



City of Covina Policy and Procedure Manual

Policy Name: Fraud detection

Effective Date: November 18th 2014

Section No.: 30.00

Revised Date:

Source:

Review Date:

Authority: SB 46

**Responsible
Department:** City Manager/Finance

PURPOSE

The City of Covina is committed to protecting tax payer dollars and assets from fraud and recovering losses as a result of fraudulent activities. The Fraud Prevention and Detection Policy is established to facilitate the development of controls which will aid in the prevention and detection of fraud against the City. The Policy intends to empower the City Treasurer to conduct investigations and report findings to the City Manager. The City website contains a link to a Fraud and Abuse Reporting page. This page contains information for the reader on how to report a potential fraud and how the report will be handled. Fraud awareness and reporting posters have been distributed to City facilities for posting on bulletin boards. Brochures informing the public of this reporting tool will be placed at all public counters.

30.10 POLICY

Under the direction of the Treasurer, it is the policy of the City to identify, and promptly investigate, any employee behavior that may be considered "fraud" or misuse of City assets. The Treasurer shall also ensure that administrative officials are held publicly accountable for their use of public funds and other resources at their disposal.



30.20 PROCEDURES

30.21 City Management Responsibilities

The City Manager's Department is responsible for developing and maintaining an effective system of internal control that safeguards taxpayer assets. As part of this policy, under the direction of the City Manager the Finance Director will implement administrative regulations that will protect assets from being fraudulently misappropriated. The administrative regulation will include a regular review of fraud risks and the creation of internal controls to combat any perceived risks, a process to control reporting of transactions to protect against fraudulent reporting and/or accounting, require management to develop adequate internal controls to prevent and detect fraud.

The City Attorney is responsible for recovering losses from fraudulent activities. Individual departments are responsible for reporting suspected acts of fraud to the Supervisor, Department Head, City Manager, City Treasurer or the Hotline.

30.22 Process for Handling Suspected Acts of Fraud

Complaints of fraud may be reported to the Hotline or submission of the online reporting form through a link on the City website. The Treasurer will notify the City Manager and the appropriate Department Director of the reported allegation of fraudulent or irregular conduct upon the commencement of the investigation, to the extent practical. The Treasurer's primary responsibility will be to conduct a preliminary investigation to determine if the suspected act merits further action. If it is determined that the suspected activity warrants further investigation, the City Manager and/or Personnel and/or Finance will conduct the investigation. If the fraud requires further investigation, the City Manager will turn the matter over to the Police Department.

A. Suspected Acts of Fraud Reported or Uncovered by City Employees

If an employee suspects and reports a suspected act of fraud, the first notification should be made to the employee's immediate supervisor. If the employee suspects that the immediate supervisor is involved, the employee should report their findings directly to the department head. If the employee suspects that the department head is involved, the employee should report their findings directly to the Hotline. If the employee is not comfortable bringing this to the attention through the chain of command, the employee has the option of directly reporting their findings to the Hotline.

After a suspected act of fraud is reported the Treasurer will begin the investigation and determine if the suspected action warrants a further investigation. If the information received via the Hotline lacks sufficient data to determine if an investigation is warranted, the City Treasurer may contact the employee (if the contact information has been provided) for additional data. If the suspected action does not warrant a further investigation, no further action shall be taken. If the suspected act of fraud warrants further investigation the Treasurer will follow the process outlined above.

B. Suspected Acts of Fraud Reported or Uncovered by Outside Persons

If an outside party reports a suspected act of fraud to a City employee, the outside party should be directed to the Hotline.

C. Suspected Acts of Fraud Reported by Elected Officials or City Commissioners

If an elected official or member of a City commission suspects fraud, he or she shall report this act to



the City Manager.

30.23 Suspected Data Breach

In the event of a data breach of employee and/or customer information, per California Senate Bill SB 46, the City will comply with the notification requirement providing the security breach notification in electronic form and direct the person whose information has been breached to promptly change user name or security question as applicable, or take other appropriate steps. SB 46 further specifies that in the case of a breach of specified personal information involving log-in credentials of an e-mail account, the responsible person or agency should not send the security breach notification to an e-mail address, but may instead comply with the notification requirement in another method that provides clear and conspicuous notice.

30.24 Reporting Requirements

Once an individual has reported alleged fraud, the following three processes will be followed:

1. Level 1 - After a suspected act of fraud has been reported to the appropriate level of City staff, and then to the Hotline, the Treasurer will determine whether further action is necessary. If the Treasurer determines the accusation has no merit, no further action will be taken. At this level, employee confidentiality is maintained.
2. Level 2 - After a suspected act of fraud has been reported to the appropriate level of City staff, and then to the Hotline, and if the suspected act of fraud has been determined to have merit, an appropriate investigation begins. At this level, only the investigating departments, the City Manager, and Personnel are contacted.
3. Level 3 - An investigation has determined that fraud has taken place. All appropriate criminal and/or administrative actions are underway.

The Finance Department shall notify the City's external auditors of known acts of fraud that have reached the level 3 status.



DEFINITIONS

Fraud-For the purposes of this policy, fraud is defined as: the intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right. In some instances, intentional fraud may be considered criminal. Behavior considered by the City of Covina to be fraudulent includes but is not limited to the following:

- Falsifying job-related expenses.
- Forgery or unauthorized alteration of documents such as checks, promissory notes, time sheets, agreements, purchase orders, etc.
- Misrepresenting facts in order to obtain City equipment including cash, notes, equipment, furniture, etc.
- Knowingly authorizing payments for goods not delivered or receiving payments for services not rendered.
- Knowingly falsifying records of cash or money transactions.
- Misrepresenting accounting/budget numbers/financial statements to conceal employee theft.
- Misrepresenting the cost of a project so that funds may be used otherwise.
- Misrepresenting the cost of uniforms.
- Misrepresenting contractor qualifications to secure an agreement so that the employee receives remuneration from the contractor.

City - City of Covina

Policy - Fraud Prevention and Detection Policy

Treasurer – City of Covina Treasurer

Hotline - Fraud and Abuse Reporting page/phone line

REFERENCES