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RESOLUTION NO. 88-12

A RESOLUTION APPROVING A FRAUD CONTROL POLICY FOR THE CITY.

BE IT RESOLVED BY THE CITY OF SIOUX FALLS, SD:

That the document attached to and part of this resolution entitled "Fraud Control Policy" is hereby approved.

Date adopted: 11/20/12 .

Mike T. Huether

Mayor

ATTEST:

Lorie Hogstad

City Clerk

Fraud Control Policy

I. SUMMARY OF POLICY

A. Overview

This policy's goal is:

1. The prevention of fraud affecting the City of Sioux Falls (the City).
2. The timely detection of instances of fraud affecting the City.
3. The recovery for the City of losses resulting from such fraud.
4. Remedial steps to strengthen internal processes and controls once fraud is detected.

This policy is intended to be consistent with and not supersede the following:

1. City Council's Code of Ethics.
2. City's ethics ordinances.
3. Internal Audit Charter.
4. City personnel policies and procedures.

B. Definition of Fraud

For purposes of this policy, fraud shall be defined as dishonest activity or other intentional misconduct causing actual or potential financial loss or reputational damage to the City. Examples of a fraudulent act covered by this policy include but are not limited to:

1. Embezzlement.
2. Forgery or alteration of any document or account belonging to the City.
3. Authorizing or receiving compensation for hours not worked.
4. Theft of any asset (money, tangible property, etc.).
5. Impropriety in the handling or reporting of money or financial transactions.
6. Destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment.
7. Any similar or related inappropriate conduct.

C. Zero Tolerance of Fraud

The City will not tolerate fraud and is committed to providing an effective system for preventing, detecting, and reporting such activity.

D. Waste and Abuse

Waste and abuse are closely related to fraud. Waste and abuse are often reported through means of fraud hotlines. Waste is defined as the intentional or unintentional thoughtless or careless expenditure of City resources. Examples would include unnecessary spending of City funds to purchase supplies or equipment or making extravagant arrangements for City travel. Abuse is the intentional destruction, diversion, maltreatment, or misuse of City resources. Examples would include failure to report damage to City equipment or property, creating unneeded overtime, or requesting staff to perform personal errands on City time. The City is committed to identifying and eliminating waste and abuse of City resources.

II. SUMMARY OF FRAUD CONTROL STRATEGIES

A. Role of Audit Committee and Internal Audit

Internal Audit under the oversight of the Audit Committee will be responsible for implementing and monitoring this policy and coordinating the fraud risk assessment process. Internal Audit will also be responsible for working with the City's Finance staff to coordinate the fraud risk assessment procedures with respect to the City's internal control over financial reporting. Internal Audit shall also be responsible for recording fraud incident reports. The Audit Committee will be made aware of the results of any fraud investigations and will be responsible for communicating the results to the Mayor and City Council.

All Directors and employees shall provide all necessary assistance and cooperation to Internal Audit and other investigators.

B. Fraud Detection

The City shall implement a process to identify instances of fraud in the event that prevention strategies fail. The City's fraud detection efforts shall include, but not be limited to, the following:

- Strategic use of computer systems including effective data mining to identify suspect fraudulent transactions.
- Analysis of management accounting reports and exception reports as appropriate.
- Unannounced cash counts.
- Other tools and strategies deemed appropriate.

C. Fraud Risk Management

Internal Audit shall periodically review and assess fraud risk and the strategies to combat such fraud.

D. Fraud Awareness

The City shall provide appropriate fraud awareness information (including this policy) to all employees upon commencement of employment with the City or as soon as practicable thereafter. The City shall include this information, as updated from time to time, with other employee-related information and City policies on the City's intranet (InSite).

Internal Audit shall be available as a resource to provide or assist in training of City managers and staff in regard to fraud prevention and detection.

E. Fraud Reporting

The City shall maintain a telephone hotline (fraud, waste, and abuse hotline) for reporting of fraud and similar matters involving City employees, including department Directors. The City shall provide employees with hotline information on the City's intranet and other appropriate means such as employee bulletin boards and mailings. Any report of fraud and similar matters involving City Council members, including the Mayor, that is covered under the City's ethics ordinances shall be immediately referred to the Sioux Falls Board of Ethics, which shall have exclusive jurisdiction for further handling.

The City's policy is to prohibit retaliation against any employee who reports in good faith any incident of fraud or misconduct.

F. Internal Control Review Following Discovery of Fraud

In each instance where fraud is detected, Internal Audit and management should reassess the adequacy of the internal processes and controls and consider whether any improvements are required.

Agreed-upon remedial changes shall be implemented as soon as practicable. A summary of recommendations or requirements for the modification of the internal processes or controls shall be provided to the managers of the division(s) concerned.

III. FRAUD RISK MANAGEMENT

A systematic fraud risk assessment shall be conducted at a minimum of every five years. Internal Audit will coordinate this assessment. The assessment shall involve management and staff from Finance, Information Technology, Risk Management, and other divisions as appropriate. Real or potential fraud risks and scenarios will be reviewed and appropriate prevention and detection strategies identified. The Audit Committee shall receive a report on this assessment and the results communicated with **the Mayor and City Council.**

IV. PREEMPLOYMENT SCREENING

All new employees will be subject to preemployment screening.

The Director of Human Resources will be responsible for identifying screening policies and procedures and recommending changes when appropriate.

V. RESPONSIBILITIES AND PROCEDURES

A. All Employees

Any employee who has knowledge of an occurrence of fraud or related misconduct or has reason to suspect that such activity is occurring shall immediately notify their supervisor, file a complaint with the Board of Ethics, or call the fraud hotline. Any suspected fraud or related misconduct of a member of the City Council, including the Mayor, that is covered by the City's ethics ordinances should be reported to the Sioux Falls Board of Ethics. If that supervisor is the subject of the alleged impropriety, the report should be made to the next higher level supervisor. If the employee is uncomfortable reporting through management or the Board of Ethics, the hotline is an option for reporting concerns anonymously. Every employee shall cooperate with investigations. The employee shall not discuss the matter with anyone other than the employee's supervisor or next level of management, City Attorney's Office, Director of Human Resources, or Internal Audit.

An employee having knowledge of fraud or related misconduct who does not report it may be considered to have been an accomplice to the misconduct and will be subject to disciplinary action.

B. Employee Activities Not to Be Reported as Fraud, Waste, or Abuse

Examples of employee activities that should not be reported as a fraud issue are as follows: (parenthetical items are the appropriate office for reporting, not necessarily in the order specified).

- Equal Employment Opportunity Complaints (Human Relations)
- Safety Hazards (supervisor, chain of command, Risk Management)
- Grievances (supervisor, chain of command, Human Resources)
- Workplace Violence (supervisor, chain of command, Risk Management)
- Harassment (supervisor, chain of command, Human Resources)
- Substance Abuse (supervisor, chain of command, Human Resources)
- Sexual Harassment (supervisor, chain of command, Human Resources)
- Compensation (supervisor, chain of command, Human Resources)
- Workers' Compensation (supervisor, chain of command, Risk Management)
- Customer Service (supervisor, chain of command, Human Resources)
- Management Issues (chain of command, Human Resources)

C. Supervisory Personnel

For purposes of this policy, supervisory personnel include supervisors through appointed City Directors. Upon notification from an employee of suspected fraud or related misconduct, or if the supervisor has reason to suspect that fraud has

occurred, the supervisor shall immediately notify the next higher level manager up to and including the Director. The supervisor shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the necessary management personnel, City Attorney's Office, Director of Human Resources, or Internal Audit. However, if the supervisor has reason to believe that the next level manager may be involved, the supervisor shall contact the next higher level manager, City Attorney's Office, Director of Human Resources, or fraud hotline.

D. Retaliation and False Charges

It shall be the policy of the City of Sioux Falls that retaliation in any form against employees who report, in good faith, misconduct or suspected misconduct shall not be tolerated. Retaliation includes dismissal of employees or threats to dismiss, intimidation, or coercion of employees or imposition of penalties. Employees who retaliate will be subject to discipline. Employees who knowingly make false allegations will likewise be subject to discipline.

E. Internal Audit

Since fraud and related misconduct can involve an infinite number of circumstances and degrees of seriousness, how each case is handled can vary. A **Fraud Coordination Committee** will include the Internal Audit Manager, the City Attorney, the Director of Human Resources, and the Audit Committee chair. This Committee will monitor and refer any reports regarding employees to the Director of Human Resources for further handling. Any reports regarding an elected official shall be referred to the Board of Ethics for further handling. Any reports regarding an elected official shall be referred to the Board of Ethics for further handling if the allegations are covered by the City's ethics ordinances.

Employee activities that are not fraudulent but may be considered inappropriate should be reported to the respective department's supervisors and/or Human Resources or other appropriate departments.

For any reports that are referred to the Director of Human Resources for further handling, the Director of Human Resources will provide an executive summary to the other members of the Fraud Coordination Committee on the results of the investigation and recommendation changes, if any.

F. Security of Evidence

A successful 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, Internal Audit or the investigative team shall take prompt action to prevent the theft, alteration, or destruction of relevant records. This shall be done in consultation with the City Attorney.

Such actions include, but are not 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, whether these records are in paper or electronic form.

G. Confidentiality

All participants in a fraud investigation shall keep the details, identities, and results of the investigation confidential except as expressly provided in this policy or as otherwise provided by law. Great care must be taken in the investigation of suspected fraud so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way. Failure to comply with this provision may result in disciplinary action, up to and including termination.

H. Media Issues

Any City employee or elected official contacted by the media with respect to an audit investigation shall refer the media to the City Attorney. The alleged fraud or audit investigation shall not be discussed with the media by any person other than through the City Attorney's Office.

Investigation of alleged fraud or related misconduct may simply detect control weaknesses without revealing or indicating the presence of fraud. In such instances, confidentiality of all involved is important to protect the legal rights of those individuals. However, the control weakness will be reported and become public information via normal practices.

I. Police and State's Attorney

In all circumstances where an investigation has provided reasonable grounds that a serious fraud has occurred, Internal Audit, subject to the advice and consent of the City Attorney, will contact the Sioux Falls Police Department and the State's Attorney's office.

J. Restitution

To the extent practicable, the City Attorney will make reasonable efforts, including requesting court-ordered restitution, to obtain recovery of the City's losses from the offender or other appropriate source. Coordination with Risk Management will be done, as appropriate, in seeking restitution for property loss.

VI. DISPOSITION OF INVESTIGATION

At the conclusion of a serious fraud investigation, the Audit Committee will ensure that a formal report is made by Internal Audit to the Mayor and City Council. The report will not include the names of individuals involved in the fraud. Minor instances of fraud, waste, and abuse do not require a report to the Mayor and City Council. However, the executive summary of any final report of any investigation will be sent to the appropriate Director as well as Internal Audit. The reports shall include the findings, action plan to correct, and implementation dates. Internal Audit shall maintain a file of all fraud investigations whether major or minor. Upon completion of the investigation and all legal and personnel actions, records will be returned to the appropriate department unless prevented by law or internal policy.