



City of Aliso Viejo

COUNCIL POLICY

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FRAUD PREVENTION POLICY	2005-056	400-15	10/01/2008	1 of 8

PURPOSE

To establish Policy and procedures for the prevention and detection of fraud and other related dishonest activities against the City and, when appropriate, to pursue legal remedies available under the law.

This Policy has been established to ensure that elected officials, officers, employees, and members of advisory boards, commissions and committees of the City of Aliso Viejo are aware of the following:

1. Acts that are considered to be fraudulent;
2. Procedures for reporting suspected fraudulent acts;
3. Steps to be taken when fraud or other related dishonest activities are suspected; and
4. Consequences to expect when a dishonest act is reported.

Further, this Policy delineates management's responsibility for instituting and maintaining a system of internal control to prevent and detect fraud, misappropriations and other irregularities, and to be alert for any indications of such misconduct.

POLICY

1. GENERAL

The City of Aliso Viejo is committed to protecting its assets against the risk of loss or misuse. Accordingly, it is the policy of the City 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 law.

2. DEFINITIONS

- a. Fraud – Fraud and other similar irregularities including, but not limited to:
 - i. claim for reimbursement of expenses that are not job-related or authorized by current policy;
 - ii. forgery or unauthorized alteration of documents (checks, time sheets, independent contractor agreements, purchase orders, budgets, etc.);



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- iii. misappropriation of City assets (funds, securities, supplies, furniture, equipment, etc.);
- iv. improprieties in the handling or reporting of money or financial transactions;
- v. authorizing or receiving payment for goods not received or services not performed;
- vi. computer-related activity involving unauthorized alteration, destruction, forgery, or manipulation of data or misappropriation of City-owned software;
- vii. misrepresentation of information on documents;
- viii. any violation of Federal, State, or Local laws related to dishonest activities or fraud;
- ix. 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, which incorporates the Fair Political Practices Commission's regulations;
- x. obtaining profit or personal gain as a result of "insider" knowledge of City activities;
- xi. disclosing confidential and proprietary information to outside parties; or
- xii. Intentional, false representation or concealment of material fact for the purpose of personal gain.

b. Employee – Any individual or group of individuals who receive compensation, either full or part-time, from the City of Aliso Viejo for employment or providing services. The term also includes any volunteer who provides services to the City through an official arrangement with the City or a City organization, as well as consultants, vendors, contractors, outside agencies and/or any other parties with a business relationship with the City of Aliso Viejo.

c. Official - Elected officials, officers, and members of advisory or appointed boards, commissions and committees.

d. Management – Any administrator, manager, director, supervisor, or other individual who manages or supervises funds or other resources, including human resources.



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e. Internal Auditor – Any person or persons assigned by the City Manager to investigate any fraud or similar activity.

f. External Auditor – Independent audit professionals who perform annual audits of the City's financial statements.

3. INVESTIGATION

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

b. 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. 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.

c. The Internal Auditor, in conjunction with the City Attorney, has the primary responsibility for the investigation of fraud.

d. Throughout the investigation, the Internal Auditor will inform the City Manager of pertinent investigative findings.

e. Employees will be granted "whistle-blower protection," as described below when acting in accordance with this Policy. When informed of suspected fraud, neither the City nor any person acting on behalf of the City shall:

i. dismiss or threaten to dismiss the Employee reporting the suspected fraud;

ii. discipline, suspend, or threaten to discipline or suspend the Employee reporting the suspected fraud;

iii. impose any penalty upon the Employee reporting the suspected fraud, or;

iv. intimidate or coerce the Employee reporting the suspected fraud.



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Violations of these “whistle-blower protections” may result in discipline up to and including dismissal.

- f. Upon conclusion of the investigation, the results will be reported to the City Manager.
- g. The City Manager, following review of investigation results, will take appropriate disciplinary action regarding Employee misconduct. Disciplinary action can include termination of employment or a contract, and referral of the case to the District Attorney’s Office for possible prosecution.
- h. The City will pursue every reasonable effort, including court ordered restitution, to obtain recovery of City losses from the offender, or other appropriate sources.

PROCEDURE

1. RESPONSIBILITIES OF OFFICIALS

- a. If an Official has reason to suspect that a fraud has occurred, he or she shall immediately contact the City Manager.
- b. An Official shall not attempt to investigate the suspected fraud or discuss the matter with anyone other than the City Manager.
- c. 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 and the Internal Auditor.

2. MANAGEMENT RESPONSIBILITIES

- a. Management is responsible for detecting, preventing and reporting fraud in their areas of responsibility.
- b. Each manager should be familiar with the types of fraud that might occur in his or her area and be alert for any indication that fraud is or was in existence in his or her area.
- c. When fraud is detected or suspected, Management should determine whether an error or mistake has occurred or if there may be dishonest or fraudulent activity.



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- d. If Management determines a suspected activity may involve fraud, they should contact their immediate supervisor. In the event the activity involves the immediate supervisor, the activity should be reported to the Department Director.
- e. Upon being notified of suspected fraud, Department Directors shall inform the City Manager.
- f. 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 reoccurrences of fraud.
- g. Management shall cooperate fully with the Internal Auditor, other involved departments, and law enforcement agencies in the detection, reporting, and investigation of fraud, including the prosecution of offenders.
- h. Management will have 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.
- i. In dealing with suspected fraud, great care must be taken. Management should not:
 - i. make accusations;
 - ii. alert individuals suspected of committing fraud that an investigation is underway;
 - iii. treat individuals suspected of committing fraud unfairly, or;
 - iv. make statements that could lead to claims of false accusations or other offenses.
- j. In handling suspected fraud activities, Management has the responsibility to:
 - i. make no contact (unless requested) with the individual suspected of committing fraud 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.;
 - ii. avoid discussing the case, facts, suspicions, or allegations with anyone outside the City, unless specifically directed to do so by the City Attorney;



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- iii. avoid discussing the case with anyone inside the City other than the City Manager, Internal Auditor, or City Attorney or law enforcement personnel;
- iv. direct all inquiries from the individual suspected of committing fraud, or his or her representative, to the City Manager or City Attorney. All inquiries by an attorney representing the individual suspected of committing fraud should be directed to the City Attorney. All inquiries from the media should be directed to the City Manager, and;
- v. take appropriate corrective and disciplinary action, up to and including dismissal, if authorized by and in conformance with the City's personnel policies.

3. EMPLOYEE RESPONSIBILITIES

- a. Employees should report detected or suspected fraud to the Employee's supervisor.
- b. In the event the suspected fraud involves the Employee's immediate supervisor, the Employee shall make the report directly to the next higher level of Management and/or the City Manager.
- c. The reporting Employee 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.

4. INTERNAL AUDITOR RESPONSIBILITIES

- a. Upon assignment by the City Manager, the Internal Auditor will promptly investigate the fraud.
- b. 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 appropriate law enforcement personnel.
- c. The Internal Auditor shall be available and receptive to receiving relevant, confidential information to the extent allowed by law.
- d. If evidence is uncovered showing possible fraud, the Internal Auditor will proceed as follows:



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- i. discuss the findings with Management and the City Manager to determine if disciplinary actions should be taken;
- ii. report to the External Auditor such activities in order to assess the effect of the fraud activity on the City's financial statements;
- iii. coordinate with Management regarding notification to insurers and filing of insurance claims;
- iv. take immediate action, in consultation with the City Attorney, to prevent the theft, alteration, or destruction of evidentiary records. Such action shall include, but is not limited to:
 - (A) removing the records and placing them in a secure location, or limiting access to the location where the records currently exist, and;
 - (B) preventing the individual suspected of committing the fraud from having access to the records.
- e. In consultation with the City Attorney and appropriate law enforcement personnel, the Internal Auditor may disclose particulars of the investigation with potential witnesses if such disclosure would further the investigation.
- f. If the Internal Auditor is contacted by the media regarding an alleged fraud or investigation, the Internal Auditor will direct all inquiries to the City Manager.
- g. 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 are supported by evidence, the report will be forwarded to appropriate law enforcement personnel.
- h. Unless exceptional circumstances exist, a person under investigation for fraud is to be given notice in writing of essential particulars of the allegations following the conclusion of the investigation. 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 (7) calendar days after notice is received.
- i. The Internal Auditor shall make recommendations to the appropriate department for



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assistance in the prevention of future similar occurrences.

- j. Upon completion of the investigation, including all 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.

DISCIPLINARY ACTIONS

Any Employee found to be responsible for fraud or who knowingly makes false allegations in violation of this Policy shall be subject to appropriate disciplinary action, up to and including termination of employment and/or termination of the contract. The severity of the disciplinary action will be based upon the circumstances of the violation and in accordance with the City's personnel policies. The City will assess any remedial measures necessary to address and correct the circumstance and prevent reoccurrence in the future. Remedial measures may include, but are not limited to, disciplinary action, reorganization of personnel, training and education, counseling and/or other employee assistance.

EXCEPTIONS

There will be no exceptions to this Policy unless provided and approved by the City Manager and the City Attorney.