

**STATE OF VERMONT
DEPARTMENT OF PUBLIC SAFETY
ADMINISTRATIVE DIVISION**

Policy Title:	Fraud, Waste, & Abuse Prevention and Detection Policy	Scope:	Department Wide
Section:	General	Original Issue Date:	8/8/2016
Policy#:	A-GEN-002	Revision Date:	10/2/2017

PURPOSE:

To define fraud, waste, and abuse, and establish the internal controls to be used by all employees to eliminate its occurrence in our actions and daily operations as well as provide procedures to prevent and report fraud.

DEFINITIONS:

Abuse: Intentional, wrongful, or improper use of resources or misuse of rank, position, or authority. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances. Abuse does not necessarily involve fraud or other violations of law.¹

Authorization: Transactions are approved and executed only by employees acting within the scope of their authority granted by management.

Conflict of Interest: A conflict of interest can generally be defined as any situation in which an individual is in a position to exploit a professional or official capacity in some way for their personal benefit, or the benefit of a family member, or a close personal friend. A possible conflict of interest exists when an employee (or family member): has a financial interest that may impair their independent judgement to perform their duties; has a significant business or personal relationship with an individual or company engaging in, or seeking to engage in, business with the state; or may receive financial or other benefits from knowledge or information that is confidential to the State².

Control Environment: A control environment is the foundation for all other standards of internal control. It creates a pervasive influence on all the decisions and activities of an organization. Effective organizations set a positive "tone at the top." Factors include the integrity, ethical values, and competence of employees, and management's philosophy and operating style.

Documentation: Preserves evidence to substantiate critical decisions and significant events typically involving the use, commitment, or transfer of resources. For transactions it enables a transaction to be traced from its inception to completion. For policies and procedures it establishes documents which set forth the fundamental principles and methods that employees rely on to do their jobs.

Fraud: Wrongful or criminal deception intended to result in the detriment to another or benefit to oneself or others. Examples of fraud include billings for services not delivered, padding timesheets, using state vehicles for personal activities, or using state dollars for personal purchases.

Internal Control: The COSO (Committee of Sponsoring Organizations of the Treadway Commission) definition of Internal Control is a process, effected by an entity's board of directors, management, and other

¹ "Internal Control FAQ":

http://finance.vermont.gov/faq/ic_faq

² Department of Finance and Management Internal Control News, March 2007, Volume V

personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its mission.

Monitoring: Observe and check the progress or quality of (something) over a period of time; keep under systematic review.

Reconciliation: Examine transactions, information, and events to verify accuracy, completeness, appropriateness, and compliance. The level of review is based on materiality, risk, and overall importance to the organizations objectives. The frequency should be adequate to detect and act upon questionable activities in a timely manner.

Risk Assessment: Risks are internal & external events (economic conditions, staffing changes, new systems, regulatory changes, natural disasters, etc.) that threaten the accomplishment of objectives. Risk assessment is the process of identifying, evaluating, and deciding how to manage these events... What is the likelihood of the event occurring? What would be the impact if it were to occur? What can we do to prevent or reduce the risk?³

Safeguarding Assets: Secures and restricts access to equipment, cash, inventory, or confidential information to reduce the risk of loss or unauthorized use. A monitoring tool to be used is a periodic physical inventory to verify the existence, quantities, location, condition, and utilization of equipment or supplies. The level of security is based on the vulnerability of the items to be secured, the likelihood of loss, and the potential impact should a loss occur.

Separation of Duties: To divide responsibilities between different employees so one individual doesn't control all aspects of a transaction. This is designed to reduce the opportunity for an employee to commit and conceal errors (intentional or unintentional) or perpetrate fraud.

Verification: The process of establishing the accuracy or validity of something.

Waste: Use or expend carelessly, extravagantly, or to no purpose.

“Significant loss or misuse of state resources that results from deficient or negligent practices, controls, or decisions. Waste involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances. Waste does not necessarily involve fraud or other violations of law.”⁴

Whistle Blower Reports: Reports to the Vermont State Auditor's Office of fraud, waste, and abuse. Reports can be made by calling the Confidential phone line (1-877-290-1400) or online:

http://auditor.vermont.gov/reporting_fraud

³ “Internal Controls 101: A Primer” Presentation:

http://finance.vermont.gov/sites/finance/files/powerpoints/Internal_Controls_101.ppt

⁴ “Internal Controls 101: A Primer” Presentation:

http://finance.vermont.gov/sites/finance/files/powerpoints/Internal_Controls_101.ppt

Reports may be made anonymously, but those made by individuals who identify themselves make it possible to have a discussion if the facts warrant. If you do identify yourself but are concerned about possible retaliation, legal authority is available to protect your identity [1 V.S.A. § 317 (42)].

REFERENCES:

Department of Public Safety:

“Privacy Policy” A-GEN-001

<http://dps.vermont.gov/sites/psd/files/documents/A-GEN-001%20Privacy%20Policy.pdf>

“Security Access Policy” A-GEN-004

<http://vibrs.dps.state.vt.us/>

Department of Finance and Management:

“Fraud Awareness” BP-11, Internal Control – Best Practices

“Employee Separation” BP-08, Internal Control – Best Practices

“Self-Assessment of Internal Control”

“Internal Control Standards, A Guide for Managers”:

“Internal Control FAQ”

“Internal Controls 101: A Primer” Presentation:

<http://finance.vermont.gov/policies-and-procedures/internal-controls>

Department of Human Resources:

Policy 5.2: “Conflict of Interest”

Policy 5.6: “Employee Conduct”

Policy 8.0: “Disciplinary Action and Corrective Action”

Policy 17.0: “Employment Related Investigations”

<http://humanresources.vermont.gov/labor-relations/manual>

Reporting Fraud: Employee Whistleblower Protection:

<http://humanresources.vermont.gov/labor-relations/labor-relations-policies/employee-whistleblower-protection>

Vermont Statutes:

Title 3 V.S.A. § 971 – 978: Whistleblower Protection

Title 1 V.S.A. § 317 (42): Definitions; public agency; public records and documents

<http://legislature.vermont.gov/statutes/>

Executive Order: Executive Code of Ethics:

[http://governor.vermont.gov/sites/shumlin/files/documents/EO%2009-](http://governor.vermont.gov/sites/shumlin/files/documents/EO%2009-11%20Executive%20Code%20of%20Ethics.pdf)

[11%20Executive%20Code%20of%20Ethics.pdf](http://governor.vermont.gov/sites/shumlin/files/documents/EO%2009-11%20Executive%20Code%20of%20Ethics.pdf)

The Committee of Sponsoring Organizations of the Treadway Commission

<http://www.coso.org/IC.htm>

GENERAL STANDARDS:

Employee Responsibilities

- No employee shall engage in an activity which is fraud, waste, or abuse.
- Employees will comply with all policies and procedures for Vermont State Employees:

<http://humanresources.vermont.gov/labor-relations/manual>

As well as all departmental policies and procedures in their daily activities.

- Employees will ensure internal controls are maintained to minimize risk in order to accomplish our department mission, to provide relevant and reliable reporting, to support effective and efficient operations, and to safeguard assets.
- Please report suspected fraud, waste or abuse to your Supervisor or the Commissioner, or, if you prefer, to the State Auditor's Office Confidential phone line (1-877-290-1400) or online: http://auditor.vermont.gov/reporting_fraud
- No employee will retaliate against another employee for reporting suspected fraud, waste, or abuse⁵.

Management Responsibilities

- Management is responsible for setting a positive "tone at the top" for a control environment which influences all decisions and activities within the department. This tone includes a high standard for the integrity, ethical values, and competence of its employees. Through training, monitoring, and example management will strive to achieve an environment of strong internal control which will identify and alleviate fraud, waste, and abuse.
- Management has established a clear message that fraud, waste, and abuse will not be tolerated, nor will any attempt to conceal it. Management will encourage employees to report any suspected fraud, waste, or abuse.⁶
- Management is responsible for ensuring an effective control environment.
- Management will assess risk and ensure that monitoring activities are in place to identify and eliminate fraud, waste, and abuse.
- Management will identify areas where policies and procedures need to be written, reviewed, and/or updated to provide for strong internal control.
- Management is responsible for oversight "which support all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allows people to carry out their duties."⁷
- Management will oversee contractor access, activities and performance.

Internal Operations

- All internal operations should be designed with policy and procedure written to include the following:
 - Compliance with applicable laws and regulations
 - Accomplishment of the entity's mission
 - Relevant and reliable financial reporting
 - Effective and efficient operations
 - Safeguarding of assets
 - Reducing and preventing errors
 - Providing appropriate checks and balances
 - Annual reviews and updates of written policy and procedure
- Internal operations will incorporate sound internal control at a standard which provides for the absence of the following concerns:
 - Business interruption
 - Erroneous management decisions
 - Fraud, embezzlement, or theft
 - Statutory sanctions
 - Excessive costs or deficient revenues

⁵ Title 3 V.S.A. § 971 – 978: Whistleblower Protection

⁶ Department of Finance and Management "Fraud Awareness" BP-11, Internal Control – Best Practices

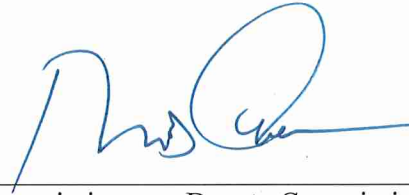
⁷ COSO, The Committee of Sponsoring Organizations of the Treadway Commission

- Loss, misuse, or destruction of assets
- Recommended tools that may be used to prevent or reduce fraud, waste, and abuse are as follows:
 - Written policies and procedures which are followed by all employees and periodically reviewed
 - Authorizations with proper signing authority
 - Limit employee access to cash, confidential data, equipment, property, and other assets to only those with a legitimate business need necessary to perform their job duties.
 - Verifications by an employee other than the one that performed the task
 - Reconciliations by an employee other than the one that performed the task
 - Reviews of operating performance by management
 - Separation of duties
 - Pertinent information is captured, identified, and communicated on a timely basis
 - Periodic inventories conducted to verify existence, quantities, location, condition, and utilization of equipment or supplies
 - Safeguard assets by locking confidential files and cash drawers.
 - Maintain a list of all employees with keys
 - Maintain an employee separation check list to retrieve assets and keys

SIGNATURE:

10/4/17

Date



Commissioner or ~~Deputy Commissioner~~
Department of Public Safety