

County of Hendricks

Fraud and Materiality Policies and Procedures

1. Purpose

Hendricks County is committed to protecting its revenue, property, information and other assets from any wrongful attempt to gain, by deceit, any financial or other personal benefit.

The Fraud and Materiality Policies and Procedures (Policy) identifies specific guidelines and responsibilities regarding appropriate actions for detecting, reporting and investigating fraud, suspected fraud or other similar irregularities.

The Policy is established to provide guidance and reporting methods when fraud and/or deception are suspected against the County. The County will promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conducting investigations in addition to protecting County staff and others from false allegations.

It is the County's intent to fully investigate any suspected acts of fraud, misappropriation or other similar irregularities. An impartial investigation will be conducted regardless of the position, title and length of service or relationship with the County of any party who might be or becomes involved in or becomes/is the subject of such an investigation.

This policy shall be distributed to the County Commissioners, the County Council, Elected Officials, Department Heads, and all County employees. It will also be distributed to all commissions and related committees with public budgets over which the County has authority to require general procedures to be followed.

2. Scope

This policy and procedure applies to members of the County Commissioners, County Council, all Elected Officials, Department Heads, all County employees, as well as all members and employees of local boards, agencies, commissions and related committees with public budgets over which the County has authority to require general procedures to be followed. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the County.

3. Policy Statement

The County is committed to protecting its revenue, property, information and other assets from any wrongful attempt, either by members of the public, contractors, vendors, agents or its own employees to gain financial or other benefits by deceit.

The County management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Every member of the management team shall be provided with training to allow them to be reasonably familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Any fraud or other inappropriate conduct that is detected or suspected must be reported immediately and investigated in accordance with the guidelines and responsibilities of this Policy and Procedure.

4. **Definitions**

- a) **Embezzlement:** the fraudulent diversion or misappropriation of an asset of Hendricks County.
- b) **Fraud:** As defined by Indiana Code 35-43-5- Fraud includes:
 - a. Forgery, alteration or fraudulent creation of documents including but not limited to checks, drafts, promissory notes, securities, timesheets, purchase orders, a bill-of-sale, agreements, memorandums of understanding, contracts, etc.;
 - b. Any misappropriation, embezzlement, unauthorized use or misuse of cash, funds, securities, supplies, furniture, equipment, materials, supplies, contractual services, records or any other asset;
 - c. Any intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury;
 - d. Demanding or requesting or accepting anything having value from vendors, consultants, contractors, or anyone doing business with the County as a condition of their doing business with the County or in order for them to receive preferential treatment from the County.
 - e. Any computer related activity involving the alteration, destruction, deletion, forgery or fraudulent manipulation of data and any misappropriation of County owned software;
 - f. Any claim for reimbursement of expenses that were not incurred as a recognizable business expense for the County's benefit or are in violation of the County travel expense policy;
 - g. Intentional deception or misrepresentation of information by an individual;

- h. Intentional deception or misrepresentation of information on documents;
 - i. Authorization or receipt of payments for goods not received or services not performed; and other than normal prepaid expenditures;
 - j. Authorization or receipt of payment for hours not worked;
 - k. Any apparent violation of Federal, State, or local laws related to false activities or fraud, and;
- c) **Misappropriation:** The embezzlement of County assets put to an inappropriate use.

5. **Employee Responsibility**

Any employee of the County who has knowledge of an occurrence of irregular conduct or activity, or who has reason to suspect that fraudulent activity has occurred, shall immediately notify his/her Elected Official or Department Head. The reporting employee shall refrain from the further investigation of the incident and avoid confrontation with the alleged violator.

If the Elected Official or Department Head is suspected of fraudulent behavior, the employee shall immediately notify the Hendricks County Auditor and the Auditor shall then immediately notify the Hendricks County Commissioners and Hendricks County Council. If the suspected perpetrator involves the Auditor, the Hendricks County Commissioners and Hendricks County Council should be immediately notified.

The reporting employee shall keep all information confidential and shall not discuss the matter with anyone other than his/her Elected Official, Department Head, the Hendricks County Commissioners, the Hendricks County Council, the State Board of Accounts or the State Police.

Employees who knowingly make false allegations of Fraud will be subject to discipline up to and including dismissal.

6. **Internal Controls**

With the appropriate support and advice from the Auditor's Office, each Elected Official and Department Head is responsible for instituting and maintaining a system of internal control policies to provide reasonable assurance for the prevention and detection of fraud, misappropriation and other irregularities. Elected Officials and Department Heads should seek training and information to allow them to be reasonably familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indications of such activity. In addition, each Elected Official and Department Head is responsible for the creation, maintenance and execution of internal control documents

Fraud & Materiality Policy

within their area of responsibility. The initial and any subsequent changes to internal documents must be approved by the Hendricks County Auditor.

As part of his/her examination, the Hendricks County Auditor shall review the controls in place to safeguard the assets of the County against loss, misuse, unauthorized use, and fraud. In those situations where the control mechanisms are inadequate, the Auditor will identify the cause(s) for the failure and will issue a report to the Hendricks County Commissioners and Hendricks County Council providing recommendations to prevent any reoccurrence.

7. Materiality Threshold

Indiana State Board of Accounts (SBOA) Directive 2015-6 states that each political subdivision must develop their own policy on materiality because the causes of irregular variances, losses, shortages and thefts are as broad and varied as the political subdivisions in which the incidents occur.

Indiana Code 5-11-1-27(j) states:

All erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property, equal to or above the materiality threshold, shall be reported immediately to the Indiana State Board of Accounts. For all material variances, losses, shortages, or thefts, the state board of accounts shall:

- (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials
- (2) determine the internal control weakness that contributed to or caused the condition; and
- (3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:
 - a. The method of correcting the condition and
 - b. The necessary internal control policies and internal control procedures that must be modified to prevent a recurrence of the condition.

The Materiality Threshold is defined as the economic value of fraudulent activity involving assets that is necessary to invoke SBOA oversight. That value for Hendricks County is set at \$ 5,000 (five thousand dollars). Any fraud perpetuated with asset values totaling over the threshold will be subject to reporting to the SBOA. Any fraudulent activity involving assets with a value lower than the threshold will be handled internally.

8. Notification of Suspected Fraud and Related Actions

The Hendricks County Auditor shall be receptive to receiving any information on a confidential basis from anyone who suspects dishonest or fraudulent activity. The Auditor

may receive inquiries of suspected fraud from various sources including employees, County Commissioners, County Council members, citizens, law enforcement agencies, etc.

The Auditor will communicate confidential oral and/or written reports regarding the suspected activity to the County Commissioners and County Council; and, if proven over the materiality threshold, the SBOA.

All supervisors, upon notification from an employee of suspected fraud, shall notify their Department Head who shall then notify the Auditor. The Auditor will immediately notify the County Commissioners and County Council. If the suspected activity involves the Auditor, the County Commissioners and County Council will be notified. The Department Heads shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the County Commissioners and County Council.

Upon notification of a suspected fraud, the Auditor will promptly record all the pertinent information received regarding the alleged fraud. In all circumstances where there appears to be reasonable grounds for suspecting that a fraud has taken place, the Auditor will notify the County Commissioners and County Council, upon commencement of the investigation as may be appropriate in the circumstances. In addition, where appropriate, these officials shall be informed by the Auditor of the pertinent investigative findings throughout the investigation. The Auditor will direct an investigation team to perform an initial review.

After an initial review and a determination that the suspected fraud warrants additional investigation, the Auditor will ensure that notification of the allegations made are communicated to the County Commissioners, County Council, and the County Attorney. In addition, if the fraud perpetuated is suspected to be over the "Materiality Threshold," the Auditor will notify the SBOA. The Auditor shall coordinate the investigation team based upon the circumstances and with the appropriate law enforcement officials, as required.

After an initial review, if a determination is made that the allegation is unfounded or lacks sufficient evidence to warrant further investigation, the Auditor will notify the County Commissioners and County Council of the review findings. The matter may then be referred to the appropriate Elected Official or Department Head for any further action pursuant to the Employee Handbook.

In all circumstances where there are reasonable grounds to indicate that a "Fraud," as defined by Indiana State Statute, may have occurred, the Auditor will contact the SBOA. The Auditor shall report the same on a timely basis to the County Commissioners and County Council for informational purposes.

The Auditor shall ensure that information received indicating that employees may have behaved/conducted themselves in an unacceptable manner, when such behavior/conduct does not fall within the definition of "Fraud" as defined by Indiana Code, will be forwarded to the Elected Official or Department Head to be resolved within the framework of the Employee Handbook.

Fraud & Materiality Policy

Upon conclusion of the investigation, the results will be reported to the County Commissioners, the County Council, and the County Attorney.

9. Investigation Hierarchy

The County Auditor is responsible for preparing all of the records for an annual SBOA audit. Part of the SBOA audit is an examination of internal controls including departmental audits of internal control procedures. The County Auditor, as part of the audit, is held responsible for putting the *appropriate* internal controls in place in order to ensure that the receipt, maintenance and disbursements of all monies under the care of the Auditor are appropriate. With that in mind, the Auditor must be the administrator of all financial investigations and be responsible to audit day-to-day activities against internal control standards.

10. Investigation Team

This policy acknowledges that the Auditor, while performing the investigative procedures, may require management and/or other staff to assist in providing information and file access throughout any investigation. The County's objective associated with this Fraud Policy includes a practical/functional approach to investigations. Therefore, where appropriate, the Auditor should involve appropriate Elected Officials and Department Heads in the investigative process. The Auditor shall ensure that a qualified and appropriate investigative team is assigned to the examination of investigations. However, the Auditor will, where appropriate, consult with the County Commissioners, County Council, and the County Attorney, in an effort to bring a team approach to any investigation.

In the event that the suspected perpetrator involves the Auditor, the President of the County Commissioners and President of the County Council will have the primary responsibility for directing the investigation.

The Auditor has the primary responsibility for the investigation of all other suspected fraud allegations and shall establish an appropriate investigative team.

11. Investigation

Investigation will be performed in accordance with Section 10 of this policy in addition to the following procedures:

a) Security of Evidence

Once a suspected fraud is reported, the Auditor, in consultation with the Commissioners, Council, County Attorney and any other relevant Elected Officials or Department Head shall take immediate action to prevent the theft, alteration or destruction relevant records. Such actions include, but are not necessarily limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist, locking computer access and freezing

files, and preventing the individual suspected of committing the fraud from having access to the records. The records must be adequately secured until the Auditor obtains the records to begin the audit investigation.

b) Personal Actions

If a suspicion of fraud is substantiated by the investigation, disciplinary action, up to and including dismissal, shall be taken by the appropriate Elected Official or Department Head in consultation with the Human Resources Division.

Unless exceptional circumstances exist, a person under investigation for fraud shall be given written notice of the essential particulars of the allegations following the conclusion of the audit investigation and prior to final disciplinary action being taken. Where written notice is given, the person against whom allegations are being made may submit a written explanation to the Auditor, Commissioners, and Council, no later than ten (10) calendar days after notice is received.

c) Concerned Employee Protection

No person either acting on his/her own or acting on behalf of the employer shall:

- Dismiss or threaten to dismiss an employee;
- Discipline or suspend or threaten to discipline or suspend an employee;
- Impose any penalty upon an employee; or,
- Intimidate or coerce an employee;

Because the employee has acted in accordance with the requirements of the policy the violation of this section will result in discipline up to and including dismissal.

d) Media Issues

Any Elected Official or Department Head contacted by the media with respect to an audit investigation shall refer the media to the County Commissioners or designate. The alleged fraud or audit investigation shall not be discussed with the media by any person other than with the Auditor, the President of the Commissioners, the President of the Council, or their designee.

If the Auditor's office is contacted by the media regarding an alleged fraud or audit investigation, the Auditor or designate will consult with the President of the Commissioners, President of the Council, and County Attorney before responding to a media request for information or interview.

The Auditor, along with the President of the Commissioners and President of the Council will determine media messages and identify an appropriate County spokesperson, as required.

e) Documentation

At the conclusion of each investigation, the Auditor will document the results in a confidential memorandum report to the President of the Commissioners and

President of the Council. If the report concludes that the allegations are founded; and, the fraud meets the SBOA reporting or prosecutorial threshold the report will be forwarded to the SBOA, the Hendricks County Prosecutor's Office.

The Auditor is also required to make recommendations to the Commissioners, Council, and the appropriate Department head to assist in the prevention of future similar occurrences.

In addition, the Commissioners and Auditor shall maintain documentation of historical inquiries reported specifically to them regarding each circumstance associated with suspected Fraud. The Auditor shall provide the prescribed tracking form and the retention of such documentation as may be appropriate.

12. Accounting for Loss, Restitution and Recovery

The County will pursue every reasonable effort to obtain recovery of the County losses from the offender, or other appropriate source(s), including court-ordered restitution.

The Department incurring the loss from a dishonest or fraudulent act will normally suffer the loss until the monies can be recovered through insurance or restitution. Any amount recovered will be receipted according to the State Board of Accounts.

If the incident is an insured loss, then the investigation costs may be covered under the County's insurance coverage policy. Otherwise, there is no special fund to cover the costs of recovery and expenses such as hiring special investigators. This will be allocated from existing operating budgets

13. Related Policies and Procedures

Suspected improprieties concerning a County employee's moral, ethical or behavioral conduct should be resolved by the Commissioners, the appropriate Elected Official or Department Head and Human Resources.

Any termination of employment associated with Fraud, other similar irregularities or inappropriate/irregular conduct, requires appropriate consultation that shall include, as a minimum, the Commissioners, Council, County Legal Counsel, and the Human Resources Department of the County.

This Fraud Policy and Protocol is designed to augment any other corporate policies containing related information and is not intended to replace or preclude them. Should a conflict arise between policies in the areas of interpretation, application, or responsibility, the policy with the more stringent or restrictive interpretation shall apply.

14. Reporting to the State Board of Accounts, County Commissioners and County Council

The Auditor will disclose to the SBOA, the nature and extent of any fraud or suspected fraud and other investigations on a timely basis. If the fraud exceeds the threshold amount established by the County Commissioners, the SBOA will become the investigative body and the County will relinquish its investigative position. If the fraud does not exceed the reportable fraud threshold set by the Commissioners, the fraud report will be submitted during the annual audit with process and remedy.

The Auditor will prepare an annual report on the reported suspected fraud related activity for the review of the Commissioners and Council.

15. Records

Upon completion of the investigation, including all legal and personnel actions, any records, documents and other evidence related items will be retained by the Auditor in accordance with retained records state statutes and/or local public records commission.

16. Compliance Standards

Failure of staff compliance with this Fraud Policy and Protocol could result in disciplinary action as may be considered appropriate by the County Commissioners. Hendricks County requires that those conducting fraud examinations shall perform their duties diligently, impartially, conscientiously, and in a professional manner, to the best of their ability and shall:

- A. Comply with any relevant legislation, administrative requirements agreement;
- B. Maintain adequate documentation to support any decisions made;
- C. Maintain confidentiality and treat members of the public and other County employees with courtesy and sensitivity, while respecting their legal and privacy rights;
- D. Ensure that their work practices in dealing with the colleagues and clients do not harass or discriminate on the grounds of sex, marital status, pregnancy, age, color, nationality, ethnicity, or national origin, physical or intellectual impairment, sexual preference or religious or political beliefs;
- E. Ensure that in using their discretionary powers, perform appropriate research, take all relevant facts into consideration and have regard to the particular merits of each fraud examination;
- F. Treat each fraud examination promptly and reasonably with a view to meeting the principles of procedural fairness, reasonableness, and promptness.

The Auditor designate, in consultation with the Commissioners and Council, shall ensure a complete review of this policy every five (5) years from the date of approval, or sooner, if deemed appropriate.

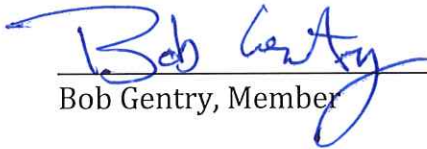
Adopted this 28th day of November, 2017 by the Board of County Commissioners of Hendricks County.



Matthew D. Whetstone, President

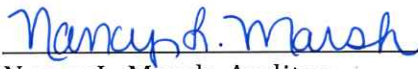


Phyllis A. Palmer, Vice President



Bob Gentry, Member

Attest:



Nancy L. Marsh, Auditor