



Fraud, Waste & Abuse FY 18 Annual Report

Office of the City Auditor—
Forensic Investigative Division

“Promoting Accountability and Integrity in City Operations”

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Message from the City Auditor

The Forensic Investigative Division (FID) was officially named in 2014, but investigative activities have been the duty of the Office of the City Auditor (OCA) since its inception. FID is responsible for investigating potential fraudulent activities that occur in the City of Virginia Beach that are perpetrated by employees, vendors, or contractors. The Fraud, Waste and Abuse Prevention and Reporting Program is designed to ensure that dishonesty, theft and fraud are handled carefully and expeditiously. FID ensures the City’s reputation is maintained and that a strong system of internal controls is in place to prevent, detect and deter fraud.



The program has a 24/7 confidential hotline and online process for employees and citizens to report suspected fraudulent activities.

This report details FID’s activity during FY 18. It will highlight the measures that FID takes to ensure the City’s ethical climate is maintained. During the year, we conducted 82 investigations that led to 38 substantiated cases.

Sincerely,

Lyndon S. Remias
City Auditor

FID Team

Sharon A. Hayes, CFE,
CICA, MAFM Forensic Audit
Manager

Daniel Rinehart, Auditor’s
Assistant

Bobbie Beddow, Office
Assistant

Phillip White, Office
Assistant

**To Report Fraudulent
Activities
HOTLINE:
757-468-3330**

FY 18 Investigation Statistics

Allegations received, year-to-date			82
Open	14		
Open Referred	1		
Closed	53		
Closed Referred	14		
Substantiated		38	
Unsubstantiated		29	
In Progress		15	
Inquiries received, year-to-date			46
Recoveries—FY18			\$4,442.50

State and City Code Sections Related to Conducting Fraud, Waste & Abuse Investigations

State Code: §15.2-2511.2 - Duties of Local Government Auditors

B. "Any fraud, waste, and abuse auditor appointed by the local governing body of any county, city, or town having a population of at least 10,000, or any town constituting a separate school division regardless of its population, who by charter, ordinance, or statute has responsibility for conducting an investigation of any officer, department or program of such body, shall be responsible for administering a telephone hotline, and a website, if cost-effective, through which employees and residents of the locality may report anonymously an incidence of fraud, waste, or abuse committed by any such officer, or within any such department or program, of that body. Such auditor may inform employees of the locality of the hotline and website, if any, and the conditions of anonymity, through the conspicuous posting of announcements in the locality's personnel newsletters, articles in local newspapers issued daily or regularly at average intervals, hotline posters on local employee bulletin boards, periodic messages on local employee payroll check stubs, or other reasonable efforts."

City Code of Ordinances: Chapter 2, Article XXVIII – Office of the City Auditor

Sec. 2-466 (g) —Powers and duties; scope of audits

The city auditor shall have authority to conduct financial and performance audits of departments, offices, boards, activities, agencies, programs, and systems of the entity to independently and objectively determine, depending on the scope and type of audit, whether:

(g) Indications of fraud, waste, and abuse are valid and need further investigation.

Professional Development

Congratulations to Daniel Rinehart who, in November 2017, passed the Certified Internal Auditor (CIA) Examination!

We are proud of you!



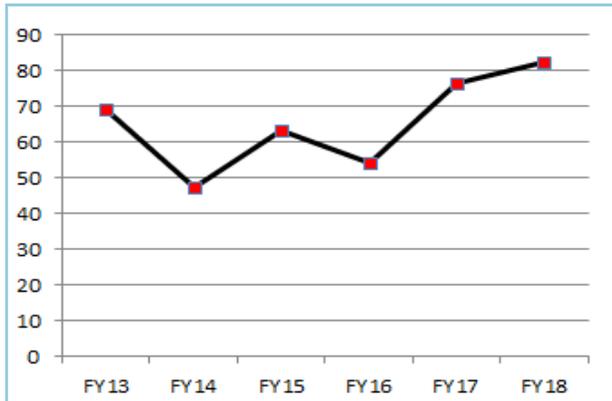
Summary of Substantiated Cases

The table below summarizes the substantiated investigations completed in FY 18. Because the Office of the City Auditor obtained this information in confidence, specific details cannot be released in order to maintain confidentiality and anonymity. The Office of the City Auditor determines if a report is necessary for each specific substantiated case. If a report is necessary, a synopsis of the report is provided to City Council and the Audit Committee.

Allegation:	Findings and Actions Taken:
Policies & Procedures Issues	The employee brought in their personal weed eater to be repaired using City resources on City time. The repairs were made using a City procurement card, but this payment was reversed when the supervisor discovered the issue. The department terminated the employee, but the employee was reinstated through the grievance process.
Misuse of City Time	The employee falsified time sheets. Over a period of eight days, the employee was late to work for a total of 12 hours and 27 minutes. The department terminated the employee, but the employee was reinstated through the grievance process.
Policies & Procedures Issues	The employee was evaluated unfairly by referencing the employee's medical conditions in their evaluation. The department changed the employee's evaluation.
Falsification of Documents	The employee put down an extra hour of overtime more than what was actually worked. The employee was counseled.
Food Stamps Fraud	A SNAP (Supplemental Nutrition Assistance Program) overpayment of \$922.00 was established. The case is pending an IPV (Intentional Program Violation) first offense for failure by the client to report their job.
Policies and Procedures Issues	It was determined that the employee was owed \$18,018.03 in back pay from January 7, 2015 through July 1, 2017. The employee was reimbursed in full.
Falsification of Documents	The employee left their shift early without approval and then submitted timesheets as if they worked the full hours. There were no leave slips turned in to account for the missing time. The employee resigned pending dismissal.
Section 8 Housing Fraud	The citizen had an unauthorized household occupant for approximately eight months, which is a violation of program rules. The citizen will be notified that their actions are a violation of program rules and that any reoccurrence or future violations will jeopardize their continued program participation.
Misuse of City Time / Falsification of Documents	The employee parked their City vehicle in various locations and took excessive breaks during City time. The employee then falsified their daily logs and indicated that they were conducting inspections in other locations during this time. The employee was suspended for one week without pay.
Theft / Benefits Fraud	The employee, who was a contractual worker, stole gift cards that had been donated to the department from their supervisor's desk. The employee also stole the supervisor's cash and personal credit card. In addition, the employee was committing benefits fraud. The employee was relieved of duty. The employee was also charged with a misdemeanor and was required to pay \$225.00 in restitution.
Policies & Procedures Issues	The employee spread false medical information to a citizen. The employee was suspended.
Misuse of City Time	The employee received texts and phone calls from an outside party during meetings when they should have been concentrating on the meeting. The employee was counseled.
Policies & Procedures Issues / Misuse of City Time	The employee had issues with job performance and arriving late to work. The supervisor is monitoring the employee's performance. Any further performance issues will result in discipline for the employee.
Misuse of City Time / Conflict of Interest / Policies & Procedures Issues	The employee frequently went home during City time and was paid for hours they did not work. The employee had conflicts of interest and inappropriate relationships with contractors that are employed by the City. The employee retired, pending termination.
Benefits Fraud	The client received an overpayment in the amount of \$24,490.00. The client was referred to the Virginia Beach Commonwealth Attorney's Office for the case to be screened for prosecution.
Theft	There was a theft of \$297.48 by the employee. The employee resigned pending termination. The case was turned over to the Police for further investigation. Restitution was made by the employee.
Falsification of Documents	The employee falsified their fitness points on Virgin Pulse by having their child wear the fitness meter. The employee did not receive any awards for the quarter and was removed from the program, which meant that they could no longer participate. The employee had resigned their position before the case was reported. Therefore, no discipline occurred.
Policies & Procedures Issues	There were four Social Security Numbers on the employee's desk that could not be accounted for. These four did not have any benefits listed in the system. It could not be definitively proved why these four Social Security Numbers were looked up by the employee. The issue was referred to the department for further investigation.
Section 8 Housing Fraud	The client violated the Housing Choice Voucher Program rules and regulations by having a spouse living with them and failing to report the addition to the household. The citizen and spouse were separated days later with the spouse no longer living in the household. A concerns meeting was held with the client to address the violation of program rules.

Allegation:	Findings and Actions Taken:
Misuse of City Time	The employee called out sick from their City job in order to work their secondary job. The employee was counseled and made to fill out a secondary employment form.
Misuse of City Time / Policies & Procedures Issues	The employee routinely arrived to work late and took minimal lunches or no lunch at all. The employee also had inappropriate conversations about their personal life in the workplace. The employee received a written counseling.
Falsification of Documents	The employee claimed eight additional hours of overtime on their timesheet in comparison to the rest of the crew. The employee was counseled on the problems created when excessive overtime hours are claimed. The employee's overtime hours were adjusted.
Misuse of City Time	There were several occasions where the employee's whereabouts did not match the times listed on their Outlook calendar or timesheet. The employee was not keeping in contact with their supervisor or anyone else as to their whereabouts. The employee was counseled on ensuring that they adhere to appropriate times for lunch and other activities.
Theft	The employee used City equipment to create and install a straight connection in their meter box that was used to steal City water. The employee was terminated.
Misuse of City Time	The employee solicited sales from a citizen over the phone when the citizen called in to issue a complaint. The employee was counseled and prohibited from conducting personal business on City time. Also, the employee was made to submit a secondary employment form for approval.
Policies & Procedures Issues / Misuse of City Equipment	The employee used a City cell phone to send inappropriate text messages to a citizen. The employee then deleted the messages from their City cell phone. The employee also showed up to work while intoxicated. The employee was sent to the EAP (Employee Assistance Program). The employee was also given a written reprimand.
Falsification of Documents	The employee arrived to work late and left work early compared to the hours written on their timesheets. The employee resigned pending investigation.
Falsification of Documents	The employee was late to work on three consecutive days but documented on their timesheet that they had arrived on time. The employee did not notify a supervisor that they were running late. The employee was terminated.
Misuse of City Time	The employee utilized City time and City technology to do work for their secondary job. The employee received a written counseling.
Financial Irregularities	The employee was fronted 120 hours of leave from the extended Sick Leave Bank prior to the leave being processed in the system. The employee responsible for fronting the leave was counseled. In addition, the employee who was fronted the leave was sent a letter explaining the necessary processes that they had to follow while out on extended leave.
Misuse of City Time	The employee previously faced discipline for issues with their secondary business in 2013, but quit and then came back seven months later without being disciplined. This employee was later promoted to a higher position. This employee, a co-worker, and a supervisor have again been doing work for the employee's secondary business while on City time. The department took no action.
Falsification of Documents	The employee used sick family leave to participate in a race in Florida. The employee received a 24 hour suspension.
Food Stamps Fraud	The client had an overpayment in the SNAP (Supplemental Nutrition Assistance Program) in the amount of \$580.00. The client will receive a SNAP demand letter for repayment and the case will be referred to the State Appeals Office for an Administrative Disqualification Hearing.
Misuse of City Time	The first employee had medical issues, and as a result, the former supervisor had been lenient with how the employee used their leave. The second employee was frequently late to work or absent from work. The department was already handling both issues. A new supervisor was put in place to make sure the first employee properly uses their leave. The second employee was already disciplined multiple times for their tardiness and absences and is currently on a PIP (Performance Improvement Plan).
Benefits Fraud	The client received payments from the City of Norfolk. The client did apply for benefits in the City of Virginia Beach but decided to withdraw their applications. The client withheld information when interviewed while attempting to receive benefits in the City of Virginia Beach. An ADH (Administrative Disqualification Hearing) is being pursued against the client.
Section 8 Housing Fraud	The citizen received unreported income and had an unauthorized resident living at the unit without approval. The citizen's assistance was terminated. The citizen has an agreement in place to make restitution for the amount of \$2,418.00.
Misuse of City Time	The employee fell asleep at their desk due to medical issues and was woken up by staff members on several occasions. The employee also had issues with being late to work. The department will follow up with the employee and continue to monitor the situation.
Falsification of Documents	The employee arrived to work after their scheduled report time. The employee falsified their timesheets by writing down their expected report time instead of the time they actually reported to work. The employee was terminated.

Trend Analysis of Investigations from FY13 - FY18



Below are the actual number of cases for the respective fiscal years:

FY13 - 69 Cases

FY14 - 47 Cases

FY15 - 63 Cases

FY16 - 54 Cases

FY17 - 76 Cases

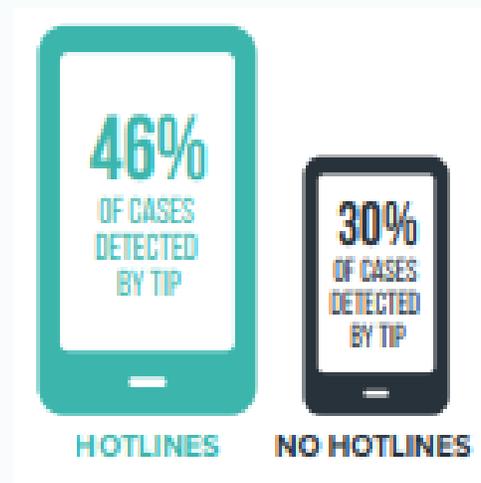
FY18 - 82 Cases

Insight to the World of Fraud

The largest global study on occupational fraud is conducted annually by the Association of Certified Fraud Examiners (ACFE). This year, the details of 2,690 cases of occupational fraud in 125 countries were consolidated and analyzed in order to examine the methods, offenders, victims, and costs of fraud. Factors including but not limited to losses, reporting mechanisms, risk, and corruption were evaluated. One reporting method that was focused on was hotlines. The following statistics and graphics are from the ACFE's 2018 Report to the Nations.

Did you know, according to ACFE:

- ◇ **Tips are the most common initial detection method for fraud, especially for organizations with hotlines.**
- ◇ **Corruption is particularly likely to be detected through tips.**
- ◇ **Fraud losses were found to be 50% smaller at organizations that had hotlines than at those that did not.**
- ◇ **In organizations with a hotline, the percent reduction in duration of fraud was 50%.**



The Forensic Audit Manager's Perspective

The act of fraud against a company, individual or any government entity is an act that will eventually affect more than the target. Therefore, the committing of fraudulent acts in our City will affect citizens, possible future prospects and employees. As stewards of the taxpayers funds, we must be watchful and diligent so that we can ensure that we are safeguarding the funds that we have been charged to use to assist in taking care of our City.

Although the Forensic Investigative Division (FID) has been charged with the task of assisting City employees, departments, agencies and programs in preventing and detecting incidents of fraud, waste and abuse in the City, all employees are responsible for preventing and detecting fraud. You may ask how. In accordance with Administrative Directive 1.16, "A City employee, is responsible for reporting fraud, waste and abuse. Any employee who has knowledge of fraudulent activity, waste or abuse, or has reason to suspect that such conduct has occurred, shall report it."

So now you see that we are all responsible for ensuring that fraud is prevented and detected, safeguarding taxpayer funds and being watchful. To help you understand our world a little bit more, take the time to do our word search.

We thank you for your service and please know that if you ever need our assistance, please don't hesitate to give us a call. We are honored to serve.

Fraud Word Search

R W J T T D O R T V O W I
 A A W G Q I L K V Y F N G
 V S L E I B R I T G V Y E
 E T N E M E L Z Z E B M E
 N E O F S Y R B S N M G L
 K H Y R R O Y T A I N E J
 J U N O T A I U A L N A A
 F B O I L G U B G T G D Y
 L Q D Y A P U D Q O E O K
 B U U T G S M X B H S D N
 A I I N E Y R E M I A S N
 J O Q K S I R D T N W Q U
 N F S T X Q H M N Q D W W

WORDS TO FIND:

- ◇ FRAUD
- ◇ WASTE
- ◇ ABUSE
- ◇ HOTLINE
- ◇ AUDITOR
- ◇ INVESTIGATION
- ◇ EMBEZZLEMENT
- ◇ REMIAS
- ◇ RISK
- ◇ EMPLOYEE

Fraud Prevention and Awareness – Outreach and Training Provided

Lyndon S. Remias , City Auditor	Parks & Recreation (3), Information Technology (1)
Sharon A. Hayes , Forensic Audit Manager	Parks & Recreation (3)

As of June 2018, **8,892** members have received the City's Integrity Connection training. There have been several campaigns marketing the message; members are provided with personal IC cards to keep and a hotline where they can report suspected fraudulent activities.

ORGANIZATIONAL VALUES	ORGANIZATIONAL ETHICS
<u>QUALITY CUSTOMER SERVICE</u>	<u>INTEGRITY</u>
<u>TEAMWORK</u>	<u>ACCOUNTABILITY</u>
<u>LEADERSHIP AND LEARNING</u>	<u>RESPECT</u>
<u>INTEGRITY</u>	<u>PROFESSIONALISM</u>
<u>COMMITMENT</u>	<u>CITIZENSHIP</u>

The Office of the City Auditor is willing to provide training to any department that requests it. For more information, please call the Office of the City Auditor at **757-385-5870**.