

CITY OF WACO

AUDIT POLICY FOR THE INVESTIGATION OF DISHONEST OR FRAUDULENT ACTIVITIES

Policies

ADM-9

Page 1 of 5
Revised 03/01/95

Policy Summary:

Effective internal controls are established to ensure the protection of city employees, the reliability and integrity of information, the safeguarding of assets, the compliance with policies, plans, procedures, laws and regulations, the economical and efficient use of resources, and for accomplishment of established goals and objectives throughout the City organization. The City of Waco, like any other organization, is subject to the possibility of fraud that encompasses an array of irregularities and illegal acts. Irregularities can occur in the handling of money, documents, equipment, supplies and time. It is important that any such allegation be identified and investigated promptly and consistently throughout all City departments.

By having a fraud policy, the City of Waco is able to formalize the investigative process while protecting all parties involved from possible false accusations. One of the responsibilities of the Internal Audit staff is to examine and evaluate the adequacy and effectiveness of the organization's system of internal controls and then make recommendations for any improvement that is in the best interest of the City of Waco and its employees. Emphasis is placed on the importance of developing and maintaining good controls and effective systems. It is intended that all City employees be aware of this policy since good management practice dictates that every suspected irregularity be promptly identified and investigated.

I. PURPOSE AND OBJECTIVES

- A. The purpose of this policy is to communicate the City procedures regarding the investigation of suspected dishonest or fraudulent activities.
- B. Because of this sensitivity of this type of procedure, this policy provides for specific instructions and procedures for managers, department directors, supervisory personnel and employees regarding appropriate action in case of suspected improprieties.
- C. This policy applies to the City and all agencies and subgrantees where City funds are involved.
- D. This procedure is initiated only when irregularities appear to have occurred by intentional deception.
- E. Under this policy, the Internal Audit staff shall have the authority and responsibility for investigative activities on behalf of the City to accomplish the following.
 1. To promote an atmosphere of honesty throughout the City.

CITY OF WACO

AUDIT POLICY FOR THE INVESTIGATION OF DISHONEST OR FRAUDULENT ACTIVITIES

Policies

ADM-9

Page 2 of 5
Revised 03/01/95

2. To inform all persons of the City's concern regarding dishonest or fraudulent activities and the action the City will take in those instances where individuals choose to conduct themselves against the best interests of the City.
3. To inform all employees of the City of Waco that suspected dishonest or fraudulent activities shall be reported directly to the Internal Auditors as soon as possible. Such report shall remain confidential. Department Directors, Division Heads, and Assistant City Managers will be alerted to the situation at the discretion of the City Manager and Legal Services if they have determined it is in the best interest of the City.
4. To inform all directors, supervisory personnel and employees not to conduct investigations, interviews, or interrogations with possible involved persons in order to minimize the potential for civil liability. Such activities are to be conducted by the Internal Audit staff as coordinated through and approved by the City Manager and Legal Services. If the department involved is more knowledgeable in researching the problem, the Internal Auditors may request assistance as needed.
5. To inform all directors, supervisory personnel and employees of the Internal Audit staff's access to premises, records and property when necessary to conduct an audit if there is reasonable suspicion to believe there are allegations that dishonest or fraudulent activities exist.

II. SCOPE OF POLICY

- A. The activities that are subject to investigation include, but are not limited to:
 1. Forgery or alteration of checks, drafts, promissory notes, securities and cash receipts;
 2. Any misappropriation of funds, securities, supplies, inventories or any other asset entrusted to one's care;
 3. Any irregularity in the handling or reporting of money transactions;
 4. Disappearance of furniture, fixtures, equipment and inventories;

CITY OF WACO

**AUDIT POLICY FOR THE INVESTIGATION OF DISHONEST OR
FRAUDULENT ACTIVITIES**

Policies

ADM-9

Page 3 of 5
Revised 03/01/95

5. Any similar or related irregularity where an intentional breakdown of office procedures or internal controls has occurred;
 6. Any irregularities involving employee time; and
 7. Any other dishonest act for the benefit of, or detriment to, the organization.
- B. The examples listed above include any irregularity or indication of an irregularity involving vendors, City personnel, agencies (or employees thereof), servicing agents, or unknown parties that affect City Assets or City property.
- C. This policy does not cover the theft or personal items, such as purses and wallets, which should be reported directly to the Police Department.

III. RESPONSIBILITIES

- A. Managers, Department Directors, supervisory personnel and employees are responsible for detecting improprieties and shall report suspected dishonest and fraudulent activities to Internal Audit as soon as possible after detection. Each should be familiar with the types of improprieties which might occur in their area and be alert for any indication that such misappropriation or irregularity exists in their area.
- B. Internal Audit is responsible for the investigation or for the direction of the investigation of any suspected dishonest and fraudulent activity and will coordinate all investigations with the Legal Services Department.
1. The Internal Audit staff is available and receptive to receiving relevant information on a confidential basis.
 2. Employees shall directly contact members of the Internal Audit staff whenever an activity is suspected to be dishonest or fraudulent.
- C. If the investigation reveals that dishonest or fraudulent activities have occurred, a report will be made to City Management and appropriate department directors.
- D. After consultation with the City Manager, Internal Audit may refer an investigation to the appropriate law enforcement and/or regulatory agency for investigation. The Internal Audit staff will assist and cooperate with such agency in its investigation as requested.

CITY OF WACO

**AUDIT POLICY FOR THE INVESTIGATION OF DISHONEST OR
FRAUDULENT ACTIVITIES**

Policies

ADM-9

Page 4 of 5
Revised 03/01/95

- E. It is the responsibility of all City employees to support this Policy by cooperating with the Internal Audit staff and any law enforcement and/or regulatory agency in the detection, investigation and reporting of dishonest and fraudulent activities, including the criminal prosecution of offenders.
- F. These investigative activities concerning City employees shall be conducted in a non-discriminatory manner and without regard to length of any employee's service, position held or relationship to the City.
- G. In all cases, every effort should be made to recover City losses from the offender or from the bonding company. In addition, an employee found conducting dishonest or fraudulent activities shall be subject to disciplinary action, up to and including termination.

IV. ACCESS TO PREMISES, RECORDS AND PROPERTY

- A. Where the Internal Auditors, the City Manager's Office and Legal Services determine there is a work related need or determine there is reasonable suspicion to believe that dishonest or fraudulent activities exist, the Internal Audit staff shall have the authority and duty:
 - 1. To seal the property or area containing records, information or assets necessary for an investigation until a decision to enter and take control has been made; and/or
 - 2. To examine, copy and/or remove all or any portion of the contents of all files, desks, cabinets, any other storage facilities, cameras and computers that are located on such premises without the prior knowledge of, or consent of, any individual who may use or have custody of such premises or any such items.

V. OTHER CONSIDERATIONS

- A. Great Care must be taken in the investigation of suspected dishonest or fraudulent activities to avoid incorrect accusations about innocent employees or alerting involved individuals that an investigation is under way. Every effort should be made to avoid making any statements which could provide a basis for false accusation or other offenses. Accordingly, a manager, director, supervisor or employee should:
 - 1. Not contact any involved individual to determine facts or demand restitution without approval of the City Manager or Legal Services;

CITY OF WACO

**AUDIT POLICY FOR THE INVESTIGATION OF DISHONEST OR
FRAUDULENT ACTIVITIES**

Policies

ADM-9

Page 5 of 5
Revised 03/01/95

2. Not discuss the case, facts, suspicions or allegations with anyone outside the City, unless specifically directed to do so by the City Manager, Legal Services, or Internal Audit.
 3. Not discuss the case with anyone inside the City other than the City Manager, Legal Services, or Internal Audit.
 4. Not discuss the case with individuals possibly involved in the dishonest or fraudulent activities, their representatives or their attorney. The proper response to any inquiry from such persons should be "I'm not at liberty to discuss this matter." Under no circumstances should there be any reference to "what you did," "the crime," "the fraud," "the forgery," "the misappropriation," etc.
- B. All inquiries regarding any investigation of possible dishonest or fraudulent activities should be directed to the City Manager or Legal Services.

Approved: JNH



ACKNOWLEDGMENT: This Audit Policy for the Investigation of Dishonest or Fraudulent Activities contains material obtained from the Institute of Internal Auditor's seminar, "Fraud Detection and Investigation for Internal Auditors," as conducted by Courtenay Thompson and Associates of Dallas, Texas.