Model Fraud Prevention Policy + Guidance

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Establishing good internal controls is one way to minimize the opportunity for fraud. Another good way is to adopt a fraud prevention policy that outlines what is expected of all employees in terms of their personal conduct, as well as their role and responsibility in reporting suspected inappropriate actions by others.

A fraud prevention policy must inform employees that fraudulent acts will not be tolerated and explain that each employee has a duty to report any activity that appears to violate any law, regulation, or policy. The policy must also clearly outline the process that is available to report any suspected violation and assure employees that complaints will be investigated confidentially and without retaliation of any kind.

Vermont law provides that town auditors may – and, if requested by the selectboard, shall –examine the records of any town officer authorized by law to receive or disburse money belonging to the town. If the town has voted to eliminate the office of auditor, this authority is vested in the public accountant upon request of the selectboard. Any town officer who refuses or neglects to submit these records is ineligible for re-election and will be personally liable to the town for a civil penalty. 24 V.S.A. § 1686.

Consider the following when developing a fraud prevention policy:

Explanation of Fraudulent Activities. Fraud prevention policies should begin with a statement stressing the town's interest in encouraging ethical and honest behavior. It should include an explanation as to what constitutes misconduct or dishonest behavior and clarify that fraud is very different from errors or mistakes. Unlike errors or mistakes, fraud is the result of a deliberate act, an intentional deception to misappropriate assets or to manipulate data for personal gain. The policy should also state that the municipality will not tolerate any acts of fraud, regardless of the dollar amount involved.

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Responsibility to Report. The policy should emphasize that each employee has a responsibility to immediately report any suspected acts of fraud. The policy should identify to whom an employee should report, and what to do if that individual is the one suspected of fraud.

Investigation and Reporting. Included in the policy should be the process for investigating the complaint, and a statement assuring employees that reports will be treated in a confidential manner and that retaliation will not be tolerated. The policy should also address the matter of false allegations and the consequences that may result from such allegations. At the conclusion of the investigation, a written response to the reported incident should be made, which will be a public document.

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