

## **SCHOOL DIVISION ORGANIZATION, PHILOSOPHY, AND GOALS**

### **Financial Management**

#### **Procedures for Reporting and Investigating Fraud and Embezzlement**

This regulation supersedes Regulation 1410.

#### **I. PURPOSE**

To establish the purpose, authority, and responsibility for reporting and investigating fraud and embezzlement in Fairfax County Public Schools (FCPS).

#### **II. SUMMARY OF CHANGES SINCE LAST PUBLICATION**

Sections IV.D.8. and IV.G. revised to reflect proper office title.

#### **III. DEFINITIONS**

- A. Fraud: A false representation of a matter of fact with the intent to deceive, such as committing forgery, carrying out fraudulent credit card transactions, and making false statements on documents.
- B. Embezzlement: The theft of money or the theft of some tangible asset by a person who is entrusted with the funds or the asset.
- C. Felony Embezzlement: The theft of funds or asset(s) valued at \$200 or more.
- D. Internal Controls: Measures implemented by management to provide reasonable assurance that objectives are achieved in the following categories:
  - 1. Effectiveness and efficiency of operations.
  - 2. Reliability of financial reporting.
  - 3. Compliance with applicable laws and regulations.
  - 4. Safeguarding assets.
- E. Retaliation: When an individual retaliates against or penalizes another for reporting fraud or for cooperating, giving testimony, or participating in any manner in an audit or investigation, proceeding, or hearing.

- F. Nonfraud Irregularities: Irregularities are usually characterized as unusual events or circumstances. Fraud differs from irregularities by the intent with which it has occurred. Fraud includes, but is not limited to, the intent to personally benefit or help someone else to personally benefit from the improper actions. If there is any question as to whether an action constitutes fraud, the director of internal audit in the Superintendent's office, or the internal investigator in the Department of Human Resources shall be contacted for guidance.

#### **IV. ROLES AND RESPONSIBILITIES**

The conditions of this regulation apply to any irregularity, suspected or observed, involving an FCPS employee. Any investigation required shall be conducted without regard to the employee's length of service, position, title, or relationship. Identification of allegations of personal improprieties--whether moral, ethical, or behavioral--shall be responded to by management and reported to the Department of Human Resources.

##### **A. Management**

Members of management in FCPS shall be familiar with the content of this regulation and the types of improprieties that could occur within their areas of responsibility and shall be alert for any indication of irregularity. Members of management are responsible for establishing and implementing internal controls that will detect defalcation, misappropriation, and other irregularities. Members of management shall also be responsible for implementing required procedures to assure the safety and security of the school system's assets, revenue, and financial data. Any irregularity that is detected or suspected by any staff member shall be reported immediately in accordance with this regulation.

##### **B. All Employees**

Any employee who has knowledge of an occurrence of employee dishonesty, theft, or fraud, or has reason to suspect that an event has occurred, shall notify his or her immediate supervisor. Should there be reason to believe that his or her immediate supervisor may be involved, the employee will notify his or her supervisor's supervisor, principal, program manager, or director. If the employee prefers, he or she may notify the director of internal audit in the Superintendent's office or the internal investigator in the Department of Human Resources to report allegations of fraud. Every employee shall cooperate with investigations pursuant to this regulation. The employee shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than his or her supervisor, principal, or department director or the officials conducting the investigation. Allegations will be treated with the highest degree of sensitivity and confidentiality.

C. Affected Department or School

1. Supervisors:

- a. Upon receipt of information, or reason to suspect, that an employee may be involved in theft or fraud, the supervisor will notify his or her immediate supervisor, who will in turn notify the principal, program manager, or director. If there is reason to suspect that the immediate supervisor or a person higher in the chain of command is involved, the matter shall be reported directly to the director of internal audit in the Superintendent's office of the internal investigator in the Department of Human Resources. No principal, program manager, or director shall conduct an investigation of the allegation or alert the suspected employee that a report has been made. Confidentiality is essential, and the matter shall not be discussed with anyone other than those to whom a report shall be made or FCPS and police department personnel who are involved in conducting the investigation.

2. Principals, Program Managers, Directors, Assistant Superintendents:

- a. Upon receipt of information, or reason to suspect, that an employee may be involved in fraud, the principal, program manager, or director shall notify the appropriate cluster director or assistant superintendent. The cluster director or assistant superintendent shall notify the director of internal audit in the Superintendent's office or the internal investigator in the Department of Human Resources.

D. Internal Audit

The investigation of suspected fraud is undertaken at the express request of the Division Superintendent. Memorandums, working papers, and correspondence in the investigation are specifically requested by the Division Superintendent through the director of internal audit. The director of internal audit shall coordinate, with the internal investigator in the Department of Human Resources, all actions taken in investigating the suspected fraud. Investigations consist of performing extended procedures necessary to determine whether fraud, as suspected, has occurred. This includes gathering sufficient evidence about the specific details of a suspected fraud. These investigations may involve a coordinated team effort by internal auditors, internal investigators, and police investigators. It may also involve Virginia attorneys, external legal counsel, security personnel, and other specialists from inside or outside FCPS.

The purpose of the investigation will be to gather and assess facts relative to the suspected fraud to:

1. Determine the validity of the allegations and the extent of the suspected fraud.
2. Help the police department prepare evidence for any criminal charges that the police department may bring against the individual(s).
3. Determine if controls need to be implemented or strengthened in either the specific situation or districtwide.
4. Design audit tests to help disclose the existence of similar frauds in the future.
5. Prepare a written confidential memorandum report to the Division Superintendent that presents all findings, conclusions, recommendations, and corrective action taken.
6. If the fraudulent transaction involves funds or property under the control of a local constitutional officer or appointed officials exercising the powers of elected constitutional officers, the director of internal audit will inform the auditor of public accounts and the superintendent of state police when required to do so under state law.

Upon notification or discovery of a suspected fraud, the director of internal audit shall:

1. Notify the Division Superintendent and any other appropriate assistant superintendent.
2. With the approval of the Division Superintendent or his or her designee, promptly investigate the allegations.
3. Notify the internal investigator in the Department of Human Resources of the suspected fraud.
4. Notify the assistant superintendent for the Department of Communications and Community Outreach of the suspected fraud before any public record of a police investigation or arrest.
5. Instruct office and school personnel to consult with the Department of Human Resources to determine possible personnel actions needed.
6. Remind office and school personnel that all inquiries by the media are to be referred to the assistant superintendent for the Department of Communications and Community Outreach.

7. Remind office and school personnel that all nonmedia inquiries are to be referred to the internal auditor in the Superintendent's office or the internal investigator in the Department of Human Resources.
8. Inform the Risk Management Section, Office of the Comptroller, Department of Financial Services, that an investigation is under way and state the amount of suspected loss (if known) for insurance purposes.

E. Department of Human Resources

The assistant superintendent for the Department of Human Resources, or his or her designee, is responsible for determining the status of an employee who becomes the subject of a fraud allegation. Unless the nature of the case requires investigation without the employee's knowledge, the employee will normally be removed from the work location by reassignment, administrative leave, or suspension without pay, pending the outcome of the investigation.

The internal investigator in the Department of Human Resources will coordinate with the director of internal audit in the Superintendent's office regarding decisions to determine employee status and to notify the appropriate police department unit in cases that require such notification. Any personnel action taken regarding the employee who is the subject of the investigation will be done in a manner that does not interfere with or compromise the investigation.

The internal investigator in the Department of Human Resources will provide the director of internal audit in the Superintendent's office and police officials access to records and information under the control of human resources that may be relevant to the investigation.

In cases where an employee is determined to be in violation of FCPS regulation, or is found guilty of a criminal offense, the assistant superintendent for human resources, or his or her designee, will consult with the relevant principal, program manager, or director to determine the appropriate disciplinary action and will initiate and manage the disciplinary process to its conclusion.

F. Department of Financial Services

The assistant superintendent for financial services, as the chief financial officer, is charged with stewardship of the cash assets of the school system. The Department of Financial Services shall be responsible for establishing and monitoring internal controls over cash management that will detect or prohibit fraud, embezzlement, misappropriation, or other irregularities to the schools system's revenue or financial data. The assistant superintendent for financial services may assign a qualified staff member to work with the director of internal audit in the Superintendent's office as part of the investigation team.

G. Risk Management

When there is sufficient evidence to warrant a criminal investigation, the Risk Management Section, Office of the Comptroller, Department of Financial Services, shall immediately notify the current commercial crime insurer, in writing, of a possible loss situation. Later, but within the time frame required in the policy provisions, the insurance section shall provide a detailed, written, and sworn "proof of loss" to the insurer.

The insurance section shall interpret all requirements under the current commercial crime policy, convey requirements to other appropriate FCPS personnel, and ensure that the requirements are satisfied.

H. Community Relations

All contact with the media shall be coordinated through the assistant superintendent, Department of Communications and Community Outreach.

I. Police Department

When there is sufficient evidence to warrant a criminal investigation of a situation involving a suspected criminal fraud, the internal investigator in the Department of Human Resources shall notify the Fairfax County Police Department or other law enforcement officials who may assume primary responsibility for conducting a criminal investigation.

J. General

1. Security of Records

A successful audit investigation can only be performed if the documentation relating to the incident is available for review in its original form. Therefore, once a suspected fraud is reported, principals, program managers, directors, or other authorized personnel involved in the investigation, with the approval of the internal investigator in the Department of Human Resources or the director of internal audit in the Superintendent's office, shall take immediate action to prevent the theft, alteration, or destruction of relevant records. Such actions may include, but are not necessarily limited to, moving the records and placing them in a secure location, limiting access to the location(s) where the records currently exist, and preventing the individual(s) suspected of committing the fraud or embezzlement from having access to the records. There may be situations in which no actions are taken to avoid alerting investigation suspects. The records must be adequately secured until the director of internal audit obtains the records to begin the investigation.

2. Contacts

Decisions for referral to appropriate law enforcement or regulatory agencies for independent investigation shall be made in conjunction with legal counsel and management, as will final decisions on disposition of each case.

3. Confidentiality

Great care shall be taken in the investigation of allegations of fraudulent activity to avoid mistakenly accusing individuals or alerting suspected individuals that an investigation is under way.

K. Personnel Actions

If a suspicion of fraud is substantiated by the investigation, appropriate action will be taken in conformance with FCPS personnel policies and procedures. A false and malicious allegation of fraud is a violation of this regulation. All violations of this regulation, including violations of the confidentiality provision, shall result in disciplinary action up to and including dismissal.

L. Retaliations

It is a violation of this regulation to retaliate against any individual for reporting fraud or for cooperating, giving testimony, or participating in an audit investigation, proceeding, or hearing. Appropriate disciplinary action will be taken against those found retaliating against such an employee.

M. Media Issues

The assistant superintendent, program manager, or principal shall refer the media to the assistant superintendent, Department of Communications and Community Outreach. All contact with the media shall be made through the Office of Community Relations.

N. Disposition of Investigation

At the conclusion of the audit investigation, the director of internal audit in the Superintendent's office will document the results in a confidential memorandum report to the Division Superintendent or his or her designee. No other FCPS official shall receive a copy of the report unless directed by the Division Superintendent. The director of internal audit in the Superintendent's office shall return all records to the appropriate department or school. If criminal proceedings are anticipated, the director of internal audit shall return all records after the court date.

See also: Regulation 1420, Internal Charter