

Policy Name: Fraud Detection

Effective Date: August 16, 2022

Fraud Hotline: 626-384-5404

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 Clerk 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 City Clerk, 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 City Clerk 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 Clerk 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 City Clerk 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 City Clerk'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 of 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 City Clerk 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 Clerk 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 City Clerk 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 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/or then to the Hotline, the City Clerk will determine whether further action is necessary. If the City Clerk 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

City Clerk - City of Covina City Clerk

Hotline - Fraud and Abuse Reporting page/phone line

Government Code 53087.6.

(a) (1) A city, county, or city and county auditor or controller who is elected to office may maintain a whistleblower hotline to receive calls from persons who have information regarding fraud, waste, or abuse by local government employees.

(2) A city, county, or city and county auditor or controller who is appointed by, or is an employee of, a legislative body or the government agency that is governed by the city, county, or city and county, shall obtain approval of that legislative body or the government agency, as the case may be, prior to establishing the whistleblower hotline.

(b) The auditor or controller may refer calls received on the whistleblower hotline to the appropriate government authority for review and possible investigation.

(c) During the initial review of a call received pursuant to subdivision (a), the auditor or controller, or other appropriate governmental agency, shall hold in confidence information disclosed through the whistleblower hotline, including the identity of the caller disclosing the information and the parties identified by the caller.

(d) A call made to the whistleblower hotline pursuant to subdivision (a), or its referral to an appropriate agency under subdivision (b), may not be the sole basis for a time period under a statute of limitation to commence. This section does not change existing law relating to statutes of limitation.

(e)(1) Upon receiving specific information that an employee or local government has engaged in an improper government activity, as defined by paragraph (2) of subdivision (f), a city or county auditor or controller may conduct an investigative audit of the matter. The identity of the person providing the information that initiated the investigative audit shall not be disclosed without the written permission of that person, unless the disclosure is to a law enforcement agency that is conducting a criminal investigation. If the specific information is in regard to improper government activity that occurred under the jurisdiction of another city, county, or city and county, the information shall be forwarded to the appropriate auditor or controller for that city, county, or city and county.

(2) Any investigative audit conducted pursuant to this subdivision shall be kept confidential, except to issue any report of an investigation that has been substantiated, or to release any findings resulting from a completed investigation that are deemed necessary to serve the interests of the public. In any event, the identity of the individual or individuals reporting the improper government activity, and the subject employee or employees shall be kept confidential.

(3) Notwithstanding paragraph (2), the auditor or controller may provide a copy of a substantiated audit report that includes the identities of the subject employee or employees and other pertinent information concerning the investigation to the appropriate appointing authority for disciplinary purposes. The substantiated audit report, any subsequent investigatory materials or information, and the disposition of any resulting disciplinary proceedings are

subject to the confidentiality provisions of applicable local, state, and federal statutes, rules, and regulations.

(f)(1) For purposes of this section, “employee” means any individual employed by any county, city, or city and county, including any charter city or county, and any school district, community college district, municipal or public corporation, or political subdivision that falls under the auditor’s or controller’s jurisdiction.

(2) For purposes of this section, “fraud, waste, or abuse” means any activity by a local agency or employee that is undertaken in the performance of the employee’s official duties, including activities deemed to be outside the scope of his or her employment, that is in violation of any local, state, or federal law or regulation relating to corruption, malfeasance, bribery, theft of government property, fraudulent claims, fraud, coercion, conversion, malicious prosecution, misuse of government property, or willful omission to perform duty, is economically wasteful, or involves gross misconduct.

(Amended by Stats. 2010, Ch. 80, Sec. 1. (AB 1666) Effective January 1, 2011.)