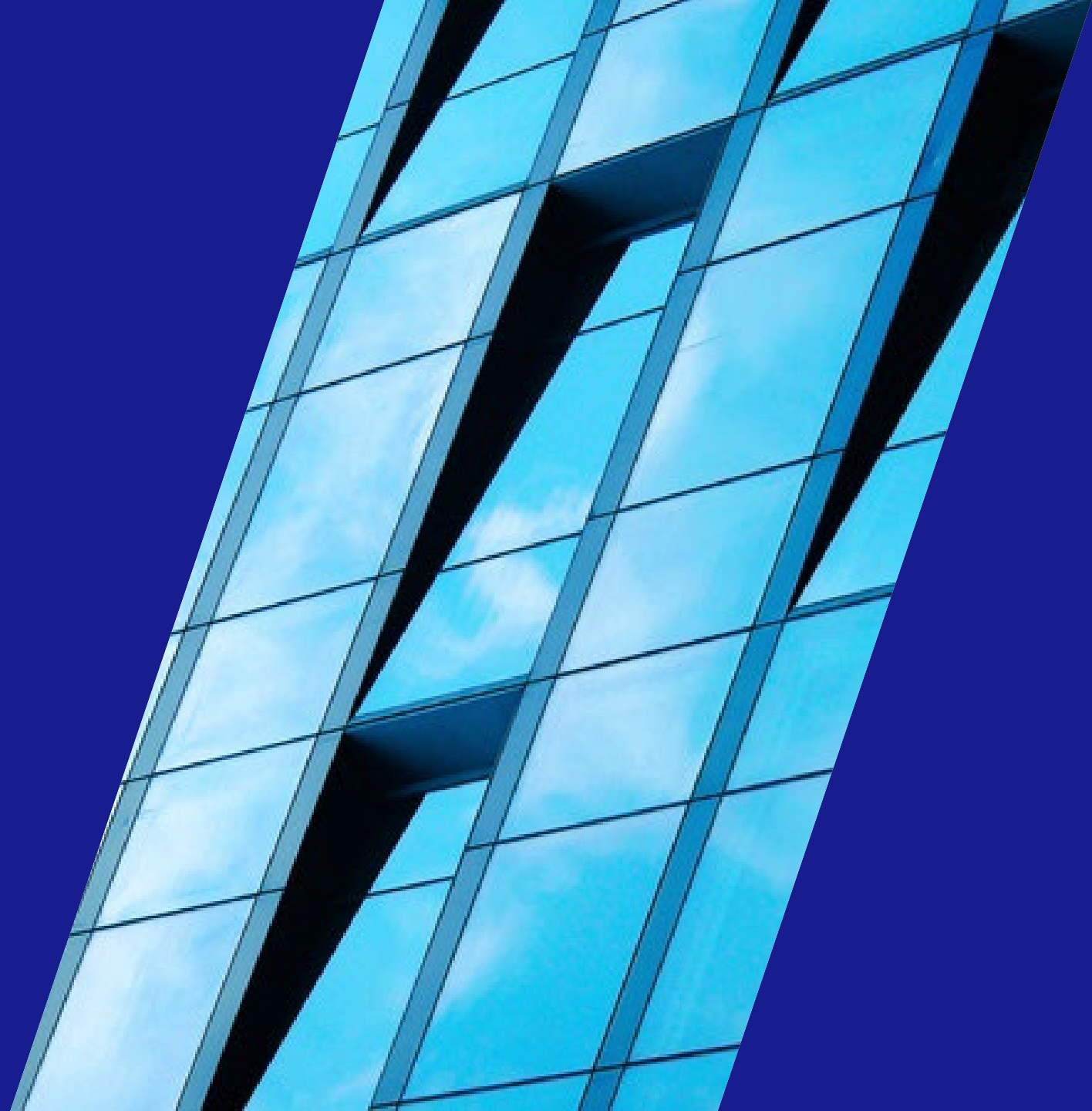
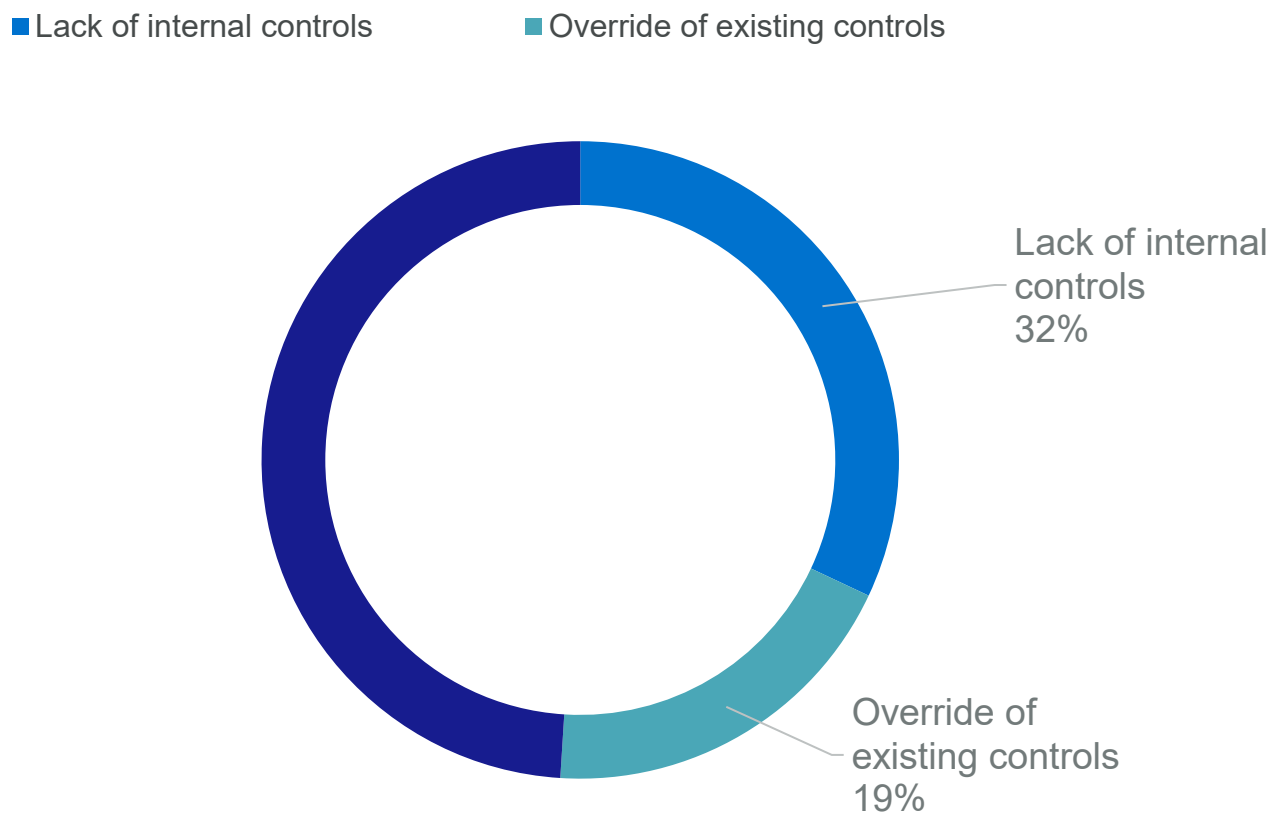
Detection and Prevention – Shifting from Passive to Proactive



Why Does Fraud Happen?
According to the ACFE Report to the Nations

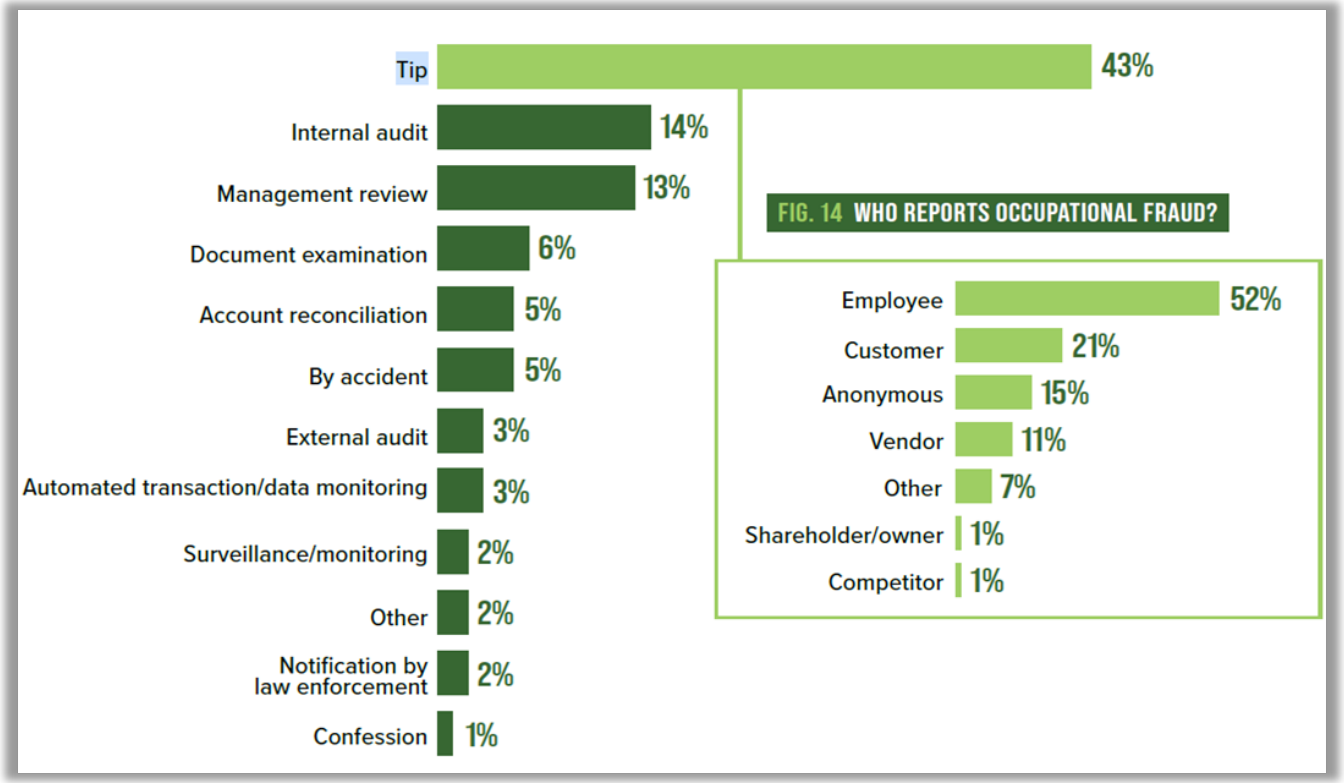
More than half of cases occur due to:



Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

Detecting Fraud
How is occupational fraud initially detected?

From the ACFE Report to the Nations:

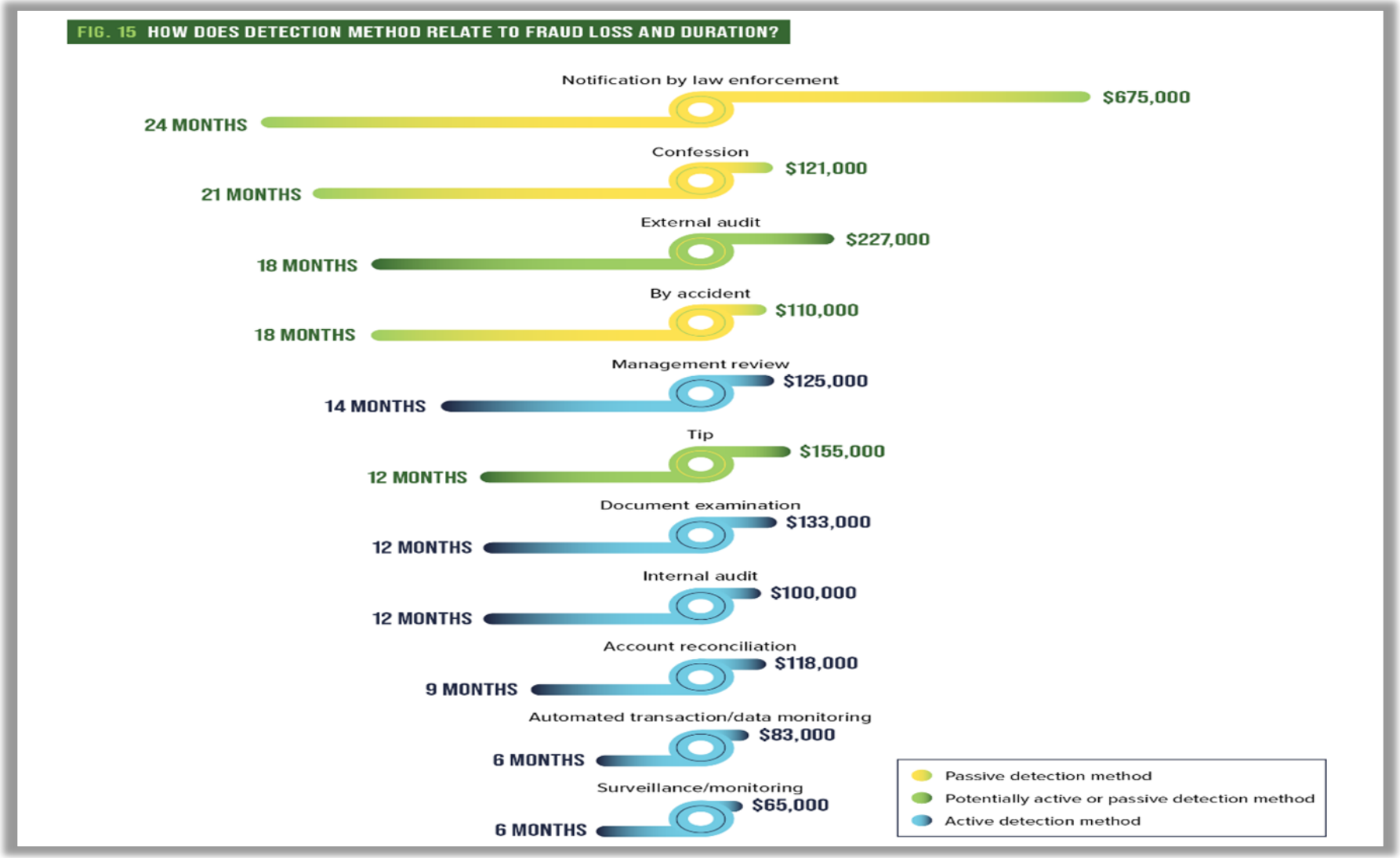


Tips are reported in various ways:

- Directly to internal audit function
  - In-person, or
  - Email account setup specifically for reporting purposes
- Third-party Hotlines
- Directly to Management

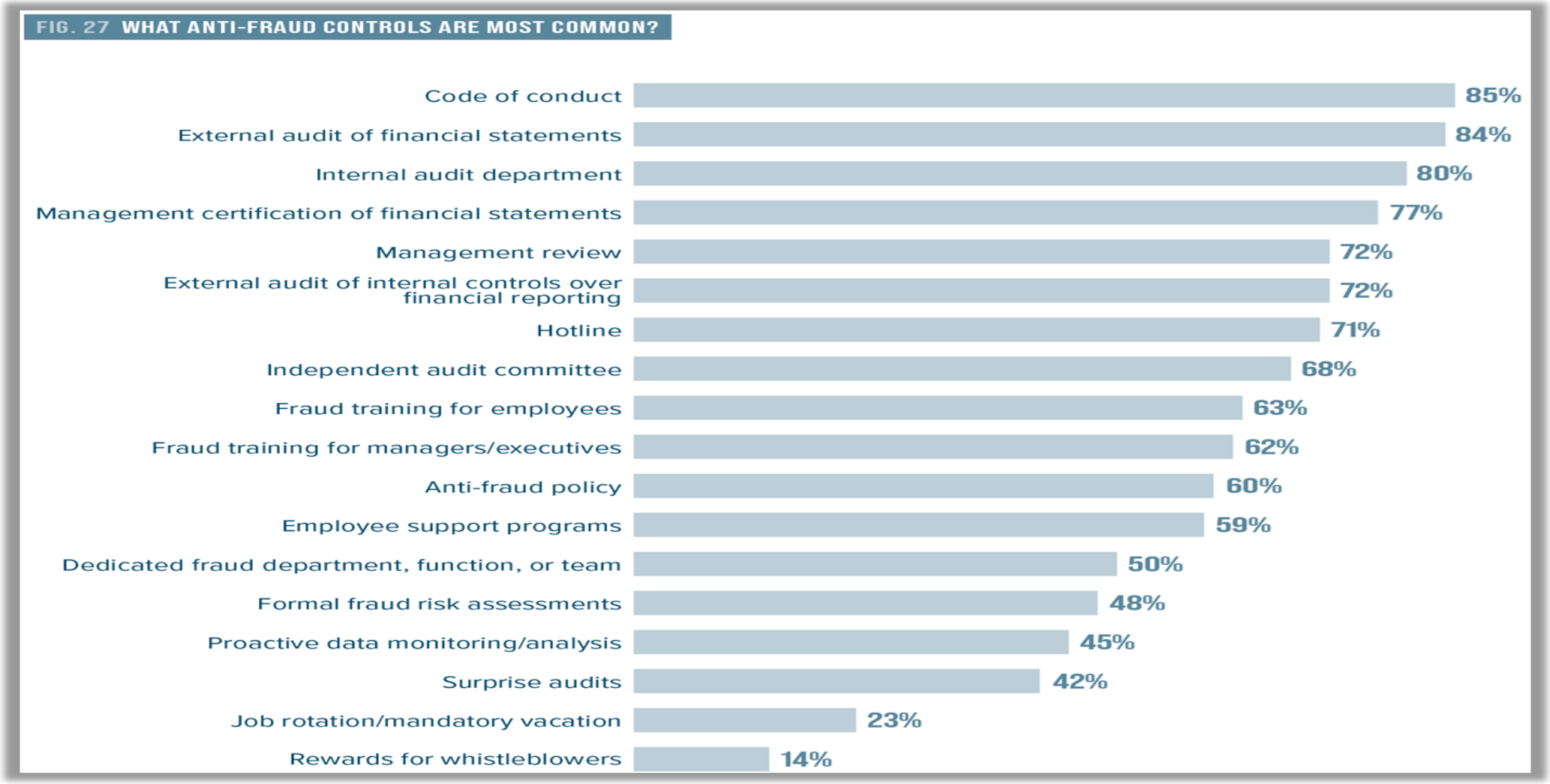
Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

Passive vs. Proactive



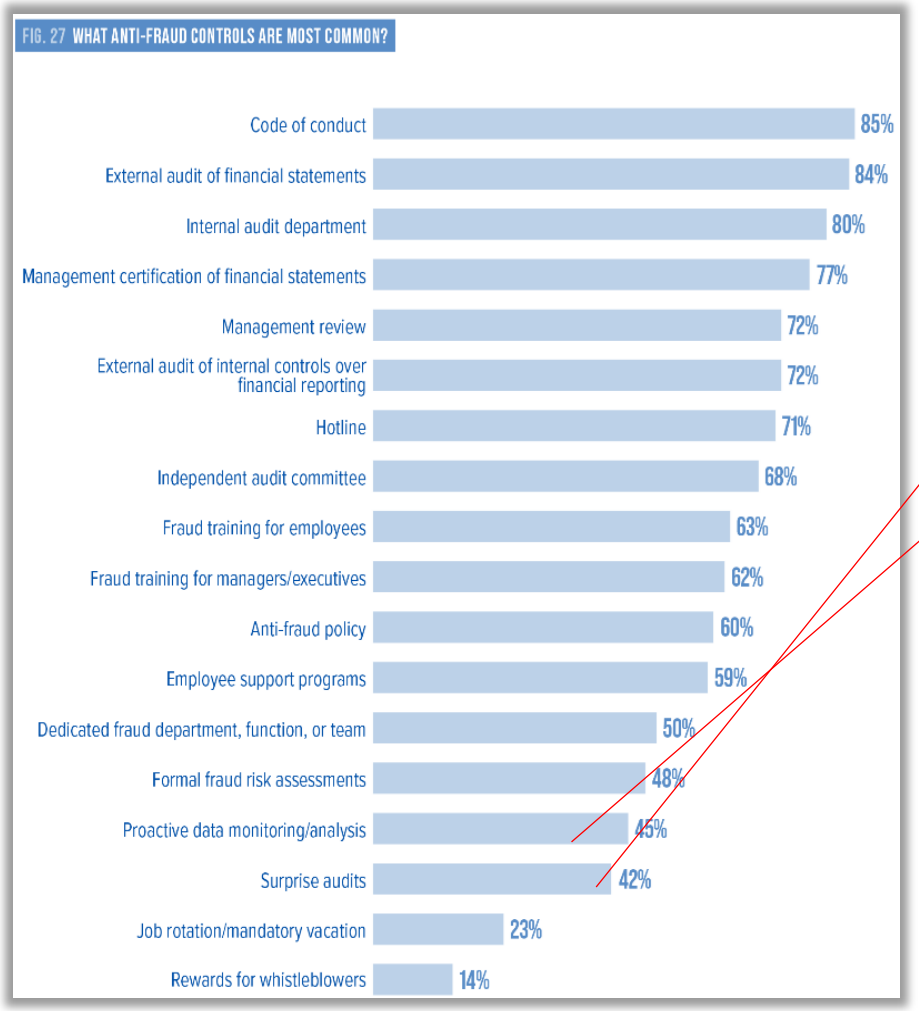
Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

Common Anti-Fraud Controls



Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

Effectiveness of Anti-Fraud Controls



Control	Percent of cases	Control in place	Control not in place	Percent reduction
Surprise audits	42%	$75,000	$200,000	63%
Management review	72%	$100,000	$250,000	60%
External audit of financial statements	84%	$121,000	$250,000	52%
Hotline	71%	$100,000	$200,000	50%
Fraud training for managers/executives	62%	$100,000	$200,000	50%
Anti-fraud policy	60%	$100,000	$200,000	50%
Proactive data monitoring/analysis	45%	$100,000	$200,000	50%
Fraud training for employees	63%	$100,000	$187,000	47%
Formal fraud risk assessments	48%	$100,000	$187,000	47%
Internal audit department	80%	$120,000	$210,000	43%
Dedicated fraud department, function, or team	50%	$109,000	$184,000	41%
Code of conduct	85%	$121,000	$200,000	40%
Management certification of financial statements	77%	$120,000	$200,000	40%
External audit of internal controls over financial reporting	72%	$119,000	$199,000	40%
Employee support programs	59%	$101,000	$150,000	33%
Independent audit committee	68%	$120,000	$165,000	27%
Rewards for whistleblowers	14%	$110,000	$145,000	24%
Job rotation/mandatory vacation	23%	$115,000	$150,000	23%

Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

Prevention & Detection Guidance

Prevention Strategies

- Strong policies and procedures
- Segregation of duties
- Education and training
- Transparency
- Whistleblower protections
- Regular audits

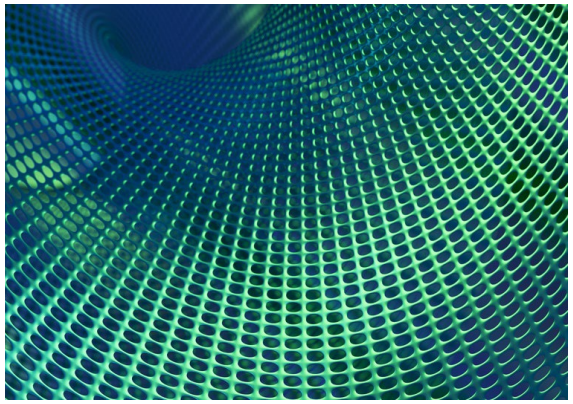
Detection Strategies

- Monitoring systems
- Data analytics
- AI and machine learning
- Internal controls
- Investigations
- Collaboration with law enforcement

03

Continuous Monitoring: Seeing Risk before it Becomes Fraud

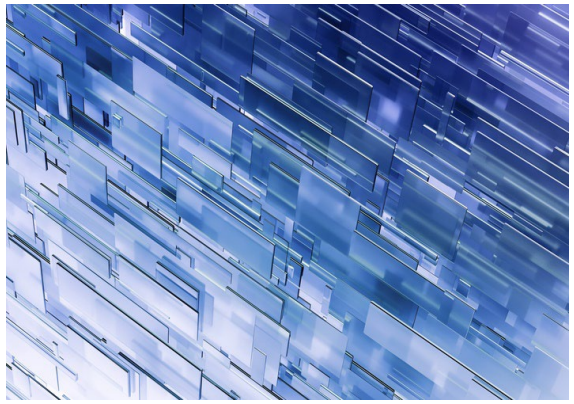
Why Continuous Monitoring?



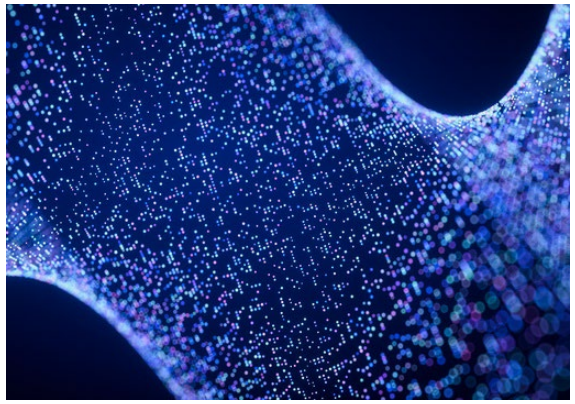
Most frauds are iterative, cumulative, and adaptive.

So…

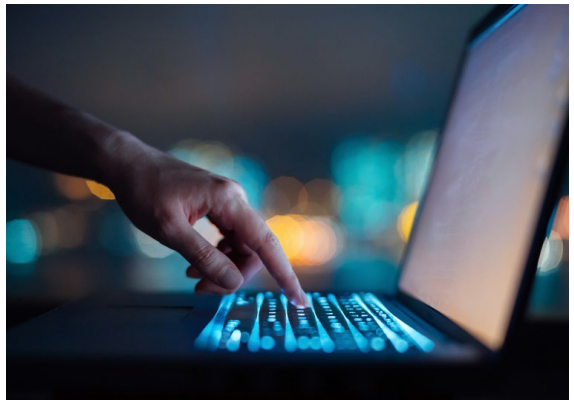
- Small adjustments become routine
- Overrides increase gradually
- Estimates drift further from reality each period



Frauds rarely start material — they become material when no one notices the patterns.

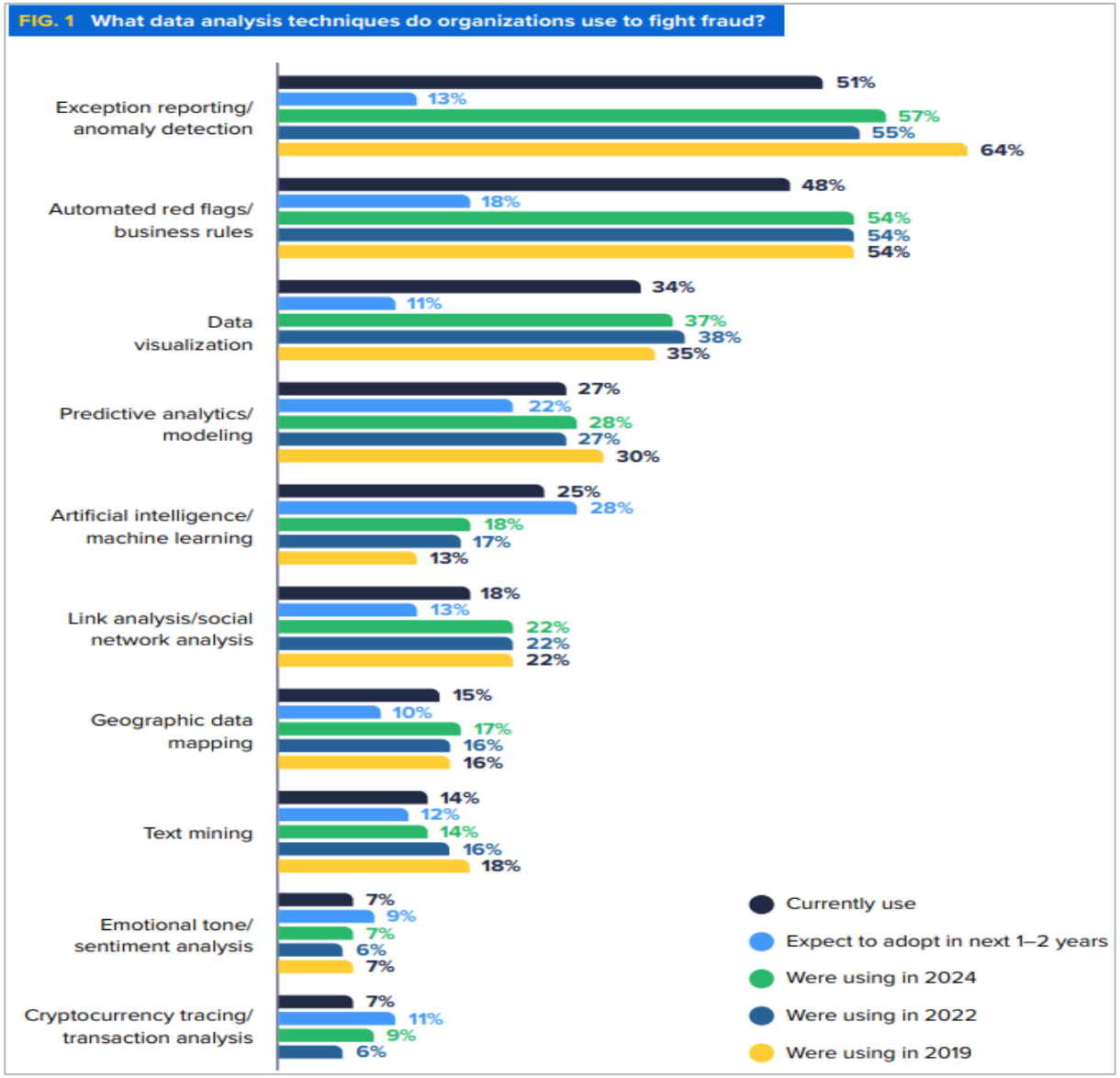


Analytics occurs in real time, and spots emerging patterns, subtle departures from normal, and do not rely solely on static rules.



Often reported via interactive dashboards, alerts, and AI-assisted detection.

Use of Data Analytics in Anti-Fraud Programs



Source: *2026 Anti-Fraud Technology Benchmarking Report, Association of Certified Fraud Examiners and SAS*

Why Automation and Dashboards?

Automated systems are built once; removes procrastination

Visual analysis is superior to table outputs

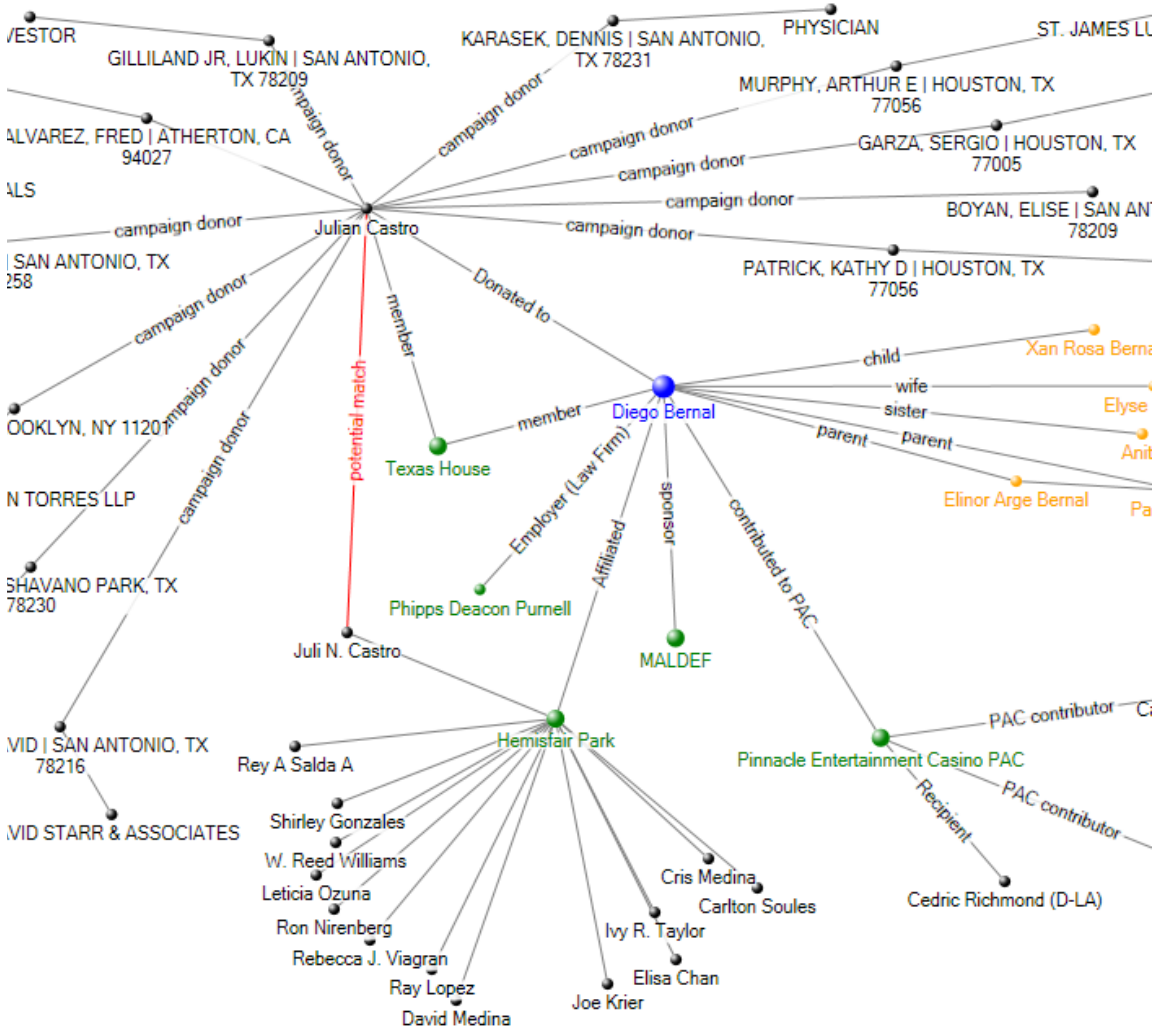
Interactive visualization supports knowledge discovery and question asking

Continuous monitoring systems are capable of sending email/text alerts and even halting suspicious transactions before they occur.

Creates a solid technological foundation for supporting AI-assisted detection.

Network Relationship Mapping

A Digital “Crazy Wall” for Tracking Relationships



Sources for Mapping

- Email
- Social Media
- Observation
- Interviews
- Documents

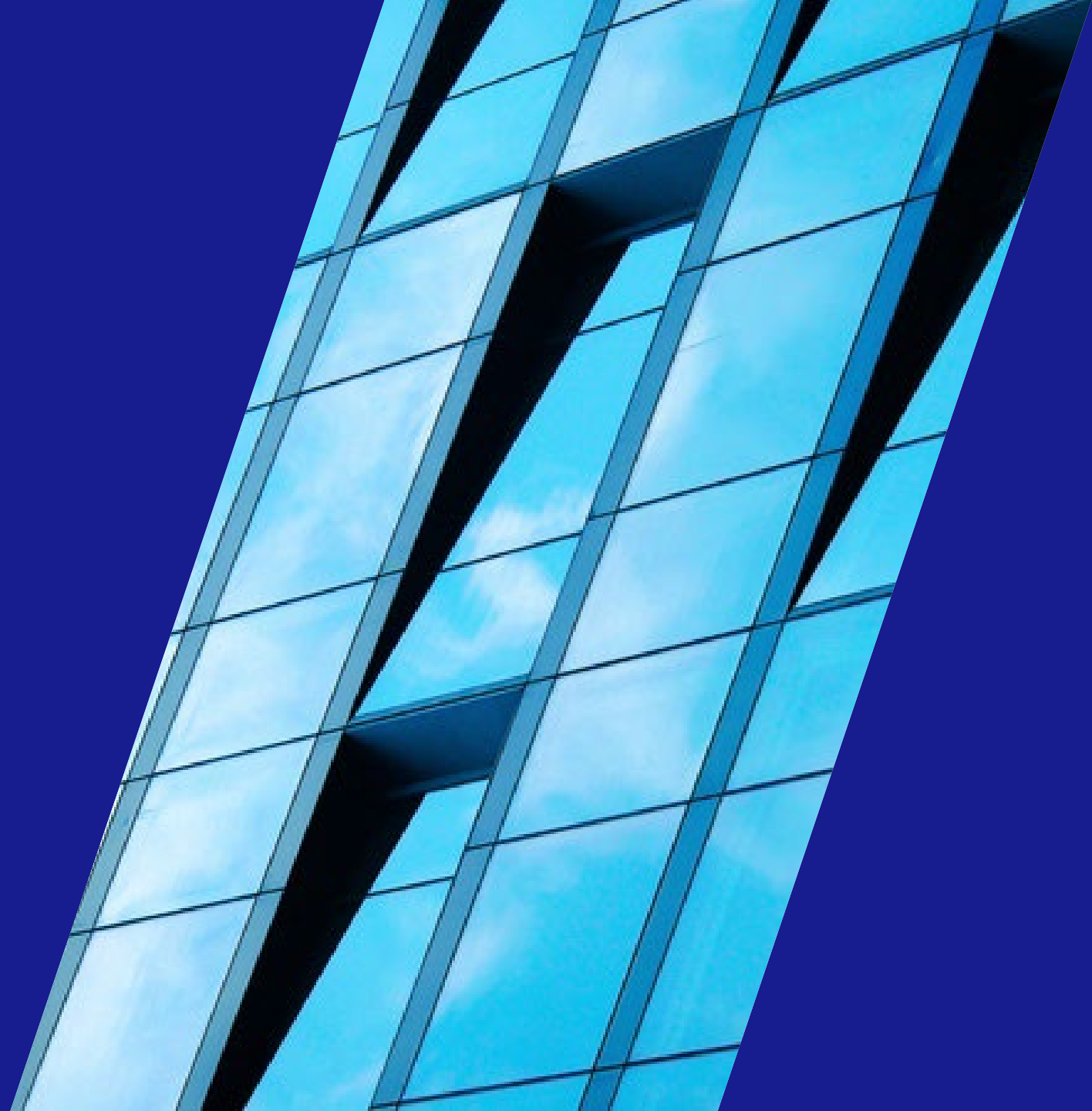
nodexl.com

- Excellent for tracking leads on larger investigations, particularly conflicts of interest and “buddy networks”.

04

Artificial Intelligence

A Double-Edged Sword in Fraud Risk



2026 ANTI-FRAUD TECHNOLOGY BENCHMARKING REPORT

Collaboration report by the ACFE and SAS

Preparedness for AI-Related Fraud

7%

Only **7%** of organizations are **more than moderately prepared to detect and/or prevent AI-POWERED FRAUD.**

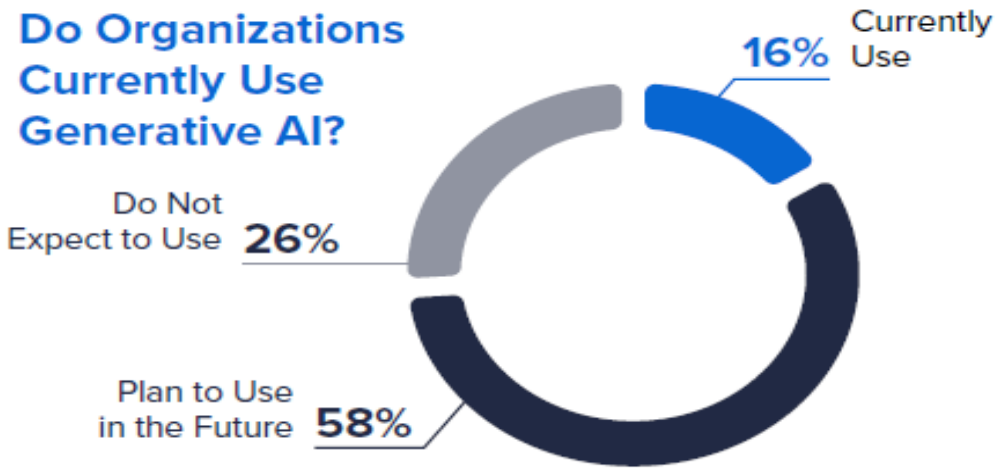
These schemes have increased the most over the past two years:

- **Deepfake Social Engineering**
- **Consumer Fraud/Scams**
- **Generative AI Document Fraud/Forgery**
- **Deepfake Digital Injection**

Generative AI in Anti-Fraud Programs

Accuracy of results or output was the **most important factor** in considering whether to implement generative AI as part of an anti-fraud program, with **86%** of organizations rating it important or very important.

Do Organizations Currently Use Generative AI?



Among organizations using generative AI, it is most commonly used for:

- **Phishing and Scam Detection (49%)**
- **Risk Identification/Assessment (46%)**
- **Report Writing (45%)**

Source: *2026 Anti-Fraud Technology Benchmarking Report, Association of Certified Fraud Examiners and SAS*

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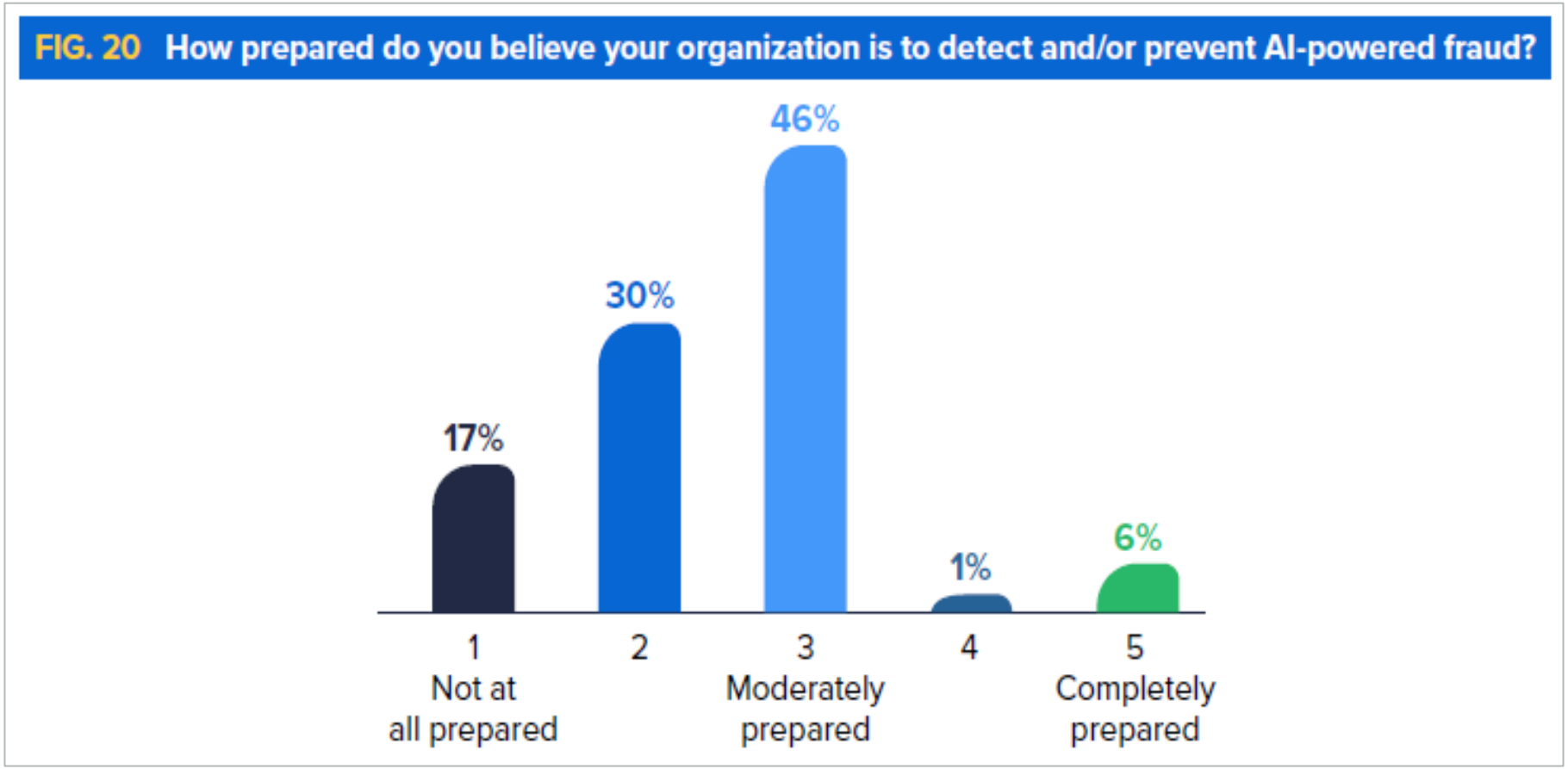
Preparedness for AI-Related Fraud



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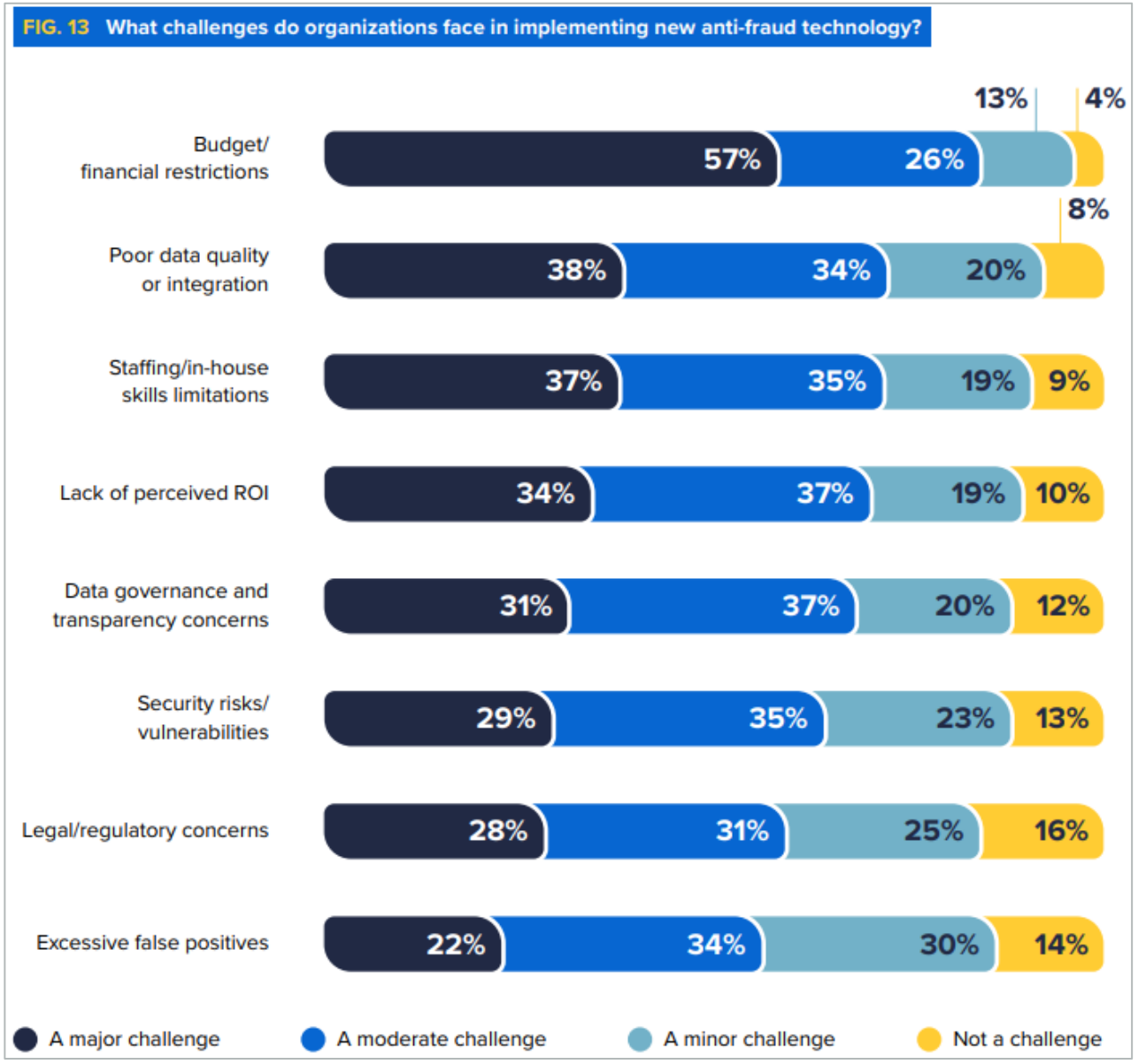
Preparedness for AI-Related Fraud



Source: *2026 Anti-Fraud Technology Benchmarking Report, Association of Certified Fraud Examiners and SAS*

AI Uses in Fraud Detection

Automated Anomaly Detection

- Unusual transaction amounts
- Multiple transactions from the same device
- Purchases made from different locations in a short period of time

Behavioral Analysis

- Purchases outside of normal spending habits

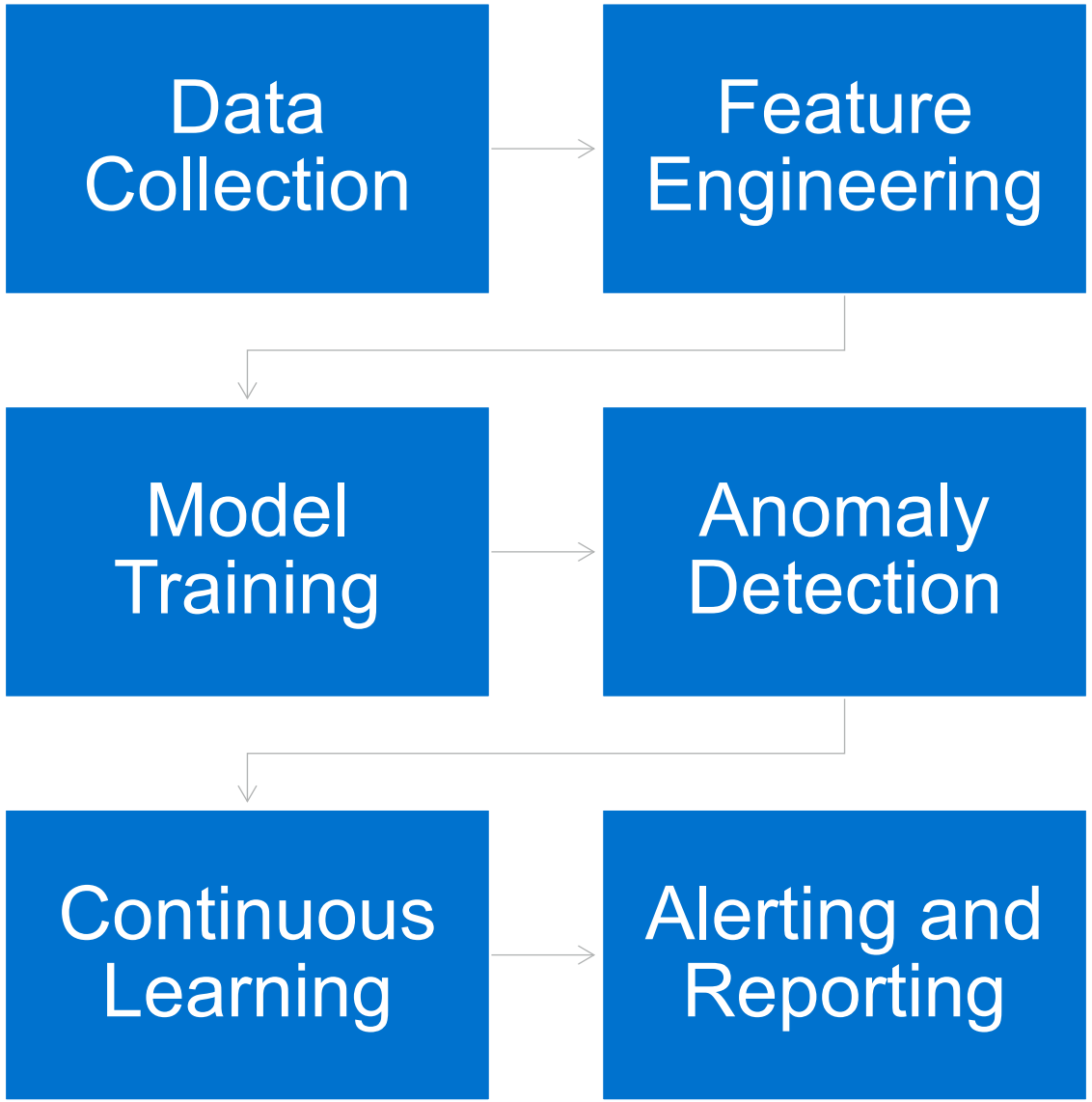
Natural Language Processing

- Analyze individual communications (email or chats) to identify indications of fraud

Continuous Learning

- AI can be continually trained with new data to improve accuracy and effectiveness over time

How Does AI Fraud Detection Work



Benefit of AI Fraud Detection

- Real-time detection and prevention
- Scalability
- Cost reduction
- Increased accuracy
- Stakeholder trust and satisfaction

Challenges of AI Fraud Detection

- Data quality and availability
- Integration with existing systems
- False positives and stakeholder friction
- Keeping up with evolving threats
- Regulatory compliance and ethical considerations

Role of AI in Continuous Monitoring

Supervised Machine Learning

Can learn transaction and behavior patterns and identify departures from normal. Paired with continuous monitoring, can send alerts and even stop transactions.

LLM-style AI

“Master oversight” function can correlate apparently unrelated data and patterns that individually seem trivial but together tell a story (refer to previous example).

Agentic AI

(AI that can make decisions on next steps) is proving useful in reconciliations, spotting fraudulent behavior, and errors.

Unsupervised Machine Learning

Are adept at identifying outliers and anomalies for which there may (yet) be no rules.

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