Audit Committee

Overview of Fraud

Item 7b

September 14, 2026

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Item 7b
Overview of Fraud

Subject

Overview of Fraud

Purpose

To provide information to the Board on occupational fraud

Overview of Fraud

What is Occupational Fraud?

When an employee, manager, or executive uses their job for personal gain by purposely misusing or stealing resources or assets from their organization.

Source: Association of Certified Fraud Examiners

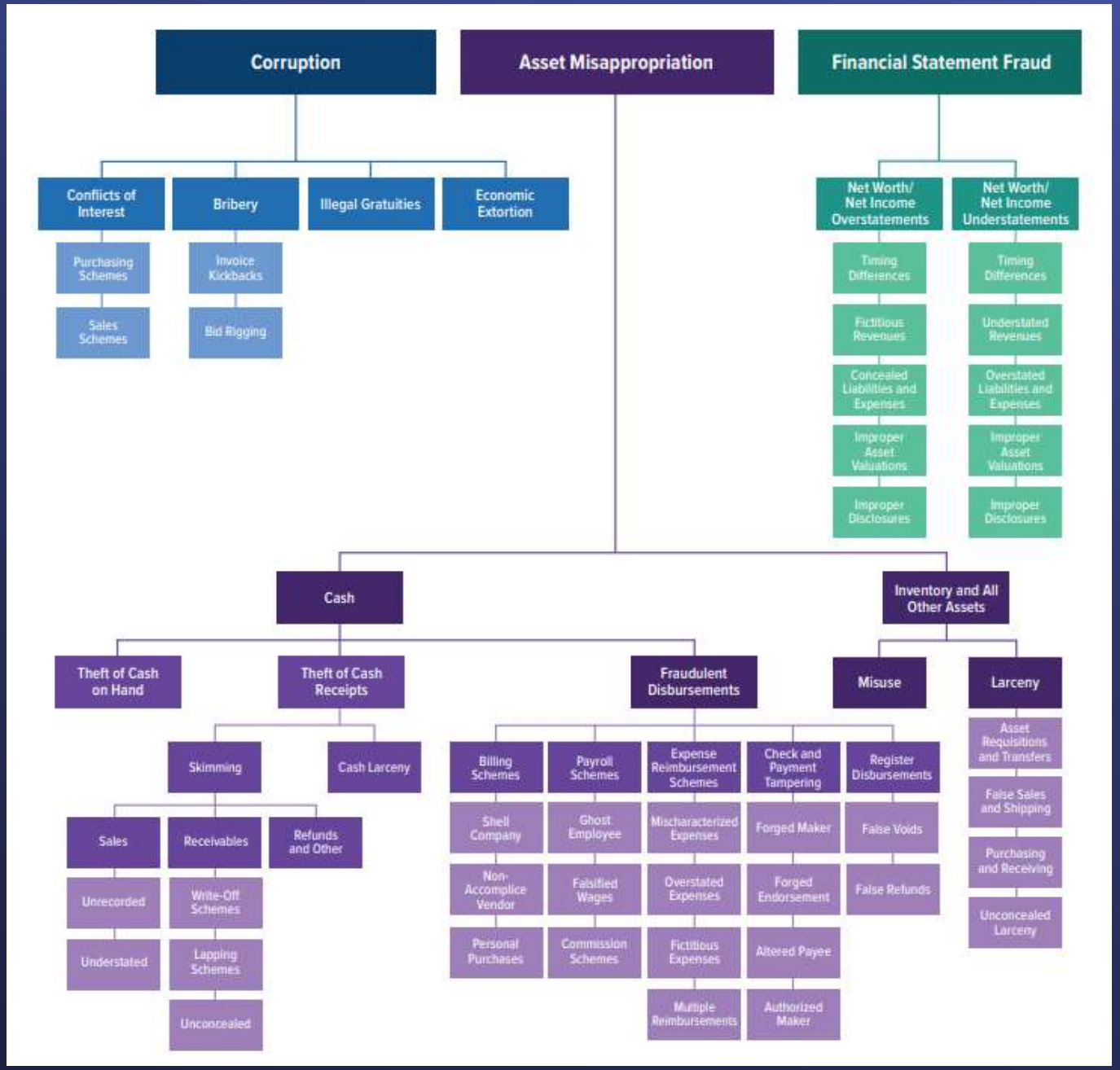
Overview of Fraud

Why Understanding Fraud Matters

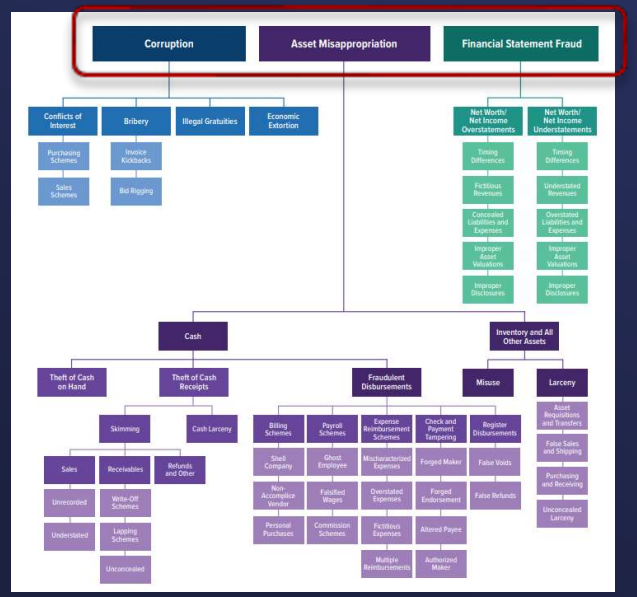
- Not only a financial risk, but an organizational risk.
- Public agencies are not immune.
- Results from weak or overridden internal controls.
- Effective governance reduces risk.

Fraud Triangle

Fraud Tree


Corruption
Asset Misappropriation
Financial Statement Fraud
Conflicts of Interest
Bribery
Illegal Gratuities
Economic Extortion
Purchasing Schemes
Sales Schemes
Invoice Kickbacks
Bid Rigging
Net Worth/ Net Income Overstatements
Net Worth/ Net Income Understatements
Timing Differences
Fictitious Revenues
Concealed Liabilities and Expenses
Improper Asset Valuations
Improper Disclosures
Timing Differences
Understated Revenues
Overstated Liabilities and Expenses
Improper Asset Valuations
Improper Disclosures
Cash
Inventory and All Other Assets
Theft of Cash on Hand
Theft of Cash Receipts
Fraudulent Disbursements
Misuse
Larceny
Skimming
Cash Larceny
Billing Schemes
Payroll Schemes
Expense Reimbursement Schemes
Check and Payment Tampering
Register Disbursements
Asset Requisitions and Transfers
False Sales and Shipping
Purchasing and Receiving
Unconcealed Larceny
Sales
Receivables
Refunds and Other
Shell Company
Ghost Employee
Mischaracterized Expenses
Forged Maker
False Voids
Unrecorded
Understated
Write-Off Schemes
Lapping Schemes
Unconcealed
Non-Accomplice Vendor
Falsified Wages
Overstated Expenses
Forged Endorsement
False Refunds
Personal Purchases
Commission Schemes
Fictitious Expenses
Altered Payee
Multiple Reimbursements
Authorized Maker

Overview of Fraud



Fraud Tree (con't)

Corruption

- Conflicts of Interest
- Bribery
- Illegal Gratuities
- Economic Extortion

Asset Misappropriation

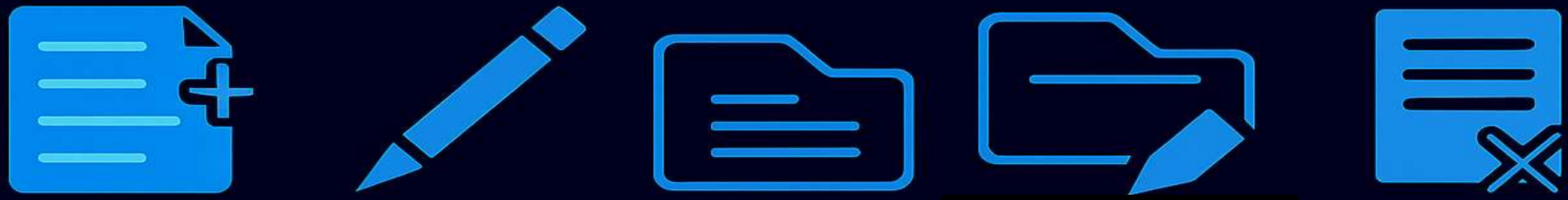
- Cash
- Inventory
- Other Assets

Financial Statement Fraud

- Understatement of Income/Net Worth
- Overstatement of Income/Net Worth

Source: Association of Certified Fraud Examiners (ACFE)

How Occupational Fraudsters Conceal Their Schemes



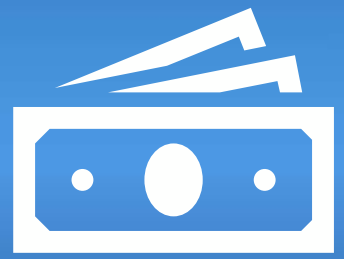
Created fraudulent physical documents	Altered physical documents	Created fraudulent electronic documents	Altered electronic documents or files	Destroyed or withheld physical documents
39%	33%	28%	28%	19%

Source: Occupational Fraud 2026: *A Report to the Nations*

Overview of Fraud

Fraud in Government

336 cases



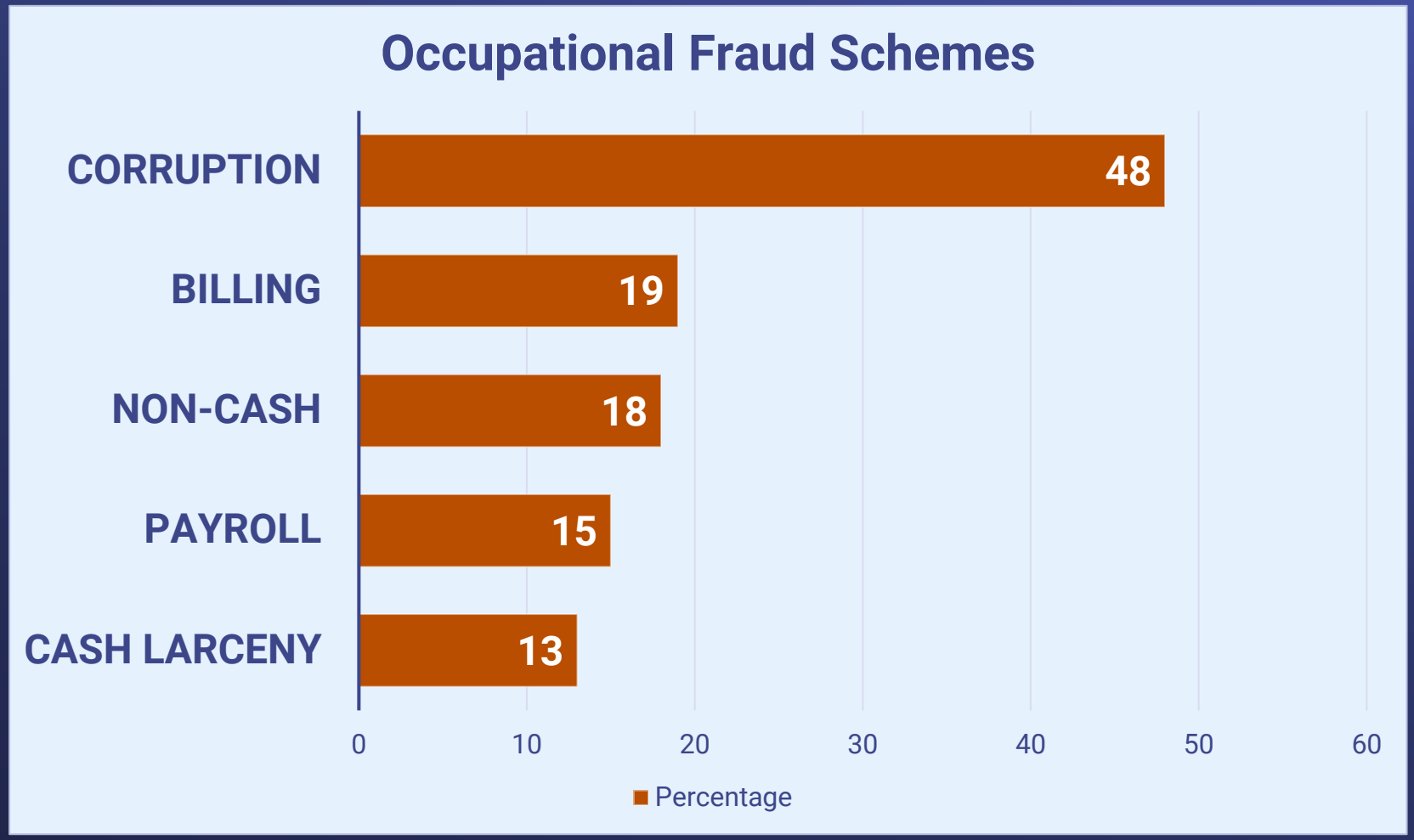
$2,061,000 average loss

16% executive level

Source: Occupational Fraud 2026: A Report to the Nations

Overview of Fraud

Fraud in Government (con't)



Source: Occupational Fraud 2026: A Report to the Nations

Overview of Fraud

Fraud in Government (con't)

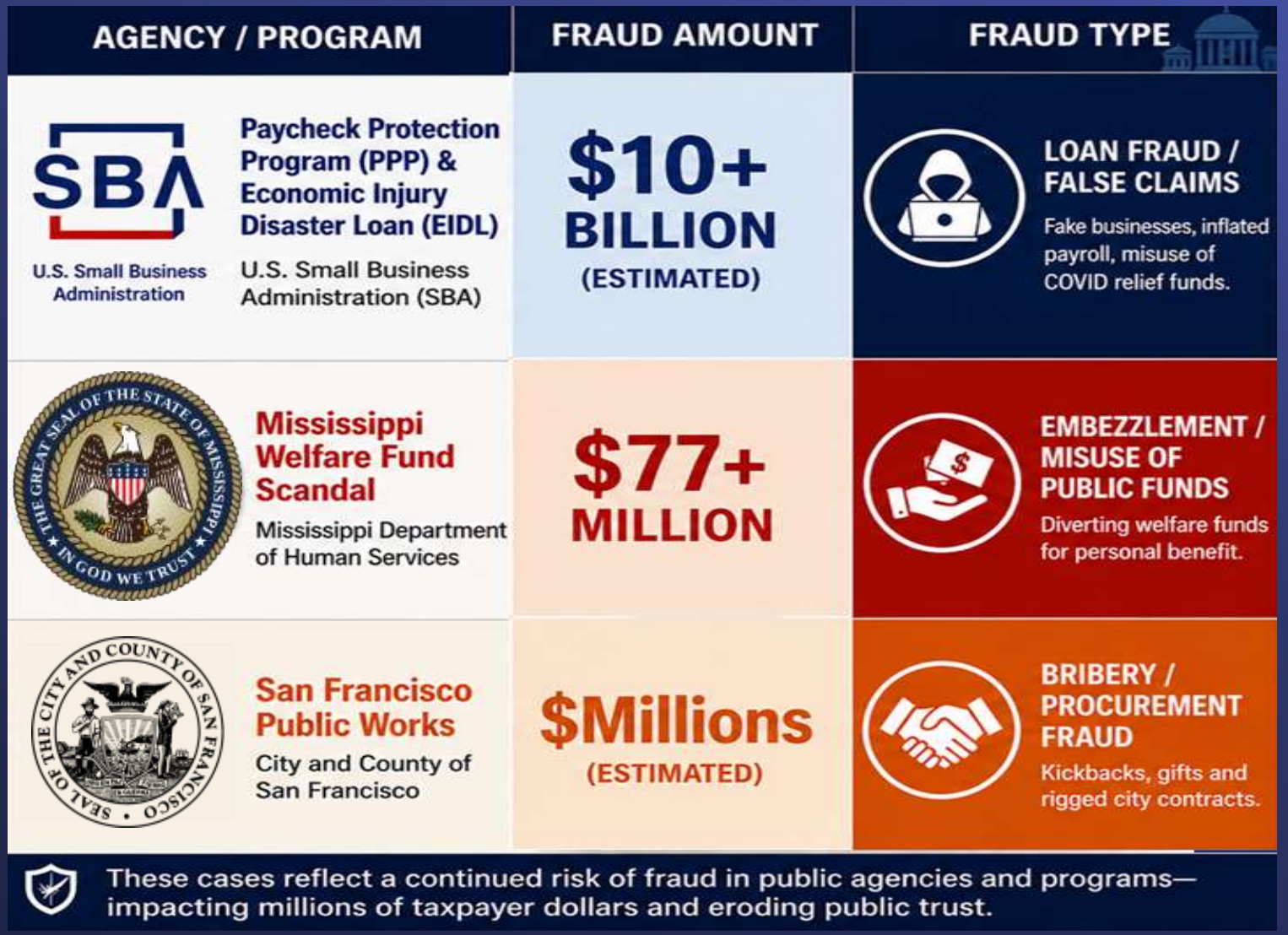
Top Three Ways Fraud is Detected

- Tip (43%)
- Internal Audit (15%)
- Management Review (13%)

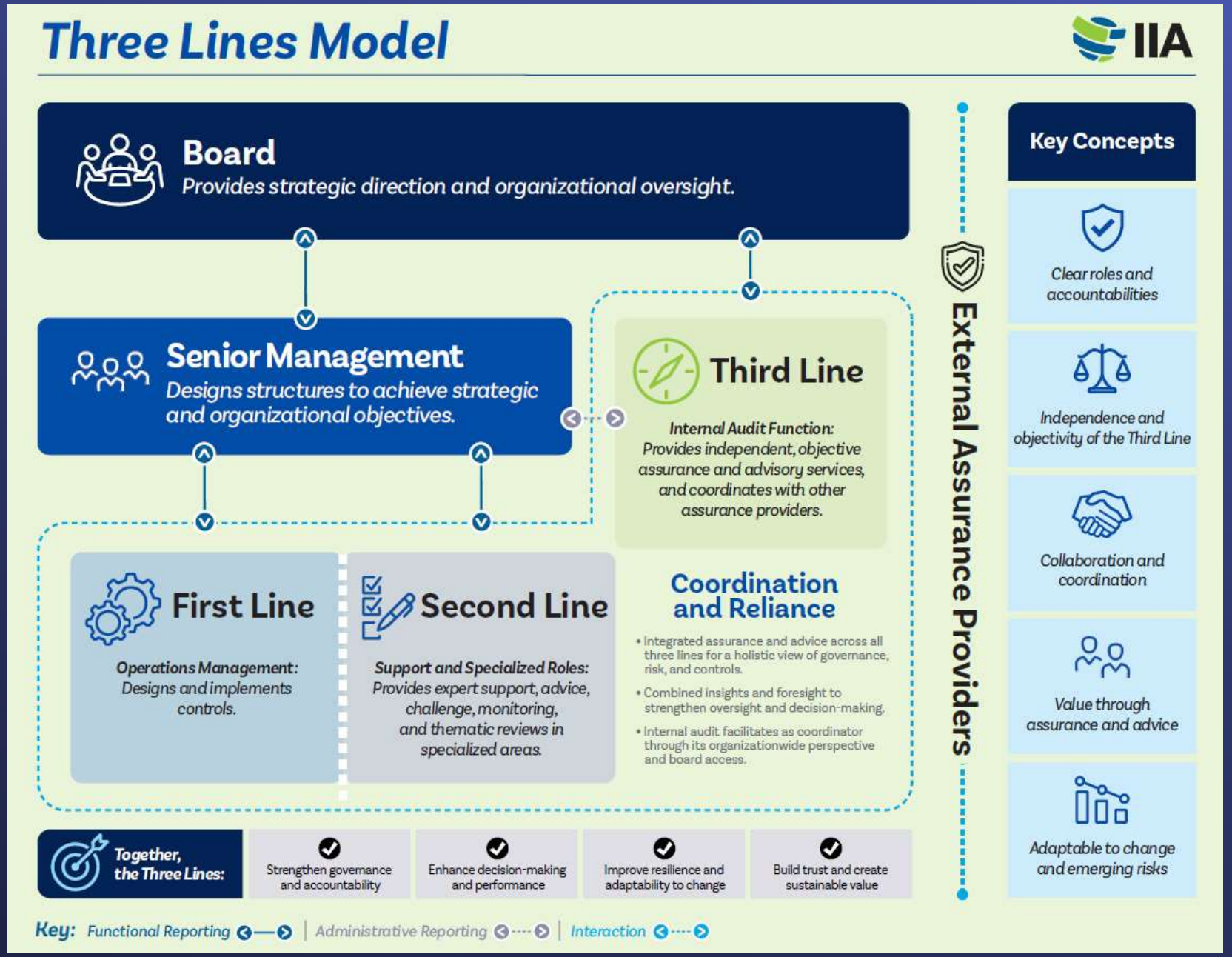
Source: Occupational Fraud 2026: A Report to the Nations

Overview of Fraud

Public Agency Fraud Cases



Managing Fraud Risk



Managing Fraud Risk (con't)

Fraud Risk Management Program

- What is a Fraud Risk Management Program?
- How are the COSO frameworks and guide related?
- What are the Fraud Risk Management principles?

How to Make an Impact

Overview of Fraud

Key Takeaways

- An organizational risk
- Most exploits are of control weaknesses
- Strong governance & oversight reduce risk
- Management owns & manages risk
- Internal Audit provides independent assurance over key controls

Overview of Fraud

Questions?

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
1928