



Fraud Risk Management Policy

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Purpose of This Fraud Risk Management Policy

An organizational fraud risk management policy defines fraudulent behavior, establishes that fraudulent behavior is unacceptable, helps safeguard City resources through improved management of fraud risk, and provides guidelines for the development, implementation, and monitoring of internal controls that aid in the detection and prevention of fraud in accordance with F.S § 218.33. Specifically, (3) *Each local governmental entity shall establish and maintain internal controls designed to:*

- (a) *Prevent and detect fraud, waste, and abuse as defined in s. [11.45\(1\)](#).*
- (b) *Promote and encourage compliance with applicable laws, rules, contracts, grant agreements, and best practices.*
- (c) *Support economical and efficient operations.*
- (d) *Ensure reliability of financial records and reports.*
- (e) *Safeguard assets.*

Internal Auditing Professional Guidance for Fraud Risk Management

The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing

- 1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization.
- 2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

GAO-18-568G Government Auditing Standards

8.71-8.76 - Auditors should assess the risk of fraud occurring that is significant within the context of the audit objectives. Assessing the risk of fraud is an ongoing process throughout the audit. When information comes to the auditors’ attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.

Association of Certified Fraud Examiners (ACFE)

The Certified Fraud Examiner (CFE) process focuses on four bodies of knowledge critical to the fight against fraud: Financial Transactions and Fraud Schemes, Law, Investigation, and Fraud Prevention and Deterrence. CFEs must earn at least 20 hours of Continuing Professional Education every 12-month period, and follow the ACFE Code of Professional Ethics and the ACFE Code of Professional Standards.

Definitions

Asset Misappropriation:

Theft of cash, checks, property, inventory, supplies and other non-cash items belonging to the City.

Conflict of Interest:

Elected official or employee's private interest improperly influences their official conduct or decision-making for private advantage or improperly affects the performance of official duties.

Corruption:

The wrongful use of influence to obtain a benefit for the employee or another person, contrary to their duty or the rights of others. Corruption includes conflicts of interest, bribery, illegal gratuities and economic extortion schemes.

Ethics:

City policy *G-2 Code of Ethical Standards* states that the successful operation of a democratic government requires that employees observe the highest standards of morality and discharge their duties of office recognizing that the public interest must be their primary concern. Their conduct in both their official and private affairs must be above reproach. To ensure the maintenance of the highest ethical standards, employees of the City of Gainesville shall follow Article II, Section 8, of the Florida Constitution entitled "Ethics in Government" and Florida Statutes Chapter 112, Part III, entitled "Code of Ethics for Public Officers and Employees."

External Fraud:

Fraud schemes against the City committed by a vendor, customer, or other known or unknown third party not employed with the organization.

Financial Statement Fraud:

The deliberate misrepresentation of the financial condition of an organization accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements to deceive financial statement users.

Fraud:

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Fraud Prevention and Detection:

Strategies and controls that management designs and implements to govern and manage fraud risk.

Internal Audit:

An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Its role includes detecting, preventing, and monitoring fraud risks and addressing those risks in audits and investigations.

Internal Control:

A mechanism to prevent or detect operational, reporting or compliance errors, irregularities or fraud. Internal control is a process used by management to help the City achieve its objectives.

Internal / Occupational Fraud:

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the City's resources or assets.

Waste and Abuse:

Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.

Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

Scope

This policy applies to all members of the City workforce, including staff, interns, temporary employees, independent contractors, charter officers and elected officials. This policy also applies to third parties and grant recipients who receive City services or funding.

Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Each member of the management team will be familiar with the types of improprieties that might occur within their areas of responsibility and be alert for indications of fraud. See **Diagram 1** for an overview of fraud detection and prevention processes.

Diagram 1 – Fraud Detection and Prevention Processes



Administration

The City Auditor is responsible for the administration, revision, interpretation, and application of this policy. This policy shall be reviewed periodically and revised as needed.

Expectations for Reporting Fraud

An employee who suspects wrongdoing must report the matter. There are several ways to report fraud. Staff may report to:

- Management
- Human Resources/Employee Relations partner
- The anonymous Fraud Hotline

Management shall immediately contact the Human Resources/Employee partner and law enforcement where necessary. Human Resources/Employee management shall inform the City Auditor immediately for more serious fraud allegations and periodically for less severe allegations to help identify thematic issues over time, and to ensure investigative processes are conducted in a consistent, high quality and equitable manner across the organization.

The City Auditor may coordinate with management, City law enforcement, third party forensic examiners, or external law enforcement agencies as appropriate to conduct occupational fraud investigations. Management must cooperate with investigators and shall not cover up evidence or retaliate against witnesses. Where appropriate, the City Auditor’s Office will review the relevant *internal control* environment with management to ensure control improvements are implemented where needed.

Examples of Fraudulent Behavior

Occupational fraud schemes may include, but are not limited to:

- Purchasing personal goods or services with City funds
- Theft of money, equipment, supplies, data, or other City property
- Submitting invoices to the City to pay for fictitious or personal goods and services
- Forging or falsifying City documents or records
- Submitting false claims for travel and other expense reimbursements
- Receiving financial benefit from accrued time off by not recording actual time off
- Use of City equipment or property for personal gain
- Soliciting or accepting a bribe or kickback
- Gaining Unauthorized access to data or systems for personal gain
- Intentionally falsifying financial reporting information
- Intentionally disclosing confidential, private, or proprietary information to outside parties without authorization
- Rigging the procurement process to ensure that a favoured party wins and to exclude competitors
- Giving or receiving something of value to influence a contract award
- Secretly working another job during the same hours you are paid to work for the City
- Receiving a pecuniary benefit for favourable zoning.

Investigation Responsibilities

The City Auditor has the primary responsibility for conducting hotline and fraud investigations as defined in this policy. All fraud allegations and collected information are reviewed to determine if there is adequate “predication” or “probable cause” to proceed with an investigation. The City Auditor may conduct the investigation, collaborate with management, other internal or external investigators, or City Attorney’s Office, or refer the matter to the appropriate law enforcement agency as appropriate. The City Auditor does not participate in employee disciplinary action which is the responsibility of management and Human Resources in compliance with collective bargaining agreements, contracts and the City’s Code of Conduct.

Conclusions to fraud investigations are supported with evidence that is relevant, reliable and sufficient. Investigators shall be alert to the possibility of conjecture, unsubstantiated opinion and bias of witnesses and others, and shall consider both exculpatory and inculpatory evidence. Professional Ethics makes clear that an investigator’s report may conclude on a person’s conduct; however, conclusions may not include the investigator’s opinion regarding the legal guilt or innocence of any person or party. That determination is made by a judge or jury.

There are four possible outcomes to a fraud investigation: substantiated; unsubstantiated; unsolved; unfounded.

- Substantiated: there is sufficient evidence to conclude that the alleged facts occurred, that these facts could constitute wrongdoing, and that the identified subject committed them.
- Unsubstantiated: there is insufficient evidence to conclude whether the alleged facts occurred and/or the facts could constitute wrongdoing, and/or whether the identified subject committed them.
- Unsolved: there is sufficient evidence to conclude that the alleged facts occurred, that the facts could constitute wrongdoing, but the subject did not commit them (i.e. she/he was cleared) or was never identified.
- Unfounded: there is sufficient evidence to conclude that the alleged facts did not occur, or the established facts did not constitute wrongdoing.

Internal control weaknesses, deficiencies or gaps may be identified during a fraud investigation. A minor internal control issue may be included in the investigative report for management’s consideration. A significant internal control matter may result in a new audit issue requiring a management action plan, or an audit around the deficient process may be added to the Audit Plan with City Commission approval.

Fraud, Waste and Abuse Hotline

The City Auditor shall provide the necessary procedures and policies to govern the effective management of the City’s fraud, waste and abuse hotline as passed by City Commission (file #150126 in Appendix B). The anonymous Hotline is hosted by Lighthouse, formerly In Touch -

<https://www.lighthouse-services.com/cityofgainesville>. Hotline matters that are not within the jurisdiction of the City Auditor's Office (such as HR or OEI complaints, or matters under State purview) shall be referred to the appropriate office or investigator. Occasionally the City Auditor's Office / Fraud Hotline receives reports that are not related to fraud allegations.

- Harassment or Discrimination matters (EEOC) shall be referred directly to the Office of Equity and Inclusion.
- Human Resources employee and labor relations matters shall be referred directly to the appropriate HR investigator.

Confidentiality

Fraud allegations and Hotline reports shall be handled confidentially, in accordance with F.S. § 112.3187-112.31895, **Florida's Whistle-blower's Act**. Final reports will be made available to the public in accordance with F.S. § 119.071 *General exemptions from inspection or copying of public records*. Open Internal Audit investigations and related activities are confidential, all related data shall be handled confidentially, related matters discussed as appropriate, and only with those who have a need to know.

Acting in Good Faith

Anyone reporting fraud shall act in good faith and have reasonable grounds for believing the information provided. Fraud allegations made maliciously or with knowledge of their falsity are subject to disciplinary action.

Related Policies Associated with Policy

- E-3 Code of Conduct
 - G-2 Code of Ethical Standards
 - GRU Administrative Guideline 1.6 Code of Ethics
 - Florida Statutes Chapter 112 Part III Code of Ethics for Public Officers and Employees
- Procurement Policy- A Policy Prohibiting Lobbying in Competitive Procurement Processes by application of the Cone of Silence

Penalties

Violations of the provisions of this policy may result in disciplinary action, up to and including dismissal, to be imposed pursuant to the Disciplinary Procedures/Code of Conduct, Human Resources Policy E-3.

Effective Date

This policy is effective October 21, 2021

Policy Change Log

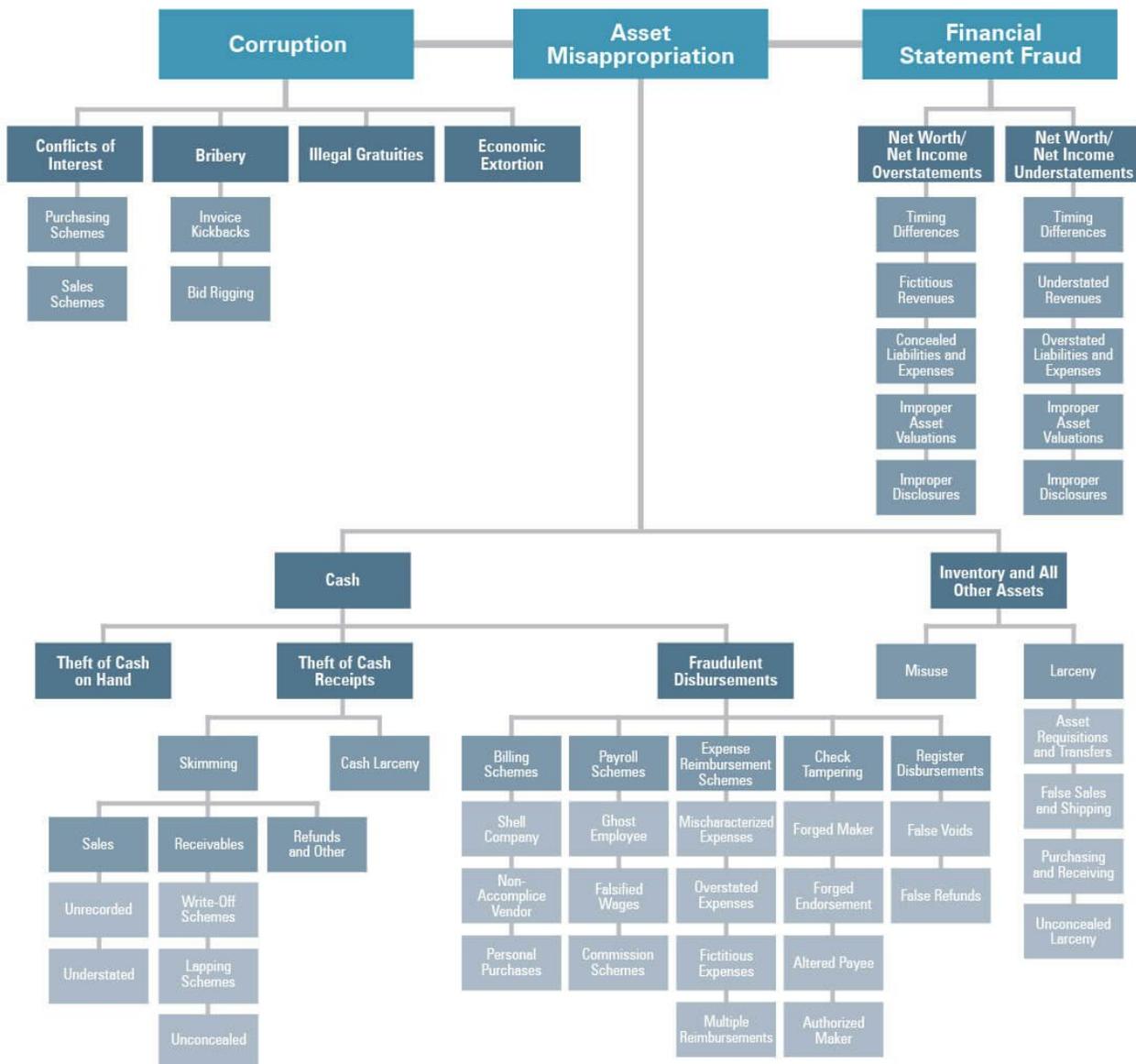
Change	Stakeholder Review	Effective Date / Legistar #	Brief Description of Changes
Policy creation	Prepared by: Ginger Bigbie, City Auditor Reviewed by: Scott Heffner, Labor and Relations Manager Cheryl McBride, Chief People Officer Charter Officers Approved by: City Commission	 9/20/2021 10/21/2021	Policy creation
Update / Revision	xx	xx	xx

Appendix A – Types of Fraud

The Association of Certified Fraud Examiners lists fraud schemes into three broad categories: asset misappropriation, corruption, and financial statement fraud. Below is the ACFE fraud tree that summarizes fraud schemes.

THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM



How is occupational fraud committed in government agencies?

FIG. 1 How is occupational fraud committed in government agencies?

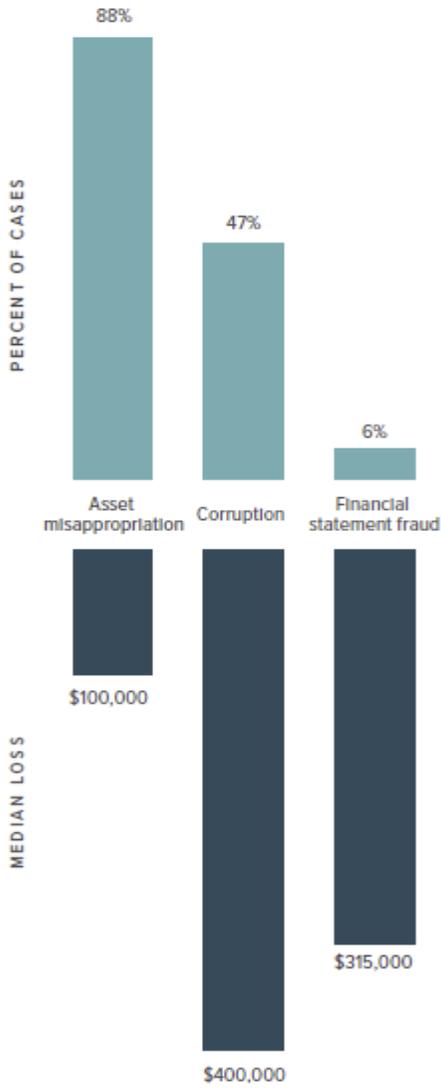


FIG. 4 How are levels of government victimized by occupational fraud?



Source: Report to the Nations 2018 Global Study on Occupational Fraud and Abuse-Government Edition. Copyright 2018 by the Association of Certified Fraud Examiners, Inc.

Appendix B - Hotline Implementation

9/3/2015 City Commission Meeting Minutes #150126 Approving Hotline Implementation



Minutes 9.3.2015.pdf

Legistar Record: <https://gainesville.legistar.com/MeetingDetail.aspx?ID=430780&GUID=3638C9EF-A5E0-40CB-BC0D-DD1DD15CE5EE&Options=&Search=>

#150126 Hotline Implementation 20160126 attachment

Do you have a concern or issue to share?

Call INTOUCH
City of Gainesville and GRU

- 1 Dial Toll-Free **1-844-818-2492** 24 hours a day, 7 days a week, or visit www.intouchwebsite.com/CityofGainesville
- 2 Write down the case number you are given so that you may check back on your case.
- 3 A written summary of your call will be sent to the City Auditor's office
- 4 Your call can be anonymous, or you can leave your name and contact information.
- 5 If you choose to provide your name, there is no assurance it will not become public information.

Use In Touch to report:

- Violations of the Code of Conduct and Ethics
- Bribery
- Conflicts of Interest
- Illegal Activities
- Theft
- Safety, Health or Environmental Issues
- Improper Accounting, Accounting Controls or Auditing
- Any Fraud, Waste, or Abuse

Hotline anonymous reporting URL and landing page:

URL - <https://www.lighthouse-services.com/cityofgainesville>

Landing page –



Lighthouse Anonymous Reporting

THIS SERVICE SHOULD NOT BE USED FOR EMERGENCY REPORTING

You can use this service to make your organization’s management aware of workplace concerns that you might be uncomfortable raising in any other way. These concerns may be about possible fraudulent, unethical or unlawful conduct you have witnessed at work. If you prefer, you can send your information anonymously.

Your message will be promptly forwarded to one or more of your organization’s authorized recipients who will act on it in an appropriate way.

Please note that if your concern relates to your terms and conditions of employment or is a disciplinary or grievance matter, then you should follow the established policies already in place in your organization.

Checking for a Response or Providing Additional Information

To check for a response to an earlier message or to provide further information for an existing case, you will need click 'Already have a PIN' to enter your Case Number and Password (these were provided to you when you sent your original message).

Or call 1-844-818-2492 to speak with a live operator. To check the status of a previous report, telephone call submissions may only be followed up on by telephone, likewise for internet originated submissions.



Report an Incident

To report an incident, click the Submit button below.



Already Made a Report?

To follow-up or get the status of an existing report, click a button below.



CONFIDENTIALITY COMMITMENT

Lighthouse is an independent provider that assists your organization to identify improper activity. We are committed to protecting the identity of all persons who use our secure reporting system. Reports are submitted by Lighthouse to the organization’s designee, and may or may not be investigated at the sole discretion of the organization. Although we will not disclose your identity without your express permission, it is possible that your identity may be discovered during an investigation of the matter reported because of information you have provided.

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Appendix C - Fraud Doesn't Happen Here

Fraud happens in every organization. A strong ethical culture and strong fraud risk management practices reduce the opportunities for fraud to occur and reduce the impact of fraud when a scheme is detected timely.

All the Queens Horses

The small town of Dixon, Illinois learned the impact of fraud when there is lack of management oversight and lack of separation of duties in key financial processes. Rita Crundwell, a city finance employee, stole more than \$53 million over twenty years from a city of 16,000 residents. The documentary is called, "All the Queen's Horses."

Source: <https://www.allthequeenshorsesfilm.com/trailer>

City of Miami Violates SEC Rules

The U.S. Securities and Exchange Commission found City of Miami and its budget director guilty of violating the Securities Act and Exchange Act while selling municipal bonds. It was the first SEC trial by jury against a municipality. "We will continue to hold municipalities and their officers accountable, including through trials, if they engage in financial fraud or other conduct that violates the federal securities laws."

Source: <https://www.reuters.com/article/us-usa-municipals-miami/florida-jury-finds-city-of-miami-liable-in-municipal-bond-case-idUSKCN11K2DQ>

Fraudulent Vendor Payment Schemes

The City of Ocala and City of Naples each lost nearly \$.75 million in fraudulent payments schemes to construction contract vendors due to weak controls in the vendor management and accounts payable processes.

Source: <https://www.ocala.com/news/20191028/ocala-police-scammers-swiped-nearly-750000-from-city>

Contract Bidding Schemes

Kickbacks or bribes and bidding schemes to award construction and public works contracts to preferred vendors resulted in indictment of elected officials and city officers in the Northern District of Florida.

Source: <https://www.justice.gov/usao-ndfl/pr/former-lynn-haven-city-commissioner-and-developer-charged-superseding-indictment-0>