

SAFEGUARDING AGAINST FRAUD, WASTE, AND ABUSE:
WHISTLEBLOWER PROTECTIONS AND TIPS HOTLINES
IN SPECIAL-PURPOSE AND LOCAL GOVERNMENTS

by

Deborah Pattison

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Abstract

Savvy and opportunistic fraudsters increasingly target smaller governmental organizations. Insufficient transparency and disjointed accountability over controls nurture the hidden nature of occupational fraud and allow wrongdoing to escalate during decades of routine operations. Criminal sentencings confirm local government and education officials misusing their positions and placing their own interests above those of their communities. Both primary case studies—a municipal crime in the City of Dixon, Illinois and corruption inside Roslyn, New York’s Union Free School District—illustrate how embezzling more than \$65 million remained undetected over thirty years until tip disclosure. The extension of unmerited trust created insufficient segregation of duties among employees and low monitoring left public resources vulnerable to fraud, waste, abuse, and corruption. The project holds ternary importance for risk management since one-third of small entities experience fraud, traditional external auditing identifies fraud in less than five percent of instances, and receiving anonymous tips through reporting hotlines improves detection by up to 20% and reduces losses (ACFE, 2016). The project examined stakeholder speak-up strategies including whistleblower protections and tips hotline (WP&TH) initiatives to understand how organizational context, willful blindness, information access, and citizen engagement affect local government’s focus on fraud detection and remediation. Case studies show WP&TH initiatives to be financially and operationally superior in identifying risk and promoting transparency in small local governments. Third-party, 24/7 call centers and anonymous, two-way dialog web/text are underutilized tools for recognizing fraud precursors and stopping them before they aggregate, escalate, or become institutional norm.

Keywords: Economic Crime Management, Dr. Kyung-Seok Choo, white-collar crime, fraud hotline, fairness and justice, internal control.

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**Safeguarding Against Fraud, Waste, and Abuse: Whistleblower Protections
and Tips Hotlines in Special-Purpose and Local Governments**

Fraud has been studied within corporations and the densely populated urban cores in the United States (U.S.) through the lenses of many disciplines, whereas clear recognition of financial fraud and corruption in America's almost 40,000 smaller cities, townships, villages, and boroughs is mostly masked. The not-knowing springs from gaps in the research as well as from willful blindness, disjointed control structures, and inauthentic transparency. Consequently, the overarching effect from America's largest municipal fraud was the international exposure and awareness to fraud and corruption risk in small entities. The occurrence of Rita Crundwell's 22-year asset misappropriation—of more than \$53.7 million from her employer, the City of Dixon, Illinois (Dixon) with a population under 16,000—implores civic leaders to better examine and manage local governments (FBI, 2013).

Equivalently, America's largest public-school fraud—the 12-year, more than \$11.2 million embezzlement and corruption scandal uncovered at the Roslyn Union Free School District (Roslyn UFSD) in Nassau County, New York—shares common elements with the Dixon case (Hevesi, 2005). Rather unsophisticated crime elements progressed unnoticed for years, external and internal control measures were passive and mute, and detection occurred through tips and whistleblowing. After public disclosure of the frauds, press coverage elevated the level of public discourse; and, under scrutiny, entity officials ascribed blame externally via legal actions. The indication from the Roslyn case is its parallel voice in compelling civic leaders to better oversee the more than 50,000 special-purpose governments such as public schools.

This project's contribution is the examination of the role of whistleblower protections and tips hotlines in mitigating fraud and corruption risk in U.S. local governments. In this project,

fraud refers to cash and non-cash asset misappropriation as well as financial statement fraud and *corruption* encompasses conflicts of interest, bribery, illegal gratuities, and economic extortion (ACFE, 2016, p. 11). The project considers potentially causal elements among local government fraud and corruption cases, the role of examined failures in shaping agendas that follow, and the influence of willful blindness on the organizational processes of learning and advancement (Kennedy, 2015). The importance is that it is not until local government management enables identification of present risks that determination of risk tolerances can begin. Dixon's and Roslyn's crimes, and similar offenses, communicate that small local governments can be susceptible to risk from unmerited trust and Nutt (2006) observed public managers discounting risk differently. As such, oversight boards in Dixon and Roslyn lacked impetus to launch a sufficient control environment, control activities, and monitoring. In turn, with less quality information to utilize internally and communicate externally, the substantial risk is that control weaknesses afford potential fraudsters an ideal environment for executing corruption and long-ranging financial frauds. Ultimately, it is the role of Congress, state legislatures, and local government officials to take what is learned from Dixon and Roslyn, and similar cases, and prevent the uncovered problems from occurring again particularly from the same conditions. The project findings are pertinent to public servants managing the more than 90,000 U.S. local governments in active operation and, foremost, to the citizens who rely on their integrity.

The role of citizens in regulating the conduct of local officials cannot be overlooked in academic examination. Odugbemi and Lee (2011) recap how "ordinary individuals . . . can serve as a regular, requisite resource for politicians" (p. 419). Citizens do so by expressing their voice in elections and with direct monitoring: asking the checks and balances questions that were missing within the Dixon and Roslyn cases, while ensuring that mechanisms for direct

monitoring are institutionalized and not abandoned. This is not an original concept. The 4th U.S. President, James Madison, emphasized the need for proper checks and balances between branches of government in Federalist No. 51, first published in 1788:

“In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. *A dependence on the people is, no doubt, the primary control on the government* [emphasis added] . . .” (Gutenberg.org, 2009, No. 51 para. 5)

Madison additionally expresses in paper 51 “the necessity of auxiliary precautions” that, herein, is limited to governments’ use (and misuse) of open records laws to reinforce (and restrict) the power of the people in carrying out their “primary control” (Gutenberg.org, 2009, No. 51, para. 5). Both the quality and scope of evidence made available shape the design of checks and balances for controlling abuses of governance. Restrictions in information disclosure distort the wants and needs of the constituents seeking understanding. Concisely, the people’s ability to monitor and assess is inherently reliant on disclosed information.

Timely and pertinent information is requisite to governmental administration. By design, 1967’s federal Freedom of Information Act (FOIA.gov, 2016) and the Government in the Sunshine Act of 1976 (GSA.gov, 2015) seek to rebalance the powers that government accrues through its protective, “asymmetrical access to information” as “valued resources” (Clarke, 2000; Deseret News, 2011, para. 12; Magee, 2014, p. 308). The objective is “by casting sunshine across government, open records laws increase accountability of public funds and eliminate shadowy corners where graft could live unnoticed” (Deseret News, 2011, para. 15). Therefore, this project includes examination of the citizens’ accessibility to, and the degree of voluntary

provision of, the local government data that can make services easier to monitor. Equally pertinent to this study are implications to fraud and corruption control due to the shifting division of powers between the federal and state governments, as those wield their respective power and perceived authority over the local government reporting that is requisite for control.

The Fiscal and Administrative Independence of Local Governments

Significant organizational heterogeneity exists across public entities and constituencies in the 50 states and District of Columbia. Most Americans “seem content with a diverse, even fractured governmental structure” asserts Cox (2008, para. 3). According to the 2012 U.S. Census of Governments, 93 percent of municipal governments serve a constituency lower than 25,000 population (American FactFinder, 2013b). With “so many ‘small towns’” reports Cox (2008, para. 3), the average local-jurisdiction population in the U.S. is 6,200. These independent and disjointed constructions over local government policy create a challenge in monitoring for fraud and corruption control, thus risk awareness relative to the U.S. framework holds value.

Foundationally, the Tenth Amendment to the U.S. Constitution affirms policy that “Congress may not exercise power in a fashion that impairs the States’ integrity or their ability to function effectively in a federal system” (CRS/LII, n.d., footnote 2). From this authority, each of the states exercises their reserve powers in authorizing their distinct assembly of interrelating local governments to deliver basic services to millions of U.S. citizens. A historical view by Census.gov (2013) indicates that formation of local governments has been steadily increasing in the U.S. since 1972 when just over 78,000 entities were active. Census of Governments (2013) defines more than 90,000 local governments as active in 2012:

- almost 40,000 operate as general-purpose governments such as counties (3.4%), municipalities (21.7%), and townships (18.1%), together with

- over 50,000 as special-purpose governments including special districts (42.5%) and school districts (14.3%).

This project centers its literature review and recommendations in municipalities, townships, and school districts. Even so, the project scope and findings are not so narrow as to deny relevance to county and special district agendas aimed toward mitigating fraud and corruption risk. Within this work, *local government* is intended to represent all forms of general-purpose and special-purpose government including special districts handling functions such as fire protection, public utilities, water conservation, mosquito abatement, libraries, cemetery upkeep, and more.

What is pertinent for each distinct local government is how the states' constitutions, codes, statutes, and practices grant fiscal and administrative independence more often than stipulating compliance requirements. Local entities do increasingly seek and encumber responsibility for managing federal and state funding to bolster their budgets. Apart from such contractual mandates for compliance, state-authorized independence transfers substantial responsibility for regulation to community officials. Hence, local governments must reliably self-manage resident agendas and transparency particularly in the areas of fraud and corruption risk. The directive subtly shifts responsibility from what President Madison anticipated as flowing from the U.S. Constitution, specifically that “the different governments will control each other, at the same time that each will be controlled by itself” (Gutenberg.org, 2009, No. 51 para. 10).

Bloch, Issa, and Peterson (2015) express that, unlike in the private sector where the U.S. Securities and Exchange Commission (SEC) mandates both the schedule and standardized format for reporting, “the public sector lacks such authoritative direction” (p. 40). During the U.S.'s maturation as a nation, the overarching policies and specific metrics capable of managing fraud and corruption risk have received disjointed attention and priority rankings, along with

disparate resources assigned under the state budgets. As well, the U.S. Supreme Court has revisited Tenth Amendment federalism, rights and responsibilities—both overruling and reaffirming prior holdings through the years. The messages distilled down into local government operations can be reasoned as conflicting.

At strategic moments, amid conversations and conflicts over state sovereignty versus federal supremacy, it can appear that no clear, responsible party has firm grasp or direct power over local concerns. Within U.S. history, Court justices have recorded opinions speaking to the responsibilities that bind with fiscal and administrative independence. In one illustration from Rossum & Tarr (2007), Justice Powell spoke on behalf of four dissenting voices when, in *Garcia v. San Antonio Metropolitan Transit Authority (SAMTA)* (1985), the Supreme Court overruled *National League of Cities v. Usery* (1976). This project's author consents that the direct focus of the two cases—precisely, whether state and local governments are subject to overtime provisions of the federal Fair Labor Standards Act (FLSA)—resides outside this project scope. However, the cases indicate a portion of the tests upon federal and states' relative constitutional authority.

Ongoing examination of the Tenth and Eleventh Amendments, and other constitutional intents relative to federalism and states' sovereign immunity, lends contextual value to the current project. Fraud control programs in state and local jurisdictions are impacted by the U.S. historical record of authority claims. For instance, in 1985, *Garcia* reversed *National League of Cities* to declare the FLSA constitutional over labor provisions, then public officials lobbied Congress to yield a November 1985 bill signed into law: providing state and local governments alternatives to providing overtime pay under federal regulation (Cromley, 1985). Beyond the cases' jurisdictional arguments under the FLSA, *Garcia's* dissent claims are herein applied to problem perceptions concerning the current fraud control focus.

First, the federal Court gave consideration in *National League of Cities* to four areas of public oversight performed by state and local governments (namely, fire prevention, police protection, sanitation, and public health). The Court recognized that these areas of risk control and safety provision involved both administering public law and furnishing public services locally. In voicing his perception of the federal system as embodied in the Constitution, Justice Powell's dissent in *Garcia* recognized how the responsibilities "affect the everyday lives of citizens" (Rossum & Tarr, 2007, p. 397). Fraud and corruption controls seemingly lack a similar comfortable presence in the public discourse and research conversations, yet they are equivalently important areas of risk remediation and safety provision:

"These are services that people are in a position to understand and evaluate, *and in a democracy, have the right to oversee* [emphasis added]. We recognized that 'it is functions such as these which governments are created to provide . . .' and that the states and local governments are better able than the national government to perform them. . . ." (Rossum & Tarr, 2007, p. 397)

Second, this project holds the Court's reasoning as tenable for fraud and corruption controls—particularly for the risk and safety measures to be performed efficaciously inside the growing number of local governments. In classifying infra-sovereign legal authority to local governments (Humes, 1959), coupled with succeeding historical empowerment through federal and state judicial review and congressional action, U.S. local governments are raised to a standard of performance that demands genuine accountability over fraud and corruption risk. Dissent language specific to *Garcia* is herein appropriated in illuminating local officials' duty to remain "intimately familiar" with fraud and corruption control services, holding "sensitive to their quality" in the protection of citizens' rights (Rossum & Tarr, 2007, p. 398). Indeed, "it is

this kind of state and local control and accountability [emphasis added] that the Framers understood would insure the vitality and preservation of the federal system that the Constitution explicitly requires. . . .” (Rossum & Tarr, 2007, p. 398).

Equally, when the state and local control and accountability are left unattended, and risk management becomes void of recognizable ownership, small fraudulent acts populate the organization and sometimes lead to frauds and corruption of the magnitude in the Dixon and Roslyn UFSD cases. Decades of programmed check-the-box external auditing, reliance on non-specialist audit firms, faint independence after lengthy audit tenures, and voiceless internal control forge community cultures that consider themselves void of and, more perilously, immune to fraud and corruption. Yet, repeatedly across the U.S.—at the moments when media crews converge on analogous cities and schools—the communities’ prior, picturesque self-portrayals of accountability, transparency, safety, and strength bear no validity. On one hand, public exposures of long-existing fraud and corruption intensify local distrust, wear away the community’s vitality, and mar sound preservation of the U.S. framework of governments. Fraud illumination also opens doors to recognition and prevention. Thus, the project briefly examines both cases.

Embezzlement in the City of Dixon

Dixon officials discovered their fraud through a blend of accident and tips. The financial crime operated in its 22nd consecutive year when city clerk Kathe Swanson instructed the bank to provide her with all of the city’s bank statements. The Treasurer/Comptroller, Rita Crundwell, was away from the office at an American Quarter Horse showing and Swanson was charged with completing a financial statement for the upcoming city council meeting. Swanson had been precisely instructed by supervisor Crundwell to call the bank, and read off a specific list of bank account names, in such a situation. On this date, a bursting city hall schedule inclined Swanson

to simply request “all” of the statements by facsimile (Coleman, 2014). As a result, Swanson was presented one bank statement that was not listed among others on the city’s balance sheet. In fact, it was an account that neither she nor Mayor Jim Burke recognized when she brought it to his attention through tip disclosure a few days later (CBC/Radio-Canada, 2014b).

Once Swanson had inspected the discovered R.S.C.D.A. account -9530’s transactions, she had allowed herself a short length of time to consider whether she wished to speak out as a whistleblower or how to best approach a responsible individual within the city hierarchy. With the fate of timing and prompt whistleblower action, by tip disclosure to a superior with power who responded appropriately, the decades-long crime unraveled.

Mayor Burke reached out to meet with agents at the nearest Federal Bureau of Investigation (FBI) office. When agents “instructed him to hold his tongue” while they investigated (Smith, 2012, para. 8), Burke and Swanson executed flawlessly:

“Week after week, Burke would pass Crundwell in the upstairs offices . . . and pretend that nothing was wrong, trading ‘good mornings’ with the woman he’d been told was robbing the city blind and smiling as she did. Week after week, Swanson . . . swallowed her disgust as she watched the coworker she had once considered a friend breezing around the building.” (Smith, 2012, para. 11)

Burke and Swanson’s professionalism served synergistically for the FBI to examine records over five months to support a lone federal count of wire fraud in April 2012 parallel with state charges of 60 counts of felony theft against Treasurer/Comptroller Crundwell (Jenco, 2013a).

For the two decades prior, highly trusted Rita Crundwell was the friendly and likeable “go-to person” in city hall (Verschoor, 2012, p. 14; Williams, 2012). ““Everybody loved Rita. She had a pretty smile, she knew her job, people trusted her,”” acknowledged Swanson, after

disclosing Rita's hidden bank account (CBC.ca, 2014, para. 4). Comptroller Crundwell "is a big asset to the city" praised the retiring Finance Commissioner in an April 2011 council meeting; "she looks after every dollar as if it were her own" (Giuliani, 2012, para. 4).

So, too, were key leaders at the Roslyn UFSD trusted and valued. The "widely admired" school superintendent, Frank Tassone, ". . . 'was really the master,' . . . 'I mean, this guy was loved. He walked on water,'" declared Roslyn's assistant superintendent for curriculum and instruction (Kolker, 2004, paras. 1, 12-13). Roslyn's assistant superintendent for business, Pamela Gluckin, was equally esteemed. Playful, jovial, "bubbly and industrious, the mother of two liked to poke fun at herself and how hard she worked;" she was likened to "the fun-loving aunt" of the "Roslyn family" (Kolker, 2004, paras. 19-20). That extended family included relatives either directly within (and abusing) the payroll and reimbursement systems or those connected as related-party consultants who received more than one million dollars during the misuse of funds scheme with little documentation of services performed (Hevesi, 2005). How, then, in a district staffed liberally with friends and supporters spending \$5.9 million on 74 private credit cards and \$1.1 million on private mortgages and loans, all paid with school district checks (Hevesi, 2005), did the board at Roslyn UFSD come to realize the extent of the crimes?

Embezzlement and Corruption at the Roslyn Union Free School District

Roslyn UFSD discovered their crimes through two tips: the first by telephone in September 2002 and the next by letter in February 2004 (Hevesi, 2005). Over a period of at least eight years, more than \$600,000 in supplies were fraudulently purchased from Home Depot stores using Roslyn UFSD credit cards (Hevesi, 2005). Yet, in Vitello (2005), it was one Home Depot clerk in Selden, New York who made the phone call that raised the first red flag on the nation's "largest school system embezzlement" (para. 1). What the sales clerk considered

suspicious was that someone presenting a school district credit card had traveled to the census-designated place (CDP) of Selden—a hamlet of less than 20,000 people in Suffolk County, 35 miles east of Roslyn UFSD (CensusViewer, 2012b). “There were many Home Depot stores in between” and the purchases were to be delivered still further—to Center Moriches, a smaller CDP of near 7,000 population, an additional 20 miles east of Selden (CensusViewer, 2012a; MapQuest.com, 2017; Vitello, 2005, para. 2). The destination residence for the construction goods was the home of Pamela Gluckin’s son, John McCormick (Hevesi, 2005).

Did the first tip lead to prosecution? No. The auditor at the time determined a quarter-million-dollar loss (a gross underestimate); reported findings to the co-fraudster (the superintendent of schools); and under influence of Dr. Tassone’s organizational power and savvy vocalizations, the board kept the matter internal and the public uninformed (Vitello, 2005).

In February 2004, however, an anonymous tipster took precaution in tip delivery in order that the message could not be swept aside:

“. . . members of the school board, the district attorney, and several local newspapers received copies of an anonymous letter alleging that Mrs. Gluckin and Dr. Tassone had been involved in a long-term embezzlement of school funds, and that the amount of the theft was in the millions. With citations and specific allegations that lent it credibility, the letter led to simultaneous investigations by various authorities.” (Vitello, 2005, para 12)

The second tipster remains unknown, yet an \$11.2 million crime of more than a decade was halted through the whistleblower’s actions.

Were the Dixon and Roslyn Crimes Extraordinary?

New York’s State Comptroller, Allen Hevesi, termed the Roslyn UFSD crime components as “‘the largest, most remarkable, most extraordinary theft’ from a school system ‘in

American history”” (Vitello, 2005, para. 3). Then, over the next five years, the Office of the New York State Comptroller (OSC-NY) performed detailed control inspections at many of the schools to appreciate “widespread fraud at 18 districts” and “internal control deficiencies throughout” the state (Elder & Yebba, 2017, p. 29; OSC-NY, 2010). Johnstone, Gramling, and Rittenberg (2016) underscore that internal control is most importantly a process—consisting of ongoing tasks and activities. However, comparable to many states facing budgetary constraints and prior to the Roslyn UFSD and subsequent findings, the OSC-NY had not performed “routine” inspections at any of the school districts since the late 1970’s (Elder & Yebba, 2017, p. 26).

The elements of Dixon’s fraud are equivalently remarkable both for the size of the theft and for its having remained hidden for 22 years. Public council meeting minutes and visible reports from 2008-2011 left control and its related activities absent from the vocabulary of city discussions ahead of Crundwell’s 2012 arrest (DiscoverDixon.org, 2017). Left unabated and escalating, the financial frauds executed at Dixon and Roslyn cost *each* of their citizens and students near \$3,500 in losses. Hence, are the events and \$65 million in losses extraordinary? Or, do leaders not yet know the answer to this question, with reasonable certainty, across the nation?

Shame impacts. Accomplishments through the U.S. framework of governance are counterbalanced with chronicles of fraud, waste, abuse, and corruption. The literature suggests that evident shame lies not in the occurrences (i.e., no anti-fraud program can eliminate all instances of occurrence) but with an unwillingness to rightly examine them. Americans are represented by self-governing triumphs, yet “the defeats and the grafters also represent us, and just as truly. Why not see it so and say it?” (Steffens, 1948, p. 4).

The literature indicates that, for the citizens in smaller communities and families with school children, local government crimes present a more difficult discussion compared with

corporate fraud. The local enclaves of residence evoke a familial loyalty and protectionism-of-place. The school grounds and classrooms of dedicated educators demonstrate an avoidance-of-shame context. In the moment of fraud discovery and national/international media exposure, vulnerability is raw. The citizens, parents, leaders, and auditors exhibit a common tendency to move away from the bright light of exposure. “The right thing to do is reduce the harm experienced by the taxpayers of Dixon and put this matter behind us,” said CEO Gordon Viere of audit firm CliftonLarsonAllen (Jenco, 2013b, para. 12). The behavior is reasonable. In shifting liability (and shame) (Jenco, 2013c, para. 5), lawyers for Dixon “placed much of the blame for Crundwell's fraud going unnoticed for so long on the accounting firm of CliftonLarsonAllen, which had been doing financial work for Dixon since 1988.” Lead attorney, Devon Bruce, called the national firm’s actions “grossly negligent. . . . the discrepancies are obvious and should have been obvious for over 20 years to Clifton” (Jenco, 2013c, paras. 5-6). The allegations of professional negligence and negligent misrepresentation associate with public shaming, and the audit firm agreed to settle with Dixon for \$40 million for failing to “accurately assess risk at the overall financial statement level” (Johnstone et al., 2016, p. 314).

In the five-year production of a Dixon documentary, *All the Queen's Horses*, Dr. Kelly Richmond Pope observed, “what I noticed through the years, as time passed, people wanted to stop talking about it” (Poullisse, 2017, para. 11). So, too, Jackson, Mississippi’s “city leaders had hoped to keep it [a \$28,000 loss] quiet” reported DesOrmeau (2017). Equally, the literature does not indicate fraud recovery or shame resilience developmental processes, including “‘being with others who have had similar experiences’ or ‘talking with people who’ve been there,’” as an evident part of critical awareness after experienced frauds (Brown, 2006, p. 51). Crime victims move forward and away from the scrutiny. It is for this general reason that Gardiner & Olson

(1974) assembled readings on corruption in American cities from previously “unpublished reports and documents” from “widely scattered locations” and “obscure publications” (p. ix). The tendency to ‘move forward’ leaves unresolved queries and limited exploration in the traditional literature; therefore, research involves widening the scope of acceptable documentation to independent sources. To provide further illustration of local government fraud occurring routinely across America, the project introduces a few of the smaller local government crimes which were sentenced during a portion of 2016-2017 following FBI case management.

Kern County college district and superintendent’s office. A remarkable \$19 million fraud was alerted by tip from a local government’s bank. During the first week of February 2017, press releases announced that a bank account in Kern County, California was discovered hacked and compromised. In the next few weeks, the extent of fraudulent purchases was estimated as a “seven-digit number” (Harvey, 2017, para. 16). By March 7, however, the crime had escalated to a missing \$19 million and the hack was realized to have begun up to three years prior (para. 17). Over \$16.4 million was taken from the clearing accounts tied to the community college district, and \$2.6 million was taken from the accounts tied to the superintendent of schools’ office (Harvey, 2017, para. 19). The tip from the bank raised an unrecognized red flag.

The reason that no one had noticed the tipped discrepancies was that no responsible party at the county offices, college district, or superintendent’s office was balancing the bank statements for the clearing account (Burger, 2017). The account was last reconciled in May 2005 by the Kern County Auditor-Controller’s office (Harvey, 2017, para. 4). So, 140 bank statement reconciliations were not performed over 12 years, reconciliations were not sampled or verified through internal controls at any of the three divisions, and nothing was red-flagged through budget-vs-actual tracking or external audit. “All of the suspicious transactions were dutifully

noted in fund statements held by Wells Fargo, the county's bank. But nobody was looking at them," reported Burger (2017, Access, paras 12-13). The bank ultimately observed the suspicious activity and contacted all parties (Burger, 2017).

The Office of the State Comptroller | Division of Local Government Services and Economic Development (OSC-NY, 2003) determined similar weaknesses when auditing twelve New York municipalities: half of the entities were not recording financial activity in a timely manner and were posting incorrect information to the entities' books. For illustration, the insufficient supervision of an inexperienced bookkeeper led to "making transaction mistakes totaling \$927,016, including \$23,984 in cash accounts" (2003, p. 2). One-third of the entities were not posting information at all or were not maintaining support documentation for the entries which were made—"lack of knowledge on how to complete monthly bank reconciliations" was cited as a contributing factor (2003, p. 2). Two of the twelve local governments only performed end-of-year reconciliations ahead of the annual external audit (OSC-NY, 2003).

Union City Borough manager sentenced for fraud scheme. From July 2013 until July 2016, the person serving as borough manager, treasurer, and secretary for the Borough of Union City, Pennsylvania (population near 3,200) caused a total loss of \$203,174.25 to her public employer (Gushard, 2017). "She took care of the daily operations, took care of the money, the phone calls, . . ." declared the board president (Knoedler, 2017, para. 4). During the recent 36-month period in her 26-year tenure, the perpetrator took advantage of her access to write "borough checks to pay her ballooning personal credit card bills" and "used the borough's credit card for numerous [unauthorized] personal expenses" and cash withdrawals (Gushard, 2017, para. 5). Similar to what is observed with some fraudsters (such as Rita Crundwell) whose crime is not initially detected, the magnitude of the Union City manager's fraud increased over time:

she defrauded the borough of \$6,000 in 2013, \$18,425 in 2014, \$95,620.69 in 2015, and then \$82,128.56 during the first half of 2016 (Gushard, 2017, para. 5). Crundwell initially embezzled less than \$329,000 annually for seven years (1991-1997), steadily escalated her takings over seven years (1998-2004), and then extracted more than \$4 million per year for seven consecutive years (2005-2011), and stole over \$5.5 million for three years (2008-2010), “from a town whose annual budget never exceeded \$8 million” (Beale, 2017, para. 2; CBC/Radio-Canada, 2014a).

The Association of Certified Fraud Examiners (ACFE) observed three similarities in their most recent analysis of occupational fraud (ACFE, 2016, pp. 4, 6, 17): first, more than 32% of the fraud cases lasted more than two years before they were discovered. Further, the longer a fraud lasted, the greater the financial damage and total losses to the victim. In addition, amid the 2,410 fraud examinations, the median loss and median duration of the schemes were lower when active detection methods (e.g., monitoring and account reconciliations) uncovered the fraud and higher when the fraud was detected through a more passive route (e.g., accidental discovery).

Ramapo town supervisor found guilty of municipal bond securities fraud. The Town of Ramapo, New York (population near 126,600) is now associated with the “first conviction for securities fraud in connection with municipal bonds” (DOJ, 2017c, para. 1). Charges of conspiracy, securities fraud, and wire fraud resulted after the town supervisor “lied repeatedly to the investing public about the state of Ramapo’s finances” including declaring over \$9.8 million in false receivables (assets) on the General Fund’s ledger (DOJ, 2017c, paras. 2, 9). The fake assets created the illusion that the town and its local development corporation (RLDC) were in a sound position to make scheduled payments to holders of its \$153 million in outstanding bonds, whereas the true financial health involved a negative fund balance for several years at a time when the town was selling bonds to incur additional debt (DOJ, 2017c). Further, the fraud

scheme involved collusion with the Town Attorney to make false claims to the external auditor, and the fraudulent representations continued undetected over a period of five years (para. 10).

In accordance, the ACFE (2016) assessed that nearly 8% of occupational frauds were perpetrated more than 60 months before being discovered and another 6% ranged from 49 to 60 months in duration (p. 17). Organizational tenure and collusion are frequently present as facilitation mechanisms enabling the longer-ranging frauds. Time yields employees and vendors experience with entity methods and often cultivates power among peers; this in turn fosters peer collusion to perpetrate the fraud or abuse. For instance, twelve elementary, middle, and high school principals ranging from age 46 to 67 conspired with a vendor in illegal bribery and kickback schemes at Detroit Public Schools over a 14-year span—more than \$908,518 was distributed to the participants in association with almost \$3 million in fraudulent invoices (DOJ, 2016). Fraud control programs must, therefore, embrace immediate-term financial cycles as well as certify long-range oversight and correlation.

ACFE's survey (2016) indicated that three detection methods were associated with recognizing the frauds that continued for more than 20-months—external audit, accident, and police notification were the means that ultimately exposed longer-duration frauds (p. 25). Those longer-duration frauds demonstrated a composite median loss of \$1,720,000 (p. 25). Conversely, five active detection methods were present when the victim detected the fraud between 6 to 12 months in duration—precisely what worked: (1) surveillance/monitoring, (2) information technology (IT) controls, (3) account reconciliation, (4) internal audit, and (5) document examination (ACFE, 2016, p. 25). The shorter-duration frauds, realized through active detection methods, demonstrated median losses below \$150,000 (ACFE, 2016, p. 25).

Other local government frauds and abuses. Additional sentencings for occupational fraud within this project’s examination include a New York resident responsible for the theft of more than \$3.5 million over a four-month period from a City of Miami Beach bank account through means of identity theft and unauthorized electronic bank transfers (DOJ, 2017b). As well, a program director submitted at least \$684,644 in fraudulent invoices for services that public-school students—enrolled in individualized tutoring sessions through *Priority: My Education*—never received (DOJ, 2017a). Public officials demanding and accepting money in exchange for official acts and ‘pay to play’ vendors were another consistent finding. Further observed were local government abuses outside the scope of criminal acts.

Historical data is most readily available from the nation’s largest cities and districts. Investigations into realized scandals at New York City, Chicago, and Los Angeles schools indicate that, while monetary losses were staggering there, “much of what is wrong . . . is not criminal or illegal. Rather, it is abusive and grossly wasteful” (Segal, 2005, p. 15). The missions of the organizations become overtaken by morally wrong personal interests. Employees seeing the decision-makers’ overpaying for items, endorsing inferior quality, or buying the “obviously unnecessary” perceive tone at the top as endorsing the conduct—creating cultures recklessly unconcerned with students’ or citizens’ value (Segal, 2005, p. 15). Broadly-defined fraud controls, therefore, seek to unearth the criminal, illegal, and sundry forms of stakeholder neglect within the organization and among vendor relationships.

The greater the transparency in naming fraud as a risk, the more effectively the supporting laws and hotlines can sustain the growing intolerance for fraud in all its forms. The hotlines’ voice solution is better underpinned with the presence of local, state, and federal fraud

and abuse statutes. The state of California's Government Code §53087.6(f)(2) illustrates the defining of fraud, waste, abuse, and corruption in a manner that supports tips hotlines efficacy:

“ . . . any activity by a local agency or employee that is undertaken in the performance of the employee's official duties, including activities deemed to be outside the scope of his or her employment, that is in violation of any local, state, or federal law or regulation relating to corruption, malfeasance, bribery, theft of government property, fraudulent claims, fraud, coercion, conversion, malicious prosecution, misuse of government property, or willful omission to perform duty, is economically wasteful, or involves gross misconduct.” (California Legislative Information, 2011)

The breadth, yet specificity, of this exemplary code language brings benefit as an overarching support for hotline programs, auditing functions, and prosecution teams.

The initial challenge is realizing that the financial fraud or corruption is occurring. If daily operations, internal controls, and external audits are not identifying fraud and corruption of the magnitude and duration realized in Dixon, Roslyn UFSD, Kern County, Union City Borough, and more, can government leaders trust, or certify beyond a reasonable doubt to external stakeholders, that their local organizations are safe from potential financial frauds? How specifically so? What areas of literature review will best contribute to answering these questions?

Purpose of the Project

It is for answering these questions and those apt to the project function that the literature review is initiated. The objective is to encourage further research for the benefit of the increasing number of small governments that citizens rely upon to mitigate fraud and corruption while providing vital services. The scope and significance of the problem are important:

“When corruption is involved in the decision-making process it affects who gets what, when, and how; it influences the shape of public policy and the kind and amount of services delivered in government programs; and it is part of the determination of how the day-to-day governance of the society is conducted.” (Gardiner & Olson, 1974, p. x)

The project examination considers both statutory mandates and self-initiated fraud and corruption countermeasures in U.S. local governments in comparison to those applied in corporations and non-profit organizations. The project also examines the extent of provision of, and accessibility to, small government data—is the information upon which fraud remediation relies available to local voters? Further, the research holds alert for learning experiences within historical fraud discoveries, press and self-reporting experiences, and recovery strategies after the detection of fraudulent activity—do crises evoke cultural readjustments and new operating norms and practices (Smith & Elliot, 2007)? Finally, what do independent assessments and hotline findings tell us about future oversight needs in the smallest of local governments?

The project explores in depth seeking (1) what mechanisms serve well for successful whistleblower protections and tips hotlines, (2) what organizational contexts support or limit productive outcomes from whistleblowing and tips hotlines, in addition to (3) evaluating the hypothesis that whistleblower protections and tips hotlines are financially and operationally feasible in identifying risk and promoting transparency in the small local government context.

Literature Review

The challenge for reducing fraud, corruption, waste, and abuses in local government is multifarious. Exacerbating the challenge is the logistical certainty of local government creation with the new entities being launched into a disjointed mix of controls and guiding principles. U.S. Census data designates that almost 12,000 new local governments were granted legal

authority by their state of residence since 1972 (American FactFinder, 2013a) and potentially over 100,000 should be active by year 2050—all being granted independence within a fiscally stressed economy—associated with higher risk for employee fraud, embezzlement, and theft schemes according to Whitelaw (2009). Research suggests that many of the entities exist without the appropriate frameworks for transparent fiscal control, universal reporting formats, or professional inspection as finance departments see a 37% frequency of corruption (ACFE, 2016, p. 56). Both root and consequence are how “government functions that would stand little chance of survival in the sustained glare of national politics thrive at the state and local levels” (Chait, 2014, para. 17). Financial fraud’s innate characteristic of being hidden thrives under the existing climate of disjointed controls and gaps in reporting requirements. In contrast, regional success by some state comptrollers in examining allegations of fraud, waste, abuse, and corruption (e.g., in New York and Tennessee) reveal both the value in illumination of the sorts of frauds perpetrated against local governments and the need for added disclosure to shorten the timelines to discovery (OSC-NY | Investigations, n.d.; Tennessee Comptroller of the Treasury | Investigations, 2017).

In the states where political allocation of limited resources leaves gaps in local government oversight, any self-initiated fraud control structures are realized through elected and appointed part-time civic leaders who manage workforces making do with less. Small local governments compete with private-sector employers and the politically empowered federal and state governments to attract and retain workers with the talents, specialized skills, and experience to operate their components effectively. National compensation studies indicate that, while employees with a bachelor’s degree or less typically earn more when working in the public sector, employees with the educational attainment of professional or doctoral degrees experience almost 20% lower total compensation when they choose public service over private employment

(Biggs & Richwine, 2014). There are additionally shortages of specialty-trained personnel. Certified Government Financial Managers (CGFMs) and Certified Public Finance Officers (CPFOs) are two professional certifications “recognizing the unique skills and special knowledge required of today’s government financial managers” (AGA, 2017b). There are currently fewer than 6,300 certified CGFM and CPFO personnel available to meet the stewardship requirements of over 90,000 U.S. local governments (AGA, 2017a; GFOA, 2017a). Consequently, whether “at the hiring, training, or development stage, the organization needs to ensure that personnel truly qualify for their job” and can capably perform their accounting and anti-fraud tasks (Bieber, 2011, p. 19).

Lower compensation and skills shortages carry four overarching impacts. Highly educated professionals work in local government when they value job security or are particularly dedicated to public service (Biggs & Richwine, 2014). Further, smaller governments often train employees that advance to larger communities with greater resources. Consequently, the local anti-FWAC (fraud, waste, abuse, and corruption) programs are commonly managed by well-intentioned workers without the expertise, backing, appropriate authority, or resources to comprehensively oversee the multifaceted task. As was the experience within Roslyn’s board of education, there exist multiple priorities which must be overseen—Roslyn’s “primary concern was with educational quality and reputation rather than with administrative functions, such as managing budgets or oversight of their respected leader” (Elder & Yebba, 2016, p. 26). Success in the former area contributed to risk in the latter responsibility. Finally, the anti-fraud change effort may trigger acts (e.g., transaction scrutiny) that seem “callous or destructive,” and the root of the behaviors may be the personnel’s lack of skill, insight, or self-confidence for the new tasks (Maravelas, 2005, p. 180). States and local entities face a similar challenge—the need to scale

the social problem down to manageable levels—in order to improve diagnosis and encourage innovation in the direction of self-sustaining, fraud-preventing solutions (Weick, 1984).

This project’s author surmises that most states consider themselves to be practicing comprehensive oversight. After all, the Tenth Amendment reserves to the states all powers not constitutionally granted to the federal government. This results in the 50 states sustaining education, public safety and justice systems, welfare and benefit programs, and state highways and infrastructure through distribution of federal monies and generated revenues such as sales tax and fees. The same power has states overseeing industry regulation, whereby state officials ensure that “plumbing, teeth-cleaning, hair-cutting, hypnosis, interior decorating, and many other skills cannot be legally sold on the market in parts of the country without a government qualifications test,” proper display of occupational licensing, and current fees paid (Chait, 2014, para. 12). Chait’s (2014) exploration supports a “paradoxical reality” that he views as opposite “ingrained conservative impulses”—i.e., advocating that “ending the most abusive practices of American government requires moving responsibility up the local-state-federal chain” (para. 18).

In the local government domain, however, it is frequently not specific state government overseers—but a mix of information technologies (IT), accounting industry guidelines, and randomly initiated best practices—which direct the operational systems of the local entities. Operating shorn of coordination between state and federal officials, and lacking full integration or accredited standardization across all local entities, unaddressed gaps in oversight mechanisms present local governments as nearly perfect for fraud exploitation without immediate detection.

The public’s expectation is that the Dixon and Roslyn cases are anomalies. Yet the agency mechanisms to prevent, detect, and deter improper activities are different in each local government, thereby restricting data matching and correlation models. Ensuing from these

reasons, whistleblowing holds enormous potential for exposing abuse and corruption in the small government workplace. Public auditor Charles Hall (2014) emphasizes “dollar for dollar, a sound whistleblower program is the most effective means of detecting and preventing fraud, more than *anything* else you can do” (p. 17). The challenge in smaller organizations, “where family relations and close personal links exist between management and workers,” is the overriding of established employment regulations, adopted fraud protections, and even the purported policies for shaping channels of voice (Wilkinson, Donaghey, Dundon, & Freeman, 2014, p. 13). When voice support structures and protections can be achieved, however, “fellow employees, acting as whistleblowers, are uniquely situated to increase sharply the public visibility of organizational misconduct” (Miethe, 1999, p. 33). All heretofore unseen becomes usable at an economic advantage unreachable through external audit alone (Hall, 2014).

While, according to Miethe (1999), “whistleblowing has no rivals” in its ability to build solid cases against offenders and “stop organizational misconduct before it escalates,” associated deficiencies in whistleblower protections undermine the potential power of whistleblowers and the act of whistleblowing (p. 36). At the same time, Miceli and Near (1992) (as cited in Near and Miceli, 2008) resolve that “employees who are relatively powerful and blow the whistle are less likely to suffer retaliation” in comparison with those “who are less powerful” when assessed according to variables of pay, performance, and perceived support, among other things (p. 273). A power reduction in the U.S. workplace that threatens whistleblowing shows from the growing utilization of part-time workers in the workforce culture. Less access to power resources, yet the desire to work more hours, can “influence one’s disposition to blow the whistle” (Skivenes & Trygstad, 2010, p. 1080). This links with ACFE’s (2016) findings that “owner/executives tend to commit larger frauds than managers, and managers tend to commit larger frauds than

employees” (p. 58). That is, those in task positions to best observe transactional fraud lack power or incentive to express voice and give red flag alerts; and those with power dictate the resources and authority given to anti-fraud efforts such as internal audit and ‘speak up’ hotlines (Harlos, 2010). How these correlations impact local entity losses are considered using industry surveys.

Fraud Controls and Initial Detection

The Association of Certified Fraud Examiners, commonly known as the ACFE (n.d., 2016), has supported the anti-fraud industry with surveys of actual fraud and abuse cases since 1992. The three most recent surveys from 2012, 2014, and 2016 were examined to determine that government organizations were the victim nearly 10 to 16 percent of the time, and local entities incurred a median loss near \$80,000 to \$100,000 per case. There were 141 recorded cases of fraud in the governmental sector in 2014 compared with an increase to 229 cases in 2016. When averaging the overall frequency of the top-ranking schemes from ACFE’s 2014 and 2016 findings, the most frequent schemes perpetrated against government and public administration are corruption (36.2%); then billing (22.2%), non-cash (16.3%), payroll (14.6%), and expense reimbursement (14.3%); followed by skimming (12.7%) and cash on hand (11.3%). Response to these findings is considered in the recommendations portion of the project.

Governmental entities employ a variety of anti-fraud controls. As depicted in Figure 1, nine anti-fraud controls are most typically implemented in the public sector. Most often utilized, at 81.1% frequency, is the reliance on external audit of financial statements (F/S). A code of conduct is utilized 78.8% of the time, and an internal audit department is relied upon in 70.9% of instances. Management certification of F/S is utilized by 70.1% of those surveyed, while 66.8% of the entities incorporated independent external audits of the organization’s Internal Controls Over Financial Reporting (ICOFR) among their anti-fraud controls. To slightly lesser degrees,

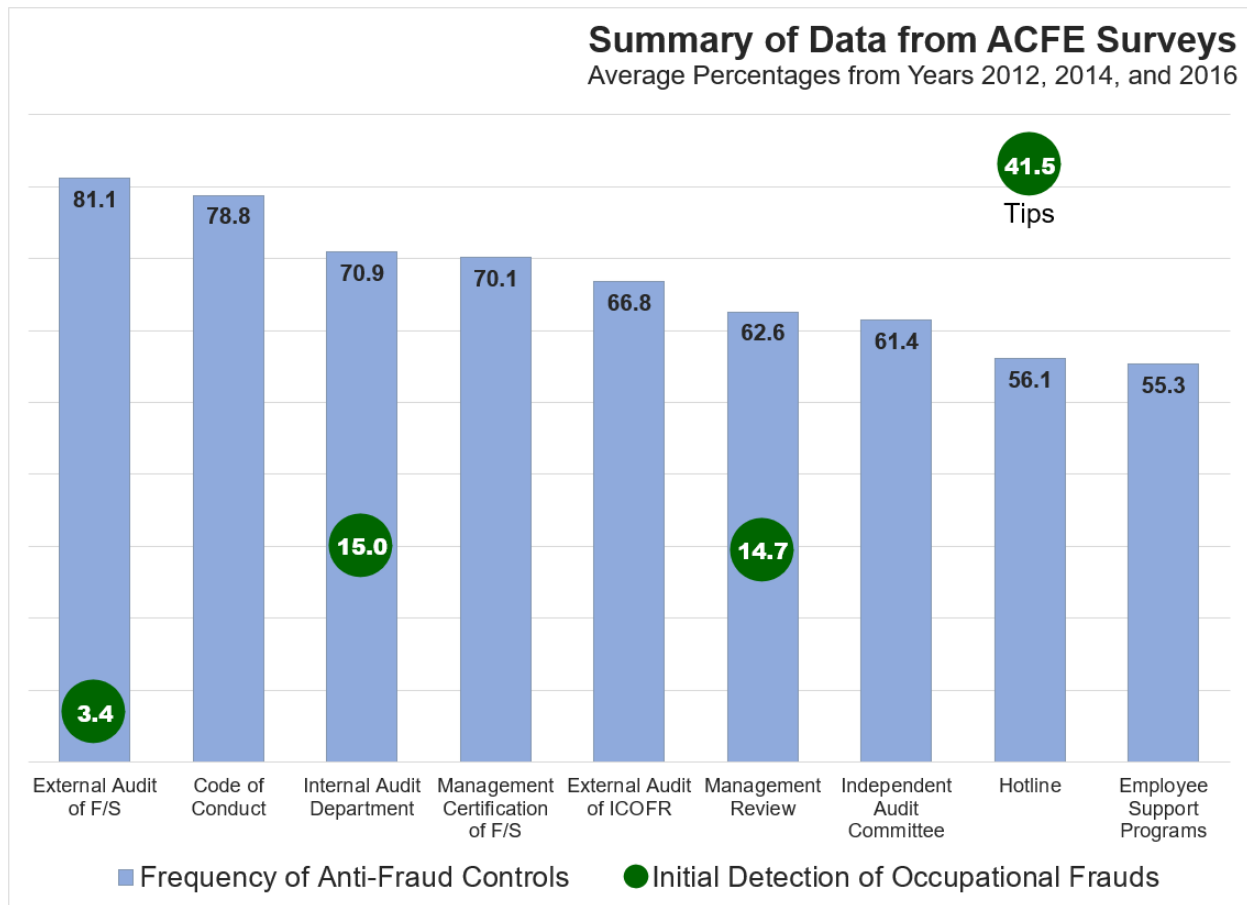


Figure 1. Percentage frequency of anti-fraud controls in contrast to initial detection of occupational frauds; see also Figure 2 (p. 27). Data averages from Association of Certified Fraud Examiners' survey findings (ACFE, n.d., 2016). Adapted from the Association of Certified Fraud Examiners' *Report to the Nations on Occupational Fraud and Abuse*: 2012 Survey, pp. 14, 33; 2014 Survey, pp. 19, 31; and 2016 Survey, pp. 21, 38.

management review was present for 62.6% of those surveyed, and an independent audit committee was organized in 61.4% of instances. Then, tips hotlines were sponsored for just over half (56.1%) of the entities—and used in just 26% of smaller entities under 100 employees (ACFE, 2016, p. 39)—plus management budgeted for ethics and general employee support programs in slightly over half (55.3%) of the organizations. Fundamentally, the external audit of financial statements remains the most frequently used anti-fraud control. Tips hotlines rank eighth in frequency, and provision of employee support mechanisms ranks ninth in occurrence.

Additionally, Figure 2 contrasts the four most frequent methods for initial detection of frauds alongside their corresponding use as anti-fraud controls.

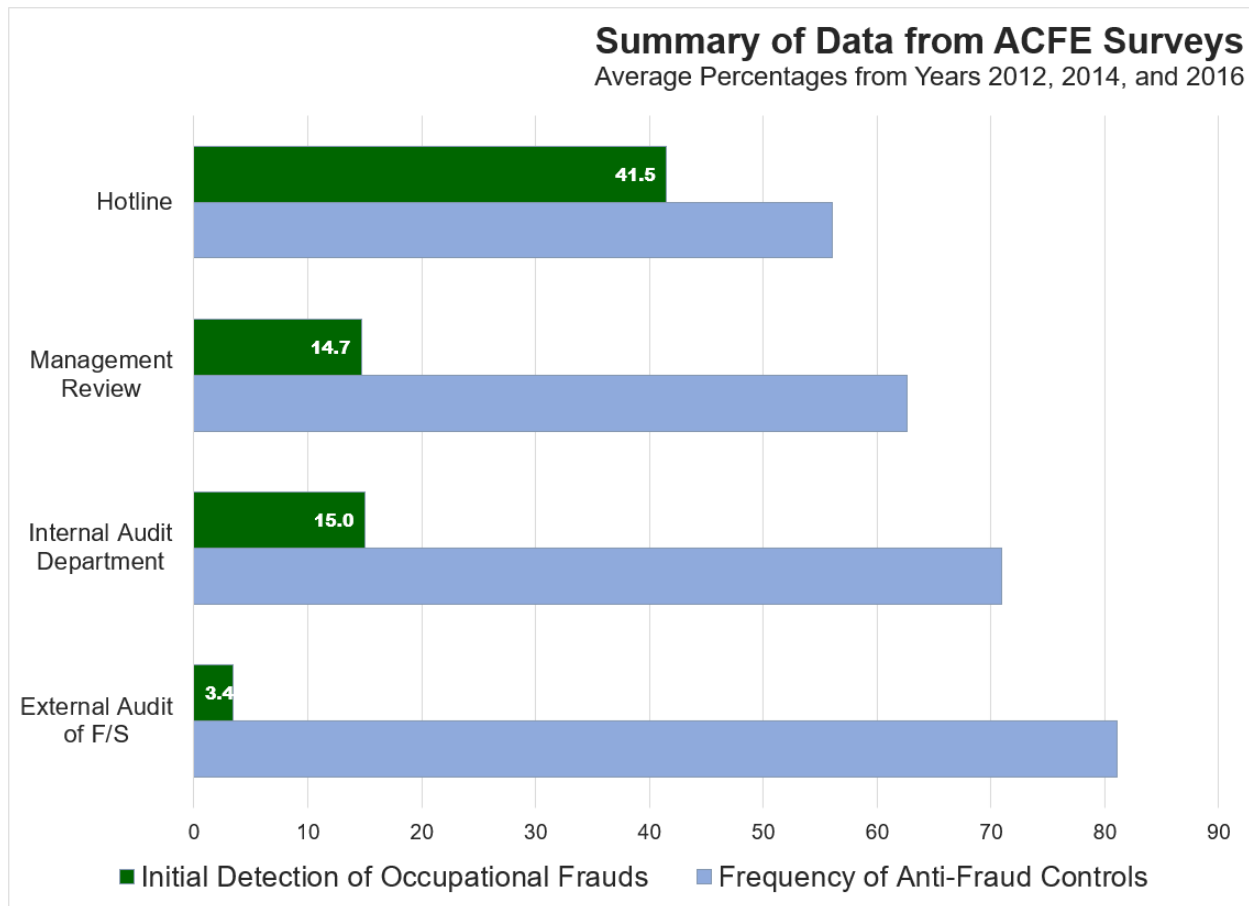


Figure 2. Percentage frequency of the top four sources of initial detection of occupational frauds in correlation to use frequency as anti-fraud controls. Data averages from Association of Certified Fraud Examiners’ survey findings (ACFE, n.d., 2016). Adapted from the Association of Certified Fraud Examiners’ *Report to the Nations on Occupational Fraud and Abuse: 2012 Survey*, pp. 14, 33; *2014 Survey*, pp. 19, 31; and *2016 Survey*, pp. 21, 38.

External audits exposed fraud 3.4% of the time in the organizations yet are the foundational anti-fraud control—employed at over 80% frequency. More often effective, internal audits detected occupational frauds 15.0% of the time while management review gained awareness of fraud an equivalent 14.7% of the time. Facilitating whistleblowing via tips hotlines ranked low as an employed control strategy, yet received tips were the avenue of discovery 41.5% of the time (per overall findings covering six years via 2012 through 2016 surveys) (ACFE, n.d., 2016).

ACFE's findings for fraud discovery by means of tips hotlines leads the project forward. The literature review seeks, first, what mechanisms succeed in successful whistleblower protections and tips hotlines and, second, what organizational contexts limit transparency or support productive outcomes from whistleblowing and tips hotlines. Finally, the project evaluates the hypothesis that whistleblower protections and tips hotlines are relatively feasible in identifying risk and promoting transparency in the small government context.

Definitions

Fraud controls serve consumers in the public and private sectors, so it is prudent to define whistleblower and tips hotlines as they are considered within this project.

Whistleblower definition. An encompassing understanding of whistleblowing provides utility in reducing fraud, waste, abuse, and corruption in special-purpose and local governments. For this project, a whistleblower is best defined as any current (or former) employee, student, parent, vendor, or contractor who discloses information that he or she reasonably believes evidences any of these four classifications:

- a violation of any rule, policy, law, or regulation;
- mismanagement or an abuse of authority;
- a waste or misappropriation of public funds; or
- an existing risk or danger to health or safety.

In seeking to set the proper tone at the top and modify fraud elements before they become institutionalized adverse practices, this adapted U.S. Office of Special Counsel (2017) definition sidesteps subjective qualifiers or quantifiers such as gross (e.g., mismanagement or waste) along with substantial or specific (e.g., danger to public health or safety). The proposed definition also holds in alignment with that provided by Miceli, Near, and Dworkin (2009) which considers

activities and omissions defined broadly as being “illegal, immoral, or illegitimate” (p. 254).

One feature of such a broad brushstroke for equipping the special-purpose and small government whistleblower is the nature of how fraud precursors (1) influence the organizational culture and (2) aggregate to gain material influence over it. Using the more comprehensive definition is comparable to management’s taking into consideration the audit management letter, also known as the internal control letter, that is presented to management along with each external audit. Management letters communicate in increasing order of concern: deficiencies, significant deficiencies, and material weaknesses for an audit period (Dittenhofer, 2017; PCAOB, 2017b, paras. 5-6). Perceptive managers schedule attention to the itemized non-material deficiencies and non-compliance weaknesses prior to their aggregation or expansion—then requiring them to be named among the more material matters included within either the Independent Auditor’s Report on Internal Control over Financial Reporting (ICFR) or the Schedule of Findings and Responses. In a similar way, the broader brushstroke definition of whistleblower equips the local government whistleblower to recognize, communicate, and remedy precursor risks while they can be more feasibly contained. In this manner, the found fraud and its precursors bear less volume, risk, exposure, and expense.

The definition in workplace context. The definition, above, holds whistleblowing as entirely compatible with Larmer’s (1992) loyalty considerations, as the four classifications of information (potentially revealed by the whistleblower) uphold both the individual’s and entity’s responsibilities in defending the public interest. Recall that “ordinary individuals . . . can serve as a regular, requisite resource for politicians” (Odugbemi & Lee, 2011, p. 419). It is established over a decade in Willing (2016) that the whistleblower will readily report when the entity—autonomous of legal mandate to do so—holds itself better responsible in the securing of safety

for that solicitation and in guiding the steady response of affected parties upon its receipt.

The broad consideration of whistleblowing removes vital energy from distinguishing shades-of-gray relative to various fraud precursors and views each precursor as risk to be evaluated in protecting the public interest, entity reputation, and whistleblower. The wide lens of the definition gathers whistleblower inputs for management's integration relative to risk scenarios that could unfold for the organization. Then, depending on timing, magnitude, and position of the hazard relative to others, management can better address the whistleblower-identified risk in context with loyalty considerations for both internal and external stakeholders (Ready.gov, n.d.). Does the organization discretely respect the loyal employee's voicing of information or recurrently 'shoot the messenger,' escalate mistrust, or trigger blame? Marvelas (2005) would indicate the "*pivotal difference lies in the organization's cultural response to frustration*" and the facing of "aggravations without blaming others" (p. 74).

Loyalty considerations for personnel are significant. As potential whistleblowers, employees already operate within palpable uncertainty—amid recession, globalization, technological advances, and heightened job competition (Cook & American Management Association, 1992). Employers' ability to provide long-term commitments to their workers is diminished concurrent with expanding emphasis to external stakeholder satisfaction. Fragile at-will employment relationships balance with whistleblower protections and wrongful discharge claims to increase worker uncertainty. It is within this profound tension that workers observe defined fraud, or minor and possibly relevant events, and make the decision to report internally, blow the whistle externally, or remain silent. Inside the ubiquitous environment of escalating frauds and corruption, potential whistleblowers assess the conflicting values of fairness versus loyalty (Waytz, Dungan, & Young, 2013). Contributing to the tension and uncertainty are the

power status of the whistleblower and multifaceted impacts of bias and context.

Initially, there are the dynamic perceptions of self in relation to interpreting others that the potential whistleblower encounters. Extrapolating from the considerations of Robinson, Robertson, and Curtis (2012), a whistleblower may demonstrate bias in assuming that “the observed behavior is due to the other person’s distinct character traits” (p. 215). While seemingly underexamined in the literature, Robinson et al. (2012) allow that there may exist an overemphasis on internal (i.e., dispositional and personal) factors and concede that fundamental attribution error prompts a minimization of the influence of external contextual factors. On the one hand, Bucy, Formby, Raspanti, and Rooney (2008) assert that the fraudster’s need-for-control characteristic has them “blame failure on uncontrollable external factors” (p. 414). Harman (1999), nevertheless, leans typical blame toward the “agent’s bad character” as in considering hostility as the underlying “bad” character trait that may participate to drive the wrongdoing (p. 328). This stance draws attention away from cultural and organizational influences on wrongdoing. In effect, Robinson et al. (2012, p. 215) follow Harman’s (1999) reasoning to assert that “an observer of fraud has a tendency to blame the wrongdoer rather than any contextual factors.” Maravelas (2005) would counter-advise to “look for *why*, rather than *who*” (p. 73). As analysis in the literature conflicts and contrasts with nuance in construing both the potential fraudsters’ and whistleblowers’ inclinations, Miceli and Near (1992) go so far as to make the whistleblower the “focal member”—the “member of the organization on whom we focus attention” (p. 15).

Herein, it seems equivalently valid to look at the unique contextual factors which exist in the government setting that hold environmental sway over (1) the potential fraudster and (2) the whistleblower potentially reporting the perpetrator’s wrongdoing. First, how the whistleblower is

considered and received is largely a result of the tone at the top in the organization. For instance, where an actual, potential, or perceived ethical violation or conflict of interest is deemed to exist, management determines the weight of the concern within the entity. Further, management will most often frame the conduct and anti-fraud measures that will be executed to remedy the situation. And, apart from an internal audit function providing some degree of independently gathered and disseminated information, it is management which directs the extent of information willingly pursued and provided to citizens, the press, external auditors, and the elected or appointed boards (e.g., recall the handling of the first tip received at the Roslyn UFSD) (Vitello, 2005). Relative to tone at the top, the project's research aligns several decades of ACFE (n.d., 2016) findings to indicate that not only do executives and upper management account for 11% of all fraud cases, the demographic "caused much larger losses than anyone else" (e.g., a \$850,000 median loss in the 2016 survey) (2016, p. 55). ACFE determined corruption present at 51% frequency for the executive/upper management levels along with fraud size "nearly 11 times higher than the loss caused by employees" (2016, pp. 5, 56). The ethically-compromised tone at the top is, in turn, framing both the scope of the anti-fraud effort within the organization and endorsing (either overtly or subtly) the organization's care of the whistleblower individual.

In considering the negativity sometimes attributed to whistleblowers, Miethe's research (1999) warns that the label of whistleblower can become a person's "master status" (p. 162). If we undertake whistleblowing as a master status-determining trait, it is tone at the top which guides both the whistleblower's peer group and entity supervision in interpreting whether to accommodate whistleblower or professional as the person's dominant label. Accordingly, Ritzer (2005) reminds that "being labeled deviant may depend more on individual demographics than on someone's actual behaviors" (pp. 427-428). Namely, "whistleblowing promotes justice and

fairness but can also appear disloyal” (Waytz et al., 2013, abstract). In workplaces where “loyalty is the name of the game,” peers or managers may distinguish whistleblowing as a disloyal act of greater offense than the behavior being reported (Ravishankar, 2003, para. 15), so allowing (denying) voice exists as determinant of procedural fairness and organizational/ethical outcomes (Van Dijke, De Cremer, & Mayer, 2010).

Power considerations are a key part of the organizational demographic. It is tone at the top—the “moral entrepreneurs” of the entities—who wield power to “advocate particular constructions of what is deviant” (Ritzer, 2005, p. 427). Tone-at-the-top inclinations impact whether white-collar crime is trivialized or investigated in the organization. Henry Pontell in Van Slyke, Benson, and Cullen (2016) provides illustration in the way persons in power in Boston, Massachusetts controlled how ongoing arson-for-profit was reconstructed to be a “non-issue” (p. 47). Another city, below 6,000 in population, met with press coverage after new external audit personnel revealed a material weakness of “excessive payroll advances to city employees, with \$123,015 advanced” from an “emergency payroll account” disguised via “an invalid reconciling deposit in transit . . . carried on the bank reconciliation in an attempt to cover up the employee advances at year end” (Halpern, 2013b, para. 11):

“. . . council members have acted on some . . . concerns, including . . . ordering city employees who have been given loans by the city to immediately pay back those funds. . . it had been city policy for years, since the mid-1980s, . . . to allow city employees to borrow money against their checks. . . . council members had . . . kept the policy in place as long as employees paid the money back. . . . as of late, paying back funds to the city ‘was not handled properly, . . .’” (Halpern, 2013a, paras. 14-16)

Across 90,000 entities, tone at the top interprets and perceives acts in their organization through

their lens of power influence and bias—wherein management corruption exists at 51% frequency in observed frauds (ACFE, 2016, p. 56). Unethical power holders can trivialize “petty” organizational offense as well as sanction serious “elite” offenses (Van Slyke et al., 2016, p. 47).

The moral entrepreneurs can just as readily endorse fraud, waste, abuse, and corruption as the organizational deviance—or specify the whistleblowing disclosure act as deviant. In this sense, there exists value in researching (to the extent that empirical clues are available in the literature) the “motives and tactics” that tone at the top use “in their attempts to institutionalize their criteria for deviance” (Ritzer, 2005, p. 427). Remarkable to this study is that, once an employee selects whistleblowing as their resort for change, the entity’s culture then frames either the act or actor as deviant. Miethe (1999) would indicate the label whistleblower as potentially alienating that individual through assigning them the new “master status” (p. 171). Sociology theory might then add—the “greater suspicion and restrictions” then imposed upon the whistleblower may well “amplify the potential for subsequent acts of secondary deviance” (Ritzer, 2005, pp. 427-428). Thus, entities move away from fairness and justice foundations and potentially escalate self-interest defenses when labeling whistleblowers as deviant against the organization—inadvertently shifting social control mechanisms from the acts of fraud, waste, abuse, and corruption to the persons naming them (Braithwaite, 1989). In this way, tone at the top’s framing of the whistleblower impacts their voice influence, outcomes, and wellbeing.

Personal and positional power elements share impact for the outcome. “In a world in which ‘image is everything,’ employees as potential whistleblowers have the inside knowledge and *subsequent power* [emphasis added] to increase accountability in many organizations,” asserts Miethe (1999, p. 34). Prior and subsequent to whistleblowing being leveraged, the organizational social influence (particularly from tone at the top) holds and develops “the *power*

[emphasis added] to impose deviant labels onto selected others” (Ritzer, 2005, p. 427). Ritzer’s (2005) labeling theory, or societal reaction theory, is potentially at play in the whistleblower dynamic thereby signaling merit in citizens with authority, internal or external auditors, or others influencing tone at the top’s classification of corruption as the prime deviance. The positive pressure from stakeholders can combine with maintenance of positive public image to place the willing whistleblower in a position of organizational power.

Another influence over workplace context—and the recognition of active voice within entities—is how tone at the top models or demonstrates “coping with a major stressor” such as fraud discovery (Whetten & Cameron, 2011, p. 142). Fraud, waste, abuse, and corruption in the aggregate involves trying to cope with the “stressors in large chunks” (2011, p. 142). Weick’s research (1984, 1995) demonstrates the small-wins strategy is superior. Therefore, breaking down transaction components, assessing internal/external stakeholder impacts, naming responsible remediation partners, and protecting the whistleblower above legal obligations, model a strategic and sustainable plan for recovery.

Tips hotlines definition. Anonymous reporting channels (termed hotlines) further the transfer of tips to responsible parties so that fraud detection is increased by almost 20% (ACFE, n.d., 2016). Slovin (2005) specifies that anonymous, two-way dialog—whether via call center, web portal, or text—increases outcomes because being interviewed can generate more detailed information. Yet three factors restrict the success that can be realized from tips hotlines. First, public and political resistance sometimes halt the initiation and funding of tips hotlines such that they fail to become functionally established. For example, at the federal level after 9/11 attacks on the World Trade Center’s twin towers and the Pentagon’s offices in 2001, the Terrorism Information and Prevention System (TIPS) was “billed as a way for various workers—including

mail carriers, utility employees and truckers—to alert authorities to suspicious behavior they encountered on the job” (Eggen, 2002, para. 6). Following resistance by civil liberties groups and citizens making their preferences heard before lawmakers, the concept recoiled in scope and influence (e.g., no longer including workers who had access to private property during their job duties and becoming a voluntary-only initiative). Per Eggen (2002), when bolstered from misunderstanding and a fear of centralization of power, arguments against TIPS went so far as likening the measure “to domestic spying efforts in World War I and to a widely criticized ghetto informant program under the late FBI Director J. Edgar Hoover” (para. 22). In general, there was a lack of understanding of what was at stake, weak consensus regarding security benefits, and lack of trust surrounding communication. The understanding, consensus, and communication aspects coalesced to limit the initiation of that particular TIPS initiative. Binns (2017) found comparable in studying the tips hotline available to nearly 20,000 employees in a city-level government with 1.3 million population (p. 105). Despite not making a marketing poster available to external parties, the fraud hotline was receiving actionable tips; and, from 2010 through 2012, a significant 82% of the received complaints were substantiated and 41% involved a city employee (Binns, 2017, pp. 242-243). However, website language to “discourage hotline reporting,” a “complaint cap” by the third-party provider, along with public deliberation on “budgetary concerns over call volume” ended a four-year benchmarked performance trend—reducing call volume to 75% below benchmarking estimates (Binns, 2017, pp. 242-243). Introducing potential fear of hotline use made measurable negative impact on whistleblowers’ willingness to continue serving the organization as anti-fraud resources.

Second, the reporting structure which the organization designs to receive the tips can impact the degree of success realized through the hotlines. Each stakeholder that is authorized to

report through the tips hotline must trust the integrity of the design and the persons caretaking the program. For instance, unethical leaders in a local government organization (e.g., a mayor, superintendent, manager, or chief financial officer) might utilize their power influence to sway the tip program's authority and, thereby, perpetuate fraud within the organization. Dorminey, Fleming, Kranacher, and Riley (2012, p. 575) indicate that, particularly when fraud collusion is present at the top, the parties involved "may be individuals within an organization, individuals across organizations, or multiple organizations, and often span multiple jurisdictions—local, state, federal, and [even] international" such as frauds in international border communities. The compliance personnel, themselves, are not immune to fraud collusion. In one Victoria, Australia local government, a senior compliance officer took bribes of over \$134,000 and "agreed not to investigate breaches and to tip off [community business] operators about compliance inspections by the council" (Victorian Auditor-General's Report, 2012, p. 4). Inquiring citizens in close-knit communities asking performance or compliance questions of their local leaders benefit in remaining perceptive that the department head, city or school district leader, or even the prosecuting district attorney may be within the network of collusion. When a weak ethical culture or non-supportive tone at the top exists in the organization or (worse) in the compliance or law enforcement support structures for the community or district, strategic structuring of the tips hotline organizational framework is merited. Namely, reported information must flow in a tactical manner such that independent review cannot be blocked by participants in the collusion particularly when the colluders are named in the hotline submission.

Checks and balances are essential to hearten stakeholders' reliance on the legitimacy and independence of the tips hotline. Some medium or larger organizations have their hotlines routed to a designated ethics officer, fraud officer, general legal counsel, internal audit director, or

“another trusted individual responsible for investigating and reporting incidents of fraud or illegal acts” to the board on an ongoing basis (AICPA, 2007, p. 1759). Other entities find that anonymous, third-party, 24/7 telephone, web, or text hotlines are more cost-effective and capable of receiving employee reports. Regardless of which option is used, Ritter, Venkatraman, and Schlauch (2014) find that managers concerned with “increasing employee perceptions of justice” may best do so by “increasing perceptions of employee empowerment” (p. 649). Accordingly, whether the hotline for voice expression is in-house or third-party, employees and their managers require support to understand the expectations plus transparency to gauge the outcomes. The most recent ACFE (2016) survey indicates that management budgets for fraud/ethics and general employee support programs in over half (55.6%) of the organizations with over 100 employees and just 27.6% in the smaller organizations with under 100 employees (p. 39). ACFE further reported a 45% reduction in victim loss, and a six-month (33%) reduction in fraud duration, when employee support programs (including assistance with family/financial and addiction problems) were part of the sponsored control systems (ACFE, 2016, pp. 44, 89-90). The entity supported programs that maintain confidentiality seemingly reduce financial pressure/incentive or, at a minimum, bring concerns of potential workplace risk into the awareness of a responsible party. Each cost-benefit situation is unique, and all the immediate and external organizational contexts must factor into creating an effective tips hotline design for the entity.

Lastly, certain historical contexts restrict subsequent outcomes from the tips hotlines. For instance, Bies and Tripp (1999) find that silence may develop as an active strategy to cope with previous organizational experiences. Employees consider previous voice episodes when “deciding whether to engage in voice or remain silent” in the present, assert Knoll, Wegge, Unterrainer, Silva, and Jonsson (2016, p. 173). Even more damaging to the introduction of tips

hotline initiatives are the effects of “resignation” or “acquiescent silence” that can influence employees to “not even notice voice opportunities when they become available” (Knoll et al., 2016, p. 173). Pinder and Harlos (2001) define the learned helplessness that can invade an organization; for instance, when a whistleblowing culture is not properly fostered, there may arise “deeply-felt acceptance of organizational circumstances, a taking-for-granted of the situation . . . In unjust circumstances, acquiescence amounts to ignoring existing alternatives and lacking a desire to seek any” (p. 349). Benchmarking hotline statistics is one strategy to assist managers in holding alert to this more resilient “deeper state of silence” that may persist as entities seek to adopt authentic whistleblower protections and introduce fraud-focused communication and conflict-resolution strategies—wholly in support of dynamic tips hotlines that employees, citizens, and vendors altogether trust and utilize (Pinder & Harlos, 2001, p. 349).

So, what are the focal points of tips hotlines as considered within this project? Most simply, tips hotlines are communications tools employed to route a variety of fraud-suspicions or observations from their grass-roots sources to fraud-control personnel who can synthesize and yield something of value with the information. In Near and Miceli (2008), the purpose of whistleblowing is to “get wrongdoing stopped,” thus the tips hotlines exist to connect the discloser to “someone believed to have *power* [emphasis added] to terminate wrongdoing” (p. 266). As such, Near and Miceli (1985) define the act of whistleblowing as ““disclosure by organization members (former or current) of illegal, immoral, or illegitimate practices *under the control of their employers, to persons or organizations that may be able to effect* [sic] *action* [emphasis added]”” (p. 4). The definitional components of power, control, and disclosure indicate that hotlines can tip the ethical scale to contribute to risk assessment and remediation programs; ACFE (2016) finds 20% greater detection with tips hotlines. Hotlines bring into

consideration precise areas under control of the local government operations that may not have been initially evaluated for fraud risk—either through external or internal auditing scope. Thus, a prosocial utilization of tips—under whistleblower guidelines encouraging and protecting hotline use—may affect organizational voice and action otherwise unattainable; and society benefits.

Contributions from Whistleblowers and Tips Hotlines

History is filled with instances of bravery and prosocial actions that contributed to saved lives, preserved environment, and improved procedures (e.g., efforts against the nicotine loading of cigarettes and environmental radiation pollution) (Miethe, 1999). Exceptional efforts are not essential, however. Any elements that synergize to shed understanding and increase the public’s awareness of the truths inside special-purpose and local governments serve as tips and whistleblower contributions. Ostensibly tiny fragments of insight may merge with more complex crime elements to provide a more robust awareness of tone at the top’s expectations, contextual mandates, and the true drivers of operations. According to Dyck, Morse, and Zingales (2007), “attributing all the credit to one single whistleblower per case misses all the interactions between different sources of information” (p. 22). It is through the assembly of distinct information and prosocial organizational behavior (POB)—such as Miceli, Near, and Dworkin’s (2009) POB model for acting on concerns—that applied resources such as data mining and forensic findings can integrate to advantage. The large and miniscule details, brought to the awareness of person(s) with power to act, facilitate the case-building necessary for positive prosecution—particularly in large cases spanning multiple decades, personnel, and geographies.

Consequences to Whistleblowers and Tipsters

Whistleblowers often face a heavy dose of scrutiny, judgement, and revenge from their community. National Security Agency (NSA) whistleblowers Edward Snowden, Thomas Drake,

and William Binney blew the whistle on the agency's unconstitutional domestic spying program—ultimate external exposures that followed failed internal voice approaches over prior decades (Near & Miceli, 1985; Welna, 2014). In Welna's (2014) assessment, Snowden merely learned from Binney and Drake's "bitter experience" attempting to, first, work within the system (para. 7). Thomas Drake's family experienced financial and personal stressors albeit, ultimately, the case presented by his employer for his allegedly violating the Espionage Act in whistleblowing "fell apart" with just a misdemeanor plea bargain (Welna, 2014, para. 17). Waytz et al.'s (2013) assessment of subsequent behavior—upon Edward Snowden's decided construal of Binney's and Drake's experiences—is that Snowden "'faced a moral dilemma' and ultimately 'betrayed his employers,' contributing to 'the fraying of social fabric'" (para. 1). In taking this stance, Waytz et al. (2013) had considered Brooks' (2013) op-ed opinion, in *The Solitary Leaker*, and concluded in their taking that Snowden had alternatives to whistleblowing that he chose not to pursue, thereby emphasizing the further scrutiny experienced by many whistleblowers.

Still, Brooks (2013, para. 16) concedes that sometimes the information that is within possession is "so grave" that it demands that the possessor violate prior oaths. Where there is this recognized need—to violate rules to break outside of the systems that are non-responsive—society most often responds with more punishment and deterrence toward the whistleblower than to the crimes or harms that the whistleblowing is attempting to uproot. Miethe (1999) paints a bleak reality for the whistleblower who dares to report misconduct externally:

"Unless you are totally indispensable to the organization . . . your act of defiance of company norms . . . is often professional suicide and usually results in swift, certain, and severe forms of organizational retaliation. You could lose your job (or be forced to resign because the company has made your life totally miserable), co-workers may shun and

avoid you, other employers may blacklist you from receiving similar jobs, and severe economic and psychological harm may haunt you the rest of your life.” (1999, p. 4)

This image ties with Jou, Heberton, and Change’s claim in Van Slyke et al. (2016) that in cultural situations such as in the U.S., where there exists both expectation and acceptance of “unequal distributions of power,” whistleblowing is “not tolerated, and those in power will seek to prevent or punish any such attempts” (p. 352). Case studies steadily illustrate people ostensibly resenting “not the crime, but the exposure of it” and, thereby, the exposor of it (Steffens, 1948, p. 20; DesOrmeau, 2017).

The whistleblower experiencing retaliation is a recurring theme in findings through the National Business Ethics Survey (NBES, 2014). NBES’ reports began in 1994 and the latest results involve a sampling error of +/- 1.2% at the 95 percent confidence level (NBES, 2014, p. 11). The latest study finds that retaliation against U.S. workers who reported wrongdoing is increasing. Nearly 63% of those surveyed reported misconduct when observed, yet an increasing number of the U.S. whistleblowers and tipsters experienced retaliation for reporting—12% in 2007 and 15% in 2009, then 22% and 21% in 2011 and 2013, respectively (NBES, 2014, p. 26). The statistics stand in the path of effective whistleblower programs. According to NBES’ measure, fear of retaliation is a real concern among those who declined to report about misconduct and it descends from the top of the organization down into the ranks (NBES, 2014, p. 27):

- 34% feared payback from senior leadership,
- 30% worried about retaliation from a supervisor, and
- 24% said their co-workers might react against them.

A report by the ACFE (2016) considers that, when perpetrators were executives or upper management, internal reporting to a direct supervisor becomes risky, making reporting to a board

of directors or audit committee (22.2%) or to law enforcement (20.4%) relatively safer options for the whistleblower (p. 29).

Peer actions further create risky social harm surrounding the whistleblower. “Widely used synonyms such as ‘snitches,’ ‘squealers,’ ‘rats,’ ‘moles,’ ‘finks,’ ‘stoops,’ ‘blabbermouths,’ ‘tattletales,’” as well as the ostracizing characterizations of “‘ethical resisters,’ and ‘people of conscience’ clearly illustrate our diverse perceptions of whistleblowers in U.S. society,” asserts Miethe (1999, p. 11). It is a reality that merits observant inquiry for the presence (absence) of psychological safety within entity operations, as potential whistleblowers must continually weigh their options of internal or external channels, or remaining silent. Still, based on all that is before and ahead for the entity, potential reporting actions may “cause the wrongdoing to be corrected, ignored or bring harm and retaliation” expressed either internally and/or externally (Chen & Lai, 2014, p. 328). While legal frameworks such as whistleblower protections hold limited as balm for these personal conflicts of responsibility, legislators do attempt to provide lawful resolution and feasible safety for the whistleblower who makes the moral decision to act.

Whistleblower Regulations

The U.S. has initiated regulatory and compliance mechanisms targeted to white-collar crime control and limited whistleblower support structures. For instance, after passing the House and Senate’s approval with 522 votes in favor, and 3 against, the Sarbanes-Oxley Act of 2002 (SOX) enacted protection for those blowing the whistle on U.S. corporate, banking, and securities fraud (Ramirez, 2007, p. 197). Section 301 in SOX requires the “establishment of anonymous whistleblowing methods as through a hotline” (Robinson et al., 2012, p. 221). Then, via a Presidential signing statement that Ramirez (2007) viewed responsive to the political force exerted by management anxious over external exposures that compliance hotlines might produce,

“out of literally hundreds of reform provisions, . . . *only whistleblower protection* [emphasis added]” was narrowed (pp. 184, 230). Although relevant to whistleblower protections in general and certain partaking in “federally sponsored housing and educational loan programs,” SOX does not apply to local governments or their programs so remains outside this project’s scope (Dittenhofer, 2017, §26.01, para. 3). The Association of Government Accountants (AGA, 2005, 2007) explored whether the principles of SOX might be applied to the fiscal management and control practices within the local, state, and federal governments. Still today, SOX impacts internal controls in public firms yet has not become regulatory over governments.

Municipal and school regulation. The Dodd-Frank Act of 2010 ostensibly expanded whistleblower protections yet is being restrained by underfunding efforts along with the denial of a self-funding (from whistleblower bounties) rejected by Senate and House negotiators (Carton, 2011). A limited application of a component area of the Dodd-Frank regulation impacts municipal and school district entities. These special-purpose and local government issuers of debt face new rules and regulations such as the SEC Municipal Advisor (MA) Rule, the MSRB G-42 and G-37 rules, and the Municipalities Continuing Disclosure Cooperation (MCDC) Initiative (Johnson, 2017). In aiding proper independence and segregation of duties, the *MA Rule* has the purpose of registering municipal advisors with the SEC and limiting the ability of underwriters to provide advice to school and local government as they issue bonds (GFOA, 2014). *Rule G-42* of the Municipal Securities Rulemaking Board (MSRB, 2016a) established and defined fiduciary duty of care and loyalty, Know Your Client (KYC) specifications, and similar disclosures, whereas *Rule-G-37* pertains to prohibitions and disclosures of political contributions to officials of municipal clients (MSRB, 2016b).

Municipal bonds are debt obligations issued by states, cities, counties, and special-purpose entities that use the money for “large, expensive, and long-lived capital projects” such as schools, hospitals, highways/streets, sewer systems, and comparable for the public good (Tax Policy Center, 2016). The municipal bond market has expanded into a \$3.7 trillion industry that, heretofore, operated under broad exemptions from federal securities laws (SEC, 2012b). With the *MCDC Initiative*, the SEC expects special-purpose and local governments to provide transparent disclosures—free of material misstatements and omissions—to investors in municipal bond holdings. In June-September 2015 and February 2016, under SEC regulation, actions were filed against a total of 72 municipal underwriting firms “comprising 96 percent of the market share for municipal underwritings” (SEC, 2016, para. 7). The significance is that, with close to 44,000 state and local issuers, there are now “over one million different municipal bonds outstanding compared to fewer than 50,000 different corporate bonds” (SEC, 2012a, p. 5). As the municipal and school entities adapted their operations to making disclosures under federal securities laws, the SEC cited disclosure violations for almost the entire municipal market.

In 2014, for instance, a California school district misled bond investors when the district issued a \$6.8 million bond offering in 2010 and did not report material non-compliance with its 2006 and 2007 disclosure obligations (SEC, 2014). To protect investors, cited municipalities and schools agreed to adopt the necessary written policies to support compliance, remain current with continuing disclosure obligations, and cooperate with any subsequent investigation by the Enforcement Division (SEC, 2014, 2016). The context of debt activity is that—from 1945 through 1981—the total outstanding U.S. municipal debt held under \$0.4 trillion and, now, the amount is \$3.7 trillion and growing (SEC, 2012a). Commissioner Walter of the SEC led succinct action to improve the quality and timeliness of municipal securities disclosures. The new

requirements serve to lower default risk in the municipal markets—an issue that Street (2017) chronicles from the first major U.S. bankruptcy in Orange County, California (\$2.6 billion, 1994) through to the current experience in the U.S. commonwealth of Puerto Rico (\$73+ billion). After the prior findings in removing federal securities law exemptions from local governments, general and entity-wide financial disclosures have further come under examination by researchers.

Local Government’s Use of GAAP for External Reporting

Noting that local government culture was inescapably shaped by their history of operating with broad exemptions from federal securities laws, this project examines research by the Governmental Accounting Standards Board (GASB). In its strategic plan for 2004-2009, the GASB set out to determine how many of the nonfederal governmental entities applied Generally Accepted Accounting Principles (GAAP) to entity financial reporting. GASB’s project suggests that one influence impacting the reporting governments is the variance in administrative oversight under which each entity performs while remaining responsible to existing statutes. Further, there was concern about quantifying noncompliance under existing regulation.

GASB’s (2008) findings give insight into the magnitude of the problem. The question at the center of the research was how many of the state and local governments followed GAAP when providing external financial statements for their stakeholders. A limitation of the study was the exclusion of smaller governments “due to difficulties in surveying very small governments” (GASB, 2008, p. 2). Overall, the study determined that—among the medium to large entities surveyed—an estimated 67 to 72 percent of those state and local governments follow GAAP. The study asserts capturing within the survey population “more than 98 percent of total state and local government revenue” (GASB, 2008, p.4), yet the author of this 2017 project notes that over \$78 million in case study revenue losses remained hidden from disclosure and misappropriated

during years, sometimes decades, of operation. Accordingly, do the financial reporting mechanisms yet exist to reasonably compare and validate financial data across public entities such that misappropriated revenues can be recognized in a timely manner? At a minimum for this to occur, federal and state disbursements to local entities must be correlated with timely recording of revenues within the local financial disclosures. External auditors would need to control the confirmation letter processes validating holdings and receipts while seeking confirmations of bank balances, revenue receipts, and credit/loans/other receivables (CPA-Scribo, 2017b). Heterogeneity of procedures is common in local governments, and they operate without support from the SEC—which has led enforcement actions against third-parties when confirmations provided to auditors of commercial entities were found falsified (IFO, 2012).

Noting the steady inconsistencies, Wüstemann and Wüstemann (2010) offer a robust consideration of principles-based and rules-based accounting standards as well as the worth of the resulting financial information. Of value in this immediate consideration is how constant issuance of new accounting standards and ongoing interpretations in rules-based regimes, such as GAAP, present two challenges. Per Wüstemann and Wüstemann (2010, p. 3), “there are always *issues not covered* [emphasis added] by any existing rule as well as the application of rules that *requires management to use judgment* [emphasis added]” leading smaller entities to avoid the challenge and choose the cash-basis model instead (Miranda & Picur, 2003).

Additionally, GASB’s survey determined that over one-quarter of the U.S. states lack laws or regulations requiring their political subdivisions to follow GAAP in external financial disclosures—such as the entities’ Comprehensive Annual Financial Reports (CAFRs or AFRs). According to GASB (2008, p. 3), state laws or regulations impact “at least some” of the entities and require GAAP be followed in these areas:

- some or all school districts in 34 states are required to follow GAAP,
- some local governments in 27 states are required to follow GAAP, and
- some or all counties in 28 states must comply with GAAP.

Political forces in 12 states have established jurisdictionally-based criteria dependent on either population, revenues, or expenditures below which GAAP compliance is not required. According to GASB (2008), correlating financial disclosures across public entities presents some practical challenges for researchers:

“Although these thresholds are generally identifiable, in some states the cutoff points were not clear . . . in some states certain governments are required to conform to GAAP but do not do so, and either no enforcement mechanism is available or it is not employed. In most of these states *it is uncertain* [emphasis added] how many governments are actually complying.” (GASB, 2008, pp. 3-4)

The study estimates that, while all but one of the U.S. states produce a CAFR in conformity with GAAP, the state governments require just 55.8% of school districts to prepare GAAP financial statements, compared with 43.4% of county governments, and 13.2% of cities and towns (GASB, 2008, pp. 5, 8). Compilation of regional fiscal information is hindered by this limitation. Capstone research does not indicate a more recent, comparable analysis of GAAP compliance.

As construed by Dittenhofer (2017), “many smaller governmental units pragmatically conclude that efforts to stay current, both in understanding and applying the GAAP hierarchy, are beyond their resources” irrespective of benefits lost (§1.04[3], para. 2). Whereas the authors acknowledge that compliance with GAAP reporting is generally increasing, they record that “despite the potential benefits, it is not yet universal” (§1.04[3], para. 1). An ongoing reason is that public officials face the challenge of satisfying two sets of standards: “to present fairly and

with full disclosure the funds and activities of the governmental unit” in conformity with GAAP and “to determine and demonstrate compliance with finance-related legal and contractual provisions” (Dittenhofer, 2017, §1.04[3], para. 1). Equally pertinent for elected officials is the political experience of needing to explain to constituents a reduction in reported fund balance (or perhaps a fund deficit) were the GAAP accounting principles to be applied to the communities’ financials in place of cash basis (Dittenhofer, 2017; Miranda & Picur, 2003).

The recommendations section of the project will propose excellence in financial reporting options as well as GAAP reporting for their benefit in communicating financial position and improving comparability among diverse jurisdictions. According to the public debt rating agency Standard and Poor’s (2013), “states that allow cash accounting tolerate a lesser degree of completeness and consistency” (pp. 15-16). Without benefit of GAAP reporting, special-purpose and local government auditors cannot issue a “‘clean’ audit opinion that the financial statements are in accordance with GAAP” and potentially less-favorable bond ratings constrain the entities’ attainment of debt financing and bond insurance (Dittenhofer, 2017, §1.04[3], para. 3).

For the entities that seek to hold compliant with GAAP, financial personnel must include in financial statements all expenses that are incurred (not necessarily paid) during the year, as well as all income earned (not necessarily received) during the year. This requires that local governments identify *accruals* for payables and receivables that are outstanding at fiscal year end (FYE). Somewhat telling of the challenge, the GASB (2008, p. 4) anticipated “that some respondents may not understand what it means to ‘follow GAAP’” and disclose accruals and, so, included discerning follow-up questions in their survey. The findings validated GASB’s concern in recording that—of the 87.4% of entities stating affirmatively that they followed GAAP—just 49.7% selected at least full accrual (either on its own or with modified accrual) as the accounting

method they use (2008, pp. 4-6). The cash basis used more frequently by smaller entities is, by definition, *other* and not U.S. GAAP. Small entities rarely employ or contract to hold sufficiently well-informed of the latest accounting developments for federal grant administration or other expectations under the Government Accountability Office (GAO), Office of Management and Budget (OMB), American Institute of Certified Public Accountants (AICPA), GASB, or the Financial Accounting Standards Board (FASB). The cash-basis approach enables small entities to meet their record-keeping, budgeting, and reporting needs without necessity of a trained accountant or fund-accounting software (Business Encyclopedia, 2017; Dittenhofer, 2017).

Disjointed disclosure requirements persist for various areas of financial communication. For instance, states typically require sub-unit governments to “adopt an annual budget, follow recommended cash and debt management procedures, and have an independent financial audit conducted” (Coe, 2008, p. 759). A 1993 survey by Mackey (as cited in Coe, 2008, p. 759) achieved a response rate of 41 U.S. states: he determined that 36 of the 41 states require that local financial audits be submitted to a state office and seven of the 36 states then report the local governments’ fiscal health to the public via website or other means. To facilitate distinctions, Coe (2008) arranges survey results by state and, thereby, sheds light on the associated challenge. The state of New Hampshire, for example, does not require local entities to have an independent financial audit: “the state, therefore detects stress through its review of local government budgets” (Coe, 2008, p. 760). State budgets, in turn, provide the context for such budgetary review. The Maryland state office of legislative audits, for instance, houses two accountants who, among other duties, manually input the state’s local data into Excel spreadsheets to “review the annual financial reports of 24 counties, 155 cities and towns, and 17 taxing districts” (Coe,

2008, p. 761). Each state employs a distinct, sometimes legacy, protocol for local government oversight within their context of public policy and fiscal constraint.

Disjointed state and federal controls, alongside the abundant need for financial fraud control, facilitated formation of the Statement of Auditing Standards (SAS) No. 99, whereby currently “the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud” (AICPA, 2007, p. 1719). While audits are not guaranteed to determine misstatements (recall that external audits exposed fraud 3.4% of the time, per ACFE), SAS 99 applies to audits of all local governments—requiring audit teams to plan, perform, and document “more due diligence about where misstatements and fraud might exist” (ACFE, n.d., 2016; Hoffman, 2004, para. 6). Literature review indicates that the objective is sometimes not realized. For instance, Lambert (2005) accounts Comptroller Hevesi’s assessment of the firm in authority over Roslyn UFSD’s auditing for a decade: “the work of Miller, Lilly & Pearce was so appallingly inadequate that it would shock anyone associated with the auditing profession and certainly the taxpayers who depend on the firm to safeguard their money” (para. 6). Regrettably, provides Hubbs (2012), “merely having a sentence in the audit scope that states ‘the audit staff will remain vigilant for fraud during the course of the audit’ isn't enough” (para. 8).

Fraud brainstorming requires employing the fraud triangle and diamond constructs and “delving into the details” (Hubbs, 2012, para. 11). Risk control requires risk assessments and understanding the entities accounting systems. Hall (2014) distinguishes that many auditors retain a “pure balance sheet approach” that, by nature, emphasizes “period-end balance sheet totals (the results of accounting processes) rather than the accounting processes themselves” (p. 75). Per Balasubramaniam (2015), “the more people engage in the nuts and bolts of programs,

the simpler it would become to decipher the moves and intents” of the community leaders and their supporting accounting structures (p. 93).

Production of a representative annual financial report is one facet of the public accountability equation: entity information must offer stakeholders relevance, reliability, understandability, comparability, consistency, and timeliness (GASB, 2011, p. 3). Styles and Tennyson (2007) add that practical “access to the information is the other necessary condition for accountability to take place” (p. 58). One key reason is that citizens and state/federal legislators are external users of financial reports. To serve as viable participants in the oversight function, legislative overseers require access to the same internal financial data as do officials and residents in the local government (GASB, 2013). Genuine accessibility and transparency support trust at the local government level, whereas Right to Know or Freedom of Information Act (FOIA) obstructions and delays may exist as potential red flags.

Accessibility of management and financial information. For more than two decades, accounting regulators have “called for transparency and accessibility of public sector reporting” (Styles & Tennyson, 2007, p. 56). To make an assessment, Styles and Tennyson (2007) surveyed financial data disclosed on the Internet from a sample of 300 U.S. municipalities of various sizes. A limitation, for the purposes of this project, is that the study framed “small” local government as greater than 10,000 and less than 50,000 residents. The researchers’ first underlying assumption was that Internet communication provided entities “relatively easy and relatively inexpensive dissemination of government financial and statistical information,” such as that presented in CAFRs, to the largest volume of stakeholders (Styles & Tennyson, 2007, p. 59).

The researchers’ second premise involved accessibility; namely, “the closer the [financial disclosure] document to the website homepage, the more importance given to the document”

(Styles & Tennyson, 2007, p. 63). The research designed an accessibility index score (AIS) (minimum score of 1, maximum score of 7) and findings provided a mean of 4.25 indicating that none of the entities provided all pertinent CAFR components, and smaller cities above 10,000 in population demonstrated a lower mean of 4.13 as accessibility index score (Styles & Tennyson, 2007, Table 5, p. 81). The most recent Dixon AFR is accessible following a seven-step path: (1) DiscoverDixon.org website homepage, (2) Government, (3) Documents and Downloads, (4) Department and Government Documents, (5) Finance Department Documents, (6) Financial Statements, then (7) Financial Statement Fiscal Year 2017 (DiscoverDixon.org, 2017). Search tools are invaluable, and one was recently made available on Dixon's website homepage.

Less than half of the municipal websites (49.3%) provided visitors with access to comparison CAFR data from prior years (34.8% for smaller entities) and just 11.6% overall provided the CAFR data in indexed formats, such as PDF (Styles & Tennyson, 2007, Table 6, pp. 81-82). Ten percent of the entities provided a link to the CAFR data on the homepage of the website (13% for smaller entities) (Table 6, p. 81), thereby providing stakeholders limited financial access for the oversight of public operations. Citizen stakeholders require financial access—particularly in the aftermath of any fraud event that violates the community trust. Throughout 2017 and five years after Treasurer/Comptroller Rita Crundwell's arrest, for instance, stakeholders seeking the Dixon, Illinois' finance department online pursue the four-step path (1) DiscoverDixon.org website homepage, (2) Departments, (3) City Administration, then (4) Finance Department in order to view the communication, "Content not yet available. We apologize for the inconvenience" (DiscoverDixon.org, 2017). Accessibility, on the other hand, builds the foundation for restored trust. Equally important to fraud control is the timeliness of financial reporting to citizens and state/federal legislators.

Timeliness of management and financial information. In GASB (2011), researchers sought to determine how long after the close of an entities fiscal year did the entity issue financial reports to the public. GASB researchers examined data for “three consecutive years, thereby diminishing the potential impact of history bias due to implementation of a new accounting system, personnel turnover, new auditing standards, or new accounting and financial reporting pronouncements in any given year” (GASB, 2011, p. 4). A limitation, for the purposes of this project, is that government units with annual revenues less than \$10 million were excluded from the sampling (p. 7). As evident with other surveys referenced in the project, the exclusion tied with “expected difficulty of collecting data from relatively smaller governments;” thus, the data GASB describes from “smaller governments” is from a random sample of 193 entities with annual revenues between \$10 and \$100 million (GASB, 2011, p. 6). Out of the 579 possible CAFRs, a total of 376 (or 65% as GAAP-based CAFRs) were available and considered.

Within the smaller-size definition as described above, the smaller governments issued reports a mean of 200 days after close of their fiscal year and 29 days later than larger governments (GASB, 2011, p. 13). Overall, more than seven percent of smaller governments’ CAFRs were issued after more than a year had elapsed, compared with two percent for larger governments (GASB, 2011, p. 14). Specifically, the GASB (2011) research determined the following time-to-issuance financial reporting for smaller governments (p. 14):

- counties—16.8% at 10 to 12 months and 13.7% at 12+ months,
- special districts—9.5% at 10 to 12 months and 6.3% at 12+ months,
- local governments—7.7% at 10 to 12 months and 4.6% at 12+ months, and
- independent school districts—3.8% at 10 to 12 months and 0.0% at 12+ months.

The publication of Dixon’s annual financial reports (AFRs) provides illustration. Dixon’s fiscal year 2011, 2012, and 2013 AFRs were made available to the community stakeholders at the city’s website

389 days, 520 days, and 337 days, respectively, after fiscal year end (FYE) (DiscoverDixon.org, 2017). The AFR for 2014 was made available 224 days after the close of the fiscal period. More recently, following the close of the 2015, 2016, and 2017 fiscal periods, audited financial reports were published to the city website in fewer than 200 days (DiscoverDixon.org, 2017).

The significance relates with the planning and budget cycles within local governments. Subsequent budget adoption generally begins six months prior to FYE close/beginning; therefore, both the 200-days and more-than-a-year findings are problematic. The subsequent-year budget requires analysis and adoption prior to fully understanding the financial history just ended. Correspondingly, when considering budget-vs-actual performance and fraud-control monitoring, the challenge of delays can be appreciated as less than supportive of fiscal and operational excellence. Key information is required to be accessible, timely, and accurate; and this responsibility rests with local government management.

Management’s accountability to stakeholders. The literature confirms that controlling fraud, waste, abuse, and corruption relies on ethical personnel performing capably inside organizational accountability. Bieber (2011) contributes two prerequisites that accountability for the anti-fraud tasks demands: capability and responsibility. When any organization hires a candidate below the “necessary knowledge, skills, and abilities for a particular position” . . . “the hiring authority remains accountable” (Bieber, 2011, p. 19). This fits with the governing boards and entity management (not the external auditors) being responsible for the design and effectiveness of fraud controls. Reported financial statements are management's responsibility and assertion—auditors merely “express an opinion” on internal control in certain types of engagements (AICPA, 2017; IAASB, 2009; PCAOB, 2017a). It is the entity leaders who hold responsibility to “hire candidates with the necessary skills, provide them with proper training, and develop them as they progress in the organization” to represent the objectives of the organization (Bieber, 2011, p. 19). Across

management regimes and among political sway, precedence establishes that it is management's role to "initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements" (PCAOB, 2017a, para. 3). Leaders executing the equivalent responsibility in the local governments face a limiting constraint from annual elections and leadership turnover that make the hiding of transactions easier.

The 'perpetual change' repercussions of the political context are the reason that successful change efforts require citizen dedication behind the objective of fraud, waste, abuse, and corruption control. Accurately, "a dependence on the people is, no doubt, the primary control on the government" (Gutenberg.org, 2009, No. 51 para. 5). Citizen voice serves equivalently for school systems and special-purpose entities and for the various forms of local governance (e.g., whether mayor-council or council-manager form). The people supporting the fraud control objective can be professionals inside the governments, vendors and suppliers relating with the governments, or resident observers from outside (Schumard, 2012). Anti-fraud effectiveness leverages the courage of voice as balance against the conscious avoidance in willful blindness—requiring transparency when the entity covering the fraudster makes "a choice not to know about, or act on, something that one should or could know" (Kennedy, 2015, para. 2). When a workplace context includes tone at the top prone to willful blindness surrounding the extent—or even the possibility of—present fraud, waste, or abuses, those whose positions are ideologically farther away (e.g., internal control personnel) can be "dismissed, isolated, or derogated" (Whetten & Cameron, 2011, p. 142). The importance is that it is not until local government management enables identification of present risks, that determination of risk tolerances can begin. With the culture of unmerited trust, there is no perceived need for risk management and oversight boards lack compulsion to launch a sufficient control environment, control activities, and monitoring. In turn, with less quality information to utilize internally and communicate externally, the considerable risk is that control weaknesses afford potential fraudsters the secure environment for executing long-ranging abuses. Accountability to stakeholders, therefore,

merits management skill with expressed voice inside the risk assessment, control strategies, and stakeholder communications. Citizens and contractors fill the need, at times, when either the skill or voice requirements are under development internally.

Accuracy of management and financial information. Small government budget planners frequently undervalue the contribution from reconciling all accounts, reviewing data for accuracy, and analyzing financial data over time. Hence, emergency conditions sometimes bring transparency to indications of inaccuracy that would not otherwise be forthcoming. For instance, the condition is illuminated by statement from a state-appointed emergency financial manager—a certified public accountant hired to serve in Benton Harbor, Michigan (population near 10,000) during nearby Flint, Michigan’s water contamination crisis and public exposure. Public hearing testimony by Joseph L. Harris, CPA, brought into awareness that, at the time of his appointment, “the City had no accountants and, therefore, was unable to generate financial statements, or even prepare bank reconciliations. Nor did any of its Finance Department employees have academic or job-related accounting or financial expertise” (Harris, 2016, pp. 1-2; Savage, 2012). While comparable situations potentially exist across the U.S., it is through extraordinary events linking with media coverage that control conditions become publicly understood (Apaza & Chang, 2017). Leveraging these event disclosures into tangible risk-remediation actions can then benefit the stakeholders moving forward.

Management's discussion and analysis. Entities must have accurate and complete financial information for management to make effective decisions. In striving for greater operational accountability, GASB Statement No. 34 (GASB 34) was adopted in 1999 and heralded as the “most significant single change in state and local governmental accounting and financial reporting in several decades” (Kravchuk & Voorhees, 2001, pp. 1-2). *Basic Financial Statements—and Management’s Discussion and Analysis (MD&A)—for State and Local Governments* within GASB 34 requires governments to report at a minimum: a balance sheet and

a statement of revenues, expenditures, and changes in fund balances (for general funds and other major governmental funds) and to report financial data in the aggregate in a separate column (for nonmajor funds) (GASB, 1999). The MD&A is of value to stakeholders, because management’s thoughtful discussion and analysis is, essentially, a publicly communicated self-assessment.

As governments prepare government-wide and specific financial statements with GASB’s measurement focus, the entity is transparently showing to the public whether and how “resources were obtained and used in accordance with the legally adopted budget and in compliance with other finance-related legal or contractual requirements” (GASB, 2013, p. 10). While “some small governments don’t have the ability (knowledge) to prepare the MD&A” (CPA-Scribo, 2017a, para. 8 thoughts), citizens and legislators seek MD&As to better trust financial operations and understand the “uniquely knowledgeable insights of government’s management” (GASB, 2017, para 3).

Local government leaders indicate their entity’s transparency values through financial and operational presentations to the public. Still apparent five years after the more than \$53.7 million loss was made public in Dixon (2014, 2015, 2016, 2017), city management is continuing to omit or not present the management’s discussion and analysis (MD&A) portion of the required supplementary information—despite generally accepted U.S. accounting principles requiring the MD&A to be presented to supplement the basic financial statements. Awareness of the omission exists as the independent auditor’s reports for Dixon (2014, p. 2; 2015, p. 2; 2016, p. 2; 2017, p. 2) state that MD&A information “is required by the Governmental Accounting Standards Board [GASB], who considers it to be *an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context* [emphasis added].” The same audit firm provides services for the management of City of

Sterling, Illinois—less than 15 miles to the west of Dixon and with a population near 15,000, very similar to that of Dixon. City of Sterling’s (Sterling’s) most recent financial statements provide stakeholders ten pages of MD&A in the 2015, 2016, and 2017 annual financial reports—providing readers of the reports “financial highlights,” “financial analysis of the city as a whole,” as well as economic factors impacting management’s estimates for the “next year’s budgets and rates” (Sterling, 2015, pp. 6-15; Sterling, 2016, pp. 6-15; Sterling, 2017, pp. 4-13). City Manager Scott Schumard was part of the tone at the top that provided Sterling’s constituency with financial and operational information from which to found public policy decisions.

One historical account illustrates the value available from local government transparency. Schumard (2012) made recommendations to his community from the foundation of analysis and regional comparison. The city leader’s strategy was supported by the State Comptroller’s office which made Illinois cities’ Annual Financial Reports (AFRs) publicly available via website, albeit sometimes two years after fiscal year end (OSC-IL, 2017). Data findings were placed in comparison with the Government Finance Officers Association (GFOA) guideline that a city maintain at least two months of General Fund (GF) operating expenditures in reserve for the purposes of cash flow and emergencies and, per Schumard (2012), most cities that formalize a financial policy generally target at least three months to provide a fund balance ratio of +25%. The GFOA reduced its guideline following GASB’s release No. 54; though, in managing local risk, smaller cities with a less diversified, volatile tax base characteristically hold unrestricted reserves above the suggested range (Gauthier, 2009; GFOA, n.d.). Schumard’s public statement—upon answering press questions after Crundwell’s arrest—sheds light for this project:

“In late 2010, I compiled the results of 33 cities’ 2009 and 2010 . . . AFR’s . . . My research showed that Dixon's negative General Fund balance was dramatically out of line

with all 32 other cities compared. . . . My second concern of significance was how quickly Dixon’s negative fund balance was growing. . . .” (Schumard, 2012, pp. 1, 3)

Figure 3 provides a portion of the information in a graphical format.

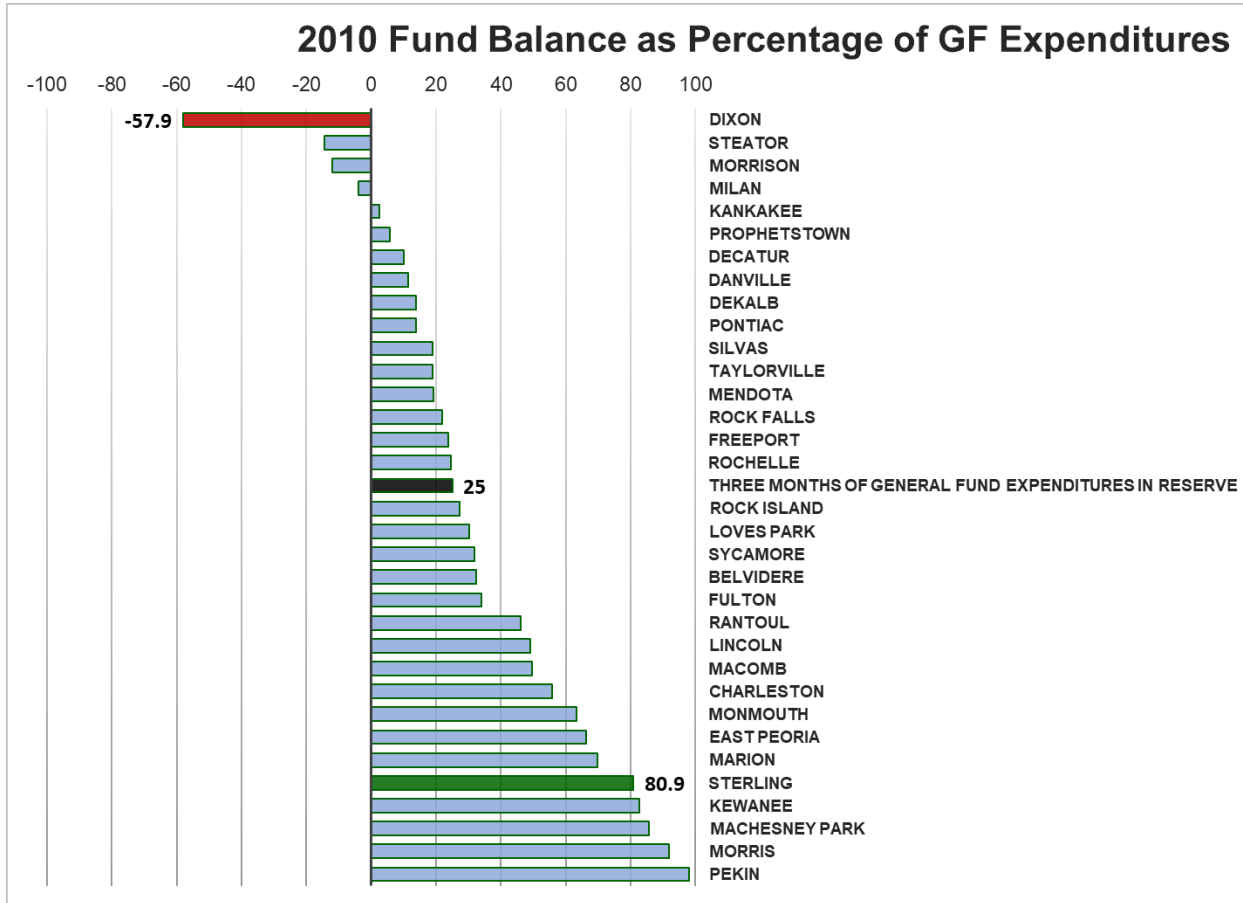


Figure 3. Comparison of City of Sterling, Illinois’ fiscal health compared to other cities in Northwestern Illinois and comparably sized downstate cities in advance of preparing a tax levy recommendation to the Sterling City Council. Data sourced by City Manager Scott Schumard from the cities’ and Illinois Comptroller’s websites (OSC-IL, 2017); Figure adapted from table in Schumard (2012, p. 2).

The information was discussed regionally: “I first shared Dixon’s AFR with other city managers, administrators and other professional peers as the fund balances and year to year changes seemed well outside of the norm” (Schumard, 2012, p. 1). Schumard presented to Sterling’s City Council 15 months before Dixon’s Treasurer/Comptroller was arrested. Near then, a courtesy letter and comparisons were sent to the Dixon government encouraging a look

into the discrepancy between Sterling’s running a General Fund surplus (+80.9%, in a city with similar population and budget) while Dixon was in a debt position (-57.9%) that was escalating (Schumard, 2012). Dr. Kelly Richmond Pope surmises of the 2011 letter to Dixon “nothing ever came of it because, says Pope, ‘that warning message probably went to Rita. She had absolute control, and was able to intercept outside messaging. The message was probably directed to Rita, because she handled all the finances’” (Beale, 2017, para. 14).

Optimally, transparent financial disclosures work synergistically with tips hotlines, internal controls, and other management measures to support the anti-fraud programs that prevent, detect, communicate, and deter improper activities (Yusuf, Jordan, Neill, & Hackbart, 2013). Sterling, for instance, employed “segregation of duties among professional staff” within a sound organizational structure, “premier financial software,” auditing practices, and robust reporting capabilities under the city manager form of government (Schumard, 2012, p. 4). Fung (2014, p. 73) describes such entity governance straightforwardly:

- Is management telling us what is going on—transparency?
- Is management taking responsibility—accountability? and
- Is management leading the entity to do the right thing—control?

Components of Internal Control

This project is not designed to provide a full analysis of the different components of internal control. The literature review focuses, however, toward frameworks available for small local governments to utilize in their risk self-assessments. One underutilized tool in the local government sector is the *Internal Control—Integrated Framework* (the COSO Report) that was introduced in 1992 and updated in 2013 (McNally, 2013). Public companies use the guidance to achieve and maintain Sarbanes-Oxley Act (SOX) Section 404 compliance; certain municipalities

and school districts find it of value as well (AGA, 2007). The five private-sector financial and accounting organizations, that collaborated to originate then update the model for the digital age, uphold that COSO “makes it easier for management to see what’s covered and where gaps may exist” in their current compliance program (COSO.org, 2017; McNally, 2013, p. 2). Recognizing value in this sort of modeling, the same Committee of Sponsoring Organizations of the Treadway Commission (COSO) expanded their framework to deliver guidance for entities seeking a more comprehensive, enterprise-wide approach to managing risk (Moeller, 2007). Published in 2004 and also updated in 2013, the COSO enterprise risk management framework (COSO ERM) became an extension of the foundational COSO internal control framework. Almost three decades later, there is need for further understanding of the value and broader, deeper training on the components of these control standards in the smaller governments.

The literature review directs interested local government leadership to several areas incorporating COSO principles in their oversight and compliance programs. First, the OSC-NY (2017) conducts audits using the COSO guidelines and publishes resources for local government officials seeking to improve their risk and control programs. Further, the University of Tennessee’s Municipal Technical Advisory Service (MTAS) authors training aids for municipalities transitioning into using COSO (MTAS, 2017). Cotton, Johnigan, Givarz, and COSO (2016) bring practical tools, analysis frameworks, and scorecards into their *Fraud Risk Management Guide*. Furthermore, resources by Grugeon (2016) and Hall (2014) serve civic leaders through three essential means: first, the guidelines are provided by public accountants directly acquainted with intricacies of local government auditing in the U.S., Australia, England, and Wales. Second, their resources direct emphasis to tone-at-the-top leadership over the entity programs (e.g., strategies for ‘making city councils fraud resistant’) (Grugeon, 2016). Finally,

practical, in-the-trenches solutions are addressed for fraud prevention, detection, segregation-of-duties strategies, and risk assessment (Grugeon, 2016; Hall, 2014). The tools equivalently serve cities, schools, and special-districts in developing, documenting, and refining internal control practices against fraudulent conduct at the hands of savvy individuals or colluders.

The Typical Fraudster

Fung's (2014) triad—of transparency, accountability, and control—removes hiding mechanisms commonly manipulated by the capable fraudster. An appendix for SAS 99 Auditing Standard names three conditions “generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/rationalizations” (AICPA, 2007, p. 1749). These segments from Donald Cressey's (1953) *fraud triangle theory* link with Wolfe and Hermanson's (2004) subsequent addition of (d) capability in founding the *fraud diamond theory* for understanding the elements behind perpetration of fraud, waste, abuse, and corruption (Jacobs, 1954; Schuessler, 1954). Wolfe and Hermanson's (2004) fourth piece reflects on the personal skills and attributes needed by the potential fraudster to recognize—then capably act upon—the fraud opportunities accessible in the presence of the fraud triangle's elements.

The typical fraudster is any person with personal traits and abilities to identify weakness and manipulate it to his or her advantage. The typical location for crime is any site wherein there simultaneously exists (1) opportunity, (2) perceived ‘non-shareable’ financial pressures, (3) the rationalization to proceed with the fraud objective, and (4) the capability to do so (Dorminey et al., 2012). Sociologist Cressey proffered that inside incentive/pressure “embezzlers lose the ability to share their financial problem” so, hypothetically, incentive reduction may tie with Brown's “speaking shame” skill-development for both financial and non-financial stressors (Brown, 2006, p. 43; Taylor, 2011, p. 16). Left unabated, the individual's inability to share or

remediate the financial or other strain inside or outside the organization serves as a motivation to transgress the law in order to solve the problem independent of voice (Lokanan, 2015).

The universal potential for fraudulent behavior is described in the findings of Dr. Kelly Richmond Pope, an associate professor in DePaul University's School of Accountancy and Management Information Systems since 2006 (Weigel, 2013). Through regularly interviewing financial criminals across the U.S., Pope conveys her insight into the classroom experience. "I tell students all the time, 'Your idea of what you think a white-collar felon is, really isn't the reality,' . . . Most of the people I interview are really nice, everyday people. They could be anyone walking down the street" (Weigel, 2013, para. 4). Klenowski and Dodson's research in Van Slyke et al. (2016) conveys the same: "...any person—regardless of age, race, gender, class, educational level, or occupational status—can choose to commit a white-collar crime" (p. 102). Providing that potential special-purpose and local government victims must equip themselves against external and insider perpetrators representing—under the right conditions of the fraud diamond—almost all the workplace and vendor population, some entities engage tips hotlines and design whistleblower protections into their fraud-control measures.

The Whistleblower as Fraud Fighter

The literature and case studies indicate that whistleblowers most often express voice externally only after internal attempts at communication fail to produce change (Welna, 2014). From the current examination of whistleblowing, fairness, loyalty, and voice, the typical whistleblower is more recently considered both a seeker of fairness and a loyal contributor concerned with their community of peers and neighbors (Waytz et al., 2013). Wroge's (2008) qualitative analysis shows the budding perception of "whistleblowers as loyal employees who have a strong sense of right and wrong, and are committed to calling attention to wrongdoing"

(p. 1). This loyalty perception is occasionally replacing the former image of the informer as a troublemaker or acting solely for personal gain, as the literature is more recently considering the contextual experiences facing the potential whistleblower. “Are internal channels corrupted? Are there no internal channels? Is the whistleblowing the last and only alternative?” (Wroge, 2008).

Entity-oriented whistleblowing exposes shrouded truths of institutional accountability. Leaders of the successful fraud control programs, therefore, take precautions to eradicate the common barriers that potential whistleblowers encounter in using internal whistleblowing mechanisms. For Ravishankar (2003), the steps include building trust in the internal system, educating to reduce the negative stigmas around whistleblowing (e.g., whistleblowers as ‘bad apples’ in the organization), along with reducing the fears of retaliation or alienation from peers. The non-profit organization WorkplaceFairness.org (2017) provides resources for anticipating and avoiding retaliation in *Your Rights: Whistleblowing & Retaliation*. Judicious anti-retaliation policies introduce whistleblowing into the organization as prosocial—as the voice expression will generally benefit persons, vendors, or organizations other than the whistleblower.

Once voice or whistleblowing illuminate risk areas, effective fraud fighters prioritize resources for the greatest influence—placing emphasis to heat-mapping areas of concern. For instance, when averaging from ACFE’s 2014 and 2016 surveys, the most frequent schemes perpetrated against government are corruption (36.2%), then billing (22.2%), followed by non-cash (16.3%), payroll (14.6%), expense reimbursement (14.3%), skimming (12.7%), and cash on hand (11.3%). Non-cash misappropriations are those schemes in which an employee steals or misuses non-cash assets of the entity (e.g., employee steals inventory from a warehouse or storeroom; employee steals or misuses confidential customer financial information) (ACFE, 2016, pp. 14, 90). In terms of heat-mapping frequency and median losses, there exist three

mechanisms of uppermost concern: check tampering (near 12% of cases, and \$158,000 loss per occurrence); billing schemes (near 22% of cases, and \$100,000 per occurrence); and non-cash methods (near 19% of cases, and \$70,000 per occurrence) (ACFE, 2016, p. 14).

Fraud fighters advancing the efficacy of internal control programs also understand the power of tone at the top being held to the same standard as everyone in the workplace. Foremost, the subordinates such as department heads, principals, and financial officers are placed in conflict when any entity leader seeks rulebreaking and exceptions. Particularly in smaller organizations, rules violations are visible and persuasive (e.g., when standards of conduct are unevenly applied across the general workforce, with outside contractors and vendors, and among the elected and appointed officials). For instance, when a councilperson, mayor, schoolboard member, principal, or superintendent appoints a family member to a position—especially without satisfying formal selection and merit vetting—the signal is disseminated “that nepotism, and by implication other types of fraud, are acceptable” (Grugeon, 2016, p. 16). Conversely, the local government leader that uses a city vehicle “strictly for Council business purposes” furthers the “indication to others that this is the high standard expected” that, in turn, impacts others’ unauthorized ‘borrowing’ of assets (Grugeon, 2016, p. 16). Likewise, Miceli and Near (1992) concluded from their research that “organizations must concern themselves not only with actual top management behavior but also with employee perceptions of that behavior” (p. 159).

Lastly, it is the universal tension between the moral norms of fairness and justice (i.e., demanding that all persons be treated equally) together with compelling loyalties, that typically involve subtle or overt preferential treatment, that often predicts whistleblowing. Research finds that navigating the requisite trust-building relies on public administrators dialoging, modeling, and engaging in the shared purpose—binding the organization in a shared sense of standards of

excellence (NCES, 2010). Resolving the fairness-loyalty conflict relies on voice, as signifying respect for the community's common-good begins with respecting the employees' contributions and perspectives in producing that good. Internal voice programs, therefore, promote fairness by intaking concerns and observations (including those unfair actions related to fraud, waste, abuse, and corruption) while establishing and communicating behavior guidelines and expectations for the disclosure. The literature indicates the difficulty in priming in favor of moral fairness; however, from research across the 1970's-1990's, Pinder and Harlos (2001) provide that "voice significantly influences perceptions of procedural fairness and organizational justice" (p. 336).

Illusory Whistleblower Protections?

While much has been advanced espousing provision of support, "the legal protective mechanisms that surround their [whistleblowers'] role may be more symbolic than otherwise" affirm Gendron, Paugam, and Stolowy (2016, p. 4). Among others, Alford (2002, p. 109) and Ramirez (2007, p. 183) utilize "illusory" to most aptly describe legal protections for whistleblowers. Although federal protections are available, none extend effectively into local government contexts. The SOX Act, for instance, protects whistleblowers reporting fraud against shareholders of publicly traded companies—not the federal, state, or local governments. Programs under the federal Occupational Safety and Health Administration (OSHA) benefit from whistleblower protections, yet the OSH Act of 1970 holds limited local jurisdiction (OSHA, 2016). For example, workers at state and local agencies have OSH Act safety-related whistleblower protections if they work within the 22 states with an OSHA-approved state program or the five states with an approved "public sector workers only" plan (OSHA, 2016, pp. 6-9). In one exception, OSH Act whistleblower protections exist for "fraud, waste, or abuse of federal grants or other public funds intended to be used for *public transportation* [emphasis

added] safety or security” when the transportation agency resides under local government jurisdiction (OSHA, 2016, p. 24). Protections for some whistleblowers have been described under the False Claims Act (FCA), particularly the federal (and now some state-statute and city-ordinance initiated) qui tam provisions that hold potential to award a relator in a successful suit up to 30% of recovery (Kohn, 2007). Still, as of September 2010, “86% of all qui tam cases that were declined by the government were ultimately dismissed” (U.S. Chamber Institute for Legal Reform, 2013, p. 22). For various reasons, most whistleblower protections and incentives crumble under pressure, leaving the whistleblower exposed to civil and criminal retaliation.

Ramirez (2007, p. 191) attributes the “illusory” nature of legal protection to “the piecemeal evolution of whistleblower protection,” whereas Carton (2011, p. 26) links underfunding of Dodd-Frank and the SEC that limits their regulation authority and prevented the opening of an anticipated Whistleblower Office. In *Whistleblowers – Broken Lives and Organizational Power*, Alford (2002) identifies how “few whistleblowers are protected from retaliatory actions” due to “numerous loopholes and special conditions of these laws” as well as the “major disadvantage that individual plaintiffs have against corporate defendants” (p. 109). Throughout Miceli and Near’s (1992) work, organizations hold the greatest power and tend to wield that strength against the whistleblowers’ attempts rather than directing organizational sway toward influencing “the wrongdoer to cease wrongdoing” (Near & Miceli, 2008, p. 267).

Trust violations of this sort are anecdotally evident. For instance, after senior executive Thomas Drake had sought to challenge what he experienced as unconstitutional NSA programs, ““the only person who was investigated, prosecuted, charged in secret, then was indicted, then ended up facing trial and 35 years in prison was myself,’ he says” (Welna, 2014, para. 13). The Wall Street whistleblower, Harry Markopolos, perceived similar in *Chasing Madoff* when

stating, “usually if you are an internal [whistleblower] working at a company, they don’t ignore you, they fire you. They actively crush you. You’ve basically committed an economic career suicide. And you get industry blacklisted” (DP/30: Chasing Madoff, 2011, 6:48-6:59). Whether disclosed internally or externally, exposure of entity wrongdoings via whistleblower action is most often linked with negative consequences and few protections. In this sense, whistleblower protections continue more illusory than available.

The examples of intimidation in the literature serve to illuminate the value in providing employees with an environment of support. Organizations that empower employees seeking clarification and guidance for reporting workplace violations (either legal or moral) harness power and loyalty that bring benefit to the local economy. Tone at the top facilitates the loyalty response by responding properly to allegations, conducting valid internal investigations, and preventing retaliation of all types. Girgenti & Hedley (2011) indicate that any organizational culture “. . . that actively encourages employees to step forward and volunteer their concerns can reap the benefits of having employees act as the company’s risk management engine” (p. 193). Competitive environments require this advantage.

Discussion of the Findings

Impetus for this research was examination for risk elements in the largest municipal and school district frauds in the U.S. to-date. Since tips exposed the two instances, the project explored mechanisms for successful whistleblower protections and tips hotlines, contextual aspects that reduce transparency or otherwise affect outcomes from whistleblower protections and hotlines, and whether tips mechanisms are financially and operationally feasible for local governments. Recent, smaller financial frauds and abuses in cities and schools were additionally considered for their insight into risk domains within the project scope.

Definition of the Problem

The peer-reviewed journals and professional resources used in this research confirm the presence of fraud, waste, abuse, and corruption in local governments. Public entities experience resources that are stretched thin, and basic controls such as bank reconciliations are commonly omitted or delayed. Resource restrictions decrease entities' abilities to identify rule, policy, law, and regulation violations; assess abuses of authority and mismanagement; recognize waste and misappropriations of public funds; as well as remediate risks against reputation, health, and safety. While tips and 'by accident' deliver recognition to the problems, frauds are rarely detected in a timely manner. As seen in the frauds examined, the individuals and colluders used personal skills and attributes to adeptly act upon open vulnerabilities and defraud their targeted systems for years or decades—thriving under the shield of unmerited trust.

Contributing to the conditions that allow fraud to persist is the factor that local officials are elected not for their knowledge of local government processes and procedures, but gain appointment based upon what they profess they want to accomplish for the community. Mayors and superintendents, city council and board members, and special-purpose district leaders frequently step into the governmental arena with little knowledge of the laws that regulate government operations. The leaders rely on employees who are already performing the job of running the city, school, or district. Unproven trusts are extended: that existing staff are doing their job according to law and are ethically concerned about the community. Leaders' sense of contribution and confidence combines with their lack of local government knowledge to make them blind to anything that would destroy their image of their community and their reputation (Argyris, 2012). Subsequently, fraud goes undetected; and employees and others connected with local government become bold and audacious in their criminal, illegal, abusive, wasteful, or

grossly self-serving activities. Consequently, it is generally by accident, and with the associated reputational damage of exposure, that fraud is uncovered. State resources audit to the extent they are able, yet the overseers' resources are insufficient for the volume of need and demand (e.g., over 90,000 distinct entities within the oversight of 50 states). More is required in obliging local government to control itself (Gutenberg.org, 2009, No. 51 para. 5).

Major Findings and Themes

The Capstone project found understanding of small local government fraud through case study and inference. A major finding is that quantitative awareness of embezzlement in the smallest governments is largely extrapolated from news events and academic study of larger entities, and generalization is hindered by incomplete information. By inference, tone at the top's risk priorities are evident in whether clear and searchable check registers and monthly financial updates are available on the entities' websites; entities are (are not) recognized for excellence in financial and performance reporting; and whether policies and procedures are promoted for the protection of whistleblowers and solicitation of tips via anonymous, two-way dialog hotlines (Slovin, 2005). Tone at the top determines the extent of ethical frameworks and organizational support for employee voice as contribution against fraud, waste, abuse, and corruption.

Theme one: Mechanisms for whistleblower protections and tips hotlines. Much of the literature accents the dangers, risks, and failures of whistleblowing, though there exists evidence that whistleblowing is used and would be repeated as levels of security increase (Miceli & Near, 1992; Miethe, 1999; Miceli, Near, & Dworkin, 2009; Skivenes & Trygstad, 2010, 2016). The whistleblower is subject to context as well as internal drivers. Some governments model the utility that exists in modifying the local environment (e.g., securing greater local protections such as whistleblower ordinances in addition to policies) to protect beyond the existing state or federal

conventions (City of Chicago, 2012; City of Denver, n.d.; City of Oakland, 2008; City of St. Louis, 2016). Fundamentally framing whistleblowing as less of a bad character trait perceived in a few—and more as an obligatory tool along a timeline of anti-fraud efforts—may further lead organizations, participants, and observers toward viewing the act of whistleblowing differently.

Small-community connection makes the handling of whistleblower protections and tips hotlines more intricate, though not impossible, using in-house programs. Third-party, 24/7 call centers receiving tips have known success and cost in the range of 3 to 7 cents per citizen annually for cities and towns; such hotlines bring equal benefit to smaller districts and schools via experienced, multilingual interviewers at a minimum cost under \$1,500 annually to intake tips (Binns, 2017, pp. 40-41). Interactive conversation with an independent interviewer helps the potentially fearful or “emotionally volatile” whistleblower “organize his or her thoughts” and answer “appropriate questions” to secure critical details—e.g., if the whistleblower only calls the hotline once, “there may never be another chance to gather information” (Slovin, 2005, paras. 8-10). Finally, whether in-house or third-party, hotlines require confidential internal management of the received information at a cost that varies according to staffing and support levels.

The successful whistleblower protection and tips hotline (WP&TH) initiative welcomes the approaches as more than a legal aid or a funnel for gathering observations for investigation and evidentiary purpose. Tips tied to abuses of all types take on additional utility when an internal program of protections exists (above regulatory, illusory protections) to reward the loyalty considerations that correlate with a workforce deeply committed to ethical operations. Transparent public and internal communication regarding the WP&TH initiative places emphasis on explaining the full nature, rationale, and purpose of the tool. Statistics such as those from more than two decades of ACFE surveys lend credence to the merits of WP&TP, yet many of the

local governments' citizens and public servants are unaware of ACFE's steady observations or how to anonymously report in their entity (ACFE, n.d.). Marketing of WP&TH initiatives gives a public face to the economic plan—explaining the expectations and outcomes to stakeholders. Best practices indicate that dialog within an ongoing change initiative is a verbally dynamic and participative process—far more than an onboarding paper component submitted for employee or vendor signature. The sensemaking and trust-building that develop from a well-conceived and overseen WP&TH plan yield a “continuous alternation between particulars and explanations, with each cycle giving added form and substance to the other” (Weick, 1995, p. 133).

Another way tips hotlines and whistleblower programs give validity to ethics needs is by approaching unwarranted trust or willful blindness through an incremental and less threatening approach. Sir Arthur Conan Doyle brought the tactic into view through his fictional detective, Sherlock Holmes: “the world is full of obvious things which nobody by any chance ever observes” (Searle, 2015). Tips hotlines coalesce seemingly disjoint observations and concerns—to examine whether there is an underlying operational pattern to be explored. Weick (1995) supposed that *Sensemaking in Organizations* is about “the enlargement of small cues. It is a search for contexts within which small details fit together and make sense” (p. 133). Sound anti-fraud change efforts rely in equal measure on integrating the short-term ‘fruit’ of risk awareness and resolution alongside consensus-building for long-range investments such as improved IT controls, professional training, and policy implementation. WP&TH facilitate both.

Theme two: Local government organizational contexts impacting risk. Each small community and school district functions as distinctly as their shifting demographics and historical foundations. The familial protectionism-of-place and the avoidance-of-shame contexts unvaryingly impact the extent of entity support for disclosure. Context impacts public support for

employee voice, as well as the degree to which whistleblower protections and fraud auditing are tolerated within the communities' governmental programs. Namely, the considerations of fraud potential are routinely 'taboo' themes in tight-knit communities where there exists a collective cultural longing for frauds to be impossible in the charming community-at-hand. Navigating the familial protection and denial/shame contexts in closely-bound communities is, therefore, integral to discussing and achieving substantial progress in fraud control.

Tone at the top's reinforcement of management efforts and personnel education is requisite for (1) surveillance/monitoring, (2) IT controls, (3) account reconciliation, (4) internal audit, and (5) document examination to become active controls within an organization (ACFE, 2016, p. 25). The citizens who rely on their local governments' integrity can also serve as the true drivers of sound operations. Contending for active fraud-control programs, in turn, relies upon governmental information that is transparently presented, accessible, accurate, and timely. Yet, each element—transparency, accessibility, accuracy, and timeliness—can reside outside the reach of citizens held hostage by the limitations of their local government operations. Investigative press coverage has been observed to encourage disclosure in some instances.

Local governments present operational realities that contribute to the hiding of fraudulent items. Just one-fourth to one-third of local governments are required by their state to report using Generally Accepted Accounting Principles (GAAP) (GASB, 2008, p. 3). Up to 30% of some local government types are reporting financial summaries more than 10 months after the end of their fiscal year close (GASB, 2011, pp. 13-14). Access to external audit findings of material and non-material deficiencies and weaknesses for an audit period follow from the possible 10+ month delay as well as the bureaucracy of Freedom of Information Act (FOIA) inquiry. Once available, potentially only seven of the U.S. states report the local governments' prior fiscal

health to the public via website or other means (Coe, 2008, p. 759). The related finding is that tips hotlines underperformed due to lack of information sharing at all levels, holding hotline outcome data unavailable to researchers as well as employees (Binns, 2017). Findings support the enduring experience that more than one-third of the occupational fraud cases last longer than two years before they are discovered (ACFE, 2016, pp. 4, 6, 17).

Theme three: Identifying risk and promoting transparency. Particularly in comparison with the cost and effectiveness of external audits, whistleblower protections and tips hotlines are economically feasible in identifying risk and promoting transparency in the small local government context. Literature review suggests the primary limitations are social acceptance of the tool as a viable part of the local government culture and becoming naturally accustomed to authentic transparency. Making the shift can be difficult.

The digital age brings potential for unprecedented transparency and the power that associates with knowledge. Nonetheless, small-community leaders face uneasiness that any current (or former) employee, student, parent, vendor, or contractor is aided through 360-degree feedback/WP&TH initiatives to disclose information. The nature of the knowledge possibly transferred—anything that the reporting individual reasonably believes signals wrongdoing, waste, abuse, risk, or safety violation—would seem a contributing good toward organizational stability. Generalizing from other domains indicates that providing whistleblowers protected-voice or reward ostensibly equips local governments to remedy precursor risks while they can, more feasibly, be contained. Data ongoingly supports that a fraud recognized early yields containment that significantly limits financial and reputational losses—longer-duration frauds caused a composite median loss of \$1,720,000 compared with shorter-duration frauds showing median losses below \$150,000 (ACFE, 2016, p. 25). Active detection methods achieved the

greatest risk remediation; consequently, there must be public dialog to examine the causal linkages that slow WP&TH implementation in local governments. Local government management remains responsible for remediating risk through “addressing the findings and recommendations of auditors, and for establishing a process to track the status of such findings and recommendations” (GAO, 2011, p. 189). Consequently, when the answers to citizens’ associated inquiries are not sound, or prevention and remediation techniques are shunned, citizens and auditors may consider the behavior as a red flag alert residing in their community.

Comparison of Findings with Existing Studies

Control protocols and case study facets were examined for causal elements of fraud. Donald Cressey’s (1953) fraud triangle theory integrated with Wolfe and Hermanson’s (2004) inclusion of capability in providing the fraud diamond theory for application. Both models prove useful for considering the elements behind perpetration of local government abuses. Blocking fraudsters’ mechanisms employs equal measure of technical savvy (e.g., knowing where to examine transaction detail) as well as appreciating the personal skills and attributes needed by the potential fraudster to capably act upon the accessible weaknesses to defraud a targeted system. The Dixon and Roslyn cases attest that Wolfe and Hermanson’s (2004, p. 40) capability component—the trusted member’s position/function, brains, confidence/ego, coercion skills, effective lying, and immunity to stress—create small governments particularly vulnerable to abuses. The potential for occupational fraud increases at the hands of capable top management and finance departments with technical/creative abilities superseding any living ethics, strong controls, or enhanced audit testing. Since WP&TH initiatives illuminate gaps and discrepancies along with aspects of vulnerability, they serve well in continually empowering stakeholders and endorsing the dialogs that safeguard ethical operations.

Sustaining citizen interest in continually reassessing risk is an ongoing need. The U.S. is not alone in experiencing that “citizen participation and performance management exercises are largely in formative stages” as Brunet-Jailly and Martin (2010) evidence accountability challenges in two decades of Australian and Canadian local government research (p. 250). The resolution requires voice and procedural strategies of the type provided by Grugeon (2016) and Hall (2014); however, support for these depends upon citizen activism in conjunction with tone-at-the-top underpinning. Then, as dialog on performance and control is iterative, tips hotlines and voice protections serve by flowing fresh insight onto the advancing agendas of the fraud control initiatives. Altogether, the shared elements for effectiveness rely not so much on the perspective of vision—whether from inside or outside, executive or subordinate—but access to information and the courage and protection for voice expression that enable the integration of that data.

The potential for whistleblowing, when reframed as non-deviant by tone at the top, is to transition voice into a forward-seeking, risk-protecting, underpinning of the public’s interest. The literature (e.g., two decades of Meithe’s research) otherwise demonstrates—that when the whistleblowing act is contextualized as bad internal character—the whistleblower takes possession of the perceived loyalty violation with negative consequences to self, organization, and community. From this standpoint, in labeling whistleblowers as deviant against loyalty to the organization, there is risk in shifting the focus of social control mechanisms from the acts of fraud, waste, abuse, and corruption to the persons naming them (Braithwaite, 1989).

The literature generally recognizes that "as organizations struggle to function with fewer resources, managers must hold their employees accountable for their responsibility to improve efficiency" (Bieber, 2011, p. 19). What arises from within the fraud control objective is how accountability exists above dispensing blame or discipline. Genuine accountability provides

opportunity for recognition, advancement, and growth as loyal public servants help identify present risks and determine risk tolerances acceptable for the local government. True culpability is facilitated by open inquiry and the creation of anti-fraud momentum. Further evident in the literature is how it is not an over-simplification within strategy to keep in focus: small-wins.

Implications and recommendations for future research. The utility of the immediate project will bolster quantitative inspection of fraud countermeasures that are employed in local governments. First, this is an area of future research that would take into consideration the unique range of U.S. local government structures that impact controlling fraud. For instance, counties, special-purpose governments, schools, and various departments within cities, towns, townships, villages, and boroughs present distinctive governance frameworks and risk potentials that must be weighed. Next, fraud internal controls within domestic corporations and non-profit organizations, and international local governments, offer perspectives that serve in the U.S. small government setting where, repeatedly, the most basic of generally-accepted controls are absent. Best practices are available from a variety of sound sources: e.g., insurance literature aids risk assessment and emergency management literature aids in the development and communication of the follow-up plan should a fraud event occur. Equally, local governments in zero-tolerance communities, such as some recognized in Australia and Canada, model both hotline findings and policy implementation reflections (Pilcher, 2014; Purcell, 2012; Willing, 2016). Finally, future examination should consider self-initiated fraud and corruption countermeasures—seeking strategies that gain the utmost ‘buy-in’ from participating stakeholders. Absent overarching legislative changes to lend statutory aid, community engagement serves to encourage ethical leadership in approving local whistleblower mandates (e.g., community ordinances) and, thereby, growing more promising case-study databases through protecting their whistleblowers.

The voice and silence literature—particularly from the domains of human resource management, organizational behavior, and industrial relations history—enrich potential for local citizen involvement (Greenberg & Edwards, 2009; Wilkinson et al., 2014). This work points to value in integrating the evolving voice and silence knowledge into the iterative design of tips hotlines and whistleblower protections. Credence is introduced in using data mining (Nigrini, 2012; Westphal, 2009) both for the documenting of evidence that makes whistleblowing more effective and in integrating with performance tracking measures (Simon, 2014). The linkage delivers substance behind voice (Apaza & Chang, 2017) while reliably benchmarking progress.

Relying on the social literature on shame also furthers the conversation on the (previously) unspeakable: that fraud, waste, abuse, and corruption can show themselves in any community regardless of size and other demographics. Whistleblowers are documented to experience anger, fear, grief, isolation, anxiety, and powerlessness in association with their decision to speak up (e.g., in Devine, Maassarani, and Government Accountability Project, 2011) and Brown's (2006) empirical research suggests shame as the dominant emotion exceeding the more evident reactions. Brown's data from women subjects may not generalize to the full workforce; however, the research did link "speaking out" with feelings of shame (Brown, 2006, p. 46) and humiliation regularly associates with public scrutiny of realized crimes.

Relative value exists in examining for scorecards to validate social responsibility in local governments—through tracking their risk reduction and performance gains via internal control and monitoring all recorded outcomes from hotlines and whistleblower protections. Budget analysis can weigh the cost/benefit of fraud hotlines; and the empirical work may be facilitated through Municipal League resources in individual states, accounting literature, and public administration research. Binns (2017) prompts that, typically, such hotline data to examine for

best practices comparisons are not made publicly available; therefore, U.S. press and criminal justice experiences of fraud bring perspective and value into the consideration. So, too, examining the recovery strategies applied in entities after abuses bring benefit in planning smoother, less expensive, less reputation-damaging recovery processes moving forward.

The literature chronicled the existence of fraud precursors in alignment with Smith and Elliot's (2007) systematic study of crises—namely, that there exists the “striking similarity between the underlying causes of such events” (p. 519). The takeaway is that the mechanics of the various fraud solutions must be counterbalanced with ample removing of barriers to genuine organizational learning, knowledge equity, and voice development. Global studies of fraud and disaster recovery bear value in stimulating thought processes outside the confines of precedent (i.e., the local governmental ‘always done this way’). Cultural distinctions and reportable-event categories prevent precise comparisons; however, the international literature spans the enacting of whistleblower statutes, as well as establishing internal controls, and communicating improvements to citizens. Willing (2016) records how low resources (smallest auditor’s office budget in Canada) and high outcomes (handling more fraud and abuse reports per capita than any other Canadian city) have progressed for ten years in the City of Ottawa in Ontario province. Similarly, Norwegian municipality studies indicate fewer whistleblowers experiencing retaliation, higher rates of misconduct resolution, and more employees willing to blow the whistle at a future time compared with general U.S. findings; and it is such outcomes that need to be better understood and applied where feasible (Skivenes & Trygstad, 2010, 2016).

Limitations of the Study

One major limitation is that there is still important quantitative research to be conducted on the extent of fraud and hotline outcomes in small public entities. Practical constraints such as

access to the survey population routinely limit studies. Several of the sources in this undertaking excluded smaller governments from their survey population “due to difficulties in surveying very small governments” (GASB, 2008, p. 2; Yusuf et al., 2013). Limited staffing in smaller local governments contributes to lower survey response rates, leading some researchers to set floors on the entities surveyed (e.g., focusing scope on cities with general revenues, or school systems with property tax revenues, above \$10 million). The survey floors enhance response rates yet omit a significant portion of smaller local governments—the most vulnerable. Further, some of the survey data was older than a decade and newer correlates were not encountered in the literature.

Event investigations within small entities are necessarily selective according to recognition of fraud occurrences and agreement on a definition of reportable information. The whistleblowing and tips hotlines, by nature, initially capture subsets of stakeholder perspective. From there, the data to examine best-practices elements of an “effective compliance program” are not available to researchers (Binns, 2017; Desio, n.d.). For example, two key tenants of the U.S. Sentencing Commission guidelines remain elusive to researchers due to absence of either statutory requirement or voluntary transparency for disclosure of entity hotline information. First, verification of “consistent enforcement of compliance standards including disciplinary mechanisms” is shrouded behind human resources (HR) protocols; second, “reasonable steps to respond to and prevent further similar offenses upon detection of a violation” remain veiled behind FOIA bureaucracy (Desio, n.d., para. 4). Crimes and specific abuses realized via hotlines, along with the extent of their investigation and resolution, are typically not detailed outside of internal audit, ethics/HR, or legal offices (Binns, 2017). Press statements are, by nature, vetted summaries of the fraud incidents to limit information provided to the public in safeguarding the entity and governing officials from dishonor and liability. The precedents limit understanding of

fraud risk and control as fewer investigators are provided opportunity to correlate the patterns that move the public sector to deal with the situations accordingly (Westphal, 2009).

More readily available employee and management behavior studies from the non-profit and profit sectors offer imperfect application to the small government entity, since extrapolation introduces some margin of error (Baarspul & Wilderom, 2011; Nutt, 1999, 2006). Adding to the complexity, operational contributors to fraud differ among the variety of government types within the scope of examination (e.g., special-purpose districts' objectives and risks are distinct from those of schools and municipalities). Furthermore, there is a need for sophisticated and empirically valid analysis of how the municipal and special-purpose structures affect policy decisions and risks of all sorts. This literature review did not correlate fraud in relation to municipal mayor-council, council-manager, and the far lesser-used commissioner forms. Though Dixon's municipal voters approved the switch to a centralizing "council-manager format . . . in the wake of the Rita Crundwell embezzlement scandal" indicating a perceived risk association with the prior commission form of oversight (Cavanaugh, 2016, para. 1).

Since there are typically distinctions in studies which infer a reduced generalizability, local government experiences documented in news releases offer some ability to provide insight about fraud tip investigations and whistleblower experiences. And, although reporting of whistleblower cases is primarily limited to filings and testimony, then additionally restricted through open records redactions, insights gleaned through media research contribute to public administration strategy and theory development. Finally, because some frauds and whistleblower communications never enter the public domain, attempts at quantification are profoundly limited.

Once frauds are recognized, there are potential problems in their consideration. Implications from superimposing the fraud triangle components of pressure, opportunity, and

rationalization on case studies involve the literature containing the least research on rationalization—either that of the potential fraudster or of the fraud-control and tone-at-the-top personnel. Ironically, the literature review demonstrates that it is sometimes only active crisis or whistleblowing action that releases a hint of tone at the top’s rationalization concerning whistleblower protections or retaliations. At times, tone at the top’s ethical values remain silent or elusive to internal and external stakeholders. Limitations in grasping appreciation of tone at the top’s values can link, among other things, to organizational silo effects, voice constraints, or communication gaps. Inadequately funded learning initiatives for hotline use exacerbate these effects, constraints, and gaps in effective voice. In general, however, the research associates voice with power, and knowledge as advantage, in furthering anti-fraud objectives.

Several areas of the research purpose would have benefited from data prohibitively not available or quantifiable. It is for this reason that Gardiner & Olson (1974) assembled readings on corruption in American cities from previously “unpublished reports and documents”—from “widely scattered locations” and “obscure publications” (p. ix). Encountering similarly disjoint information nearly half a century later, the research has utilized secondary sources such as newspaper accounts and the unverified perceptions of survey participants. Throughout the study, the author has sought objective criteria and supporting evidence to the utmost extent available in the literature. Lastly, the author has endeavored to limit professional bias yet cannot guarantee complete conformance—as personal work experience in one state indicates a broad range of heterogeneity of compliance in smaller municipal governments under 10,000 in population.

Recommendations and Conclusions

This project has viewed fraud and corruption through the lens of community government. When the framework for U.S. government was conceived, the nation’s founders emphasized a

system of checks and balances that also influenced how local governments were considered and established. Since the model ensures that no single entity has too much power, an inadvertent result has occurred in that the overseeing control environment is restricted at the local level—producing a lack of focus on the risk of fraud, waste, abuse, and corruption and enabling significant losses. Dispersing culpability after major fraud events through legal claims against representing auditors, bankers, or attorneys can partially reclaim financial damages; yet citizens expect community leaders to preserve assets, prevent waste, and remediate fraud. A pertinent facet of the findings, therefore, advances the role of citizens in monitoring local government to help ensure that standards for reducing fraud and corruption are established and monitored.

Recommendations

Resilient ethical culture must be forged within the perpetual transition native in the public sector due to annual election cycles and continual personnel advancement from smaller to larger organizations. Citizens provide an external, steady force to buffer the impacts of political sway and personnel turnover on daily operations. Information access is thereby essential to designing oversight processes for optimum control and understanding.

Board meetings and open records. Citizens have direct concerns and time constraints, and the digital age has enabled tracking of public meetings via live-streaming and playback audio recordings. Regular review of council and board meeting minutes yields an overview of whether ethics, control, and zero-tolerance for fraud are observable priorities for the local government. When absent from the public discussion, state and federal open records laws aid the asking of questions in operational risk areas that may appear off-radar, ignored, or forgotten.

Some cities, schools, and their audit firms attempt to restrict use of audit management letters, schedules of findings, and year end adjusting journal entries (AJE). However, letters and

findings issued in connection with an audit of a governmental unit may be a matter of public record; and they serve to identify weaknesses brought to the attention of local government management, the governing board, and federal and state fund-awarding agencies. The local government's response (i.e., their Plan of Correction or the View of Responsible Officials statements on behalf of the organization) provides perspective on value prioritization and resource allocation to remedy the ethics and risk/control findings. Moreover, independent auditors should be reviewing past financial misstatements and whether findings were corrected on a timely basis (IAASB, 2009). Stakeholders have a right to recognize these conditions.

Citizens should not feel intimidated or bullied into silence when presented with administrative hurdles and delays in the production of documents. Data redactions and diversionary tactics are commonly used under the FOIA. Citizens should be persistent and consistent in reviewing local government operations. Local dollars fund a large portion of the local government's programs, and understanding how routine operations and capital project initiatives are monitored and audited is within the citizens' rights and responsibilities. State government code exemption clauses protect certain confidential information; however, as government and school officials begin erring on the side of disclosure with public records, a foundation of trust and transparency is forged. Just as the control environment holds a "pervasive impact on the overall system of internal control" (Johnstone et al., 2016, p. 87), citizens asking questions helps ensure that focus is maintained on acquiring and maintaining the standards, processes, and structures to underpin internal controls and assess the control environment.

Excellence in financial reporting. Notwithstanding limited resources, tone at the top should be positioning each organization in the direction of excellence. The Government Finance

Officers Association (GFOA) is one of several organizations that facilitates this objective. The GFOA (2017c) oversees a variety of valuable annual awards for smaller organizations:

- Award for Excellence in Government Finance
- Certificate of Achievement for Excellence in Financial Reporting
- Distinguished Budget Presentation Award
- Award for Best Practices in School Budgeting
- Popular Annual Financial Reporting Award
- Award Program for Small Government Cash Basis Reports

Full GAAP reporting benefits in communicating financial position and approaching uniformity (i.e., improving comparability) among diverse jurisdictions, yet smaller operations may not be prepared for that step forward. Professional certification of Small Government Annual Financial Reports (SGAFRs) is ideal for governments with \$25 million or less in annual revenues that prepare annual financial statements using either the modified cash basis or their state-mandated regulatory basis of accounting rather than GAAP guidelines (GFOA, 2017c). One entity in Oklahoma, Oregon, and Ohio each received the cash-basis report recognition in 2014 (GFOA, 2017b). Operating without any of these designations should be a red flag to citizens who should investigate and raise the issue in communication with entity boards and top management.

Found information gaps may serve as valuable impetus for directing change. The missing components may follow from a combination of tone-at-the-top impacts, insufficient staffing, or inadequate training opportunities that require remedy. Brunet-Jailly and Martin (2010, p. 136) found within Australian local governments, for example, that “financial information was so poor it was ‘a reporting nightmare’ and negatively impacted on performance management,”—it is only when such findings are named and prioritized that the requisite financial controls can be

established. Ongoingly, local government leaders are responsible for “ensuring that management and financial information is reliable and properly reported” no matter how much Nutt’s “more turbulence, interrupts, recycles, and conflict” in the public-sector may sway public organizations more than comparably-sized private-sector entities (GAO, 2011, p. 189; Nutt, 1999, p. 318).

Financial control. A short list of common fraud schemes and areas of concern, below, offers an initial prompt for citizens to stimulate local accountability. Leaders should endorse a risk-based audit approach to offer stronger declaration of “the risks that often lie hidden in accounting processes” (Hall, 2014, p. 76). Small government resources within Cotton et al. (2016), Grugeon (2016), Hall (2014), and Segal (2002, 2005) provide further risk insight and remediation strategies.

Segregation of duties. Smaller governments routinely violate segregation of duties best practices and, thereby, increase potential risk. It is a key principle that “the individuals who reconcile the bank statements should not handle cash or record cash transactions” (Johnstone et al., 2016, p. 477). One person commonly handles all three areas in a small organization and may also handle customer inquiries and requests for adjustments to account balances. Segregation of duties has different personnel handling component activities and most smaller organizations, rather convincingly, argue that existing budgets cannot handle the additional personnel expense. Automation is touted as a response that can enhance control, yet “there is a risk of errors or fraud occurring on a larger scale” when training is insufficient (Johnstone et al., 2016, p. 477). A cost-effective alternative is requiring “a compensating control, such as a second-person review” (Hall, 2014, p. 17). The method is effective for any receipting, disbursements, or payroll transaction cycle—ensuring that custody of assets (receiving cash or checks), transaction authorization (check signing or credit approvals), bookkeeping and journal entries, and bank statement or

account reconciliations are overseen by separate personnel and supported by adequate documentation (Hall, 2014, pp. 16-17).

The personnel for the separation of functions can be within the organization, part-time temporary hires, or a contract public accountant; also feasible are city council or board members, as well as vetted and bonded volunteer citizens. The latter considerations should be weighed; as managing a limited budget by using volunteers in positions that require expertise and experience may cost the organization more money in the long run, as well as possibly mar integrity and records/reporting accuracy. Hiring a part-time, experienced accountant to perform specialized functions and using volunteers for activities that don't require a high level of accountability and proficiency are options under small local government budget limitations (Walsh, 2017).

In crafting a segregation of duties process that accomplishes its intended purpose, there are two challenges that must be strategized through to reach an effective conclusion. The first involves the emotional fears and resolve that arise with introduction of job-rotation and mandatory vacations as a new practice. Turf wars and territorial-protection reactions spring forth prominently in the small local government context. Change agents must recognize that solid board and mayor/superintendent backing must be secured prior to initiating the fraud strategy for it to succeed. For example, Rita Crundwell began working in Dixon when she was a high-school intern and had long-established ties with city leaders and external auditors. Observing firm and defensive resistance to procedure documentation ahead of initiating a job-rotation policy may signal a red flag alert. Conversely, in explaining job-rotation as one means to protect the organization and each non-fraudster from blame, once the “individual learns the other party’s hidden reasons, contempt usually transforms into compassion and a desire to help” (Maravelas,

2005, p. 82). In general, though, change efforts in small organizations require an extra portion of strategy and trust-building to reach success.

The second related challenge to be strategized through is the potential for collusion ties within the organization. The genuine job-rotation plan can readily be compromised if the workplace contains entrenched collusion among groups of personnel. So, an extra portion of strategy and verification steps are essential to success in segregating functions. Likewise, confirmation frauds (i.e., misrepresentations to the audit firms) have escalated, yet confirmations are held as part of the auditor's working papers so are not public documents (Coleman, 2014). Nonetheless, citizens maintain the right to monitor confirmation procedures to see that auditors do not merely rely on the client to route templates and, instead, independently validate the information. In support of transparency, auditor Hall provides precautionary steps for reducing collusion risk in the confirmation-gathering process during external audit (CPA-Scribo, 2017b).

Grants and capital projects. The intuitive learner would estimate that grant monies and capital projects would exist as relatively low fraud-risk due to their visibility and accountability to outside organizations. Auditor Hall (2014) identifies two opposing factors that entice fraud attempts relative to construction projects: high dollar incentive and project complexity that aid hiding and misunderstanding (p. 55). Further exacerbating the second factor, major projects can easily span several fiscal cycles and encounter personnel changes within finance, management, engineering, and construction firms, thus independent, long-ranging oversight brings value.

Cities and schools commonly establish reserve accounts to self-fund some projects. When monitored under public policy, “. . . allowable reserve funds for a specific intended purpose can smooth out spikes in both the annual budget and the real property tax levy. Saving for future capital needs can also reduce or eliminate interest and debt issuance costs” (OSC-NY, 2016,

para. 2). Crundwell, however, created a secret bank account with the account holder listed as “RSCDA, c/o Rita Crundwell”—ostensibly establishing the Reserve Sewer Capital Development Account (ACFE, 2012). In one seven-month period, Crundwell deposited 19 city checks totaling \$3.6 million into the account, and embezzled \$3.3 million from the account by checks and online withdrawals—using just \$74,274 for the city’s operations (Johnstone, 2016, p. 303).

As Hall (2014) instructs, when physical assets cannot be touched— “pay attention”; when round-dollar vendor checks exist— “dig deeper” (p. 12). FBI investigators found that Crundwell was the only authorized signatory for the RSCDA account, the fund was absent from the city’s general ledger, and “no deposits to or disbursements from this account were recorded on the city’s records” (Hall, 2014, Introduction p. 2). The primary red flags were the Crundwell-created invoices, round-dollar vendor checks, and the absence of tangible construction or maintenance results. Similarly, it was only following media exposure for internal control weaknesses that Roslyn UFSD acknowledged finding it “difficult to keep accurate track of what assets they owned and where those assets were located” (Real Asset Management, 2017, para. 6). Citizens asking questions, benchmarking against other communities, monitoring contract compliance, and following transaction detail during project life-cycles helps ensure that needed infrastructure is built and secured grants are applied as prescribed. While control remains management’s responsibility, involved citizens increase the likelihood that capital project and grant programs proceed according to both statute and bond/grant covenants.

Payroll and contract labor. Independent review is essential when internal controls are negligent. For example, a small school district in Manor, Texas (a city with population fewer than 8,000) launched a forensic audit of the MISD payroll systems after findings from an external audit and tips from school district employees (Taboada, 2016). The forensic

investigation determined that, along with other gross abuses, “payments were made to employees who were no longer employed by the MISD. A former employee mistakenly received a check for \$70,004.82 and spent the money on a Mercedes-Benz automobile before the error was detected” (Southerland, 2016, p. 3). Periodic sampling and inquiry maintain pressure for controls to be established, and citizens retain the right to understand what procedures are in place and how frequently they are being employed. Smaller local governments can experience abuses such as check cashing, payroll advances, inflated payrates, duplicate payments, nepotism, contract time overcharging, and unmerited overtime, whereas payroll personnel can collude to facilitate ghost employees and backdoor thefts of payroll withholdings (Hall, 2014, pp. 47-51).

Credit and p-card control. Credit and procurement card (p-card) abuses occur in small organizations when receipts are routinely not required or inspected. While the control strategies are straightforward (Hall, 2014), tone-at-the-top abuses and historical precedent compel careful navigation through any remediation objective. For instance, management may be conditioned that a \$25,000 or higher credit limit is acceptable and, so, not view credit or p-cards abuse as a “bypass” of the established purchasing policy (Hall, 2014, p. 43). “While p-cards can expedite purchasing for urgent repairs and other items needed immediately, they also can be misused to purchase unapproved items” (Diley, 2011, para. 2). Policies should state clearly what the credit and p-cards can and cannot be used to purchase; and, where feasible, Merchant Classification Code (MCC) blocks “should be used to prohibit transactions at various establishments” (Diley, 2011, paras. 7-8). Prompt deactivation of cards is also essential: internal or external auditors should not find active cards registered to former employees (whether living or deceased).

Cash and check control. School systems and local governments routinely gather large amounts of cash from remote locations outside the typical 40-hour workweek. Cities gather

payments from decentralized component units (e.g., water, sewer, and electric utilities), police departments, landfill/recycling centers, airports, animal control shelters, recreational vehicle (RV) parks, swimming pool concessions, and similar. Schools manage cash from cafeteria lunch and after-school programs, sports stadium ticket booths, booster and student club fund-raising projects, and more. Cameras over cash drawers, night depository sites, regular training on cash management, clearly communicated expectations and procedures, as well as diligence in conducting surprise cash-counts, are all essential strategies (Hall, 2014). Smaller entities should, but often do not, require individual cash drawers, daily deposits, and bonding of all cash-handlers or may be disinclined to apply the requirements to community volunteers. Thus, in small organizations with unmerited high-trust levels, the technical skill to defraud may be as simple as being left alone to count cash, making check-for-cash substitutions, or ‘borrowing’ via short-term IOUs (Hall, 2014). Otherwise, the schemes may involve falsifying invoices, overriding IT systems, or altering unsecured checks—either manually or through a proprietary bookkeeping system (e.g., to execute the Roslyn UFSD crimes). Regardless, physical examination and data analysis are active defenses against the most probable fraud techniques.

Data mining strategies. Some data gaps and discrepancies are readily visible, while data mining can illuminate links across data subsets such as elected and appointed officials, payroll and contract labor, or supplier and stakeholder components. Matching surnames, post office box mailing or physical addresses, and tax identification numbers may indicate nepotism connections or interactions “inconsistent with what is usual, normal, or expected” (Cotton et al., 2016, p. 68). Data mining augments a citizen’s observations of his or her local government; however, a key limitation is gaining access to the information that is sought. A small percentage of agencies provide an online check register of accounts payable activity; yet, when the memo field is

missing, purchase details are limited to date, vendor name, and amount. Also, the FOIA “does not require agencies to create new records or to conduct research, analyze data, or answer questions when responding to requests” (FOIA.gov, 2016). For this reason, citizens can approach their civic leaders and (only) request that the desired information be made part of routine operational transparency. Modern accounting systems readily enable scanning and linking of support documentation with paid invoices; so, citizens should speak up for using such controls.

Given small organizations’ limited budgets, information comparisons can be gained inexpensively via MS Office Excel or Access databases, or with an investment in specialty data mining software. An inexpensive add-on tool—ActiveData for Excel—enhances the abilities of Excel software in performing common fraud detection tests (Shein & Lanza, 2009). Once value in useful findings is revealed from inside or from citizens externally tracking the local government, added investment can be considered to bolster the monitoring capabilities of internal audit personnel. Two options for analytic and risk testing include ACL and CaseWare IDEA (ACL, n.d.; CaseWare Analytics, n.d.; Hall, 2014, p. 92). These and similar analysis tools require supplementary training investment yet are robust in supporting control monitoring, audit and compliance functions, as well as enterprise-wide risk and fraud management objectives. Some of the largest frauds, however, are not so unduly complex as to justify the additional software and training; discovery most essentially requires being willing to concede the possibility of fraud in the entity’s midst and looking for it. As Figure 3 (p. 60) indicates, the presentation of routine data in a tabular, pictorial, or graphical format is low-cost and often all that is required to isolate a discrepancy and target it for consideration (Schumard, 2012).

Communication fundamentals. Overcoming entrenched patterns takes genuine effort. Common strategies approach the social problem of fraud from the perspective of logic and

logistics, whereas the silence hiding abuses has profound, visceral motivations tied to survival. Even in the presence of optimum training and trust-building initiatives, managers must continually hold mindful to the more resilient “deeper state of silence” present jointly as their entities adopt authentic whistleblower protections, introduce fraud-focused communication and conflict-resolution strategies, and establish dynamic tips hotlines (Pinder & Harlos, 2001, p. 349). Creation of dynamic and responsive processes does not ensure that employees, citizens, and vendors will, altogether, trust and utilize the tools. Nevertheless, citizens should insist on public policies that communicate the expectation of expressed communication and entity metrics to track the anticipated results, over time, against similar agencies’ benchmarks.

Essential Expectations. Effective policy covers individual responsibility and timeliness of reporting; for example, “all employees are required to report immediately any known or suspected incidence of Fraud or Corruption to the Integrity Officer” using provided hotline information (Grugeon, 2016, p. 73). Additionally, straightforward communication on what to expect after any act of internal reporting provides assurances and helps manage expectations. Nevertheless, the complexities of education and local governmental affairs “seldom permit the mechanical application of clear rules covering all situations” (Gardiner & Olson, 1974, p. xii). So, this is where ethics policies and ongoing training fill in the gaps in extrapolating spirit-of-the-law expectations when a precise policy is not present for a certain situation. Integrating if-then scenarios inside ongoing training both dialogues on inconsistencies and increases trust.

Precise Policy. Effective policy communicates expectations in unambiguous language. Grugeon (2016) advocates for local government leadership in Australia to classify recipients, define terms, then powerfully introduce anti-fraud, corruption, and abuse policy with a chief executive’s cover letter. Tone at the top is guided to take succinct stance and name outcomes; for

instance, “council has zero tolerance of fraud and corruption. . . . Council will take action in every case of discovered fraud or corruption. For employees, this will normally result in dismissal” (Grugeon, 2016, p. 73). The City of Ottawa, Canada processed 319 tips in 2015 (57% from citizens and 43% from employees) in the tenth year of hotline operation (Willing, 2016). From this, six employees were terminated and one resigned; actionable abuses included stealing copper for money exchange, stealing \$68 from a city facility, using sick leave to work at another job and in place of using vacation days, attending city-sponsored training while on medical leave, and altering city databases to disguise that assigned work was not being completed (Willing, 2016). Such fair-policy enforcement requires employee training resources to remain contemporary with the change effort and consistently communicate expectations; for instance, “we expect no less than absolute honesty, integrity, and professionalism at all times from everyone trusted to work in our schools” (NCES, 2010, para. 2). Per Segal’s experience in public school systems, the tough policies become essential after prolonged systemic abuses:

“Employees who use a credit card to steal are stripped of the card and never receive one again for as long as they work in the district. Vendors who engage in fraud have their names removed from the vendor bidding list, and are not allowed to work for the district again.” (Segal, 2005, p. 185)

Tone at the top holds responsibility to model and enforce such expectations. Compare, for instance, the impression made by tone at the top that either releases an employee for stealing \$68 or asserts “we thought she deserved a second chance . . . Besides this issue [embezzling at least \$28,000] she was a model employee” (DesOrmeau, 2017, para. 7; Willing, 2016). Leaders also stand to gain from admitting fraud events, then working with others who have overcome similar. Transparency sometimes approaches vulnerability after a fraud discovery, but then

“vulnerability is the birthplace of innovation, creativity, and change” according to some social research (Brown, 2006; NPR.org, 2013, para. 38).

Conclusions

Protected voice heartens internal reporting as a mechanism for organizational change. Training programs to ease Brown’s (2006) “unwanted identities” negatively associated with speaking out, and the elimination of any associated shame for expressing voice, falls under the responsibility of tone at the top (p. 46). Leaders in local government serve their communities when they secure the short-term wins of fairness and set the long-range objectives that accomplish the ethical shifts required—particularly after fraud exposures. Critical to using known fraud events as impetus for progress is the opportunity for the public to request professional fraud investigation as portion of the recovery. Without citizen voice at this junction of the timeline, shame impacts increase the risk of silence and willful blindness or minimization. Instead, recovery and prevention protocols benefit in the asking of questions: “who else? what else? when else? where else? why else? how else? and how much else?” (Piper, 2014, p. 294). The asking serves as framework for ongoing internal control processes along with cultural change management to break free of deterministic, ‘as-usual’ inclinations (Kaufman, 2005).

In Gardiner and Olson’s (1974) *Theft of the City*, “corruption is a major and enduring problem that has plagued . . . in the past and in all likelihood will continue to do so . . .” (p. ix). At the same time, the research indicates how well-considered citizen and stakeholder voice expressions serve to shift the ‘enduring problem’ toward resolution. There is merit in Weick’s (1984) observation that “social problems seldom get solved, because people define these problems in ways that overwhelm their ability to do anything about them” (p. 48). Tips hotlines and whistleblower programs identify the aspects of operations and stakeholder relationships that

merit review or modification; so, then, small-wins strategies can be implemented in response. At moments, the progress is one fraud component at a time; yet the information gleaned through voice mechanisms changes the organization both from the bottom-up and top-down. Momentum is gained through the restoring of genuine ethics and service in the local government context.

Skeptics would argue that the solutions are too small and the problems too engrained. They would justly point to the eight enduring “decades of regulations, multiple reorganizations, and layers of oversight” that failed to overhaul gross abuses by New York City school custodians (Segal, 2002, p. 445). Still, the literature review demonstrates that resolution of the largest municipal and school district embezzlements originated from tips, delivered through voice to one or more persons of power with the authority and responsibility for initiating moral change. It stands that communities of encouraged voice facilitate the betterment of education and city services by holding a priority to limiting the instances of fraud, waste, abuse, and corruption.

Public administrators are encouraged to establish zero-tolerance fraud policies, welcome inputs through 24/7 tips hotlines, and protect whistleblowers with clear mandates. Researchers are encouraged to direct resources to sampling and understanding smaller local governments, particularly along the lines of risk reflection. Citizens are encouraged to ongoingly ask the checks and balances questions that protect good governance. Each contribution helps ensure that the mechanisms for direct monitoring are institutionalized and not abandoned by those entrusted to fairly represent. Only with voice protections and expression will the knowledge interchange among administrators, scholars, and citizen-users reach the potential of which it is capable. Each contribution offers tremendous value in establishing more fraud resistant local governments.

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