



Carson City
Fraud, Waste, and Abuse Program
Final Report

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I. EXECUTIVE SUMMARY

All City employees share the common purpose of serving the public and ensuring public funds are spent wisely. The work of the City should be conducted fairly, equitably, ethically, and transparently. Proactive steps must be taken to ensure community commitments and management objectives are met. It is important for employees and the public to be provided a mechanism to voice appropriate concerns when they see or feel something is not right.

As a result, Carson City has established a Fraud, Waste, and Abuse Program that is available to all City employees and the public. The program operates 24 hours a day, 7 days a week. Reports of suspected inappropriate activity can be made using the City's toll-free number, mail, phone, or in person. All reports submitted are treated confidentially.

Carson City employees are entrusted with public funds and have a duty to use those funds economically, efficiently, effectively, and ethically. If City employees do not honor that obligation, it is imperative to identify and correct those actions. The City is committed to reviewing all complaints and investigating all legitimate concerns.

Purpose of a Fraud, Waste, and Abuse Program

A Fraud, Waste, and Abuse (FWA) Program is a mechanism for employees or members of the public to report activities perceived to be misconduct, violations of City policy or ethics, theft, waste, or misuse of City assets. The objective of a FWA program is to identify and stop loss of City resources and act as a deterrent to fraud, waste, and abuse.

In order to facilitate reports of fraud, waste, or abuse, a FWA hotline is administered by [the City Auditor], complaint reports are received by [TBD], and all reports are viewable by the District Attorney. Please do not use this program to report [grievable labor issues or political beliefs], which should be reported to the Human Resources Department. Matters of threat to a person should be reported to the Sheriff's Office by calling 911.

Benefits of a Fraud, Waste, and Abuse Program

There are numerous benefits to a Fraud, Waste, and Abuse Program. It is important for not only identifying and quantifying losses to the City, but also preventing future losses. Specific benefits include:

- Identification and termination of occurrences of fraud, waste, and abuse.
- Recovery of funds as a result of investigations.
- Deterrence of inappropriate behavior by increasing awareness of these actions
- A safe mechanism for employees and the public to voice concerns and report suspected inappropriate activity.
- Commitment to the City's core values through the promotion of the program.
- Improvement in the City's internal control processes.
- Enforcement of an ethical work environment.

II. FRAUD, WASTE, AND ABUSE DEFINITIONS

A. FRAUD DEFINITION

Fraud is defined as a dishonest and deliberate course of action that results in obtaining money, property, or an advantage to which City employees or an official committing the action would not normally be entitled. Fraud also encompasses intentional misleading or deceitful conduct that deprives the City of its resources or rights. There are three categories of fraud. They include 1) financial statement fraud, 2) misappropriation of assets, and 3) corruption. Examples of fraud include but are not limited to:

- Falsifying financial records to cover up theft.
- Theft or misuse of city money, equipment, supplies, and/or other materials.
- Intentionally misrepresenting the costs of goods or services provided.
- Falsifying payroll information.
- Use of city equipment or property for personal use/gain, non-business reasons.
- Submitting false vouchers for reimbursements.
- Soliciting or accepting a bribe or kickback.
- Intentional use of false weight or measures.

B. WASTE DEFINITION

Waste is defined as the needless, careless, or extravagant expenditure of City funds, incurring of unnecessary expenses, or mismanagement of City resources or property. Waste does not necessarily involve private use or personal gain, but almost always signifies poor management decisions, practices, or controls. Examples of waste include but are not limited to:

- Purchase of unneeded supplies or equipment outside of established limits.
- Purchase of goods at inflated prices without appropriate bids or research.

C. ABUSE DEFINITION

Abuse is defined as the intentional, wrongful, or improper use or destruction of City resources, or seriously improper practice that does not involve prosecutable fraud. Abuse can include the excessive or improper use of an employee or an official's position in a manner other than its rightful or legal use. Examples of abuse include but are not limited to:

- Failure to report damage to city equipment or property.
- Using one's position in one city department to gain an advantage over another city resident when conducting personal business in another city department.
- Serious abuse of city time such as significant unauthorized time away from work or significant use of city time for personal business.

- Abusing the system of travel reimbursement.
- Receiving favors for awarding contracts to certain vendors.
- Using city property, information or position for personal gain.
- Appropriating or diverting any business opportunity or idea in which the city might have an interest.
- Competing with the City in an inappropriate way.
- Failure to disclose a conflict of interest.
- Participating in decision making where a conflict of interest resides.
- Improper use of supervisory authority in response to an employee taking action or refusing to take action.

III. FRAUD CATEGORIES

A. FINANCIAL STATEMENT FRAUD

Financial statement fraud includes intentional misstatements, omissions, or disclosures in financial statements designed to deceive financial statement users. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Common occurrences include overstating revenues and understating liabilities or expenses. Examples include:

- Manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared.
- Misrepresentation in or an intentional omission from the financial statements of events, transactions, or other significant information.
- Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

B. ASSET MISAPPROPRIATION

Asset misappropriation is theft of an entity's assets that causes the financial statements not to be presented in conformity with Generally Accepted Accounting Principles. False or misleading records or documents, possibly created by circumventing controls, may accompany misappropriation of assets. Examples include:

- Embezzling receipts
- Stealing assets
- Causing the City to pay for goods and services that have not been received
- Skimming revenues
- Payroll fraud

C. CORRUPTION

Corruption is the wrongful use of influence in a business transaction in order to procure some benefit for an employee or another person, contrary to their duty to their employer or the rights of another. Examples include:

- Seeking or accepting kickbacks
- Engaging in conflicts of interest
- Bid rigging
- Economic extortion
- Illegal gratuities

IV. ETHICS

Carson City Code of Ethics

The City's 'Code of Ethics for Elected and Appointed Officials' is documented in municipal code Chapter 2.34, Sections 010 – 100. The purpose of the ethics code is summarized as follows:

- Providing assurances of the utmost in integrity, honesty and fairness in business dealings
- Presenting no conflict of interest between the public trust and private gain; and
- Ensuring that those entrusted with offices of the City have nothing to fear from full public disclosure of their business holdings.

The Code defines specific words and phrases, describes duties, disclosure statement content, specific examples of ethical violations for elected officials, committees, commissions, and appointed employees. The code also describes penalties for violation of the code for any official or employee who willfully and knowingly violated the provisions of the code.

Business Ethics

Business ethics apply to right and wrong behavior in the business world and take on different meanings in different cultures, making it challenging to truly define business ethics. However, there are a number of areas where unethical practices may occur more frequently, including human resources and accounting.

Human Resources Ethics

Interactions between managers and employees create opportunities for breaches of ethics. Discrimination based on ethnicity, gender, age or other factors is an issue. Managers who discriminate against minority groups in hiring practices, compensation decisions, and terms of employment can face legal and social consequences. Dishonesty and manipulation are also examples of unethical workplace behavior.

Accounting Ethics

Financial accounting is a major ethical issue in business, and no amount of industry or government regulation seems able to prevent dishonest businesspeople from reporting financial information in unethical ways. Certain unethical accounting practices are illegal, such as misrepresenting income or expenses in financial statements through unjustifiable shifting of expenses to inappropriate periods to influence current financial results, obtain a better debt rate, or to maintain debt covenant requirements.

The Carson City District Attorney has assembled a committee to review the City statute in relation to the State Ethics code. The FWA Program will adopt any changes to the code once finalized.

V. IMPLEMENTATION

A. PLANNING

Roles and Responsibilities

The Fraud, Waste, and Abuse Program will be administered and managed by the following City positions:

- Board of Supervisors – establishes a Fraud, Waste, and Abuse program.
- City Manager– sets the tone for the program and provides a message on the City’s intranet page promoting ethical behavior with appropriate links for reporting.
- District Attorney – reviews reports to determine if there are civil matters to be addressed and takes appropriate actions.
- Sherriff – reviews reports to determine if there are criminal matters to be addressed and takes appropriate actions.
- Department Managers – responsible for supporting the FWA program and cooperating with an investigation, should one occur within the respective department.
- Human Resources – receives complaints and works with management and bargaining unit representatives to take appropriate action as a result of substantiated complaints.
- Risk Management – for substantiated complaints, works with management to determine regarding insurance coverage and claims.
- City employees – responsible for reporting suspected inappropriate activity.
- FWA Program Coordinator – fulfilled by the Internal Auditor, with responsibility for coordinating the FWA Program, monitoring, triaging complaints, and conducting investigations.
- Audit Committee – provides recommendations to the Board of Supervisors but does not participate in conducting investigations.

Tracking and Monitoring of Complaints

The City has established a case management process to capture, track, and report the following elements:

- A. Complaints received by category and sub-categories, as desired.
 - Fraud: expense reimbursements, cash, and skimming
 - Wasteful spending
 - Abuse
 - Ethics
 - Threats – city, people, property

B. Complaint triage / action taken

- Information insufficient for investigation
- Non-program complaint
- Referred to other department
- Investigated

C. Final disposition or conclusion – reported based on Generally Accepted Government Auditing Standards (GAGAS) requirements

- Condition – what really happened
- Criteria – what we expected to happen including identification of laws, rules, regulations, statutes, and generally accepted accounting principles
- Effect – financial impact to the City
- Cause – why the condition happened, including weaknesses in internal controls or override of internal controls
- Recommendations – addresses changes to internal control structure, assignment of duties and responsibilities, training, disciplinary action, or referral to the District Attorney for civil or criminal action

D. Reporting. The frequency and content of reporting will be driven by the City’s open meetings law.

- Report type
 - Formal report
 - Management letter
 - Personnel letter of disciplinary action
- Report recipients, as appropriate
 - Audit Committee
 - City Board of Supervisors
 - District Attorney
 - Human Resources
 - Risk Management
 - Employee(s) involved in the situation
 - Press via press releases
- Reporting forum
 - Executive session discussion – nondisclosure to public
 - Public disclosure

B. FRAUD HOTLINE

Providing individuals a means to report suspicious activity is a critical part of an anti-fraud program. Fraud reporting mechanisms, such as hotlines, should be set up to receive tips from both internal and external sources and support anonymity and confidentiality. Management should actively encourage employees to report suspicious activity, as well as enact and emphasize an anti-retaliation policy. According to the Association of Certified Fraud Examiners, the number one source for the initial detection of fraud is through a tip, with over 50% of tips coming from an employee. The City has several options to consider.

Internal Hotline

The City could elect to manage the hotline within the City's current resources. One benefit of managing the hotline internally is cost. By managing internally, the City should incur little to no additional costs.

However, managing an internal hotline has some challenges that can significantly affect the success of the program. Those challenges include the following:

- Impact to current work assignments.
- Responsibility for receiving calls.
- Ensuring the hotline is staffed 24 hours a day and 7 days a week.
- Training individuals on how to capture the necessary information to adequately understand the 'who, what, where, when of a complaint.

Internal options for managing the hotline mechanism include the following:

Sheriff's Office

The Sheriff's Office currently receives 911 and non-emergency calls. The Sheriff's Office is well equipped to receive calls related to known fraud, as well as other civil and criminal activities beyond fraud, waste, and abuse.

However, not all calls that are of interest to the City may result in either a criminal or civil case, and those calls are not currently being forwarded to the appropriate department managers for follow-up and corrective action. Consideration would need to be given to which officers would be responsible for receiving calls to provide adequate coverage. In addition, the City should consider whether the Sheriff's Office has the capacity to staff a hotline 24/7. During emergency situations, designated officers may be needed for public safety, leaving the hotline unattended. Furthermore, the Sheriff is elected every four years and the change may result in lack of interest or other concerns taking priority over the FWA Program.

Human Resources Department

The City's Human Resources Department performs recruitment for all part-time, seasonal, intermittent, and full-time positions. All new hires are processed by the Human Resources Department and placed into the payroll system. The Human Resources Department provides a variety of training programs,

including new hire orientation, which includes an introduction to benefits, policies and procedures, workplace harassment, EEO training, a City-wide training program, and additional training at the request of Departments.

In addition, the Human Resources Department updates and maintains all City employee policies and procedures, participates in labor negotiations, manages the grievance processes outlined in the bargaining agreements, updates the City's intranet site, and publishes a monthly City-wide newsletter.

Human Resources also provides for the benefits of employees and retirees, which includes obtaining the services of benefit providers and the negotiation of contracts. Human Resources works closely with benefit providers to maintain the benefits and provide benefit education to the employees. All benefit changes are processed through the Department. Human Resources manages the Family Medical Leave Act program, oversees Fitness for Duty Certification requests, provides legal guidance on ADA issues, and maintains compliance with all state and federal laws relating to employment.

Careful consideration should be made before assigning the hotline responsibility to the Human Resources Department given the other responsibilities of this department. Of concern is the availability of the HR Director to answer the hotline and drop other tasks to attend to the call.

Finance/Risk Management Department

The Finance Department is responsible for maintaining a fiscally sound organization by maintaining accurate and timely financial and accounting records, establishing internal controls to protect and preserve City assets, and providing short- and long-term financial planning. Services provided by the Finance Department include accounting and financial reporting, budget management and compliance, debt management and capital financing, financial analysis and planning, payroll, and risk management. The Risk Management function is responsible for Americans with Disabilities Act information, the Safety Committee, and training classes.

Careful consideration should also be made before assigning the hotline responsibility to the Risk Management Department similar to the HR Department.

External Hotline Answering Company

The City could elect to contract with a third party vendor to administer the offsite reporting system. Incident reports can be submitted in a number of ways and allows employees to call and speak to an operator at a designated phone number staffed by the vendor. There are distinct benefits to managing the hotline in this manner. Examples include:

- The hotline is available 24 hours a day/7 days a week/365 days a year.
- The persons receiving the calls are hotline professionals, trained in how to obtain the information necessary for the City to determine an appropriate course of action.
- Hotline companies have the ability to receive documents (Word, Excel, and PDF) and forward them to the City as evidence for the complaint, while maintaining the privacy of the caller.

- Hotline companies allow for the ability to communicate back and forth with the caller without revealing the identity of the caller.
- Hotline companies provide notification to a designated City employee for issues that are time sensitive, credible, and warrants immediate attention.
- Hotline companies provide case management of calls received, including archiving and data retention.
- Reports are provided summarizing or detailing the calls received, including call type, disposition (open or closed), etc.

The City would incur a cost to have the hotline answered by a professional hotline company. The costs are dependent on the level of service requested. Costs could total less than \$10,000 per year, depending on the services requested by the City and the number of calls received per month and per year.

Examples of hotline answering companies include, but are not limited to, the following:

- Global Compliance, Inc./Ethics Point: Provides employee hotlines and advanced incident reporting methods. All reports, whether via anonymous hotline/helpline, custom web portal or manager open-door report form, are captured in a central repository to support investigation, remediation, reporting and trend analysis.
- Lighthouse: Provides worldwide, anonymous reporting that helps companies identify improper behavior. They are committed to protecting the confidentiality and anonymity of employees who use our system. Their system and staff is committed to ensure that no report ever betray the confidential nature of their service.

Both companies provide a web-based demo. The Board of Supervisors and City Manager will make the final decision regarding the use of an internal or external hotline mechanism after cost, confidentiality protection, and current employee workload considerations are evaluated.

C. METHODS FOR CAPTURING COMPLAINTS

The City should provide employees and members of the public a variety of methods for reporting suspected inappropriate activity and behavior. These methods could include:

- Hotline (anonymous reporting mechanism, internal vs. external)
- Phone call
- Face-to-face
- Mail

Regardless of the method, the City/Internal Auditor should ensure individuals receiving complaints have received appropriate training and are equipped to obtain and document all relevant information, including supporting documents and items listed under Program Review.

D. PROGRAM REVIEW

The Board of Supervisors should implement a periodic (annual or more frequent) review of the program to validate that the Fraud, Waste, and Abuse Program is meeting the Board's and management's objectives and providing useful information. The review should include confirmation of individual roles and responsibilities, policies and procedures, and the results of investigations conducted. Statistical information should also be reported, including consideration for the following:

- Number of complaints received
 - Referred – non-city, information requests, etc.
 - Under investigation
 - Open – pending additional information
 - Closed
- Sources of complaints
 - Hotline
 - On-line
 - Phone
 - Face-to-face
 - Mail
 - Other
- Types of complaints
 - Employee misconduct
 - Contractor misconduct
 - Fraud – misappropriation of assets, false reporting
 - Wasteful spending
 - Abuse of position
 - Ethics
 - Other
- Cases closed and reason for closing
 - Investigated – substantiated
 - Investigated – not-substantiated
 - Referred
 - Insufficient information – no action taken
- Case Highlights – Investigations conducted – loss substantiated
 - Identified loss and impact to the City
 - GAGAS finding elements – condition, criteria, effect, cause
 - Recommendations in internal controls

E. COMMUNICATION PLAN

The City should launch the Fraud, Waste, and Abuse Program that incorporates the City's Code of Ethics by setting an appropriate tone at the top. Consideration should be given to the following:

- Message from the Board of Supervisors and City Manager kicking-off the program
- Intranet page link to reporting options
- Whistleblower protection / Nevada law
- Plan for on-going support and communication about the program
- Message on payroll stubs
- Posters
- News letters
- New hire training
- Annual training
- Presentations (oral or written) to various entities
 - Board of Supervisors
 - Public meetings
 - Conferences
 - Press

F. RESPONDING TO COMPLAINTS

Regardless of the mechanism the City selects for receiving the initial complaint, procedures need to be established for triaging complaints, investigating the complaints, and communicating the investigation results.

Triage Escalation

The City should establish escalation for complaints as follows:

- Immediate response – call indicates misappropriation of the City’s assets, false reporting, misuse of City assets, etc.
- Referral – based on the circumstances of the complaint, reports may be referred to other departments or outside the City. In such instances, the caller should be notified of the referral. The call can be closed upon referral but should be reported as such, or it may remain open until the final resolution is communicated to the City.
- Annual audit plan – call indicates the need for a process redesign or modification to internal controls but no financial loss to the City.
- Follow-up – call requires additional information before appropriate action can be determined.

Investigating Complaints

Depending on the complaint, the issue(s) needs to be assigned to the appropriate auditor(s) for investigation. The auditor (internal auditor or contractor) assigned to investigate the complaint should:

- Read the initial hotline report.

- Obtain any supporting documents provided by the caller.
- Identify additional evidence needed to resolve the issue.
- Identify those who will be contacted during the investigation (suspect, victim, witnesses, those within the internal control process but who may not have knowledge of the specific issue, and others as determined necessary).
- Communicate to the caller appropriate information regarding the City's whistleblower policy.
- Perform investigative procedures to determine the validity of the complaint and documenting:
 - Steps taken
 - Evidence gathered – chain of custody
 - Conclusions reached
 - Quantification of financial loss to the City, if any
 - GAGAS – criteria, condition, cause, effect, and recommendations
- Keep the appropriate parties informed of the progress of the investigation.
- Communicate the final results of the investigation.
- Manage information on a need-to-know basis.
- Maintain case files for an appropriate period. This may be driven by whether or not the case results in civil or criminal charges.

Communication

Within the escalation structure, the City should create a reporting structure that includes reporting to the following:

- District Attorney's office – potential civil activity
- Sheriff – potential criminal activity
- Human Resources Department – employee disciplinary action
- Audit Committee – consideration of audits performed, status of investigations (care will be taken to ensure the detail provided not violate privacy laws.)
- Board of Supervisors – periodic reporting of activity

VI. WHISTLEBLOWER PROTECTION/POLICY

The risk and fear of retribution can deter many people from reporting allegations of wrongdoing against a colleague, manager, Board member, or a City vendor. The public policy of the State is to encourage State and local officers and employees to disclose improper governmental action and that the Legislature will protect the rights of persons making such disclosures (NRS 281.621).

The State's Fraud policy includes "Whistle-Blower Protection" and prohibits retribution against any employee who may have made a report of suspected inappropriate activity. The City will take each call seriously and conduct an investigation as the issue warrants and evidence is available and has made available an anonymous reporting mechanism.

Nevada whistle-blower statutes define "improper governmental action" as actions taken in the performance of official duties, whether or not the action is within the scope of employment, which are:

- In violation of State law or regulation;
- For local government officers and employees, in violation of local ordinances;
- In abuse of authority;
- A substantial and specific danger to public health or safety; or
- A gross waste of money.

VII. TRAINING

The City should provide initial and ongoing training to all City employees on the Fraud, Waste, and Abuse Program.

Initial Training

Initial training should include discussion of the following:

- Program purpose and benefits
- Roles and responsibilities
- Employee responsibilities for reporting suspected inappropriate activity
- How to make a report using all various methods (hotline, web, or face-to-face)
- Investigation considerations
- Reporting of investigation results – public vs. private information.

On-going Training

On-going training is important to reinforce management's commitment to reducing loss of resources to the City. The training can be part of the City's annual training program or specific to a Department.

Fraud Awareness Training & Train the Trainer

In order for City employees to understand when and what to report employees need to receive fraud awareness training. Consideration should be given to which employees should receive training (managers, directors, supervisors, line employees, etc.) Such training could include the following topics:

- Definition of fraud, waste, and abuse with examples of each
- Fraud triangle – fraud environment – answering why fraud happens
- Opportunity points for fraud to occur
- Internal controls intended to prevent and detect fraud
- The importance of corrective controls and the message it sends to employees
- Fraud schemes – what does fraud look like, how to identify and understand various schemes
- Characteristics and red flags of perpetrators