

Appendix A – Sample Fraud Risk Policy

FRAUD RISK POLICY

The Town of Monterey is committed to protecting its revenue, property, information, and other assets from any attempt, either by members of the public, contractors, vendors, agents or its own employees, to gain by deceit, financial or other benefits at the expense of the taxpayers.

Town officials and employees must, at all times, comply with all applicable laws and regulations. The Town will not condone the activities of officials or employees who achieve results through violation of the law or unethical business dealings. The Town does not permit any activity that fails to stand the closest possible public scrutiny.

This policy sets out specific guidelines and responsibilities regarding appropriate actions that must be followed for the investigation of fraud and other similar irregularities.

Definitions

Occupational **fraud** is defined by the Association of Certified Fraud Examiners as the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets. There are three major categories of occupational fraud.

- **Asset Misappropriations** – Theft or misuse of an organization's assets.
 - Cash
 - Fraudulent Disbursements – Perpetrator causes organization to disburse funds through some trick or device (e.g. submitting false invoices/time card/sheets, expense reimbursement schemes, check tampering, etc.)
 - Skimming – Cash is stolen from an organization before it is recorded on the organization's books and records.
 - Cash Larceny – Cash is stolen from an organization after it has been recorded on the organization's books and records.
 - Inventory and all other assets
 - Misuse – Misuse of an organization's inventory or assets for personal use (e.g. vehicles, computers, supplies, etc.)
 - Larceny – Inventory or other assets are stolen from an organization.
- **Corruption** – Wrongfully use influence in a business transaction in order to procure some benefit for themselves or another person, contrary to duty to employer or the rights of another.
 - Conflicts of Interest – An undisclosed economic or personal interest in a transaction that adversely affects the employer.
 - Bribery – The offering, giving, receiving, or soliciting of anything of value to influence an official act or business decision.

- Illegal Gratuities – A party who benefits from an official act or a business decision gives a gift to a person who made the decision. An illegal gratuity does not require proof of an intent to influence.
- Economic Extortion – An employee demands that a vendor/contractor/etc. pay to influence an official act or a business decision.
- **Fraudulent Statements** – Falsification of an organization’s financial statements.

Other similar irregularities is defined as any activity involving questionable behavior or business dealings by members of the public, contractors, vendors, agents or government employees, that put government revenue, property, information and other assets at risk of waste or abuse.

Applicability

This policy applies to all Elected Officials and employees of the Town of Monterey as well as any business or individual doing business with the government.

General Policy and Responsibility

1. It is the government’s intent to fully investigate any suspected acts of fraud or other similar irregularity. An objective and impartial investigation will be conducted regardless of the position, title, length of service or relationship with the government of any party who might be or becomes involved in or becomes/is the subject of such investigation.
2. Each Elected Official, Department Director, Commissioner and Manager is responsible for instituting and maintaining a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations and other irregularities. Management should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indications of such conduct.
3. The Office of the Town Administrator has the primary responsibility for the investigation of all activity defined in this policy.
4. The Town Administrator will notify the Board of Selectmen of a reported allegation of fraudulent or irregular conduct upon the commencement of the investigation to the extent practical. Throughout the investigation the Board of Selectmen will be informed of pertinent investigative findings.
5. In all circumstance where there are reasonable grounds to indicate that a fraud may have occurred, the Town Administrator, subject to the advice of the Board of Selectmen, will contact the office of the District Attorney and/or the Town of Monterey Police.
6. Upon conclusion of the investigation, the results will be reported to the members of the Board of Selectmen, and others as determined necessary.
7. The Town Administrator will pursue every reasonable effort, including court ordered restitution, to obtain recovery of the Town’s losses from the offender, or other appropriate source.

Procedures

1. All Employees

Any employee who has knowledge of an occurrence of irregular conduct, or has reason to suspect that a fraud has occurred, shall immediately notify his/her supervisor. If the employee has reason to believe that their supervisor may be involved or does not feel comfortable reporting the occurrence to their supervisor, the employee shall immediately notify the Town Administrator.

Employees have a duty to cooperate during an investigation.

Employees who knowingly make false allegations will be subject to discipline and possible termination of employment.

2. Town management Elected Officials

Upon notification from an employee of suspected fraud, or if management has reason to suspect that a fraud has occurred, they shall immediately notify the Town Administrator.

3. Office of the Town Administrator

Upon notification or discovery of a suspected fraud, the Town Administrator will promptly investigate the suspected fraud. In all circumstances, where there are reasonable grounds to indicate that a fraud may have occurred, the Town Administrator will inform the Board of Selectmen. Subject to the advice of the Board of Selectmen, the Town Administrator will contact the Office of the District Attorney and/or the Town of Monterey Police.

4. Contacts/Protocols

After an initial review and a determination that the suspected fraud warrants additional investigation, the Town Administrator will notify the Board of Selectmen. The Town Administrator will coordinate the investigation with the Board of Selectmen and appropriate law enforcement officials.

5. Security of Evidence

Once a suspected fraud is reported, the Town Administrator, in consultation with the Board of Selectmen, 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 the Town Administrator obtains the records to begin the audit investigation.

6. Personnel Actions

If a suspicion of fraud is substantiated by the investigation, disciplinary action shall be taken by the Appointing Authority, in consultation with the Department of Personnel, the Town Administrator, and the Board of Selectmen.

7. Whistle-Blower Protection

Under Massachusetts General Law Chapter 149, paragraphs 148A, 185 and 187, no employer or person acting

on behalf of an employer shall:

Dismiss or threaten to dismiss an employee

Discipline or suspend, or threaten to discipline or suspend, an employee

Impose any penalty upon an employee; or

Intimidate or coerce an employee

because the employee has acted in accordance with the requirements of this policy. The violation of this section will result in discipline up to an including dismissal in accordance with the applicable federal, state, and local administrative laws.

8. Media Issues

Any Town employee or elected official contacted by the media with respect to an audit investigation shall refer the media to the Town Administrator or the Selectboard. The alleged fraud or audit investigation shall not be discussed with the media by any person other than through the Town Administrator.

If the Town Administrator is contacted by the media regarding an alleged fraud or audit investigation, they will consult the Board of Selectmen, before responding to a media request.

Neither the Town Administrator, nor the Board of Selectmen will discuss the details of any ongoing fraud investigation with the media that may compromise the integrity of the investigation.

9. Documentation

At the conclusion of the investigation, the results will be reported to the members of the Board of Selectmen, and others as determined necessary. If the report concludes that the allegations are founded, the report will be forwarded to the Office of the District Attorney and/or the Town of Monterey Police.

10. Completion of the Investigation

Upon completion of the investigation, including all legal and personnel action, any records, documents and other evidentiary material will be returned by the Town Administrator to the appropriate department.

11. Training

New employees are trained at the time of hiring about the Town's Code of Conduct and Fraud Policy. This training explicitly covers expectations of all employees regarding:

- (1) Their duty to communicate certain matters;
- (2) A list of the types of matters, including actual or suspected fraud, to be communicated along with specific examples; and
- (3) Information on how to communicate those matters.