The Ohio Auditor of State's

BEST
Practices

Volume 3, Issue 1, Part 1   **Winter 2006**

A Message from Auditor of State Betty Montgomery

Dear Colleague,

Thank you for all your positive feedback on our *Best Practices* publication. We are pleased to share some exciting news with you as others have also praised our work on this publication. The National State Auditors Association (NSAA) awarded our office the 2005 Excellence in Accountability Award for *The Ohio Auditor of State's Best Practices* publication in the "special projects" category. It is truly an honor to have our hard work recognized by our peers with this award.

This edition of *Best Practices* is the first of a two-part series dedicated to occupational fraud in government. As I have said before, a government's external audit is a wonderful deterrent against fraud. In fact, the external audit is in many ways like having a police officer parked on the street: while the officer may not write a ticket, the officer's mere presence slows the traffic. Although the external audit is certainly effective as a *deterrent*, it not always detect fraud, and it is only one anti-fraud measure governments have at their disposal. With this in mind, I feel it is important to provide further assistance to Ohio governments in their efforts to combat fraud and other forms of public corruption.

Due to the importance of the topic, we will devote both this issue of *Best Practices* and the next to governmental fraud. In this edition we discuss the process governments should follow in assessing their risk for fraud as well as recommended components of an effective fraud prevention program. Small governments should pay particular attention as studies show that governments with fewer than 100 employees are particularly vulnerable to fraud.

I hope the recommendations and other suggested practices are of value to your organization as you work to safeguard taxpayer dollars from fraud and public corruption. As always, we look forward to any feedback you may have on the issues presented in *Best Practices*.

Sincerely,

Betty Montgomery

Betty Montgomery
Ohio Auditor of State

Occupational Fraud and Abuse

The FBI estimates that in aggregate, white collar crime costs the U.S. more than $300 billion each year.

ACFE's *2004 Report to the Nation on Occupational Fraud and Abuse*

Occupational fraud and abuse impacts nearly every public and private sector organization in the country. Studies show that white collar crime is on the rise. In fact, according to the FBI's Uniform Crime Reports (UCR), arrests for fraud, embezzlement, and forgery have risen significantly over the last several years, while arrests for violent and property crimes have actually declined. Furthermore, according to the *2004 Report to the Nation on Occupational Fraud and Abuse* issued by the Association of Certified Fraud Examiners (ACFE), it is estimated that the typical U.S. organization loses six percent of its annual revenues to fraud. Moreover, the FBI estimates that in aggregate white collar crime costs the U.S. more than $300 billion each year.

White collar crime exists not only in private sector industries but also in government as well. Compared to their counterparts in the private sector, government employees are in many ways held to a higher standard of accountability as they are entrusted with the public's money. In essence, a government's shareholders include virtually every member of a community, not just individual investors. Consequently, when the community's tax dollars are misspent, stolen, or misappropriated. It is especially troubling while the economic loss from white collar crime is certainly significant, it pales in comparison to the loss of trust and confidence when it involves public dollars abused by public officials.

Types of Occupational Fraud

According to ACFE's *2004 Report to the Nation*, occupational fraud can be defined as the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets. Such fraud can range from stealing inventory to understating liabilities on a financial statement. The ACFE categorizes all occupational fraud into the following three groups:

- **Asset Misappropriation**: Theft or misuse of an entity's assets (e.g., billing schemes, check tampering, revenue skimming, and larceny).

- **Corruption**: Situations where individuals wrongfully use their influence in a business transaction (e.g., bribery, illegal gratuities, and conflict of interest).

- **Fraudulent Statements**: Falsification of the entity's financial statement (e.g., improper asset valuations, fictitious revenues, and concealed liabilities).

ACFE's *2004 Report to the Nation* incorporates the results of a survey covering more than 500 cases of occupational fraud. Losses from these cases alone totaled more than $761 million. The survey revealed that a large majority (90 percent) of the fraud cases involved asset misappropriation with median losses of approximately $93,000. On the other hand, schemes involving fraudulent statements were the least common, making up approximately eight percent of the fraud cases. Interestingly, while these schemes were by far the least common (particularly for governments), they yielded the highest median loss of approximately $1 million.

Asset Misappropriations

The survey further revealed that theeves generally stole an organization's cash assets rather than its non-cash assets. These frauds, termed cash misappropriations, can be categorized into the following three groups:

- **Fraudulent Disbursements**: An employee deceives his or her organization into expending funds which are redirected to the employee.

- **Skimming**: An employee steals the cash before it is recorded in the organization's accounting records.

- **Cash Larceny**: An employee steals the cash after it has been recorded in the organization's accounting records.

Fraudulent Disbursements

Governments should be vigilant for fraudulent disbursements, as it was by far the most common category of occupational frauds reported in the ACFE survey. The following frauds fall under the umbrella of fraudulent disbursements:

- **Billing Schemes:** An employee submits bogus invoices, artificially inflated invoices, or those used for personal purchases. Payments made on the invoices are then pocketed by the employee.

- **Payroll Schemes**: An employee submits a fictitious claim requesting compensation for work never performed.

- **Expense Reimbursement Schemes**: An employee submits a claim requesting reimbursement for bogus or inflated business expenses.

- **Check Tampering**: An employee steals a legitimate check written to another payee or the employee forges or alters an organization's checks to convert funds, to conceal funds taken from another account, or to redirect funds to his or her personal account.

- **Register Disbursement Schemes**: An employee makes bogus cash register entries to cover for stolen money.

Skimming

Skimming can happen during a number of points in a transaction including but not limited to sales, receivables and refunds. The survey indicates more than 28 percent of asset misappropriations involve skimming, costing $85,000. Specific to government, more than 28 percent of fraud schemes involve skimming.

Cash Larceny

According to the survey, cash larceny can include stealing both cash on hand and cash from the deposit. According to the study just under 24 percent of cash misappropriations were attributed to cash larceny. Specific to government, more than 30 percent of fraud schemes involve cash larceny.

Corruption

Situations involving corruption may include purchase schemes, sales schemes, invoice kickbacks, bid rigging or other effects. Corruption made up a little more than 30 percent of the methods of fraud, costing $250,000. Specific to government, the survey suggests corruption is the most common scheme.

Fraudulent Statements

Fraudulent statements may include asset/revenue over or understatements including timing differences, fictitious revenues, concealed liabilities, improper disclosures, or improper asset valuations. The study found one in six financial statement fraud schemes cost its victims at least $10 million. Three cases in the study generated at least $50 million in losses.

ACFE Survey Findings

The survey's results offer valuable trend information and other insightful findings regarding fraud and white collar crime. Please note, however, that the survey's results are only based on the cases reported in the survey; therefore, the subsequent findings are not necessarily representative of all occupational fraud. Nevertheless, below are some of the more pertinent findings from the survey that governments might find useful in their efforts to combat fraud.

- *Those who commit occupational fraud are typically first-time offenders without criminal histories.*

- *The more tenure an employee has in an organization, the larger the loss is when that employee commits fraud.*

- *The more authority an employee has within an organization, the larger the loss is when that employee commits fraud.*

- *Fraud is most often detected through tips, reinforcing the need for organizations to implement confidential reporting mechanisms for employees as well as those outside the organization (e.g., hotlines).*

- *External audits are not as effective at catching instances of occupational fraud compared to other means of detection (e.g., tips, internal audits, by accident, and internal controls).*

- *Small organizations (those with fewer than 100 employees) are more susceptible to occupational fraud than larger organizations and are less likely to recover from fraud losses.*

- *When fraud is detected, organizations are not likely to recover their losses. The survey revealed that, on average, organizations only recovered 20 percent of their losses.*

The ACFE survey certainly offers some valuable lessons about occupational fraud. Perhaps the most important lesson: the most cost-effective way to combat fraud is to work to prevent it from occurring in the first place. However, an employee cannot commit occupational fraud without a perceived opportunity to carry out the crime.

Identifying and Assessing Fraud Risks

The first step to eliminating fraud opportunities is by determining where an entity is at risk for fraud. Similar to managing other forms of business risk (such as general liability and property damage), management should also manage its fraud risk. Such risk can arise or change for a number of reasons including turnover in personnel, rapid growth, new technology, or establishment of new services. **Management should conduct a risk assessment to identify, analyze, and manage potential fraud risks that could hinder or prevent an organization from achieving its goals and objectives.**

According to the Statement on Auditing Standards No. 99, *Considerations of Fraud in a Financial Statement Audit*, the nature and extent of management's risk assessment activities should be commensurate with the size and complexity of the entity's operations. For instance, management in smaller governments would likely perform less formal risk assessment activities, while larger governments would perform more comprehensive risk assessment activities.

Fraud Risk Indicators

By definition, fraud risk indicators refer to those situations and conditions that lend themselves to an increased risk for fraud. Examples of fraud risk indicators include:

- High turnover in an entity's accounting department;
- Maintainance of multiple cash collection points;
- Inadequate segregation of duties over collection and disbursement of funds;
- Lack of management and governing board oversight; and
- Poor physical safeguards over cash and other portable assets.

Simply because a fraud risk indicator exists, however, does not mean that fraud has actually taken place. It is simply an indication of heightened risk for which the organization should implement a policy or control to address the risk. Obviously, the more fraud risk indictors that exist in a particular area, the higher the risk for fraud.

The Auditor of State's Office (AOS) has developed a practice aid called the *Fraud Risk Assessment Questionnaire* (FRAQ). The practice aid includes an extensive list of fraud risk indicators that address the opportunities to misappropriate assets as well as incentives and pressures to misstate financial results. While the FRAQ was specifically developed for external auditors, a government's management (or the internal auditor or audit committee) may find the questionnaire useful as a self-assessment tool in identifying the government's fraud risk indicators.
To access the FRAQ, visit www.auditor.state.oh.us/publications/bestpractices/FRAQ.pdf

Additionally, the ACFE has developed a self-assessment tool, entitled *ACFE Fraud Prevention Check-Up*, which enables entities to proactively identify and manage their fraud risks. Although designed for companies in the private sector, governments can certainly use the *Check-Up* to identify significant gaps in their fraud prevention activities.
To access the *Check-Up*, visit http://www.acfe.com/fraud/check.asp
Once management has performed a fraud risk assessment and identified those areas that are of unacceptable risk, management should develop policies, procedures, and other internal controls to reduce the risk to a level management is willing to accept.

Addressing Fraud Risks

Internal Controls

In general, internal controls are tools that help organizations be effective and efficient while avoiding serious problems such as overspending, operational failures, and violations of law. Internal controls are the structure, policies, and procedures put in place to provide reasonable assurance that management meets its objectives and fulfills its responsibilities. They also facilitate the achievement of management objectives by serving as checks and balances against undesired actions (e.g., fraud).

High turnover in an entity's accounting department

- ✓ Develop detailed position descriptions for all accounting personnel to clearly delineate duties and responsibilities.
- ✓ Establish detailed standard operating procedures on critical accounting functions, including how to process transactions, prepare financial reports, and maintain appropriate documentation.
- ✓ Implement management authorization and approval controls. For example, accounting adjustments should be initiated by authorized personnel only and reviewed and approved by a supervisor.

Maintainance of multiple cash collection points

- ✓ Consolidate unnecessary collection points. For example, require residents to pay their utility bills at the utility office, rather than both city hall and the utility office.
- ✓ Perform surprise cash counts at collection points, comparing receipts issued to monies collected.
- ✓ Establish periodic monitoring controls that compare expected collections to actual collections. For example, management could assess actual utility collections to expected collections based on usage and rates from a prior period.
- ✓ At each collection point, require daily reconciliation of receipts issued to monies collected.

Inadequate segregation of duties over collection and disbursement of funds

- ✓ Employees who work long hours, refule help, behave in a territorial manner, or refuse help or cross-training can be signs of potential fraud risk.
  cross-trained to perform the collecting and posting functions.
- ✓ Prohibit the same individual from collecting and posting monies.
- ✓ If segregation of duties is not possible, implement supervisory monitoring controls of collections and account postings.
- ✓ Implement a mandatory vacation policy which enables another employee who has been cross-trained to perform the collecting and posting functions.

Lack of management and governing board oversight

- ✓ Implement strong transactional controls such as authorization and approval of transactions by designated supervisor to detect irregular activities as they occur.
- ✓ Management and governing boards must be trained on their fudiciary responsibilities in order to provide proper oversight. All too often it is a poorly-trained staff or a "stream-

lined" process that unwittingly guts the heart of checks and balances.

✓ Depending on the size of the organization, implement an internal audit function to replace the monitoring function provided by upper management and governing board.

Poor physical safeguards over cash and other portable assets

✓ Conduct unannounced, periodic inventory counts.

✓ Install a security system and other security features such as cameras, locks, safes, security personnel, etc. to monitor and further safeguard assets.

✓ Require supervisory authorization to transfer and/or dispose of assets.

A well-designed internal control structure will likely reduce improper activity. Designing and implementing internal controls is a continuous process. As conditions change, control procedures may become outdated and inadequate. Management must therefore anticipate that certain procedures will become obsolete and modify internal control systems in response to these changes.

Establishing a Formal Risk Prevention Program

In addition to a system of internal controls, organizations should establish a formal risk prevention program to further combat fraud. The following components should be considered as part of any organization's risk prevention program:

- **Fraud Hotline** – Governments may establish or publicize an existing fraud hotline so employees and those external to the organization can report potential illegal activity. The ACFE survey revealed that fraud is most often revealed through tips, which reinforces the need for governments to implement or make employees and residents aware of existing confidential reporting mechanisms (e.g., hotline).

  In Ohio, public employees and other individuals with information about possible public corruption or theft of public dollars may contact **1-866-FRAUD-OH**, which is the fraud hotline maintained by the AOS. The AOS recommends that governments inform their employees of the hotline and publicize the number so residents are aware of their ability to report potential fraud.

- **Ethics Training** – Governments should provide regular ethics training to all levels of employees. Such training will help reinforce an organization's commitment to ethical conduct on the job, encourage principles of public service, and strengthen public confidence in the integrity of the organization.

  The Ohio Ethics Commission (OEC) provides a wide variety of ethics education and public information free of charge. The OEC presents classes and other educational opportunities for groups of public officials, public employees, and private businesses and citizens. If you are in-

terested in inviting a speaker from the OEC to address your agency or organization, please contact the OEC's Education Coordinator at (614) 466-7090.

- **Background and Reference Checks** – Governments should conduct thorough background and reference checks as part of the hiring process. While the ACFE survey revealed that most fraud is committed by first-time offenders, background and reference checks can help governments avoid hiring employees who are likely to commit fraud. To further protect themselves, governments should conduct credit checks on new hires who will have access to funds and accounts.

- **Written Policies and Standard Operating Procedures** – Governments should formally articulate their functions and corresponding processes with written policies and standard operating procedures. Governments should give all employees copies of the written policies and procedures, require employees to acknowledge their receipt, and hold employees accountable to them. Policies help employees know what is expected by management, while standard operating procedures are developed to direct employees on the steps required to complete a process. Without written policies and standard operating procedures to guide various   job-related processes, employees can more easily take advantage of various situations to commit fraud.

- **Fair and Balanced Discipline** – Governments should ensure that their approach to employee discipline is fair and balanced. In conjunction with a comprehensive ethics policy (see discussion beginnning on page 11), a government should establish a progressive disciplinary policy that enables managers to assess, manage, and document instances of inappropriate employee conduct. When an organization fails to approach employee discipline in a fair and balanced manner, the risk for fraud increases as employees may become disgruntled and want to seek retribution against the organization.

- **Internal Audit** – Governments should establish an internal audit function to regularly assess risk and evaluate the internal control environment. Depending on the size and complexity of an organization, the internal audit function could comprise an entire department or the responsibilities of an organization's finance officer. Generally, internal auditors focus their efforts in the following areas: budget management, payroll administration, procurement and disbursement, property management, and personnel. Establishing an internal audit function enables an organization to continually assess its level of risk for workplace fraud and monitor the effectiveness of its internal controls.

- **External Audit** – Governments should recognize that external audits by themselves are not designed to detect fraud. Referred to as the *Expectation Gap*, many people believe that an organization's audit should identify all instances of fraudulent activity. However, audits generally include only enough testing to enable the external auditor to opine on the organization's financial statements. Thus, by design, external audits likely will only identify those frauds that have a material impact on an organization's financial statements. As the ACFE survey revealed, external audits are not as effective at catching instances of occupational fraud compared to other means of detection (e.g., tips, internal audits, by accident, and internal controls). Nonetheless, external audits, coupled with other preven-

tative and detective controls, can certainly strengthen an organization's ability to mitigate fraud as an organization can request the external auditors to examine specific areas where fraud is suspected. It is important to note that the AOS and contracted Independent Public Accountant (IPA) firms evaluate the client government's internal controls as part of the regular financial audit. Further, through the RFP process, IPA firms have been requested to perform the same level of sampling as the AOS. Finally, the compliance supplement has been amended to ensure regular financial audits include sampling and testing in areas that are uniquely susceptible to fraud (e.g., travel, cell phones, etc.)

- **Audit Committees** – Governments should establish audit committees to oversee internal and external audit functions. The National Committee on Fraudulent Financial Reporting (i.e., The Treadway Commission) has stated that audit committees can serve as "informed, vigilant and effective overseers of the…reporting and internal controls process."

  To be an effective independent overseer, the audit committee must be positioned between senior management and the external auditors. The audit committee should serve as a liaison between management and independent auditors. Although the committee could include officials from the entity, it is preferable that the committee include representation that is independent from elected officials and management. Thus, such committees provide an independent perspective on an organization's control environment, which greatly bolsters an organization's ability to mitigate fraud even at the highest organizational levels. For an extensive discussion on audit committees, please see the Spring 2005 issue of *Best Practices* at www.auditor.state.oh.us/Publications/. Additionally, by visiting the AOS website, governments can access a toolkit developed by the American Institute of Certified Public Accountants (AICPA) that is designed to help government audit committees operate as efficiently and effectively as possible.

- **Management Monitoring and Support** – Governments should ensure that management is actively involved in monitoring the organization's system of internal controls. Furthermore, internal controls are likely to function more effectively with management support. It must be clear that management believes that those controls are important and communicates that view to employees at all levels. An effective internal control environment sets the tone of an organization, influencing the control consciousness of its employees. If management views controls as unrelated to agency-wide objective achievement, or even worse, as an obstacle, this attitude will also be communicated. Despite policies to the contrary, employees will then view internal controls as procedures that should be circumvented to expedite work processes. This attitude could foster an environment that is ripe for fraudulent activity.

Before implementing any or all of the aforementioned components of a fraud risk prevention program, management should consider the qualitative aspects and cost-benefits associated with each of the components. For example, some governments with few resources may find that hiring an internal auditor is simply not cost beneficial. However, from a qualitative standpoint, it may be beneficial to train the government's fiscal officer to conduct certain internal audit procedures where the government is particularly vulnerable to fraud. Most importantly, governments should continually train employees on internal controls, risk factors, and rationale to help prevent fraud.

Additional Information

For more information on fraud, including guidance on how to implement risk assessment programs and antifraud measures, please visit the following websites:

Association of Certified Fraud Examiners – www.cfenet.com
American Institute of Certified Public Accountants – www.aicpa.org
Government Finance Officers Association – www.gfoa.org
The Institute of Internal Auditors – www.theiia.org
Society for Human Resource Management – www.shrm.org

Ethics Policies

"The measure of a man's real character is what he would do if he knew he would never be found out."

- Thomas Babington Macauly (Historian)

To help protect against fraud, it is important for governments to create a workplace culture that continually reinforces honest, ethical behavior among employees. As such, governments establish ethics policies to formally communicate management expectations regarding employee conduct. Ethics policies reflect an organization's values and convey the guiding principles on which employees carry out their duties. Further, ethics policies are an important component of an organization's internal control environment, as they help deter employees from committing fraud and engaging in other forms of unacceptable behavior. Without a formal ethics policy and corresponding procedures to ensure the policy is followed, unethical conduct and other fraudulent activities may go unidentified.

Based on a review of ethics policies from several governments in Ohio and from other states, they typically vary in their length depending on the number of prohibited activities that the government chooses to highlight in the policy. As long as the policy complies with pertinent laws and regulations (e.g., Ohio Ethics Law), the level and number of restricted activities included in the ethics policy is dependent upon the needs and will of the governing authority.

Common Provisions

Some governments include practical examples for each restricted activity, while others include them sparingly. Generally, however, ethics policies include a purpose statement, key definitions, a code of conduct with restricted activities, and associated procedures to ensure employee compliance. Provisions that were found to be common among the policies reviewed include the following:

- An overarching policy or value statement that provides a link between personal integrity and the organization's mission. Such statements normally stress the need for employees at all levels to engage in ethical behavior as they are public servants. Thus, public employees are beholden to a higher standard of accountability, both during and after work hours.

- A general statement on workplace behavior, which requires all personnel to remain impartial in the performance of their duties and to conduct themselves professionally and lawfully. Further, they must avoid favoritism, bias, and the appearance of impropriety.

- Pertinent laws and regulations with which the organization must comply. In addition to Ohio's Ethics Law, which can be found in Ohio Rev. Code Chapters 102 and 2921, organizations often include those laws and/or regulations that are uniquely applicable to their organization by reference or they may include them as appendices to the ethics policy.

- Various rules on conflict of interest whereby the organization disallows employees from having a direct or indirect interest in any business or transaction that may conflict with their official duties. The expectation should be for the employee to act in the interest of the organization.

- Prohibitions on accepting gifts, favors, and/or gratuities from the general public, but especially from those doing business with the government. Such prohibitions address situations where the public official may use his or her position to obtain things of value.

- Rules against conducting private business during work hours and using government facilities, equipment, or supplies for personal use.

- Provisions on the use and disclosure of confidential information. Within these provisions organizations often reference applicable laws such as Ohio's Public Records Law.

- Rules against nepotism in the organization's hiring and contracting processes, including a stipulation that employees cannot benefit or be involved with any contract, approved by the government, for which they have an interest.

- Prohibition against sexual harassment, which is normally accompanied by a comprehensive policy.

- A requirement that employees will not discriminate because of race, color, religion, national origin, age, sex, disability, sexual orientation, or political affiliation in the course of their official duties.

- A requirement that employees get pre-approval from the organization before seeking outside employment.

- Prohibitions on political activity during work hours.

- Specific prohibition on the use of illegal drugs and alcohol in the workplace. In many instances, the organization's corresponding drug-free workplace policy is included by reference or as an appendix.

- A confidential reporting mechanism (e.g., hotline) by which employees may report ethics violations. In many instances, someone in the organization's human resources department may be assigned as the organization's ethics officer or official ombudsman on such matters.

(Note: Organizations may choose to reference their whistle blower policy, if available, to ensure employees feel protected from retaliation for reporting unethical and/or unlawful behavior. Ohio's whistle blower statute can be found in Ohio Rev. Code § 4113.52.)

- A stipulation that those in violation of the ethics policy are subject to the organization's disciplinary policy, which is included by reference or as an appendix. Violations are often investigated by internal auditors, management, or the organization's human resources personnel.
- A qualifying statement that indicates that the policy does not intend to address every situation involving ethics and employee conduct; rather, the policy is intended to provide guidance on what is generally considered acceptable and not acceptable to the organization.

Communicating the Ethics Policy to Staff

Once established, organizations typically communicate the policy to personnel via formal ethics training that includes real life case studies and practical examples. Outside consultants are sometimes hired to conduct ethics training as employees may feel more comfortable and open to discussing ethics issues with those from outside the organization. Moreover, employees are generally required to sign a form, acknowledging their understanding of the ethics policy. To help ensure continued compliance, organizations may also require employees to sign the acknowledgement form on an annual basis. Finally, to provide continued focus on ethics, organizations sometimes include ethical behavior as a standard of performance in job descriptions and annual performance reviews.

Governments may establish policies that most appropriately suit their needs. The number and variety of prohibited activities included in an organization's ethics policy, for example, is a determination of each respective government. Nevertheless, the AOS strongly recommends governments refer to Ohio Ethics Law and consult with their respective legal counsel in developing an ethics policy. While examples of ethics policies are widely available, the following policies contain varying levels of restricted behaviors and procedural controls that governments might find useful in developing or retooling their ethics policies.

Sample Ethics Policies – Ohio

Ohio Ethics Commission (OEC)
State Model Ethics Policy
Local Model Ethics Policy
As a service to executive branch governments, the OEC provides model ethics policies specifically designed for state and local governments. These policies are especially helpful as they are clearly and concisely written and contain the necessary statutory standards from the Ohio Ethics Law (Ohio Rev. Code Chapters 102 and 2921), including timelines for those required to file financial disclosure statements. Furthermore, governments could easily customize the OEC model policy with supplemental provisions and practical examples to bolster certain areas where they may be particularly vulnerable

to ethics violations. For example, a government that frequently deals with outside contractors and consultants may choose to include additional restrictions and corresponding examples on the acceptance of gifts and gratuities.

Ohio Township Association (OTA)
www.auditor.state.oh.us/publications/bestpractices/OTA.pdf
In cooperation with the OTA, the Center for Public Management and Regional Affairs (CPMRA) at Miami University has developed a series of sourcebooks for Ohio townships. The link above features excerpts from the *Ohio Township Personnel Management Sourcebook*, which recommends that townships develop policies and procedures on employee conduct, ethics, workplace behavior, and discipline. The recommendation and corresponding example policies can help townships strengthen their internal control environment and help to prevent and deter unethical and unlawful workplace conduct.

Franklin County
www.auditor.state.oh.us/publications/franklincounty.pdf
Franklin County is the first of Ohio's counties to consider adopting an ethics policy that would require any employee involved in awarding contracts (e.g., department heads) to submit voluntary financial disclosure statements to the Ohio Ethics Commission. The policy further prohibits supervisors from hiring subordinates to perform work outside their normal scope of duties.

City of Bowling Green
www.auditor.state.oh.us/publications/bestpractices/bowlinggreen.pdf
Bowling Green's ethics policy emphasizes the fact that City employees and officials serve as representatives of the community and therefore must maintain the highest standards of ethical, moral, and legal principles. The policy includes a general policy statement and a number of the activities prohibited by Ohio Ethics Law (e.g., nepotism).

Sample Ethics Policies - National

City of Phoenix, Arizona
www.auditor.state.oh.us/publications/bestpractices/phoenix.pdf
Phoenix has developed a comprehensive ethics handbook for all City employees and members of City boards, commissions, and committees. The handbook includes pertinent City ordinances and other laws and regulations, which are further supplemented by explanatory comments to help employees better understand the prohibited activity. The handbook also provides a number of practical examples involving potential violations of Arizona's conflict of interest laws. Finally, the handbook provides the following advice to employees when they are confronted with a situation in which there exists a potential conflict of interest: "If you are in doubt of what you should do, opt not to participate."

City of Marysville, Washington
www.auditor.state.oh.us/publications/bestpractices/marysville.pdf
Marysville's code of ethics is concisely written and incorporates a number of restricted activities-regarding conflicts of interest. Through its code of ethics policy, Marysville has created a board of ethics to serve in an advisory capacity to City Council on issues involving ethics. The ethics board issues advisory opinions, investigates allegations of improper employee conduct, conducts hearings on such cases, and issues findings and recommendations for City Council's consideration.

Winnebago County, Wisconsin
www.auditor.state.oh.us/publications/bestpractices/winnebago.pdf
Winnebago County's ethics handbook is well organized and easy to read. Uniquely, the handbook includes a large section on criminal statutes, which highlights those crimes and frauds that public employees may commit while working for government (e.g., bribery). Moreover, the statutes are accompanied with practical examples so employees can more easily understand the law. As additional guidance, the County recommends that when an employee is unclear as to whether to accept a gift of any value or to do something that may be construed as unethical, the employee should administer the "smell test" to the situation. The employee should ask himself or herself, "Would any reasonable person believe that there was anything suspect or 'fishy' with regard to the actions which I am contemplating taking?" If yes, then the employee should seek guidance from management and/or a legal counsel; or, the employee should simply not take any action.

BEST Practices

The second of a two-part series on governmental fraud, the next issue of *Best Practices* will focus on common workplace fraud indicators and ways governments can best address them. We will also feature an actual case of fraud that took place in a small Ohio village.

If you like this publication and think it will be of help to you, please contact us at (800) 282-0370 or email bestpratices@auditor.state.oh.us and let us know. If there are other areas in the audit arena you would like to see highlighted or if you have any comments, concerns, or questions, please let us know. Your opinions are very important to us.