

A. Definition of Fraud

Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it for personal gain or benefit. Fraud includes theft, intentional waste or abuse of city funds, assets, property or time. Examples of fraud include, but are not limited to:

- Forgery or alteration of any document or account
- Forgery or alteration of a check, bank draft, or any other financial document
- Misappropriation of funds, securities, supplies, or other assets
- Impropriety in the handling or reporting of money or financial transactions
- Profiteering as a result of insider knowledge of City information or activities, which knowledge is not available to the public at large
- Disclosing confidential and/or proprietary information to outside parties
- Acceptance or seeking anything of material value from consultants, contractors, vendors or persons providing services or material to the City
- Willful damage, destruction, removal or inappropriate use of records, furniture, fixtures and equipment
- Any claim for reimbursement of expenses that are not made for the exclusive benefit of the City
- Embezzlement, larceny or any other misapplication of City funds

B. Opportunities for Fraud

Opportunities for fraud occur because of the following reasons: poor internal controls, management override of those controls, collusion between employees and third parties, poor or non-existent standards and lack of control over supervisors by their managers.

C. Indicators of Fraud (Red Flags)

The following are common indicators of fraud: unaccounted for changes in an employee's lifestyle, spending habits or behavior; poorly enforced internal controls, procedures, policies, or security; overly complex and confusing financial information; inventory shortages; failure to take action on results of internal/external audits or reviews; unusually high expenses or purchases; frequent complaints from customers or citizens; missing files and supporting documentation; and ignored employee comments concerning possible fraud.

D. Fraud Prevention

The following internal controls are implemented to help prevent fraud:

- Adherence to all organizational procedures, especially those concerning documentation and authorization of transactions
- Physical security over assets such as locking doors and restricting access to designated areas
- Proper training of employees
- Independent review and monitoring of tasks

- Segregation of duties that no one employee is responsible for a transaction from its beginning to its end, when the transaction involves assets of value
- Clear lines of authority
- Adherence to the City's policies on ethics and standards of conduct
- Rotation of duties in positions susceptible to fraud
- Ensuring that employees take regular vacations
- Regular process reviews of areas susceptible to fraud

IV. PROCEDURES

A. Fraud Reporting Procedures

All employees are expected to be alert for possible fraud. Any employee who has knowledge of an occurrence of irregular conduct, or has reason to suspect that a fraud has occurred shall immediately report it to the City of Pensacola Fraud, Waste and Abuse Hotline. This telephone number and weblink (listed below) are staffed and active at all times, allowing a full record of the report to be created when it is received, while allowing for the receipt of such information with confidentiality, to the extent authorized by law.

**All employees reporting suspected fraud must contact the following
City of Pensacola Fraud, Waste and Abuse Hotline: 1-866-428-1501
www.tnwinc.com/webreport**

If an employee contacts his or her supervisor directly regarding suspected fraud, the supervisor is instructed to direct the employee to contact the Fraud, Waste and Abuse Hotline or report the allegation on the employee's behalf. The City will keep the name of the person reporting a fraud confidential if desired, in accordance with Florida Statutes, Section 112.3188, which generally provides that the identity of the person reporting the activity need not be disclosed while the report remains under active investigation and a final decision has not been made.

Employees who intentionally or knowingly make false accusations and/or provide false information concerning instances of fraud will be subject to disciplinary action which may include termination.

B. Cooperation

All employees are required to cooperate fully during any City review or investigation of an alleged fraud. Anyone informed of an investigation in progress shall ensure that strict confidentiality is observed. Employees should not contact the suspected individual under investigation in an effort to determine facts or demand restitution.

C. Investigation Responsibilities

When a suspected act of fraud has been reported, the City Administrator or Chief Financial Officer will appoint a fraud investigation team which will conduct an appropriate investigation in an objective and impartial manner. The composition of the team will depend upon the existing circumstances and may include representatives from the Pensacola Police Department, the Financial Services Department, other city employees or officials or outside agencies.

The fraud investigation team shall take immediate action to prevent theft alteration, or destruction of property or relevant records. Such actions may include removing records and placing them in a secure location, limiting access to the location where relevant records currently exist or preventing individuals from having access to the records while the investigation is active.

The investigation team will cooperate with law enforcement as deemed necessary during the course of the investigation. Decisions to prosecute or forward matters to appropriate law enforcement or regulatory agencies for independent investigation and action will be made by the City Administrator, City Attorney and/or the Chief Financial Officer.

D. Training

All current and new employees will be trained on this policy and are expected to complete a statement acknowledging the policy and agreeing to abide by it. The training will cover the employees' responsibilities under this policy, how to recognize suspected fraud and their duty to report the suspected fraud. Training on this subject will occur at the New Employee Orientation and will be incorporated into cyclical training conducted by the Human Resources Office.

E. Protection from Retaliation

Florida statutes provide protection from adverse personnel action for employees of municipalities who provides information concerning:

1. Any violation or suspected violation of any federal, state or local law, rule, or regulation committed by an employee or agent of the municipality which creates and presents a substantial and specific danger to the public's health, safety, or welfare, or
2. Any act or suspected act of gross mismanagement, malfeasance, misfeasance, gross waste of public funds, or gross neglect of duty committed by an employee or agent of the municipality. Gross mismanagement means a continuous pattern of managerial abuses, wrongful or arbitrary and capricious actions, or fraudulent or criminal conduct which may have a substantial adverse economic impact.

The statutory protection is provided for individuals who disclose information to the chief executive officer or other appropriate local official. For the purposes of this statute, the Mayor designates the City Administrator and Chief Financial Officer as the appropriate local officials authorized to initially receive and investigate information pertaining to fraud.

V. RESPONSIBILITY

1. The Financial Services Department is responsible for developing training materials, reviewing this policy annually and recommending revisions to this policy as needed.
2. The Human Resources Division is responsible for conducting training on this policy for all new-hire employees during orientation and incumbent employees on a periodic basis. The Human Resources Division will maintain a record of all training and retain all completed employee acknowledgement statements.
3. The City's Chief Financial Officer is responsible for establishing a system of internal controls to provide reasonable assurance of the detection and prevention of fraud. Department directors/division administrators should be familiar with the types of improprieties that might occur within their own area(s) of responsibility and be alert for any indication of irregularities. Department directors/division administrators shall complete a *Fraud Risk Assessment* (attached) identifying potential risks on a biannual basis or as directed by the Financial Services Department. If a Department/division requires assistance in establishing, reviewing or testing internal controls they should contact the Business Process Review Manager in the Financial Services Department.
4. Department directors/division administrators are responsible for ensuring that their employees are familiar with the standards outlined in this policy and the procedures for reporting suspected fraud.
5. Beginning in fiscal year 2018, department directors/division administrators shall complete a *Fraud Risk Assessment* (attached) on a biannual basis which shall be due by August 31. Additionally, department directors/division administrators shall complete a *Fraud Risk Assessment* more frequently if directed by the Financial Services Department.

VI. REVIEW

This policy shall be reviewed annually by the Chief Financial Officer for accuracy and updated accordingly. That review shall be reported to the City Administrator for review and approval by April 30 of each year.