

Lots of Federal Money is Coming. So Are The Fraudsters.



Local governments are managing more money than ever before, thanks to major federal spending programs enacted last year. The American Rescue Plan Act is sending \$350 billion in direct aid to states and localities, while the Infrastructure Jobs and Investment Act created more than 550 billion in new funding and competitive grant opportunities over the next five years.

The new money is a welcome relief for governments that have dealt with federal austerity measures during the last decade. But it also brings challenges. Vendor payments and grant disbursements, in which many billions will be spent, are two of the top areas where fraud occurs. Simply put, lots more money means lots more risk.

Corruption in public spending has been with us as long as government has existed, of course, but with so much new money flowing in from Washington, the fear of fraud, waste and abuse is especially acute.

An **Association of Government Accountants** survey published last year found that more than half of government auditors and financial managers **considered the risk of fraud higher than before the pandemic**.

This is especially tricky for local governments, which are seeing **record numbers of retirements and resignations**, and struggling to hire new employees to handle the workload.

There's a lot at stake.

According to a **recent Stateline report**, some experts are predicting that fraudsters could skim \$120 billion or more from the federal infrastructure money states and local governments will receive over the next five years.

"Monitoring is critical. You have to have somebody looking," Stephen Street, president of the nonprofit Association of Inspectors General, told Stateline. "Once you award a contract for a transportation project, is it being honored? Is there fraud in the area of specs, materials, inspections? Is the company real?"

Governments won't want to find out the answers to questions like those the hard way.

Watchdog groups, such as the Coalition for Integrity, and even some states are highlighting the need to proactively monitor the process and identify risks rather than wait to conduct audits after the fact. Connecticut, for example, is considering requiring quarterly reports and public hearings in front of legislative committees concerning infrastructure spending.

Data and technology can play a critical role in facilitating this process and detecting fraud before it runs rampant, but this remains an area where governments are behind: **nearly one-third of government respondents in the AGA survey said they had not implemented technology** in their anti-fraud programs, despite its potential to help mitigate fraud risk.

Respondents added that better data sharing within agencies and among government entities could improve fraud prevention and detection efforts.

The Good News.

Governments can use funds from both the American Rescue Plan and the infrastructure law to invest in systems that will help them monitor and track their funds. They can also use federal money to train staff to identify fraud.

Robust data analytics tools such as the **ThirdLine monitoring platform** can detect, in real time, whether out-of-the-norm transactions are occurring or purchasing approvals are following unusual patterns. By flagging potential problems automatically, technology can give auditors a hint of where their time and effort will most likely produce results, saving time and money.

In 2020, for example, a vendor for the City of Tulsa switched its bank account number, deposited a \$600,000 payment from the city, then switched the bank account number back. ThirdLine quickly flagged that transaction and Tulsa was able to intercept the deposit, saving taxpayer dollars and countless hours of investigation.

But no matter what tools governments use to detect fraud and monitor risk, they will work best when there is an organizational culture that encourages cross-agency communication, diligence and accountability. Government leaders should find out what kind of internal controls are already in place in their organizations. These can be found in annual auditor reports.

Where shortcomings are discovered, improvements can be made. Government employees' responsibilities can be separated, for example, so that no single employee can authorize a transaction and execute payment for it. Another example of a strong internal control is having adequate documentation to enable detection of when rules and procedures are bypassed.

Many local governments and their partners view this unprecedented time as a chance to effect real, transformational change in their communities. It's time to get creative and think about how our investments will impact future generations. But remember that fraudsters are also getting creative, and protecting those future investments starts with being diligent in the present.