

RESOLUTION NO. 05-54

**A RESOLUTION OF THE RIDGECREST CITY COUNCIL
RATIFYING THE CITY OF RIDGECREST FRAUD
PREVENTION POLICY**

WHEREAS, The City Council of the City of Ridgecrest has received numerous awards for excellence in financial reporting; and

WHEREAS, the Government Finance Officers Association of the United States and Canada (GFOA) most recently has recognized the City of Ridgecrest among the most professional Cities by awarding to it the Award for Excellence in Financial Reporting for Fiscal Year 2003-04;

WHEREAS, the City's independent Auditors have recommended that the City formally adopt a fraud prevention policy;

NOW, THEREFORE, BE IT RESOLVED that The City Of Ridgecrest Fraud Prevention Policy herein identified as Exhibit "A" is Adopted and Ratified;

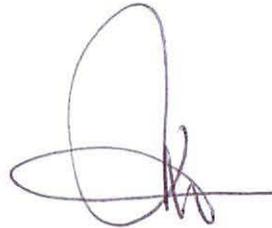
APPROVED AND ADOPTED this 17th Day of August 2005, by the following vote:

AYES: Mayor Holloway, Council Members Martin, Clark, Morgan, and Carter

NOES: None

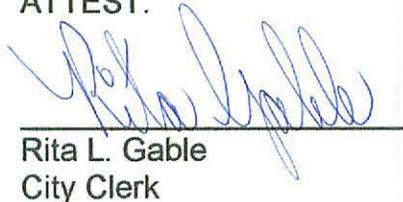
ABSENT: None

ABSTAIN: None



Marshall "Chip" Holloway, Mayor

ATTEST:



Rita L. Gable
Rita L. Gable
City Clerk

ATTACHMENT 'A'

Department: Administrative Services

Policy No.: Administrative Services/FIN 2005-04

Title: Fraud Policy

BACKGROUND/PURPOSE:

To establish policies and procedures for clarifying acts that are considered to be fraudulent, describing the steps taken when fraud or other related dishonest activities are suspected, and providing procedures to follow in the accounting for missing funds, restitution and recoveries.

POLICY:

- A. The City of Ridgecrest is committed to protecting its assets against the risk of loss of misuse. Accordingly, it is the policy of the City of Ridgecrest to identify and promptly investigate any possibility of fraudulent or related dishonest activities against the City and, when appropriate, to pursue legal remedies available under the law.

- B. Definitions:
 - 1. Fraud – Fraud and other similar irregularities include, but are not limited to:
 - a. Claim for reimbursement of expenses that are not job-related or authorized by the current Memorandum of Understanding.
 - b. Forgery or unauthorized alteration of documents (checks, promissory notes, time sheets, independent contractor agreements, purchase orders, budgets, etc.).
 - c. Misappropriation of City assets (funds, securities, supplies, furniture, equipment, etc.).
 - d. Improprieties in the handling or reporting of money transactions.
 - e. Authorizing or receiving payment for goods not received or services not performed.
 - f. Computer-related activity involving unauthorized alteration, destruction, forgery, or manipulation of data on City-owned software or City-owned information systems.
 - g. Declarations of this policy shall be consistent with all other City adopted Administrative Policies, Council Resolutions, and Ordinances. Invalidation of any single section shall not invalidate the intent or scope of the policy as a whole or any section of the policy. This policy reaffirms the language and intent of:
 - 1. City of Ridgecrest Personnel Policies and Procedures;
 - 2. Purchasing Policies and Procedures
 - 3. Accounts Receivable Policy (FIN #2005-01)

4. Cash Handling Policy (FIN #2001-01)
5. Time Sheet Policy (FIN #2002-01)
6. City Network Policy (FIN #2002-02)
7. Independent Contractors (AS #2003-01)
8. Grant Funded Positions (AS #2003-02)
9. Workers' Compensation Reporting (AS-2003-03)
10. All Others

- h. Misrepresentation of information on documents.
- i. Any apparent violation of Federal, State, or Local laws related to dishonest activities or fraud.
- j. Seeking or accepting anything of material value from those doing business with the City including vendors, consultants, contractors, lessees, applicants, and grantees. Materiality is determined by the City's Conflict of Interest Code (RMC #2-8.102), which incorporates the Fair Political Practices Commission's regulations.

2. Employee – In the context, employee refers to any individual or group of individuals who receive compensation, either full- or part-time, from the City of Ridgecrest. The term also includes any volunteer who provides services to the City through official arrangement with the City or a City organization.

3. Management – In this context, management refers to any administrator, manager, director, supervisor, or other individual who manages or supervises funds of other resources, including human resources.

4. Internal Auditor – In this context, Internal Auditor refers to any person or persons assigned by the City Manager to investigate any fraud or similar activity.

5. External Auditor – In the context, External Auditor refers to independent audit professionals who perform annual audits of the City's financial statements.

C. It is the City's intent to fully investigate any suspected acts of fraud, misappropriation, or similar irregularity. An objective and impartial investigation will be conducted regardless of the position, title, length or service or relationship with the City of any party who might be or become involved in or becomes the subject of such investigation.

D. Each department of the City is responsible for instituting and maintaining a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations, and other irregularities. Management should be familiar with the types of

improprieties that might occur within their area of responsibility and be alert for any indications of such conduct.

- E. The Internal Auditor, in conjunction with the City Attorney, has the primary responsibility for the investigation of all activity as defined in this policy.
- F. Throughout the investigation, the Internal Auditor will inform the City Manager of pertinent investigative findings.
- G. Employees will be granted whistle-blower protection when acting in accordance with this policy. When informed of a suspected impropriety, neither the City nor any person acting on behalf of the City shall:
 - 1. Dismiss or threaten to dismiss the employee,
 - 2. Discipline, suspend, or threaten to discipline or suspend the employee,
 - 3. Impose any penalty upon the employee, or
 - 4. Intimidate or coerce the employee.

Violations of the whistle-blower protection will result in discipline up to and including dismissal.

- H. Upon conclusion of the investigation, the results will be reported to the City Manager.
- I. The City Manager, following review of the investigation results, will take appropriate action regarding employee misconduct. Disciplinary action can include termination, and referral of the case to the District Attorney's Office for possible prosecution.
- J. The City will pursue every reasonable effort, including court ordered restitution, to obtain recovery of City losses from the offender, or other appropriate sources.

PROCEDURES

A. Mayor and City Council Responsibilities

- 1. If the Mayor or City Council member has reason to suspect that a fraud has occurred, he or she shall immediately contact the City Manager.
- 2. The Mayor or City Council member shall not attempt to investigate the suspected fraud or discuss the matter with anyone other than the City Manager.

3. The alleged fraud or audit investigation shall not be discussed with the media by any person other than through the City Manager in consultation with the City Attorney or the Internal Auditor.

B. Management Responsibilities

1. Management is responsible for being alert to, and reporting fraudulent or related dishonest activities in their areas or responsibly.
2. Each manager should be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that improper activity, misappropriation, or dishonest activity is or was in existence in his or her area.
3. When an improper activity is detected or suspected, management should determine whether an error or mistake has occurred or if there may be dishonest or fraudulent activity.
4. If management determines a suspected activity may involve fraud or related dishonest activity, they should contact their immediate supervisor.
5. Department Heads should inform the City Manager.
6. Management should not attempt to conduct individual investigations, interviews, or interrogations. However, management is responsible for taking appropriate corrective actions to ensure adequate controls exist to prevent reoccurrence of improper actions.
7. Management should support the City's responsibilities and cooperate fully with the Internal Auditor, other involved departments, and law enforcement agencies in the detection, reporting, and investigation of criminal acts, including the prosecution of offenders.
8. Management must give full and unrestricted access to all necessary records and personnel. All City furniture and contents, including desks and computers, are open to inspection at any time. There is no assumption of privacy.
9. In dealing with suspected dishonest or fraudulent activities, great care must be taken. Therefore, management should avoid the following:
 - a. Incorrect accusations.
 - b. Alerting suspected individuals that an investigation is underway.
 - c. Treating employees unfairly.
 - d. Making statements that could lead to claims of false accusations or other offenses.

10. In handling dishonest or fraudulent activities, management has the responsibility to:
 - a. Make no contact (unless requested) with the suspected individual to determine facts or demand restitution. Under no circumstances should there be any reference to "what you did", "the crime", "the fraud", "the misappropriation", etc.
 - b. Avoid discussing the case, facts, suspicions, or allegations with anyone outside the City, unless specifically directed to do so by the City Attorney.
 - c. Avoid discussing the case with anyone inside the City other than employees who have a need to know such as the City Manager, Internal Auditor, or City Attorney or law enforcement personnel.
 - d. Direct all inquiries from the suspected individual, or his or her representative, to the City Manager or City Attorney. All inquiries by an attorney of the suspected individual should be directed to the City Attorney. All inquiries from the media should be directed to the City Manager.
 - e. Take appropriate corrective and disciplinary action, up to and including dismissal, after consulting with the Deputy City Manager Administrative Services, in conference with the City's Personnel Policies and Procedures or the appropriate Memorandum of Understanding.

C. Employee Responsibilities

1. A suspected fraudulent incident or practice observed by, or made known to, an employee must be reported to the employee's supervisor from the reporting to the proper management official.
2. When the employee believes the supervisor may be involved in the inappropriate activity, the employee shall make the report directly to the next higher level of management and/or City Manager.
3. The reporting employees shall refrain from further investigation of the incident, confrontation with the alleged violator, or further discussion of the incident with anyone, unless requested by the City Manager, Internal Auditor, City Attorney, or law enforcement personnel.

D. Internal Auditor Responsibilities

1. Upon assignment by the City Manager, the Internal Auditor will promptly investigate the fraud.
2. In all circumstances where there appears to be reasonable grounds for suspecting that a fraud has taken place, the Internal Auditor, in consultation with the City Attorney, will contact the Ridgecrest Police Department.

3. The Internal Auditor shall be available and receptive to receiving relevant, confidential information to extent allowed by law.
4. If evidence is uncovered showing possible dishonest or fraudulent activities, the Internal Auditor will proceed as follows:
 - a. Discuss the findings with management and the Department Head.
 - b. Advise management, if the case involves staff members, to meet with the Deputy City Manager Administrative Services, (or his/her designated representative) to determine if disciplinary actions should be taken.
 - c. Report to the External Auditor such activities in order to assess the effect of the illegal activity on the City's financial statements.
 - d. Coordinate with the City's Risk Management Division regarding notification to insurers and filing of insurance claims.
 - e. Take immediate action, in consultation with the City Attorney, to prevent theft, alteration, or destruction of evidentiary records. Such action shall include, but is not limited to:
 - 1) Removing the records and placing them in a secure location, or limiting access to the location where the records currently exist.
 - 2) Preventing the individuals suspected of committing the fraud from having access to the records.
5. In consultation with the City Attorney and the Ridgecrest Police Department, the Internal Auditor may disclose particulars of the investigation with the potential witnesses if such disclosure would further the investigation.
6. If the Internal Auditor is contacted by the media regarding an alleged fraud or audit investigation, the Internal Auditor will consult with the City Manager and the City Attorney, as appropriate, before responding to a media request for information or interview.
7. At the conclusion of the investigation, the Internal Auditor will document the results in a confidential memorandum report to the City Manager and the City Attorney. If the report concludes that the allegations were founded, the report will be forwarded to the Ridgecrest Police Department.
8. Unless exceptional circumstances exist, a person under investigation for fraud is to be given notice in writing of the essential particulars of the allegations following the conclusion of the audit. Where notice is given, the person against whom allegations are being made may submit a written explanation to the Internal Auditor no later than seven calendar days after notice is given.

9. The Internal Auditor will be required to make recommendations to the appropriate department for assistance in the prevention of future similar occurrences.
10. Upon completion of the investigation, including legal and personnel actions, all records, documents, and other evidentiary material, obtained from the department under investigation will be returned by the Internal Auditor to that department.

Approved by City Manager:

Harvey M. ...

Date: 8-19-05