



# DEPARTMENT OF ADMINISTRATION

## Enterprise Policy

HR-FRAUD-2010

DIVISION OF HUMAN RESOURCES

**Fraud Policy**

Date of Last Revision 10/19/2010

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### 1. Objective

- a. The Director of the Department of Administration (hereafter 'Department') hereby issues this policy statement to prevent and address fraudulent practices for all State agencies, with an exception to the Department of Public Safety and the Department of Corrections. This policy applies to any employee, vendor, contractor, outside agency, or person employed by or doing business with the State or in any other relationship with the State. All applicable parties shall adhere to the highest standards of ethical conduct; respect the public trust and the rights of all persons; be open, accountable, and responsive; avoid any appearance of impropriety; not use their position for private or personal gain; and prevent, identify and report any appearances of fraud and or corruption that is observed during the conduct of any business by or with the State of Rhode Island.

### 2. General Policy

- a. This policy expressly references and fully incorporates Article III section 7 of the Rhode Island Constitution into this policy statement. Article III, section 7 provides:
- b. The people of the State of Rhode Island believe that public officials and employees must adhere to the highest standards of ethical conduct, respect the public trust and rights of all persons, be open, accountable and responsive, avoid the appearance of impropriety and not use their position for private gain or advantage. Such persons shall hold their positions during good behavior.
- c. This policy expressly references and fully incorporates the Rhode Island Code of Ethics as noted in Chapters 14 and 14.1 of Title 36 of the General Laws and the Ethics Code Regulations, as well as Personnel Rule 6.02 "Conduct of Employees".
- d. The Office of Legal Services, Division of Human Resources and the State Controller is responsible for enforcement, interpretation, and application of the policy.

### 3. Procedures

- a. Prevention
  - (i.) Department Directors, together with their managers, are responsible to educate their employees in the prevention and detection of financial irregularities, fraud and to reinforce such internal control methods with their employees.
  - (ii.) Management is responsible for detecting and/or responding to fraudulent activities in their areas of responsibility. Each manager should be familiar with

the types of improprieties that might occur in their area and be alert for any indication of improper activity, misappropriation or dishonest activity.

- (iii.) If an internal investigation indicates that an employee, State contractor or vendor has engaged in perpetrating fraudulent activity against the Department, the Director of Administration (in conjunction with the Division of Human Resources and others) will take the appropriate corrective action(s) to ensure adequate controls exist to prevent reoccurrence of improper actions.
- (iv.) The Department/Agency Director will consider and initiate any other action(s) deemed necessary to protect Department assets and property. This shall include considering whether it is necessary to investigate other systems/procedures through which the suspect may have had opportunity to misappropriate Departmental assets.

**b. Reporting Procedures**

- (i.) It is the responsibility of every employee, supervisor, manager and administrator to immediately report suspected fraudulent conduct to their supervisor, those that exercise authority over the supervisor, the legal department, or the Rhode Island State Police. The issue must then be reported to the Bureau of Audits (hereafter 'Bureau'), who will investigate the possible fraud. If the suspected fraud involves a State employee, Human Resources will be notified and informed of the information gathered from the investigation. Management should not attempt to conduct individual investigations or interviews.
- (ii.) The individual who suspects fraud also has the right to make such a report directly to the Bureau, legal department or the Rhode Island State Police which are available to receive relevant information on a confidential basis to the extent allowed by law.
- (iii.) Upon adequate review, the legal department will determine the appropriate response measures to be followed. If criminal activity is suspected, the Agency Director may confer with the Rhode Island State Police, as well as the Attorney General. If the Rhode Island State Police is directly contacted by the reporting employee, and the Rhode Island State Police believe the issue needs investigation, then the Rhode Island State Police will only contact the Agency Director.
- (iv.) Within a reasonable amount of time after the conclusion of the matter, the Director (or designee) shall inform the person making the written complaint of the action taken and ultimate determination of the matter, in instances that did not involve law enforcement activity. Any disciplinary action issued as a result of an investigation is confidential and shall not be included in the information disclosed.

**c. Investigation Responsibilities**

- (i.) The Director of Administration ( or his/her designee) is responsible for procuring resources and managing internal investigations.
- (ii.) If the investigation substantiates that fraudulent activities have occurred, the Bureau will issue reports to appropriate designated personnel and to the Director.

**d. Recovery of Losses**

- (i.)** Recovering losses is a major objective of any fraud investigation. Internal audits will ensure that the amount of any loss be quantified and repayment of losses be sought in all cases.
- (ii.)** The State will consider action to freeze the suspect' s assets through the court, pending conclusion of the investigation. Efforts will be made to recover losses and costs through the civil court, where the perpetrator refuses repayment.
- (iii.)** The Department/ Agency Director will ensure that prompt action is taken to recover insured losses by notifying the state's insurance officer and submitting the appropriate claims· information as quickly as possible.

**e. Discipline**

- (i.)** Failure-to comply with this policy is grounds for just cause disciplinary action. Appropriate disciplinary action shall be issued to employees who:
  - 1.** have engaged in any form of fraud, theft, waste, or abuse;
  - 2.** suspects or discovers fraudulent activity and fails to report that information as required by this policy and the Rhode Island Code of Ethics; or
  - 3.** intentionally reports false or misleading information.
- (ii.)** The disciplinary action may include but is not limited to an Oral Reprimand, Written Reprimand, Suspension, Demotion or Termination.

**4. Definitions**

- a.** “**Abuse**” is the intentional, wrongful, or improper use of resources or misuse of rank, position, or authority for reason of personal gain or that causes the loss or misuse of resources, such as tools, vehicles, computers, copy machines; etc.
- b.** “**Fraud**” is defined by the Institute of Internal Auditors as any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Fraud is perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage. Examples of fraud include but are not limited to:
  - (i.)** Embezzlement, misappropriation or other financial irregularities;
  - (ii.)** Forgery or false alteration of documents (checks, time sheets, contractor agreements, purchase orders, other financial documents, electronic files);
  - (iii.)** Improprieties in the handling or reporting of money or financial transactions;
  - (iv.)** Misappropriation of funds, securities, supplies, inventory, or any other asset (including furniture, fixtures or equipment);
  - (v.)** Authorizing or receiving payment for goods not received or services not performed;
  - (vi.)** Authorizing or receiving payment for hours reported as worked but not worked;
  - (vii.)** Profiteering as a result of confidential insider knowledge of agency operations.

- c. **“Theft”** is defined as the unlawful act of taking property or finances with the intent to deprive the rightful owner. An example of theft is taking a printer belonging to the State for personal use. Waste: is the loss or misuse of state resources which results from deficient practices, poor system controls, or neglectful decisions. An example of waste is obligating the State to purchase expensive business equipment or supplies when less expensive alternatives that also meet the needs are available.

**5. Further Information**

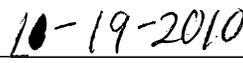
- a. Department of Administration Division of Legal Services: (401) 222-8880

**6. References**

- a. Rhode Island Code of Ethics (Chapters 14 and 14.1 of Title 36 of the General Laws) Ethics Code Regulations
- b. Personnel Rule 6.02 "Conduct of Employees"

**7. Signatures**

  
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**Director of Administration**

  
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**Date**