

County of Santa Barbara Fraud, Theft, and Loss Policy	
SUBJECT: Fraud, Theft, and Loss Policy	NUMBER: L1.1
DEPARTMENTS & DISTRICTS AFFECTED: ALL COUNTY DEPARTMENTS GOVERNED BY THE SANTA BARBARA COUNTY BOARD OF SUPERVISORS	EFFECTIVE: 12/13/2011 Approved by County Board of Supervisors

POLICY

Policy to provide direction on Fraud, Theft, and Loss for the County of Santa Barbara

1.1 Purpose

The purpose of this policy is to affirm the Board of Supervisors' commitment to maintain a tone of integrity throughout the County, increase management's focus on anti-fraud controls, decrease County losses, and increase the efficiency and results of investigations of fraud, theft, and loss.

1.2 Authority

1.2.1 American Institute of Certified Public Accountants

The American Institute of Certified Public Accountants' audit standards recommend that organizations consider certain best practices to reinforce a strong ethical culture.

1.2.2 Santa Barbara County Board of Supervisors

Resolution No. 11-432

The Board of Supervisors affirms its commitment to maintain a tone of integrity throughout the County, increase management's focus on anti-fraud controls, decrease County losses, and increase the efficiency and results of investigations of fraud, theft, and losses. In addition, the Board desires to adopt policies and procedures as recommended by the Auditor-Controller, for reporting acts that are considered to be fraudulent and to set forth the steps to be taken when fraud or other related dishonest or inappropriate activities are suspected.

1.3 Definitions

1.3.1 American Institute of Certified Public Accountants

A national professional organization of Certified Public Accountants (CPAs). It sets ethical standards for the profession and U.S. auditing standards for audits of private companies, non-profit organizations, federal, state and local governments.

2.1 Attachments and Historical Documents

2.1.1 Fraud, Theft, and Loss Policy

2.1.2 Board Letter

2.1.3 Resolution 11-432

Subject: County of Santa Barbara Fraud, Theft, and Loss Policy

Responsible Department: All Departments

Original Policy: 12/11

Purpose: The purpose of this policy is to affirm the Board of Supervisors' commitment to maintain a tone of integrity through the County, increase management's focus on anti-fraud controls, decrease County losses, and increase the efficiency and results of investigations of fraud, theft, and loss.

Scope: This policy applies to any irregularity, or suspected irregularity involving employees, consultants, vendors, contractors, interns, volunteers, outside agencies, districts with funds in the County Treasury, and/or any other parties with a business relationship with the County. It will deal primarily with any loss occurring as the result of fraud, theft, or loss of a county asset as opposed to accidental damage to or destruction of an asset that would be handled through normal Risk Management channels. In addition, this policy assigns responsibility for the development of adequate internal controls and performance of investigations related to fraud.

Fraud may be defined as any intentional act or omission designed to deceive others, resulting in the County suffering a loss and/or the perpetrator achieving a gain.

The terms defalcation, misappropriation, and other fiscal irregularities may refer to, but are not limited to:

- Any dishonest or fraudulent act.
- Forgery or alteration of any document or account.
- Forgery or alteration of a check, bank draft, or any other financial document.
- Misappropriation of funds, securities, supplies, or other assets.
- Impropriety in the handling or reporting of money or financial transactions.
- Accepting or seeking anything of material value from contractors, vendors, or persons providing services/materials to the County.
- Destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment; and/or use of those assets for private or personal gain.
- Authorizing or receiving compensation for hours not worked.
- Misrepresenting financial operating results to obtain funding.
- Any similar or related irregularity to those specified above.

If there is any question as to whether an action constitutes fraud, contact the Internal Audit Division of the Auditor-Controller's Office for guidance.

Losses of County property, including cash, arising from any circumstance, must also be reported under this policy. Cash shortages occurring as part of cashiering operations should be reported in accordance with the County's Cash Handling Manual.

Policy: Santa Barbara County Administration and all levels of management are responsible for the detection and prevention of fraud, defalcation, misappropriation, and other fiscal irregularities. Management should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

It is the policy of this County to protect and safeguard the money and assets placed in its trust by the public to the best of its ability. This responsibility extends to each of its employees. The County of Santa Barbara has a zero tolerance for fraud. Any individual that is found to have engaged in fraudulent activity, as defined by this policy, is subject to disciplinary action by the County, including dismissal and prosecution by appropriate law enforcement authorities.

REPORTING RESPONSIBILITIES AND PROCEDURES:

Fraud that is detected or suspected must be reported immediately and simultaneously to a direct supervisor and the Internal Audit Division of the Auditor-Controller's Office. If the immediate supervisor is suspected as being a party to the improprieties or irregularities, the next higher supervisor should be informed.

Welfare Fraud involves theft of County funds by welfare recipients, or theft of their benefits by others. Those cases should be referred directly to the **District Attorney's Welfare Fraud Division**.

Workers' Compensation Fraud involves knowingly false or fraudulent statements of any fact relative to workers' compensation payments and costs. Those cases should be referred directly to the **District Attorney's Workers' Compensation Fraud Division**.

Fraud not included in the above two types but involving COUNTY funds or committed by COUNTY employees, vendors, contractors, etc. This includes the misuse of County credit cards for purchase of personal items or use of fuel in personal vehicles as well as submitting fraudulent travel and or expense claims. These should be handled in accordance with the procedures stated below.

Theft or the loss of cash or assets shall also be immediately reported to the Internal Audit Division of the Auditor-Controller's Office.

INVESTIGATIVE RESPONSIBILITIES AND PROCEDURES:

Any irregularity that is detected or suspected **must** be reported immediately to the Internal Audit Division of the Auditor-Controller's Office who will coordinate the investigation with the District Attorney's Office and/or appropriate law enforcement.

The Internal Audit Division of the Auditor-Controller's Office, in conjunction with the District Attorney's Office (if necessary), shall evaluate suspected fraud and initiate any necessary investigative activity without regard to the suspected wrongdoer's length of service, position/title, or relationship with the County.

It is NOT the responsibility of the employee or the supervisor to investigate the allegations. In fact, any attempts to do so may damage the validity of the review/audit/investigation. It IS the

responsibility of that individual to forward the allegation to the next level of management and to the Internal Audit Division of the Auditor-Controller's Office.

The Auditor-Controller's Office will coordinate all investigations with the District Attorney, law enforcement agencies, County Counsel, Risk Management, Human Resources, and other affected departments or agencies (both internal and external) as needed.

AUTHORIZATION FOR INVESTIGATING SUSPECTED FRAUD:

Where there exists reasonable cause, and to the extent permitted by law, the Auditor-Controller's Office is authorized upon the initiation of a review, audit, or investigation, and after consulting with appropriate management personnel, to have free and unrestricted access to all County records and premises, whether owned or rented.

Employees are required to cooperate during any review, audit, or interview when asked questions. In the event that they believe they are suspect and express a desire for representation, interviews of that individual will only continue by the Auditor-Controller's Office in coordination with other departments.

CONFIDENTIALITY:

During the investigation, members of the investigation team shall maintain the confidentiality of information received. Upon conclusion of an investigation, results will be made available as allowed by law. A report of losses and disposition will be provided to the Board of Supervisors on an annual basis.

PREVENTION:

Internal controls are a coordinated set of policies and procedures that reflect a comprehensive strategy for achieving management objectives. Internal controls to prevent fraud should be established by departments. Departments should review the County's policies and procedures including, but not limited to, travel, the FIN manual, payroll, and cash handling guidelines to ensure that they are incorporated into departmental policies and processes. The Internal Audit Division of the Auditor-Controller's Office is available to assist departments in reviewing processes for adequate internal controls.



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Auditor-Controller
Department No.: 061
For Agenda Of: 12/13/2011
Placement: Departmental
Estimated Time: 10 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Robert W. Geis, CPA, CPFO (x2100)
Director(s)
Contact Info: Heather Fletcher, CPA, CFE* (x2456)
*Certified Fraud Examiner

SUBJECT: **Fraud, Theft, and Loss Policy**

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: N/A

Other Concurrence: N/A

As to form: N/A

Recommended Actions:

- a). Adopt the attached Resolution Adopting the County of Santa Barbara Fraud, Theft, and Loss Policy.
- b). Receive and file the attached Loss of Public Property Report for calendar year 2010.

Summary Text:

Due to accounting scandals, the American Institute of Certified Public Accountants (AICPA), promulgated new auditing standards to recommend that organizations consider certain best practices to reinforce a strong ethical culture. Over the past few years, predominately due to economic conditions, an increased number of reports of stolen County property have been made to the Auditor-Controller. To reaffirm the Board of Supervisors' commitment to maintain a tone of integrity through the County, increase management's focus on anti-fraud controls, decrease County losses, and increase the efficiency and results of investigations of fraud, theft, and loss, we recommend that the attached policy be adopted by your Board.

Background:

Section 316 of the Auditing Standards promulgated by the AICPA, *Consideration of Fraud in a Financial Statement Audit*, emphasizes the responsibility of governments to design and implement systems and procedures for the prevention and detection of fraud and for ensuring a culture and environment that promotes honesty and ethical behavior. The Government Finance Officers Association recommends that every government establish a policy to encourage and facilitate the reporting of fraud or abuse and questionable accounting practices.

Santa Barbara County Administration and all levels of management are responsible for the detection and prevention of fraud, defalcation, misappropriation, and other irregularities. Fraud may be defined as any intentional act or omission designed to deceive others, resulting in the County suffering a loss and/or the perpetrator achieving a gain. Management should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

The Association of Certified Fraud Examiners (ACFE), the world's largest anti-fraud organization, publishes a Report to the Nations on Occupational Fraud and Abuse (the Report). According to the 2010 Report, the median cost of fraud in government was \$100,000 per scheme. Although the loss is low compared to other industries, it is second in frequency only to the banking and financial services industry.

During calendar year 2010, an increased number of losses were reported to the Auditor-Controller's Office. Specifically, 12 incidents, including seven cash losses, were reported. In previous years, departments only reported one or two incidents per year. In observing departmental processes, we noticed differences in communication of suspected fraud upward to management and coordination between necessary departments.

The Board of Supervisors adopted a resolution pursuant to Government Code Section 26883. Resolution 21387 requires that the Auditor-Controller audit the books, accounts, money and securities of any department, office, board, or institution under its control and of any district whose funds are kept in the County Treasury. The Auditor-Controller's report on any such audit shall be filed with the Board of Supervisors and the District Attorney.

It is important to define the roles in investigation to properly coordinate and overcome inconsistencies, duplication of efforts, and a lack of communication between parties. So that an investigation is not jeopardized, it is extremely important that departmental staff not attempt to self-conduct internal investigations. Instead, departmental management and the Auditor-Controller's Office should be immediately notified when a suspected theft occurs. Utilizing a consistent process to assemble an investigation team will ensure that the proper individuals are involved to achieve the outcome most beneficial to the County and its constituents. In the recommended policy, the Auditor-Controller's Office, Internal Audit Division, and the District Attorney's Office are responsible to lead and coordinate the investigation. The attached flowchart depicts Internal Audit's anticipated coordination of resources.

Public reporting of losses shows that a government is transparent and accountable to its constituents. Governments that publicly report fraud, how it occurred, and steps taken to deal with the issue, are far more credible than if it is not reported at all. Furthermore, reporting serves as a mechanism to deter and prevent future fraud occurrences. As part of the recommended process, a report of investigated losses will be provided to the Board of Supervisors on an annual basis.

Performance Measure:

Provide auditing services to minimize internal control risks and County losses.

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

N/A

Staffing Impacts:

N/A

Special Instructions:

None

Attachments:

Resolution Adopting the County of Santa Barbara Fraud, Theft, Loss Policy

County of Santa Barbara Fraud Policy

Fraud Reporting Flowchart

Loss of Public Property Report

Authored by:

Heather Fletcher, Internal Audit Division, Office of the Auditor-Controller. Phone (805) 568-2456.

cc: Chandra Wallar, County Executive Officer
Joyce Dudley, District Attorney

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RESOLUTION OF THE BOARD OF SUPERVISORS OF THE
COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA

A RESOLUTION ADOPTING THE COUNTY)
OF SANTA BARBARA FRAUD, THEFT, AND LOSS POLICY) RESOLUTION NO. 11-432

WHEREAS, the American Institute of Certified Public Accountants' audit standards recommend that organizations consider certain best practices to reinforce a strong ethical culture; and

WHEREAS, the Board of Supervisors desires to affirm its commitment to maintain a tone of integrity through the County, increase management's focus on anti-fraud controls, decrease County losses, and increase the efficiency and results of investigations of fraud, theft, and losses; and

WHEREAS, the Board desires to adopt policies and procedures as recommended by the Auditor-Controller, for reporting acts that are considered to be fraudulent and to set forth the steps to be taken when fraud or other related dishonest or inappropriate activities are suspected.

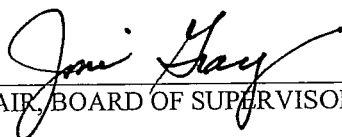
NOW, THEREFORE, BE IT AND IT IS HEREBY ORDERED AND RESOLVED that the Board of Supervisors of the County of Santa Barbara does hereby adopt the Fraud, Theft, and Loss Policy as submitted hereto.

PASSED AND ADOPTED by the Board of Supervisors of the County of Santa Barbara, this 13th day of December 2011 by the following vote:

AYES: Supervisor Carbajal, Supervisor Wolf, Supervisor Farr, Supervisor Gray,
Supervisor Lavagnin

NOES: None

ABSENT: None



CHAIR, BOARD OF SUPERVISORS

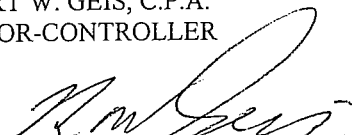
ATTEST:
CLERK OF THE BOARD OF SUPERVISORS

BY  _____

APPROVED AS TO FORM:
DENNIS MARSHALL
COUNTY COUNSEL

BY  _____
DEPUTY COUNTY COUNSEL

APPROVED AS TO ACCOUNTING FORM:
ROBERT W. GEIS, C.P.A.
AUDITOR-CONTROLLER

BY  _____
DEPUTY AUDITOR-CONTROLLER