

COLLIN COUNTY

FRAUD PREVENTION

And

DETECTION

Court Order No. 98-552-09-28

COLLIN COUNTY

Fraud Prevention and Detection

Collin County is committed to preventing fraud. All County employees must share in this commitment. County employees, especially supervisors and Department Heads/Elected Officials, must be aware of the circumstances, or "red flags", which lead to fraud. For the purpose of this administrative procedure, fraud and intentional waste are referred to as "fraud".

BACKGROUND

- 1.1 Studies have shown that "red flags" of fraud within an organization were ignored by the organization in almost 50% of the frauds reported. "Downsizing" and repositioning of an organization increases the risk of fraud. Internal controls are the best method of preventing fraud. Poorly written or poorly enforced internal controls allow most fraud to occur.
- 1.2 Fraud occurs for the following reasons (note: there were multiple reasons in some cases):
 - (a) Poor internal controls
 - (b) Management override of internal controls
 - (c) Type of organization (industry with high risk of fraud)
 - (d) Collusion between employees and third parties
 - (e) Poor or non-existent company ethical standards
 - (f) Lack of control over managers by their supervisors
- 1.3 The most frequently cited "red flags" of fraud are:
 - (a) Changes in an employee's lifestyle, spending habits or behavior;
 - (b) Poorly written or poorly enforced internal controls, procedures, policies or security;
 - (c) Irregular/unexplained variances in financial information;
 - (d) Inventory shortages;
 - (e) Failure to take action on results of internal/external audits or reviews;
 - (f) Unusually high expenses or purchases;
 - (g) Frequent complaints from customers;
 - (h) Missing files;
 - (i) Ignored employee comments concerning possible fraud.
- 1.4 Perpetrators of fraud typically live beyond their reasonably available means. Other indicators of fraud include the borrowing of small amounts of money from co-workers, collectors or creditors appearing at the place of business, excessive use of telephone to stall creditors, falsifying records, refusing to leave custody of

records during the day, working excessive overtime, refusing vacations, and excessively rewriting records under the guise of neatness.

1.5 The following internal controls help prevent fraud:

- (a) Adherence to all organizational procedures, especially those concerning documentation and authorization of transactions.
- (b) Physical security over assets such as locking doors and restricting access to certain areas.
- (c) Proper training of employees
- (d) Independent review and monitoring of tasks.
- (e) Separation of duties so that no one employee is responsible for a transaction from start to finish.
- (f) Clear lines of authority.
- (g) Conflict of interest statements which are enforced.
- (h) Rotation of duties in positions more susceptible to fraud.
- (i) Ensuring that employees take regular vacations.
- (j) Regular independent audits of areas susceptible to fraud.

PURPOSE

2.1 The purpose of this administrative procedure is to define what constitutes fraud, and to outline rules and procedures all employees must follow when fraud is suspected.

SCOPE

3.1 This procedure applies to all Collin County employees.

DEFINITIONS

- 4.1 (a) Fraud - Theft, intentional waste or abuse of County funds, property or time. Specific examples of fraud include but are not limited to:
- (i) Theft of County funds.
 - (ii) Serious abuse of County time such as unauthorized time away from work or excessive use of County time for personal business.
 - (iii) Unauthorized use or misuse of County property or records.
 - (iv) Falsification of records.

- (v) Theft or unauthorized removal of County records, County property or the property of other persons (to include the property of employees, supervisors, consumers, clients, customers, inmates or visitors).
 - (vi) Willful destruction or damage of County records, County property or the property of other persons (to include the property of employees, supervisors, consumers, clients, customers, inmates or visitors).
 - (vii) Neglecting or subverting job responsibilities in exchange for an actual or promised award.
- (b) County funds - Currency, checks, or other negotiable instruments belonging to the County of Collin, or for which the County is the fiscal agent or has a fiduciary responsibility
 - (c) County property - Any tangible item owned by the County of Collin.
 - (d) Retaliation - When an individual is discriminated against or penalized for reporting fraud or for cooperating, giving testimony, or participating in any manner in an audit/investigation, proceeding, or hearing.

RESPONSIBILITIES

- 5.1 All Employees - Any employee who has knowledge of an occurrence of fraud, or has reason to suspect that a fraud has occurred, shall immediately notify his/her supervisor. If the employee has reason to believe that the employee's supervisor may be involved, the employee shall immediately notify the Department Director/Elected Official of his/her department. However, if the employee has reason to suspect that the Department Head/Elected Official may also be involved, the employee should contact the County Auditor or District Attorney. Every employee shall cooperate with administrative investigations pursuant to this administrative procedure. The employee shall not discuss the matter with anyone other than his/her supervisor, the Department Director/Elected Official, the County Auditor and the District Attorney. Failure to report suspected fraud could result in disciplinary action or possibly termination.
- 5.2 Supervisor - Upon notification from an employee of suspected fraud, or if the supervisor has reason to suspect that a fraud has occurred, the supervisor shall immediately notify the Department Director/Elected Official of his/her department. The supervisor shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the Department Director/Elected Official, the County Auditor and the District Attorney. However, if the supervisor has reason to believe that the Department Director/Elected Official may be involved in a fraud, the supervisor shall contact the County Auditor and the District Attorney.

Failure to report suspected fraud could result in disciplinary action or possibly termination.

- 5.3 Department Director/Elected Official - Upon notification from an employee or supervisor of suspected fraud, or if the Department Director/Elected Official has reason to suspect that a fraud has occurred, the Department Director/Elected Official shall immediately contact the County Auditor. The Department Director/Elected Official shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the County Auditor and the District Attorney. Failure to report suspected fraud could result in disciplinary action or possibly termination.
- 5.4 Internal Audit - Upon notification or discovery of a suspected fraud, the County Auditor will promptly coordinate investigation of possible fraud with District Attorney.

PROCEDURES

- 6.1 Record Security - A successful audit/investigation can only be performed if the documentation relating to an alleged fraud is available for review in its original form. Therefore, once a suspected fraud is reported, Department Directors/Elected Official and supervisors shall take immediate action to prevent the theft, alteration, or destruction of relevant records. Such actions include, but are not necessarily limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist, and preventing the individual suspected of committing the fraud from having access to the records. The records must be adequately secured until County Auditor obtains the records to begin the audit investigation.
- 6.2 Contacts/Protocols - After an initial review and a determination that the suspected fraud warrants additional investigation, the County Auditor will notify the Commissioners Court, Human Resource Director and District Attorney of the allegations. The County Auditor shall coordinate the investigation with the appropriate law enforcement officials and shall report its investigative findings as described below.
- 6.3 Confidentiality - All participants in a fraud investigation shall keep the details and results of the investigation confidential except as expressly provided in this administrative procedure. However, County Auditor and the District Attorney may discuss the investigation with any person if such discussion would further the investigation.

- 6.4 Personnel Actions - If a suspicion of fraud is substantiated by the audit investigation, disciplinary action shall be taken in conformance with the County's Personnel Policies and Procedures. A false and vindictive allegation of fraud is a violation of this administrative procedure. All violations of this administrative procedure, including violations of the confidentiality provisions, shall result in disciplinary actions up to and including termination.
- 6.5 Retaliation - It is a violation of this administrative procedure for any individual to be discriminated against for reporting fraud or for cooperating, giving testimony, or participating in an audit investigation, proceeding, or hearing. Such individual falls under the protection of the Whistle Blower Act.
- 6.6 Media Issues - If the media becomes aware of an audit investigation, the appropriate supervisor or Department Director/Elected Official shall refer the media to the District Attorney. The alleged fraud and audit investigation shall not be discussed with the media other than through the District Attorney's Office.

DISPOSITION OF INVESTIGATION

- 7.1 At the conclusion of the audit investigation, the County Auditor and District Attorney's Office will document the results in a confidential memorandum report to the Commissioners Court, with a copy to the appropriate Deputy County Administrator and Department Director/Elected Official. If the report concludes that the allegations are founded, the report will be copied to Human Resource Director.
- 7.2 If the fraud has resulted in County property loss, the County Auditor shall report such loss to the Commissioners Court. The District Attorney or designated legal counsel shall seek restitution for any property loss.
- 7.3 Upon completion of the audit investigation and all legal and personnel actions, records will be returned by the investigative offices to the appropriate department.