

Policy

Title: FRAUD POLICY		Number: 8042
Reference: Administrative Committee - October 16, 2014 Administrative Committee – April 15, 2020	Adopted by City Council: December 1, 2014	
	City Clerk	Chief Administrative Officer
Prepared by: FINANCE DEPARTMENT, CORPORATE SERVICES DIVISION		

STATEMENT:

THE CORPORATE FRAUD POLICY IS ESTABLISHED TO FACILITATE THE DEVELOPMENT OF CONTROLS WHICH WILL AID IN THE DETECTION AND PREVENTION OF FRAUD AGAINST THE CITY OF MEDICINE HAT.

PRINCIPLES:

1. To promote consistent organizational behaviour by providing guidelines and assigning responsibility for the development of controls and conduct of investigation.
2. Management is responsible for implementing a system of internal controls to prevent and detect Fraud, as far as reasonably possible.

ROLE OF COUNCIL:

Receive, review and adopt this Policy and any recommended amendments thereto.

SCOPE:

This policy applies to any Fraud involving employees of the City of Medicine Hat ("City"), as well as consultants, vendors, contractors, outside agencies doing business with the City, and/or any other parties with a business relationship with the City or any of its wholly owned subsidiaries.

Any investigative activity required will be conducted without regard to a person's length of service, position/title, or relationship to the City.

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1. DEFINITIONS

1.01 City Asset

All property owned by the City, including but not limited to, financial assets, materials, supplies, furniture, fixtures, equipment, vehicles, computers, land, buildings, intangible property, records, information, electronic mail, internet services and mobile phone services.

1.02 Fraud

Includes, but is not limited to:

- a) Any misuse or attempt to misuse City Assets for personal gain or purposes not related to City business.
- b) Forgery or unauthorized or inappropriate alteration of any document or account belonging to the City.
- c) Forgery or unauthorized or inappropriate alteration of a cheque, bank draft, or any other financial document.
- d) Misappropriation of funds, securities or other City Assets.
- e) Misrepresentation or misappropriation of City Assets or documents for personal gain.
- f) Impropiety in the handling or reporting of money or financial transactions.
- g) Profiteering as a result of insider knowledge of City activities.
- h) Disclosing confidential and proprietary information to outside parties.
- i) Soliciting or accepting for private gain, money, gifts, favours or services from any individual, organization or business undertaking doing or seeking to do business with the City other than gifts, favours or services given:
 - o As an exchange of hospitality that is reasonable in the course of a municipal government's business, or
 - o As a ceremonial presentation to a person acting in a representative capacity on behalf of the City.
- j) Unauthorized destruction, removal or inappropriate use of records, furniture, fixtures and equipment or other City Assets.
- k) Waste (i.e. grossly negligent misuse of City Assets and resources or willful disregard for value for money).
- l) Any similar or related inappropriate conduct.

2. RESPONSIBILITIES

2.01 Audit Committee

- a) Review the results of the investigation when required and report to City Council as necessary.

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2.02 Chief Administrative Officer (CAO)

- a) Ensure that appropriate administrative policies are in place and maintained to clearly define behaviour and conduct expected of City employees.
- b) Encourage reporting of all suspected Fraud and establish sanctions for non-compliance.
- c) Fielding inquiries from the person who reported the suspected Fraud.
- d) Responsible for the confidentiality and anonymity of the complainants, as far as reasonably possible.
- e) Receive the investigation report and issue a report to the Audit Committee through the Administrative Committee.
- f) Conduct an annual review of the risk registry.
- g) Appoint an alternative representative to lead the investigation if the suspected Fraud involves the General Manager of Finance. For the purposes of such investigation, the alternative representative will assume all responsibilities assigned to the General Manager of Finance within the policy.

2.03 General Manager of Finance

- a) Receive reports of Fraud from General Managers/Designated Department Heads (DDH) and investigate with independence and objectivity.
- b) Coordinate all investigations and consult with the City Solicitor Department, and other affected areas, both internal and external.
- c) Consult with the CAO and City Solicitor to determine whether to initiate legal proceedings or refer the examination of results to the appropriate law enforcement and/or regulatory agencies for independent investigation.
- d) Provide a report to the CAO on the results of the investigation.
- e) Prepare a summary of incidents investigated to be presented to the Audit Committee.
- f) Engage and coordinate as required an External Auditor retained on a contract basis to conduct the investigation.

2.04 General Manager/DDH

- a) Upon notification from an employee that Fraud has occurred, or if a General Manager/DDH has a reason to suspect that Fraud has occurred, the General Manager/DDH will contact the General Manager of Finance.
- b) Assist the CAO and General Manager of Finance with the final decisions on concluding the investigation.
- c) Maintain a current Fraud Risk Assessment for his or her department (see Appendix A).

2.05 City Solicitor

- a) Assist the General Manager of Finance with all investigations both internal and external.

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- b) Assist the CAO and General Manager of Finance in determining whether to initiate legal proceedings or refer the examination of results to the appropriate law enforcement and/or regulatory agencies for independent investigation.

2.06 Manager, Supervisors/Superintendents

- a) Responsible for the detection and prevention of Fraud, as far as reasonably possible.
- b) Prevention and detection of Fraud includes establishing, implementing, and maintaining a system of internal controls.
- c) Be familiar with the types of Fraud that might occur within his or her area of responsibility, and be alert for any indications of irregularity.
- d) Any Fraud detected or suspected must be report to the General Manager/DDH.
- e) Support and work with the other divisions/authorities/law enforcement on detection, reporting and investigation of Fraud.

2.07 Employee Obligation

- a) If an employee suspects Fraud they should notify their supervisor immediately.
- b) If the employee suspects their supervisor is involved in the alleged Fraud, the employee should notify their supervisor's manager.
- c) Cooperate fully with management, General Manager of Finance, and law enforcement agencies during the course of the investigation, and make all reasonable efforts to assist the above noted persons with the investigation.
- d) To be informed of the expectations of this policy and ask questions to clarify where required.

2.08 Decision Matrix

- a) For clarity of administrative responsibilities and related decision making authority, refer to Appendix B.

3. **PROCEDURES WHEN DETECTING OR SUSPECTING FRAUD**

Any Fraud that is detected or suspected must be reported immediately up to the General Manager of Finance (or, if the suspected Fraud involves the General Manager of Finance, the Commissioner of Corporate Services), who will coordinate all investigations with the City Solicitor and General Manager.

3.01 Investigation Responsibilities

- a) Subject to s.2.02 (g), the General Manager of Finance has the primary responsibility for the investigation of all suspected Fraud as defined in the policy. If the investigation substantiates that Fraud has occurred, the General Manager/DDH, in coordination with the General Manager of Finance will issue reports to appropriate designated personnel, the CAO and if appropriate issue a report through the Administrative Committee.

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If appropriate, the Administrative Committee may issue a report through the Audit Committee to City Council.

Decisions to initiate legal proceedings or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with the CAO, City Solicitor and General Manager of Finance, as will final decisions on concluding the investigation.

- b) After the conclusion of a case, it is management's responsibility to implement the appropriate controls to deter that type of Fraud from occurring again.

3.02 Confidentiality and Anonymity

- a) All employees involved in the investigation will treat all information received *confidentially*. Any employee who suspects Fraud will notify their Manager or Supervisor/Superintendent immediately, and *should not attempt to personally conduct investigations or interviews/interrogations* related to any suspected Fraud (see **REPORTING PROCEDURE** section below).
- b) Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know, which will be determined on a case by case basis. This is important in order to avoid damaging the reputations of persons suspected but subsequently found not guilty of Fraud and to protect the City from potential civil liability.
- c) Any employee that reports Fraud may choose to remain anonymous, as far as reasonably possible.
- d) All reasonable efforts will be made to keep identity of employees involved in an investigation anonymous, however their identity may be directly or indirectly revealed through the course of the investigation (refer to the Whistleblower Policy).

3.03 Prohibition on Retaliation

- a) Retaliation or any other action taken against an employee who, in good faith, reports suspected Fraud will not be tolerated. Retaliatory conduct will be subject to disciplinary action by the City, up to and including termination, in accordance with the Whistleblower Policy.

3.04 Bad Faith Allegations

- a) An employee that knowingly makes a false or bad faith complaint, or who knowingly makes a false or misleading statement during an investigation will be subject to disciplinary action by the City, up to and including termination.

3.05 Authorization for Investigating Suspected Fraud

- a) The General Manager of Finance will have:

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- i. Free and unrestricted access to all City records, and premises, whether owned or rented; and
- ii. The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody of any such items or facilities when it is within the scope of their investigation.

3.06 Security of Evidence

- a) Once a report of suspected Fraud has been received, the General Manager of Finance, in consultation with the City Solicitor, will take immediate action to prevent theft, alteration, or destruction of relevant records.

3.07 Reporting Procedure

- a) Great care must be taken in the investigation of suspected Fraud so as to avoid mistaken accusations or alerting suspected individuals that an investigation is underway.
- b) Any employee who discovers or suspects Fraud will *contact their Manager or Supervisor/Superintendent immediately*. The employee or other complainant may remain anonymous, as far as reasonably possible. All inquiries concerning the activity under investigation from the suspected individual, his or her lawyer or representative, or any other inquirer should be directed to the Investigation Team or the City Solicitor. No information concerning the status of an investigation will be given out. The proper response to any inquiries is "I am not at liberty to discuss this matter." *Under no circumstances* should any reference be made to "the allegation," "the crime," "the Fraud," "the forgery," "the misappropriation," or any other specific reference.
- c) The reporting individual should be informed of the following:
 - i. Do not contact the suspected individual in an effort to determine facts or demand restitution.
 - ii. Do not discuss the case, facts, suspicions, or allegations with *anyone* unless specifically asked to do so by the City Solicitor or General Manager of Finance.

3.08 Reporting of Results

- a) The General Manager of Finance will notify the CAO as soon as it is practical to do so of the amount of any potential loss due to Fraud for insurance and monitoring purposes.
- b) The City will make every reasonable effort, including taking legal action, to pursue recovery of City losses.
- c) The General Manager of Finance will review and assess the adequacy of internal controls in place to safeguard the City's Assets.

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- d) The findings and recommendations for preventing future similar incidences will be provided in a report to the CAO.
- e) The CAO is responsible for taking appropriate corrective measures to ensure adequate controls exist to deter reoccurrence of Fraud.

3.09 Termination

- a) If an investigation results in a recommendation to terminate an individual, the recommendation will be reviewed for approval by the designated representatives from Human Resources and the City Solicitor and if necessary, by outside legal counsel, before any such action is taken. The decision to terminate an employee is made by the CAO.

3.10 Compliance

- a) Any employee that fails to comply with this policy will be subject to disciplinary action up to and including termination.

3.11 Administration

- a) The Finance Department, in consultation with the City Solicitor's Department, is responsible for the administration, revision, interpretation, and application of this policy. The policy will be revised as needed.

FRAUD RISK ASSESSMENT

Identified Fraud Risks and Schemes	Likelihood of Occurrence Low / Medium / High	Significance to the Organization Low / Medium / High	People &/or Department Subject to Risk	Existing Anti-Fraud Internal Controls	Assessment of Internal Controls Effectiveness Low / Medium / High	Residual Risks	Fraud Risk Response
FINANCIAL REPORTING:							
Revenue recognition:							
<i>Fictitious revenues</i>							
<i>Recording receipts in incorrect periods</i>							
Expense recognition:							
<i>Holding bills</i>							
<i>Improper coding of bills</i>							
Misclassification of balances:							
<i>Reporting more receivables & less cash to conceal</i>							
<i>Concealed liabilities and expenses (omission)</i>							
<i>Improper asset valuation (capital assets/accounts receivable)</i>							
Inappropriate disclosures:							
<i>Liabilities omission</i>							
<i>Subsequent events</i>							
<i>Related-party transactions</i>							
Concealing misappropriation of assets:							
Concealing unauthorized receipts and expenditures:							

FRAUD RISK ASSESSMENT

Identified Fraud Risks and Schemes	Likelihood of Occurrence <small>Low / Medium / High</small>	Significance to the Organization <small>Low / Medium / High</small>	People &/or Department Subject to Risk	Existing Anti-Fraud Internal Controls	Assessment of Internal Controls Effectiveness <small>Low / Medium / High</small>	Residual Risks	Fraud Risk Response
MISAPPROPRIATION OF ASSETS/RESERVES:							
Cash/cheques:							
<i>Collection procedures</i>							
<i>Theft of cheques received</i>							
<i>Deposit lapping</i>							
Accounts payable/expenses:							
<i>Unauthorized Pcard transactions</i>							
<i>Fictitious vendors</i>							
<i>Inflated invoices from vendors</i>							
<i>False invoices</i>							
<i>False refunds</i>							
Payroll:							
<i>Unauthorized payroll adjustments</i>							
<i>Falsified hours</i>							
Expense reimbursement:							
<i>Overstated expenses</i>							
<i>Fictitious expenses</i>							
Capital assets & inventory:							
<i>Theft by employees</i>							
<i>Theft by others</i>							
<i>Misuse of inventory</i>							
<i>False shipments</i>							

This policy is subject to any specific provision of The Municipal Government Act or other relevant legislation or union agreement.

FRAUD RISK ASSESSMENT

Identified Fraud Risks and Schemes	Likelihood of Occurrence <small>Low / Medium / High</small>	Significance to the Organization <small>Low / Medium / High</small>	People &/or Department Subject to Risk	Existing Anti-Fraud Internal Controls	Assessment of Internal Controls Effectiveness <small>Low / Medium / High</small>	Residual Risks	Fraud Risk Response
CORRUPTION:							
Bribery to: <i>Employees</i>							
Embezzlement: <i>False accounting entries</i> <i>Unauthorized withdrawals</i> <i>Unauthorized disbursements</i> <i>Paying personal expenses from municipal funds</i> <i>Unrecorded cash payments</i> <i>Theft of physical property</i>							
Receipt of bribes, kickbacks & gratuities: <i>Bid rigging</i> <i>Kickbacks (diverted business to vendors/over billing)</i> <i>Illegal payments (gifts/travel/entertainment/personal credit card purchases)</i> <i>Conflicts of interest (purchases/sales/ownership interest in suppliers)</i>							
Aiding and abetting fraud by other parties such as vendors:							

Corporate Fraud Policy Decision Matrix

Action Required	General Manager of Finance	CAO	Divisional Commissioner	General Manager	City Solicitor	Human Resources	Treasury & Risk Management
1. Controls to Prevent Fraud	SPR	SPR	SPR	SPR	S	S	S
2. Implement Internal Controls	S			P			
3. Incident Reporting	SPR	S	S	SPR	S	S	S
4. Investigation of Fraud	P				S	S	
5. Referrals to Law Enforcement		P			S		
6. Recovery of Monies due to Fraud	SPR				SPR		
7. Internal Control Reviews	P			S			S
8. Handle Case of Sensitive Nature	P	S			S	S	S
9. Public Press Release	S	P					
10. Civil Litigation	S				P		S
11. Corrective Action/Recommendations to Prevent Recurrences	SPR	S	S	SPR	S		S
12. Monitor Recoveries	P						
13. Pro-active Fraud Auditing	P						
14. Fraud Education/Training	SPR	SPR	S	S		S	S
15. Risk Analysis of Areas of vulnerability	S		S	P			S
16. Case Analysis	P						

P (Primary Responsibility) S (Secondary Responsibility) SPR (Shared Primary Responsibility)

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Fraud Policy Procedure

