

Fraud, Waste, & Abuse FY 17 ANNUAL REPORT

Office of the City Auditor—Forensic Investigative Division

"Promoting Accountability and Integrity in City Operations"



Volume 2



Message from the City Auditor:



The Office of the City Auditor—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. The FID is responsible for investigating 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 fiscal year (FY) 17. It will highlight the measures that FID takes to ensure the City's ethical climate is maintained. During the year, we conducted 76 investigations that led to 25 substantiated cases.

Sincerely,

Lyndon S. Remias, CPA, CIA

City Auditor

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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**

State and City Governing Codes Relating to Conducting Fraud, Waste & Abuse Investigations:

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

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.—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

During this fiscal year, Sharon A. Hayes attended the 28th Annual Association of Certified Fraud Examiners (ACFE) Global Fraud Conference in Nashville, Tennessee.

Daniel Rinehart passed part one and two of the Certified Internal Auditor (CIA) Examination. Congratulations Daniel, WE ARE PROUD OF YOU!



FY 17 Investigation Stats

Allegations received, year-to-date			76
Open		11	
Open Referred		0	
Closed		54	
Closed Referred		11	
Substantiated	25		
Unsubstantiated	39		
Referred to Audit	1		
Other	11		
Inquiries received, year-to-date		28	
Recoveries—FY17			3,893.81

Investigation Results

Case Results	
Written Reprimands	2
Suspensions	6
Pending Suspensions	1
Demotions	0
Resignations/Retirements (pending discipline)	7
Terminations	11
Pending Terminations	1
Hearings Attended	3
Court Cases Attended	1

FY 17 Hours Expended

Employee	Title	Hours Worked
Sharon Hayes	Forensic Audit Manager	2080.00
<i>Contracted:</i>		
Daniel Rinehart	Auditor's Assistant	1589.50
Bobbie Beddow	Office Assistant	1358.75
Phillip White	Office Assistant	21.00
Hours Expended:		5049.25

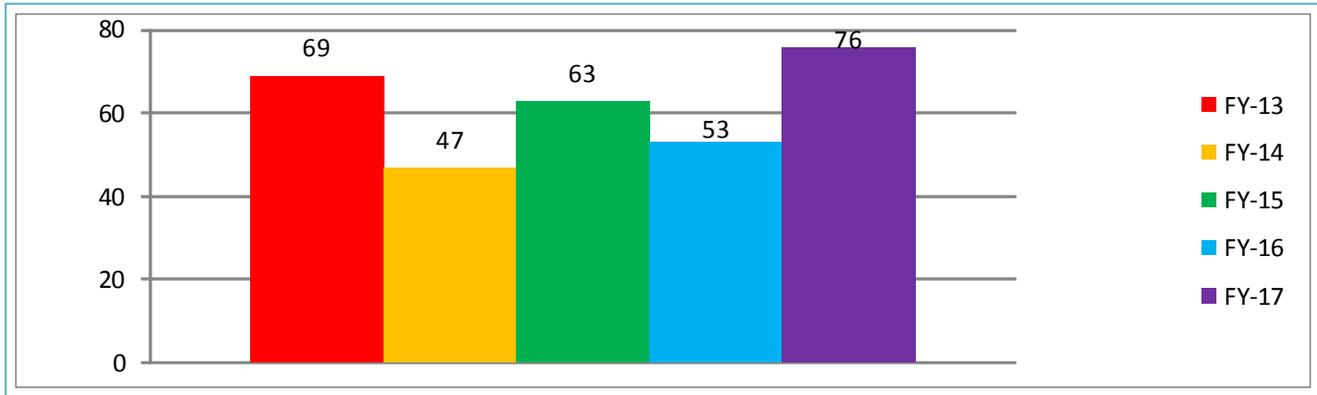
Summary of Substantiated Cases

The information in this section summarizes the substantiated investigations completed in FY 17. Because the Office of the City Auditor obtained 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:
1.	Financial Irregularities	An employee discovered a \$20.00 shortage when client funds were counted. The Department was unable to determine disposition of funds. The department will enhance policies & procedures regarding client funds and ensure the client is reimbursed.
2.	Fraud — Elder Abuse	The Department determined that the client is in need of protective services. Continuous assistance will be provided by Adult Protective Services.
3.	Secondary Employment	An employee repeatedly used a City vehicle while on City time in order to conduct personal business. The employee was terminated.
4.	Regulatory Compliance/ Falsification of Documents	An employee gave medication to a client that belonged to a client who had been discharged. The client's name had been taped onto the medication over the discharged client's name. The employee resigned pending disciplinary action. Another employee was given a written reprimand. Two contract employees were released from duty.
5.	Falsification of Documents	An employee falsified notes and other documents on numerous cases. The employee resigned pending termination.
6.	Policies and Procedures Issues	A contract employee obtained access to the supervisor's computer where they had access to interview questions for a position that they were interviewing for. The contract employee shared the interview questions with another contract employee and a regular employee who was also interviewing for the position. The two contract employees were released and the supervisor was reassigned due to other allegations. Second interviews were conducted for the position with new interview questions.
7.	Policies and Procedures Issues	An employee gave one of the clients the wrong medication. Also, medication was missing. Another employee failed to complete the medication log in a timely manner. The first employee was terminated as a result of being absent without leave (AWOL). The second employee received a 40 hour suspension.

	Allegation:	Findings and Actions Taken:
8.	Falsification of Documents	An employee was constantly late and falsified their timesheets to make it seem like they were on time. The employee was frequently late to work and had received numerous disciplinary actions. The employee resigned pending termination.
9.	Financial Irregularities	An employee was receiving a stipend from the State to cover travel for a training class. However, the employee was traveling back home on weekends and was being reimbursed by the City as well. This additional travel was not approved. The employee reimbursed \$593.60 to the City.
10.	Human Resource Issues/ Conflict of Interest	An employee referred someone who previously worked under them at their secondary job to apply for a position with the City. The employee then served as manager of the hiring panel that selected this person for the City job. This was determined to be an oversight, so the employee was counseled. Second interviews were conducted for the position with an entirely new hiring panel.
11.	Falsification of Documents	Several employees and supervisors were not closing cases timely in accordance with State policies and procedures. Additionally, interested parties were not mailed letters of notification stating whether the allegations were founded or unfounded. Due to the lack of documentation it could not be determined whether or not some cases had been investigated. Records retention policies were not followed. Two employees resigned.
12.	Financial Irregularities	The investigation was referred to another department which found that employees worked 100's of hours without pay. Corrective action is pending.
13.	Falsification of Documents	An employee copied information from another employee's work to show that they had completed client visits. The employee also indicated that they reviewed the policies and procedures with the client but there was no documentation to support it. One employee was terminated and two were suspended.
14.	Financial Irregularities	An employee cancelled library fines from their own library card spouse's card. The employee reimbursed the City for the cancelled fines and received discipline.
15.	Financial Irregularities	Over \$8,000 was misappropriated. The funds were contributions/non-city funds. Case forwarded to Police Department.
16.	Human Resource Issues	An employee threatened a fellow coworker. The employee who made the threat was suspended and sent to mandatory EAP. The case was given to CQI for further investigation.
17.	Abuse of City Time/ Misconduct in the Care of Clients	An employee frequently shopped and tried on clothes at Victoria Secret's in Lynnhaven Mall during City time. The employee brought disabled clients in her care along on these trips and often left them alone and neglected them while shopping. The employee was terminated and the incident was reported to the Department of Human Rights.
18.	Falsification of Documents	An employee falsified their time sheet indicating that they had worked a full day when they had actually left early. The employee received a five day suspension.
19.	Falsification of Documents	An employee was untruthful about attending a City of Virginia Beach training class. The employee falsified leave requests by not including being out of the office for a total of 11 hours over a two-day period. The employee is pending termination.
20.	Misuse of City Time	An employee was being allowed to use City time to complete their PhD. The practice was stopped. For any further need of time, the employee will take annual leave.
21.	Misuse of City Resources	The department had to clean out a storm water drain three times due to a lack of communication between the cleaning staff and planning estimators. Management verbally discussed the issue with the employees.
22.	Falsification of Documents	An employee lied on their affidavit and falsely indicated that they had followed department policies and procedures. The employee resigned pending discipline.
23.	Falsification of Documents	An employee altered medical documents and acted outside the scope of practice. The supervisor and another employee failed to report the altered documents and medication error. The first employee resigned pending termination. The supervisor was terminated and the other employee received a five day suspension.
24.	Falsification of Documents/ Theft of Time	An employee falsely indicated that a family member died and was granted funeral leave. The employee falsified documents intended to verify the funeral leave. The employee was terminated.
25.	Theft	A supervisor took two bags of City ice melt for personal use. The supervisor also used two employees and a City vehicle to deliver the ice melt to their personal residence. The supervisor was terminated. One employee received a suspension and one received a written reprimand.

Trend Analysis of Investigations



The chart represents the trend of cases within FID over the past five years.

Insight on how to Prevent Fraud, Waste and Abuse:

In nearly two and a half years of working within the Forensic Investigative Division (FID), numerous cases have come in, dealing with everything from theft, falsification of documents to misuse of City time. While these cases are unrelated and often deal with different departments throughout the City, often times the same underlying cause is prevalent in each one: a weakness in internal controls. Here are five lessons learned on how fraud, waste and abuse can be prevented in an organization. Note: these controls are only as good as the employees who use them.

Strong Organizational Culture (Tone at the Top):

Management has to set a proper tone for the rest of the organization. If the leaders emphasize the prevention of fraud, waste & abuse and strong ethics, then other employees are more likely to follow suit.

Establishing a Code of Conduct:

Having a code of conduct further builds on the idea of a strong tone at the top. The code of conduct should describe the ethical behaviors and practices that are expected of all employees in the organization.

Proper Policies and Procedures:

Policies and procedures should be in place to govern the various processes within an organization and to guide the behavior of employees.

Segregation of Duties:

Having more than one person hold responsibility for separate parts of a process helps to prevent collusion and makes it more difficult to hide any fraudulent transactions.

Proper Training:

All employees are required to attend Integrity Connections training upon gaining employment within the City, but employees should also be required to attend periodic refresher courses in order to reinforce their understanding of how to prevent fraud, waste and abuse.

THE FORENSIC AUDIT MANAGER'S PERSPECTIVE

"Ethics helps make a society more stable." Choosing to do the right thing when no one is looking is an essential quality that the City expects from its employees. One might ask, why is ethics so important? The answer to that question is simple. It is the means to making the correct decision at any given time.

Any proper foundation is built on ethics and the standards created by the governing body. When an employee embarks on their career path with the City, they might come with their own set of ethics. That's fine, but the employee must ensure that their ethics align with the City's organizational values and ethics, for it is these values and ethics in which they will be evaluated. This requires examination by the employee to ensure that they can meet the requirements.

The employee's examination is important because failure to meet the values and ethics may cause unwanted consequences for both the City and the employee. The sad truth is that almost every company has to prepare for the consequences.

Here in the City, we provide training for all employees at the beginning of their careers with the City. We also provide a clear path to doing the right thing. So if there is any doubt, the City of Virginia Beach is willing and able to provide the help needed to obtain a clear understanding.

Meet the FID Team



Back row (from left to right):

Phil White, Office Assistant; Daniel Rinehart, Auditor's Assistant

Front row (from left to right):

Bobbie Beddow, Office Assistant; Sharon A. Hayes, Forensic Audit Manager

As of June 2017, **8,501** employees 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
QUALITY CUSTOMER SERVICE	INTEGRITY
TEAMWORK	ACCOUNTABILITY
LEADERSHIP AND LEARNING	RESPECT
INTEGRITY	PROFESSIONALISM
COMMITMENT	CITIZENSHIP
INCLUSION AND DIVERSITY	

Fraud Prevention and Awareness — Outreach and Training Provided:

Lyndon S. Remias , City Auditor	2 Parks & Recreation
Sharon A. Hayes , Forensic Audit Manager	1 Human Services, 3 Parks & Recreation, 1 Waste Management

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**.