

# Fraud, Waste, & Abuse FY 16 ANNUAL REPORT

Office of the City Auditor—Forensic Investigative Division

*"Promoting Accountability and Integrity in City Operations"*



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## FID Team:

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

Daniel Rinehart, Auditor's Assistant

Bobbie Beddow, Office Assistant

## 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 since its inception in 2007. 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 helps to ensure 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 16. It highlights the measures that FID takes to ensure the City's ethical climate is maintained. During the year, we conducted 53 investigations that led to 25 substantiated cases. A summary of the substantiated cases are detailed within this report.

Sincerely,

Lyndon S. Remias, CPA, CIA  
City Auditor

**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

**Congratulations to Sharon A. Hayes!!!** Sharon was awarded a Master of Accounting and Finance Management from Keller Graduate School of Management of DeVry University, on April 2, 2016. Sharon also attended, this fiscal year, the Reid Technique of Investigative Interviewing & Advanced Interrogation training conducted in Ocean City, MD.

## FY 16 Investigation Stats

<b>Allegations received, year-to-date</b>			<b>53</b>
Open		1	
Open Referred		0	
Closed		47	
Closed Referred		5	
Substantiated	25		
Unsubstantiated	27		
Other	1		
<b>Inquiries received, year-to-date</b>		<b>10</b>	
<b>Recoveries—FY16</b>			<b>\$3,632</b>

# Investigation Results

Case Results	
Written Reprimands	2
Suspensions	3
Demotions	0
Resignations/Retirements (pending discipline)	5
Terminations	12
Personnel Board Hearings	3
Court Hearings	5

# FY 16 Hours Expended

Employee		Hours Worked
Sharon Hayes	Forensic Audit Manager	2,080.00
<i>Contracted:</i>		
Daniel Rinehart	Auditor's Assistant	1,649.50
Sandra MacKay	Office Assistant	601.50
Bobbie Beddow	Office Assistant	350.25
<b>Hours Expended:</b>		<b>4,681.25</b>

# Summary of Substantiated Cases

The table below summarizes the **substantiated** investigations completed in FY 16. 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:
1.	Falsification of Documents	An employee was falsifying documents and inaccurately reporting hours worked. The employee was terminated.
2.	Policies and Procedures Issues	Agreements for payments were being processed incorrectly causing incorrect co-pays. In addition, citizens were being sent delinquent bills when the accounts had zero balances. The department developed a new process for collecting and assessing agreements.
3.	Misuse of Time	An employee utilized a City vehicle to pick-up their child in another city. The employee received a written reprimand.
4.	Food Stamp Fraud	The case was referred to the Human Service's Fraud Unit that determined that a citizen received \$4,151.00 in benefits through false information. The citizen was administratively disqualified for services.
5.	Policies and Procedures Issues	Seventy checks totaling \$8,042.95 were found in an ex-contracted employee's desk. The owners of the checks were contacted and some of the checks were cleared for deposit and others were provided services.
6.	Theft, Financial Irregularities	There was \$65.00 missing from the cash box. A report was made to the Police and procedures were enhanced to secure the cash box.
7.	Theft, Financial Irregularities	An employee was stealing computer equipment and pawning the equipment at local pawn shops. The employee was terminated and charged with a felony. Restitution was made in the amount of \$3,100.

# Summary of Substantiated Cases

	<b>Allegation:</b>	<b>Findings and Actions Taken:</b>
8.	Theft, Financial Irregularities	There was \$50.00 missing from a cash box. A police report was filed. Procedures were enhanced to secure the cash box.
9.	Theft, Falsification of Documents	An employee was ringing up and forgiving their personal fines. The employee was terminated.
10.	Theft, Financial Irregularities	An employee allowed a parent to enroll their child in a city program without properly registering and paying for the registration fee. Instead the employee received a cash payment from the parent. The employee was terminated.
11.	Theft	An employee was stealing and hoarding food from a city program. The employee was terminated.
12.	Policies and Procedures Issues	Revenue from a state grant was improperly accounted for in the City's Financial System. We also found that receivables were not being collected as well as other departmental operational issues. Operating procedures have been implemented and enhanced.
13.	Falsification of Documents	An employee falsified their time sheet to receive pay for time not worked. The employee was terminated.
14.	Falsification of Documents	An employee falsified their time sheets to receive pay for time not worked. Pending termination, the employee never returned to work.
15.	Financial Assistance Fraud	Case referred to the Human Service's Fraud Unit who determined that a citizen received \$1,179 in benefits through false information. The citizen was administratively disqualified for services.
16.	Unauthorized Use of City Staff, Equipment and Supplies	An employee had unauthorized work, using city employees and resources, conducted at their personal residence. The employee was terminated and two other employees received suspensions.
17.	Worker's Compensation Issue	An employee received \$165,131.75 overpayment of workers compensation benefits. This was a result of the employee's failure to report other employment income during the receipt of benefits. The employee resigned during the investigation. The case was turned over to the State Police for further investigation. City will seek reimbursement of the overpayment.
18.	Falsification of Documents	Two employees falsified their timesheet by indicating that they were working when they were actually at home. The employees were terminated.
19.	Falsification of Documents	One employee signed another employee into work who did not actually come into work. Both employees were terminated.
20.	Policies and Procedures Issues	An employee violated a departmental policy regarding the handling of a snack program. The employee received a written reprimand.
21.	Policies and Procedures Issues	An employee violated a departmental policy regarding the handling of a snack program. The employee resigned pending discipline.
22.	Hiring Practices	A candidate was provided job interview questions prior to the actual interview. The interviewing process was eventually redone properly.
23.	Inappropriate Behavior	Two employees were found having sexual relations on City time, on City property and in a City vehicle. One employee retired pending discipline and the other employee was suspended.
24.	Worker's Compensation Issue	An employee filed a claim stating that they injured their back during work hours. Video evidence proved the claim was blatantly false and employee was being dishonest. The employee was terminated.
25.	Hiring Practices	An employee was selected for a position, but not hired due to unfair hiring practices. The Department of Human Resources was notified and the employee was eventually provided the position.

# Tips for Preventing Fraud, Waste & Abuse

## Preventive Measures

- Establish the tone at the top
- Have values set in place
- Have a Code of Ethics
- Clearly label honest and dishonest actions
- Investigate and prosecute dishonesty
- Use proper dismissal practices
- Properly train employees
- Have set policies and procedures
- Ensure the effectiveness and efficiency of internal controls



## Detective Measures

- A good system of internal control
- Know operational risk
- Reconciliations
- Segregation of duties
- Supervisory reviews
- Internal Audits
- External Audits

## Frequently Asked Questions:

### What exactly is fraud, waste, and abuse?

- Fraud means the intentional deception perpetrated by an individual or individuals, or an organization or organizations, either internal or external to the City, that could result in a tangible or intangible benefit to themselves, others, or the City or could cause detriment to others or the City. Fraud includes a false representation of a matter of fact, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive.
- Waste means the intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of resources owned or operated by the City to the detriment or potential detriment of the City. Waste also includes incurring unnecessary costs because of inefficient or ineffective practices, systems, or controls.
- Abuse means the excessive or improper use of something, or the employment of something in a manner contrary to the natural or legal rules for its use; the intentional destruction, diversion, manipulation, misapplication, maltreatment, or misuse of resources owned or operated by the City; or extravagant or excessive use so as to abuse one's position or authority.

### What does the Office of the City Auditor do as it relates to fraud, waste and abuse?

- The Office of the City Auditor provides both City employees and citizens with a system for reporting any allegation of fraud, waste and abuse in the City of Virginia Beach. The Office of the City Auditor is obligated to investigate any allegation of fraud, waste and abuse that it receives. Any information gathered during the investigation will be kept confidential.

### Who is responsible for the prevention of fraud, waste and abuse?

- The Office of the City Auditor plays a big role in preventing fraud, waste and abuse, but City leadership does as well. City leadership must implement and maintain internal controls designed to prevent fraud, waste and abuse. The Office of the City Auditor evaluates those controls and investigates any potential transgressions.

### Why does the City of Virginia Beach have a hotline?

- All employees in the City of Virginia Beach are held to a high standard and are expected to act in the best interest of the citizens. The hotline is in place so that any employee or citizen can safely report any allegation of fraud, waste and abuse.

### Is the hotline confidential?

- The hotline is completely confidential, and callers will remain anonymous under the Whistleblower Act of 1989. Information and updates of the investigation will not be provided or discussed outside of the Office of the City Auditor.

### What information is subject to the Freedom of Information Act (FOIA)?

- If the case is substantiated, the (1) complaint status, (2) nature of complaint, (3) department involved, (4, 5) subject of complaint and employment category (depending on corrective action), (6) summary of investigative procedures, (7) findings, and (8) action taken can all be disclosed. If the case is unsubstantiated, the (1) complaint status, (2) nature of complaint, (3) department involved, and (4) summary of investigative procedures can be disclosed.

## Let's Talk About Ethics

A strong ethical reputation is vital to earning and strengthening the public's trust. Everyone who works for the City of Virginia Beach shares a personal responsibility to protect, preserve and enhance our reputation by devoting ourselves to the highest ethical behavior while serving the public interest. We embrace that responsibility and live by a set of ethical principles and values, which define our desired organizational culture.

In order to assist employees with meeting the desired organizational culture, we have developed the Integrity Connection Initiative (IC) that consists of ethical training for all City employees. The training consists of a review of the City's Organizational Values and ethics and how to report suspected fraudulent activity. The Integrity Connection Initiative was developed in the Office of the City Auditor (OCA) and is implemented and monitored by a committee consisting of members from the City Manager's Office, Office of the City Attorney, Department of Human Resources and OCA. OCA is responsible for monitoring the ethic climate with the City and ensuring that all members receive the training. As part of the initiative, we developed A.D. 1.16, Fraud, Waste and Abuse Prevention and Reporting, "which serves as the City's policy on the roles and responsibilities of employees pertaining to preventing and reporting of fraud, waste and abuse within the City."



As of June 2016, **7,963** employees have received the 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.

When reporting an incident through the hotline, the reporter can remain anonymous.

The OCA is dedicated to ensuring that the City's ethical climate is positive because it is a preventive and detective measure to ensure that fraud, waste and abuse is limited.

ORGANIZATIONAL VALUES	ORGANIZATIONAL ETHICS
<p><b>QUALITY CUSTOMER SERVICE:</b> Service to customers is the fundamental reason the City of Virginia Beach Municipal Government exists.</p> <p><b>TEAMWORK:</b> Organizational goals are attained when members and customers work together.</p> <p><b>LEADERSHIP AND LEARNING:</b> Learning at every level of the organization creates opportunities for leadership experience and for members to continuously expand our capacity to create a quality organization.</p> <p><b>INTEGRITY:</b> Integrity creates the trust essential to Quality Service and long-term personal and organizational growth.</p> <p><b>COMMITMENT:</b> Commitment is the necessary mechanism enabling members to focus our behavior on attaining organizational goals.</p> <p><b>INCLUSION AND DIVERSITY:</b> Members value and respect our similarities and differences to encourage and fully utilize our human potential, and to foster a culture of openness, engagement and respect for all.</p>	<p><b>INTEGRITY:</b> We act with honor, courage, fairness, and truthfulness, without bias or impropriety.</p> <p><b>ACCOUNTABILITY:</b> We provide quality services by holding others and ourselves to the highest standards while taking responsibility for the efficient and effective use of resources.</p> <p><b>RESPECT:</b> We treat everyone with courtesy, dignity, and kindness, appreciating the diversity and uniqueness of all.</p> <p><b>PROFESSIONALISM:</b> We foster a culture of excellence and loyalty by our actions and through organizational, vocational, and personal growth.</p> <p><b>CITIZENSHIP:</b> We uphold federal, state, and local laws, while embracing the Organizational Mission and Values, to protect the public interest and make our community a better place to live and work.</p>

### Fraud Prevention and Awareness — Outreach and Training Provided:

**Lyndon S. Remias**, City Auditor

Virginia Beach Taxpayers Association (June 2016)

**Sharon A. Hayes**, Forensic Audit Manager

2 Human Services, 1 Parks & Recreation, 1 Libraries

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.