Fraud Risk Assessment & Status Report

To: West Mayfield Borough Council
From: Budget & Finance Oversight Chair
Date: July 6th, 2026
Subject: 2026 Annual Fraud Risk Assessment and Remediation Plan

1. Identification of Existing Risk Indicators ("Red Flags")

According to Appendix B of the Borough's Fraud Risk Management Policy, the current financial state of the Borough contains a primary "Red Flag": **Unreconciled accounts and stale reconciling items**.

The policy explicitly requires the Borough Secretary-Treasurer to maintain monthly bank and general ledger reconciliations as a core **Detective Control**. The fact that reconciliations have not been performed since 2025 constitutes a significant breakdown in internal controls and creates a high "Inherent Risk" for the misappropriation of assets or fraudulent financial reporting.

2. Policy Compliance Status

- **Preventive/Detective Goals:** The Borough is currently out of compliance with Section 7 (Roles & Responsibilities), which mandates that the Secretary-Treasurer maintain these controls, and Section 11, which requires monthly independent reviews of reconciliations.
- **Opportunity (The Fraud Triangle):** Under the "Fraud Triangle" definition in the policy, the lack of reconciliations creates the "Opportunity" (weak controls) for fraud to occur or remain undetected.

3. Corrective Actions Taken (Remediation)

To address these risks and fulfill the Council's oversight role, the following corrective actions have been initiated:

- **Engagement of Outsourced Firm:** Council has approved an agreement with an external firm (Butler, Agnew & Associates) to perform 2025 Audit Prep (estimated 30–35 hours) and ongoing bookkeeping (estimated 10–12 hours monthly).
- **Scope of Recovery:** This firm will post all 2025 transactions and perform the missing bank reconciliations to ensure the Borough is prepared for its external audit as required by **SAS No. 99 (AU-C 240)**.

- **Segregation of Duties:** By outsourcing these functions, the Borough is reinforcing the segregation of duties (receipting vs. reconciliation), which is a primary "Preventive Goal" of the new policy.

4. Next Steps for Council Oversight

- **Monitoring:** The Budget & Finance Oversight Chair will receive monthly progress updates from the outsourced firm to ensure the 2025 "catch-up" work is completed timely.
- **Audit Coordination:** Once reconciliations are current, the outsourced firm will facilitate the independent auditor's fraud inquiries as required by professional standards.
- **Training:** All officials and employees must still complete the annual mandatory training on fraud awareness and ethics as part of this policy's implementation:
    - 2026 - Fraud_Prevention_Training.mp4
    - 2026 - Annual Fraud Awareness Training - Assessment