City of Culver City, California

Agenda Item Report

Meeting Date: 06/28/2010	Item Number: C-12
CITY COUNCIL AGENDA ITEM: Adoption of a Resolution Adopting City Council Policy 2010-002, Entitled Fraud Prevention.	
Contact Person/Dept.: Jeff Muir/Finance	Phone Number: (310) 253-5865
Fiscal Impact: Yes [] No [X]	General Fund: Yes [] No []
Public Hearing: [] Action Item: []	Attachments: [X]
Commission Action Required: Yes [] No []	Date: _______________
Public Notification: (E-Mail) Meetings and Agendas – City Council (06/23/10)	
Department Approval: Jeff Muir (06/18/10)	City Attorney Approval: Carol Schwab (by H. Baker) (06/22/10)
Chief Financial Officer Approval: Jeff Muir (06/18/10)	City Manager Approval: P. Lamont Ewell (06/23/10)

RECOMMENDATION:

Staff recommends the City Council adopt a Resolution adopting City Council Policy 2010-002, entitled Fraud Prevention.

BACKGROUND:

As part of the annual audit process, the City's auditors (currently Mayer Hoffman McCann P.C.) provide feedback on any areas where they believe the City's internal controls could be strengthened. In a letter to the City Council in November 2009, one of the items identified by the auditors was the City's current lack of a formal Anti-Fraud/Ethics Policy. While making inquiries with management as required by *Statement on Auditing Standard No. 99 – Consideration of Fraud in a Financial Statement Audit*, it was noted that while the City has a number of policies that set appropriate standards for employee conduct, the City does not have a single, formalized, all-encompassing fraud policy. A formal fraud policy can be an effective method of reinforcing an anti-fraud culture within the City. A comprehensive fraud policy communicates to all employees the City's position and policy on matters such as the following:

- Risks that the City faces from fraud, abuse, and other forms of misconduct;
- An ethical code of conduct;
- Definitions of ethical misconduct, including fraud and abuse;
- Employee's responsibility to report suspected ethical misconduct (including an established reporting mechanism);
- Organizational responsibility to investigate; and
- Disciplinary actions for violations.

While there a number of existing policies relating to ethical conduct by employees including, but not limited to, City Council Policy 4003 – Acceptance of Gifts or Gratuities and City Council Policy 4006 - Code of Ethics, both of which were adopted by the City Council in 1995, there is no existing formal Fraud Prevention Policy.

DISCUSSION:

Staff has drafted the attached policy for fraud prevention based on samples of those adopted by other agencies. The overriding principals are:

- The City of Culver City is committed to protecting its assets against the risk of loss or misuse. Accordingly, it is the policy of the City to identify and promptly investigate any possibility of fraudulent or related dishonest activities against the City and, when appropriate, to pursue remedies available under the law.

- This policy applies to any irregularity, or suspected irregularity, involving employees, consultants, vendors, contractors, outside agencies, and/or any other parties with a business relationship with the City.

- Any investigative activity required will be conducted in an objective and impartial manner without regard to the suspected wrongdoer's length of service, position, title, or relationship to the City.

- All Council Members and employees are responsible for the detection, reporting and prevention of fraud, misappropriations, and other irregularities.

The policy provides further specifics as to reporting suspected fraudulent activities, investigations and potential disciplinary actions. Should the City Council approve, this policy, the City's Code of Ethics along with this policy, will be re-distributed to all employees. Additionally, new hires will be provided the policy as part of their orientation and will sign a statement acknowledging its receipt.

While the recommendation from the auditors to establish a formal anti-fraud policy was not considered a material weakness in our internal controls, implementing such a policy will provide more awareness among employees as to the City's commitment to an ethical, anti-fraud culture, and will provide a specific framework for the reporting and investigation of allegations of fraudulent behavior.

FISCAL ANALYSIS:

There is no fiscal impact associated with the adoption of this City Council Policy.

ATTACHMENTS:

1. Proposed Resolution (with Proposed Policy attached)

MOTION:

That the City Council:

Adopt a Resolution adopting City Council Policy 2010-002, entitled Fraud Prevention.