



## FRAUD RISK ASSESSMENT POLICY

Select Board Original Adoption:	<u>August 24, 2021</u>
Amended/Approved- Select Board	Oct. 11, 2022
Last Reviewed by Select Board:	Sept. 11, 2022

### INTRODUCTION:

The Town of Southampton is committed to its duty to ensure effective stewardship of public money and other assets and resources for which it is responsible. It is the policy of the Town of Southampton to prevent and deter all forms of fraud that could threaten the security of the Town's assets or its reputation. The Town is committed to prevention, detection, investigation and corrective action relative to fraud. The Town is committed to ensuring that the opportunity to commit fraud is eliminated. It is most important that an ethical environment is created that flows through the entire organization.

### APPLICABILITY

This Policy applies to all employees, appointees and elected officials of the Town of Southampton.

### DEFINITION

Fraud is a violation of trust that is defined as a deception deliberately practiced to secure unfair or unlawful gain. The term includes but is not limited to such acts as deception, bribery, forgery, extortion, theft, embezzlement, misappropriation of money or assets, false representation, the concealment of material facts relating to any of the above and collusion or conspiracy to commit any or all of the above.

#### Examples of Fraudulent Activity

Fraud can cover many activities; however, this Policy is directed primarily at financial matters. Fraud may include, but is not limited to:

#### Misappropriation of Assets:

1. Theft
2. Forgery, alteration or misappropriation of checks, drafts, promissory notes or securities



3. Unauthorized use, or disposition of Town funds, property, materials, supplies, and equipment belonging to the Town or to which the Town is responsible
4. Embezzlement
5. Falsifying time sheets or payroll records
6. Falsifying travel or entertainment expenses and/or utilizing town funds to pay for personal expenses or personal benefit
7. Fictitious reporting of receipt of funds

Fraudulent Financial Reporting:

1. Improper revenue recognition
2. Improper expense/expenditure recognition
3. Overstatement of assets
4. Understatement of liabilities

Expenditures and Liabilities for Improper Purpose:

1. Payments in money or other property, including but not limited to such things as jobs and discounted or free services in exchange for benefits and other things of value.
2. Bribes and kickbacks.

*Prohibited or improper conduct for municipal employees and municipal officials is more fully defined in Massachusetts General Law Chapter 268A.*

## **GENERAL POLICY AND RESPONSIBILITIES**

The Town will investigate any suspected acts of fraud or misappropriation of property. An objective and impartial investigation will be conducted regardless of the position, title, and length of service or relationship with the Town of any person, group or organization reasonably believed to have committed fraud. Each Department Head is responsible for instituting and maintaining a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriation and other irregularities. Management should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indications of such conduct.

The Town Administrator has the primary responsibility for overseeing the investigation of all suspected fraudulent acts defined in this policy. All Department Heads or individuals, upon discovery of any violation of this policy, must notify the Town Administrator of the



violation. If it is determined that corrective action may be handled within the department, the Department Head or individual will notify the Town Administrator as to the steps taken to correct the violation. The Town administrator will immediately notify the Chair of the Select Board of any violation of this policy.

Upon conclusion of the investigation, the results will be reported to the Select Board. Where there are reasonable grounds to believe that a fraud may have occurred, the Town Administrator may report the incident to the appropriate authorities, in order to pursue appropriate legal remedies. The Town Administrator will pursue every reasonable effort to obtain recovery of the assets.

## **PROCEDURES FOR REPORTING**

The Town recognizes there may only be a suspicion of fraud - thus any concerns should be reported to the Town Administrator. If the concern involves the Town Administrator, it should be reported to the Chair of the Select Board. All cases of suspected fraud will be investigated and appropriate action will be taken.

Any employee or municipal official who has knowledge of any occurrence of fraudulent conduct, or has reason to suspect that a fraud has occurred, shall immediately notify the Town Administrator in writing. The written report should be sufficiently detailed and inclusive to ensure a clear understanding of the issues raised. In cases where the employee or municipal official has a reason to believe the Town Administrator may be involved, then the Chair of the Select Board should immediately be notified. However, in certain circumstances, such as witnessing theft of equipment, materials or cash, it may be appropriate for employees to report suspected instances of fraud or irregularity directly to the Chief of Police.

### **Investigation**

Upon notification or discovery of a suspected fraud, the Town Administrator shall immediately investigate the fraud. The Town Administrator will make every reasonable effort to keep the investigation confidential. The Town Administrator will notify the Select Board. When deemed necessary, the Town Administrator shall coordinate the investigation with the Town Accountant and/or appropriate law enforcement officials. Legal Counsel will be involved in the process, as deemed appropriate.

### **Security of Evidence**

Once a suspected fraud is reported, immediate action to prevent the theft, alteration, or destruction of relevant records shall be initiated. Such actions may include but are not limited to, removing the records and placing them in a secure location, limiting access to



the location where the records currently exist, and preventing the individual suspected of committing the fraud from having access to the records. The records shall be adequately secured until the investigation is complete.

### **Media Issues**

1. Any Town employee or elected official contacted by the media with respect to an investigation shall refer the media to the Town Administrator. The alleged fraud investigation shall not be discussed with the media by any person other than the Town Administrator.
2. If the Town Administrator is contacted by the media regarding an alleged fraud or audit investigation, the Town Administrator shall consult with the Select Board before responding to a media request.
3. The Town Administrator or the Select Board shall not discuss the details of any ongoing fraud investigation with the media if it may compromise the integrity of the investigation.

### **Confidentiality**

All participants and all persons questioned in a fraud investigation shall keep the details and results of the investigation confidential so as not to violate an individual's expectation of privacy. The individual will be notified of his/her right to inform a representative of the applicable union or counsel of their choice about the findings of the investigation.

### **Personnel Actions**

If a suspicion of fraud is substantiated by the investigation, disciplinary action, up to and including dismissal and referral for appropriate legal action, shall be taken by the Town Administrator.

### **Whistle-Blower Protection**

No employee of the Town or person acting on behalf of the Town in attempting to comply with this policy shall:

- be dismissed or threatened with dismissal;
- be disciplined, suspended or threatened with discipline or suspension;
- be penalized or any other retribution imposed, or
- be intimidated or coerced.



Violation of this section of the Policy may result in a disciplinary action, up to and including dismissal.

If an allegation is made in good faith, but it is not confirmed by the investigation, no action will be taken against the originator. If, however, the allegations were made in bad faith or without a justifiable basis, appropriate disciplinary action may be taken against the individual making the erroneous allegation.

First Reading: August 2, 2022

Second & Final Reading: September 11, 2022

Adopted by the Southampton Select Board: Date: October 11, 2022\_