



CHESTERFIELD COUNTY ADMINISTRATIVE POLICIES AND PROCEDURES

Department: Internal Audit
Subject: Fraud, Waste and Abuse Prevention and Detection

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I. PURPOSE

Chesterfield County's Strategic Plan goal "Model for excellence in government" includes an objective to "Require the highest standards of professionalism, ethics, and integrity." To help achieve this objective, this policy has been developed to prevent and detect fraud. The policy also defines what constitutes fraud and outlines expectations and procedures all employees must follow when fraud, waste or abuse is suspected. This policy also addresses requirements of the *Code of Virginia*, §15.2-2511.2, Duties of local government auditors for the fraud, waste, and abuse hotline.

II. SCOPE

This procedure applies to all County employees. Chesterfield County School Board Policy 2170 includes similar employee responsibilities to report suspected fraud, waste or abuse.

III. DEFINITIONS

A. **Fraud** – *Intentional deception* perpetrated by an individual or individuals, or an organization or organizations, either internal or external to local government, *that could result in a tangible or intangible benefit* to themselves, others, or the locality *or could cause detriment* to others or the locality. Fraud includes a false representation of a matter of fact, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive. Specific examples of fraud include but are not limited to:

1. Theft of County Funds.
2. Serious abuse of County time such as unauthorized time away from work or excessive use of County time for personal business.
3. Unauthorized use or misuse of County property or records.
4. Falsification of records.
5. Theft or unauthorized removal of County records, County property or the property of other persons (to include the property of employees, supervisors, consumers, clients, customers, inmates or visitors).
6. Willful destruction or damage of County records, County property or the property of other persons (to include the property of employees, supervisors, consumers, clients, customers, inmates or visitors).
7. Neglecting or subverting job responsibilities in exchange for an actual or promised reward.
8. Improperly influencing or misleading auditors or investigators.

- B. **Waste** – *Intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of resources* owned or operated by the County or Schools to the detriment or potential detriment of the organization. Waste also includes incurring unnecessary costs because of inefficient or ineffective practices, systems, or controls. Specific examples of waste include but are not limited to:
1. Unnecessary spending to purchase items including:
 - a. Unneeded items that have no business purpose.
 - b. Purchases at inflated prices.
 - c. Overstocking inventory.
 - d. Replacing functional items without cause.
 2. Unnecessary use of resources including:
 - a. Wasteful use of government property or equipment.
 - b. Performing unnecessary work.
 - c. Wasting energy including electricity and fuel.
 3. Mismanagement of resources.
 - a. Failure to reuse or recycle major resources.
 - b. Improper disposal of property or hazardous materials.
- C. **Abuse** – *Excessive or improper use* of something, or the employment of something in a manner *contrary to the natural or legal rules* for its use; the intentional destruction, diversion, manipulation, misapplication, maltreatment, or misuse of resources owned or operated by the County or Schools; or extravagant or excessive use so as to abuse one's position or authority. Specific examples of abuse include but are not limited to:
1. Minor County time misuse, such as unauthorized work absence or conducting personal business, including:
 - a. Taking long lunches or other excessive breaks
 - b. Arriving to work late or leaving early, not working a complete work day.
 - c. Failing to report leave for absences.
 - d. Conducting secondary employment activity during work hours (such as selling products, preparing tax returns, selling real estate, scheduling or receiving deliveries).
 - e. Conducting significant personal business during work hours.
 2. Improper personal use of County resources, including:
 - a. Using government vehicle for commercial purposes, personal gain, or advancing or inhibiting religious beliefs or political positions.
 - b. Using government equipment, computer, email, services, materials or supplies for commercial purposes, personal gain, or advancing or inhibiting religious beliefs or political positions.
 - c. Failure to report damage to government property or equipment.
 - d. Unnecessary travel or conference attendance.
 - e. Inflated travel or expense reimbursement.

- f. Receiving favors for awarding contracts to certain vendors.
 - g. Using one's position to gain an advantage over another resident when conducting personal business with the government.
 - 3. Unfair hiring, promotion, and severance practices including:
 - a. Pre-selection of candidates.
 - b. Selection of unqualified candidates.
 - 4. Intentionally circumventing or overriding policy, procedure or internal controls without appropriate justification or approval.
- D. **Internal Controls** – Organization's system to provide reasonable assurance of effective and efficient operations, reliable financial and performance reporting, compliance with applicable laws and regulations, and safeguarding assets. The fundamental difference between internal control weaknesses resulting in errors and those weaknesses resulting in fraud is intent.
- E. **County Funds** – Currency, checks, or other negotiable instruments belonging to the County of Chesterfield or Chesterfield County Public Schools (CCPS), or for which the County or CCPS is the fiscal agent or has a fiduciary responsibility.
- F. **County Property** – Any tangible item owned by the County of Chesterfield or CCPS.
- G. **Retaliation** – When an individual is discriminated against or penalized for reporting fraud or for cooperating, giving testimony, or participating in any manner in an audit/investigation, proceeding, or hearing.

IV. BACKGROUND

- A. Studies have shown that "red flags" of fraud within an organization were ignored by the organization in many of the frauds reported. Downsizing and repositioning of an organization increases the risk of fraud. Internal controls are the best method of preventing fraud. Poorly written or poorly enforced internal controls allow most frauds to occur.
- B. Fraud occurs for the following reasons (note: there are multiple reasons in some cases):
 - 1. Poor internal controls
 - 2. Management override of internal controls
 - 3. Type of organization (industry with high risk of fraud)
 - 4. Collusion between employees and third parties
 - 5. Poor or non-existent company ethical standards
 - 6. Lack of control over managers by their supervisors

- C. Some “red flags” of fraud are:
1. Changes in an employee’s lifestyle, spending habits or behavior
 2. Poorly written or poorly enforced internal controls, procedures, policies or security
 3. Irregular/unexplained variances in financial information
 4. Inventory shortages
 5. Failure to take action on results of internal/external audits or reviews
 6. Unusually high expenses or purchases
 7. Frequent complaints from customers
 8. Missing files
 9. Ignored employee comments concerning possible fraud
- D. Perpetrators of fraud typically live beyond their reasonably available means. Other indicators of fraud include: the borrowing of small amounts of money from co-workers, collectors or creditors appearing at the place of business, excessive use of telephone to stall creditors, falsifying records, refusing to leave custody of records during the day, working excessive overtime, refusing vacations, and excessively rewriting records under the guise of neatness.
- E. The following internal controls help prevent fraud:
1. Adherence to all organizational procedures, especially those concerning documentation and authorization of transactions
 2. Physical and logical security over assets such as locking doors, firewalls, password protection and restricting access
 3. Proper training of employees
 4. Independent review and monitoring of tasks
 5. Separation of duties so that no one employee is responsible for a transaction from start to finish
 6. Clear lines of authority
 7. Conflict of interest statements that are enforced
 8. Rotation of duties in positions more susceptible to fraud
 9. Ensuring that employees take regular vacations
 10. Regular independent audits of areas susceptible to fraud
- F. To provide opportunities for employees and citizens to report allegations of fraud, waste and abuse, Internal Audit shall administer a telephone hotline, website and other methods through which employees and residents of Chesterfield County may report anonymously any incident of fraud, waste and abuse. Internal Audit will coordinate investigations with other departments as necessary.

V. EXPECTATIONS

- A. All County employees should practice the following as it applies to their job:
1. Know the fraud-related exposures in your area.
 2. Know the symptoms or indicators of fraud.
 3. Put in place methods to identify wrongdoing.
 4. Make sure transactions you personally approve are not fraudulent.
 5. Personally monitor for frauds which only you are in a position to detect.
 6. Question and challenge the unusual.
 7. Set an example of honest and ethical behavior by personal example and by not tolerating dishonest or unethical behavior in others.
 8. Strive to prevent fraud by minimizing the exposures and reducing the opportunities and temptation.
 9. Never inappropriately subordinate the needs of the organization to your own needs.
 10. Recognize and respond to increased exposures.
 11. Do not seek to achieve goals through dishonest or unethical means, and do not tolerate such behavior from others.
 12. After a fraud, initiate corrective action to reduce the risk that fraudulent activity will recur.
 13. Take appropriate disciplinary action.
 14. Immediately refer suspected wrongdoing to Internal Audit or your supervisor for investigation.
 15. Encourage other employees to be vigilant in reporting suspected wrongdoing.
 16. Do the right thing.

VI. PROCEDURES

- A. **All Employees** – Any employee who has knowledge of an occurrence of fraud, waste or abuse, or has reason to suspect that a fraud, waste or abuse has occurred, shall immediately notify his/her supervisor or Internal Audit. If the employee has reason to believe that the employee's supervisor may be involved, the employee shall immediately notify the Department Director/Chief of his/her department or Internal Audit. Every employee shall cooperate with administrative investigations pursuant to this administrative procedure in accordance with County Personnel Policies and Procedures. The employee shall not discuss the matter with anyone other than his/her supervisor, the Department Director/Chief, the Internal Audit department and the Police Department.
- B. **Supervisor** – Upon notification from an employee of suspected fraud, waste or abuse, or if the supervisor has reason to suspect that a fraud, waste or abuse has occurred, the supervisor shall immediately notify the Department Director/Chief of his/her department or Internal Audit. The supervisor shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the Department Director/Chief, the Internal Audit Department and the Police Department. However, if the supervisor has reason to believe that the Department Director/Chief

may be involved in a fraud, the supervisor shall contact the Internal Audit Department or Police Department.

C. **Department Director/Chief** – Upon notification from an employee or supervisor of suspected fraud, waste or abuse, or if the Department Director/Chief has reason to suspect that a fraud, waste or abuse has occurred, the Department Director/Chief shall immediately contact the Internal Audit Department. The Department Director/Chief shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the Internal Audit Department and the Police Department.

D. **Internal Audit** – Internal Audit logs all Fraud, Waste, and Abuse allegations received and evaluates if conditions warrant: a special project investigation by Internal Audit, referral or consultation of matter with the related County or School department, referral to another entity or jurisdiction (i.e. items not involving Chesterfield County or Schools personnel, resources, or operations), insufficient information to initiate an action, or no action required.

Internal Audit determines if a separate report is necessary for each specific case. If applicable, such separate reports are provided to the County Administrator or School Superintendent, and the Audit and Finance Committees. Internal Audit documents disposition and if the allegation was substantiated for each case. All opportunities to improve internal controls or disagreements with management's decisions are not necessarily Fraud, Waste or Abuse. Internal Audit provides a fiscal year report to the Audit and Finance Committees summarizing all allegations with dispositions.

When Internal Audit *suspects* fraud, the Internal Audit Department will investigate the fraud and promptly notify the Chesterfield County Police Department.

E. **Record Security** – A successful audit/investigation can only be performed if the documentation relating to an alleged fraud is available for review in its original form. Therefore, once a suspected fraud is reported Department Directors/Chiefs and supervisors shall take immediate action to prevent the theft, alteration, or destruction of relevant records. Such actions include, but are not necessarily limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist, and preventing the individual suspected of committing the fraud from having access to the records. The records must be adequately secured until Internal Audit obtains the records to begin the audit investigation.

F. **Contacts/Protocols** – After an initial review and a determination that the suspected fraud warrants additional investigation, Internal Audit will notify the County Administrator or School Superintendent, Appropriate Deputy County Administrator or School Division Chief, Human Resources, County or School Attorney, Police Department, and Commonwealth Attorney of the allegations. Internal Audit shall coordinate the investigation with the appropriate law enforcement officials and shall report its investigative findings as described below.

At the conclusion of such fraud investigations, Internal Audit will document the results in a confidential memorandum report to the County Administrator or School Superintendent with a copy to the appropriate Deputy County Administrator or School Division Chief and Department Director/Chief. If the report concludes that the allegations are founded, the report will be copied to Human Resources, the County or School Attorney, and the Accounting Department. If the

report documents that criminal offenses may have occurred, copies will also be sent to the Chief of Police and the Commonwealth's Attorney.

If the fraud has resulted in County or School property loss, Internal Audit shall report such loss to the Risk Management Department. Risk Management shall seek restitution for any property loss.

- G. **Confidentiality** – All participants in a fraud investigation shall keep the details and results of the investigation confidential except as expressly provided in this administrative procedure. However, Internal Audit and the Police Department may discuss the investigation with any person if such discussion would further the investigation. Internal Audit obtains reports of suspected fraud, waste and abuse in confidence, specific details cannot be released in order to maintain confidentiality and anonymity (Code of Virginia, §2.2-3705.3. (7)). Information for completed investigations will not reveal the identity of the complainants or persons supplying information to investigators. If an investigation does not lead to corrective action, the identity of the person who is the subject of the complaint may be released only with the consent of the subject person.
- H. **Personnel Actions** – If a suspicion of fraud is substantiated by the audit investigation, disciplinary action shall be taken in conformance with the County's Personnel Policies and Procedures. A false and vindictive allegation of fraud is a violation of this administrative procedure. All violations of this administrative procedure, including violations of the confidentiality provisions, shall result in disciplinary actions up to and including termination and loss of retirement benefits and retiree health benefits.
- I. **Retaliation** (Whistleblower protection) – It is a violation of this administrative procedure to discriminate against any individual for their reporting, cooperation, testimony, participation, or other activities related to a fraud, waste or abuse investigation. This includes threatening, attempting, taking, or directing others, on any reprisal or personnel action. Any such reprisals by employees will be subject to disciplinary procedures under personnel policies. Reckless accusations of fraud waste, or abuse that an employee or citizen knew, or should have known, were false or malicious are not protected.
- Whistleblower reprisal complaints* should be filed with the Fraud, Waste and Abuse Hotline and describe the:
1. Related original fraud, waste or abuse allegation or investigation,
 2. Retaliatory action taken or withheld, and
 3. Responsible person(s) performing and/or directing the retaliation.
- J. **Media Issues** – If the media becomes aware of an audit investigation, the appropriate supervisor or Department Director/Chief shall refer the media to the Office of Communications and Media. The alleged fraud and audit investigation shall not be discussed with the media other than through the Office of Communications and Media.
- K. Upon completion of the audit investigation and all legal and personnel actions, records will be returned by Internal Audit to the appropriate department if acceptable.