

Department of Finance and Administration

**Anti-Fraud and
Code of Ethics Policy**

August 31, 2005

Purpose

The purpose of this policy is to implement systems and procedures that aid in the prevention of fraud and support DFA's culture and environment of honesty and ethical behavior. This policy is consistent with R1-19-4-505 of the Arkansas Financial Management Guide.

Policy

In order to promote a culture of honesty and ethical behavior within DFA, the following procedures are mandated:

Code of Ethics

Within 30 days of the date of this policy, all DFA Administrators are required to distribute a copy of DFA's Code of Ethics to each employee within their administration. Administrators are required to explicitly discuss DFA's requirement that employees report conduct or transactions that violate ethical provisions or are fraudulent and the options of how to communicate these matters. To verify that employees have received a copy of the Code of Ethics, employees must sign and date the last page. The original signed page from the Code of Ethics is required to be maintained in the employee personnel files maintained by DFA Human Resources. Employees shall be provided a copy for their records.

DFA Human Resources shall create procedures to include an introduction to the Code of Ethics in new employee orientation sessions within 30 days of implementation of this policy. All employees receiving orientation shall sign and date the last page signifying that they have been provided a copy of the Code of Ethics. If the new employee does not attend orientation offered by DFA Human Resources, the employee's manager is required to provide a copy of the Code of Ethics to the employee. The employee's manager shall also be responsible for ensuring that the original signed page from the Code of Ethics is sent to DFA Human Resources for inclusion in the employee's personnel file.

During an employee's annual performance review, or at the time of promotion, each employee must reaffirm that he or she has been made aware of the Code of Ethics by signing a Code of Ethics Annual Acknowledgement Statement. This statement shall be included with the employee's performance evaluation or hire packet that is sent to DFA Human Resources upon completion of the review or promotion. DFA employees that do not receive annual performance evaluations will reaffirm they have been made aware of the Code of Ethics on or about January 3rd each year by signing the Code of Ethics Annual Acknowledgement Statement and forwarding the original to DFA Human Resources.

The DFA Code of Ethics is included as part of this policy as **Attachment A**.

The DFA Code of Ethics Annual Acknowledgement Statement is included as part of this policy as **Attachment B**.

Background Checks

Prior to extending job offers to applicants of positions that require the handling of cash or negotiable assets, a criminal history check shall be obtained from the Arkansas State Police. The Administrator of the DFA Office of Administrative Services shall submit requests to the Arkansas State Police through the Information Network of Arkansas on behalf of DFA.

Investigations of Fraud

DFA is committed to a thorough investigation of occurrences of alleged ethical violations, fraud, waste and abuse. In accordance with the Arkansas Financial Management Guide, the Office of Accounting's Internal Audit Section will be responsible for coordinating all investigations. This responsibility is in accordance with Governor's Executive Order 04-04. The Internal Audit Section is authorized to request assistance from DFA employees that have the experience required to assist or perform such investigations. Investigations will be conducted in a confidential manner. If investigations indicate that a loss of state funds has occurred, then the amount of loss shall be reported to the Division of Legislative Audit in accordance with R1-19-4-2004 of the Arkansas Financial Management Guide. In addition, any loss of state funds involving criminal activity shall be reported to the Arkansas State Police for a criminal investigation.

DFA employees shall be protected against any form of retaliation, including discharge, for reporting in good faith occurrences of ethical violations, fraud, waste and abuse of government resources as stated in DFA Administrative Memorandum #300.29 and the Arkansas Whistleblower Act (ACA 21-1-601 – 609).

Allegations of ethical violations or fraud may be reported to the Arkansas State Employees' Fraud, Waste, and Abuse Report Center (1-800-952-8248) or to the Office of Accounting - Internal Audit Section by telephone (682-0370). An employee may also choose to report ethical violations, fraud, waste or abuse by completing a Complaint Form, included as **Attachment C** to this policy. Complaint forms can be mailed directly to the Internal Audit Section at the following address:

Department of Finance and Administration
Office of Accounting/Internal Audit Section
1515 West 7th Street, Room 215
Little Rock, AR 72201

Evaluation of Anti-Fraud Processes and Controls

In accordance with R1-19-4-505, DFA will reduce fraud opportunities by (1) identifying fraud risks, (2) mitigating fraud risks and (3) implementing preventive and detective internal controls.

The identification of fraud risks will be conducted through an agency-wide fraud risk assessment every two years. The initial agency-wide risk assessment will be completed by December 31, 2005 and every two years thereafter. DFA management will implement appropriate internal controls and change business processes when feasible to reduce fraud risks.

The Office of Accounting's Internal Audit Section shall review the internal controls and changes made to business processes to determine if the control activities identified in the risk assessment are properly designed to mitigate the risk of fraud, waste and abuse of resources. This shall specifically include the internal control activities that are designed to prevent or detect fraud.

Performance of Risk Assessment (including Fraud Risk)

R1-19-4-505 of the Arkansas Financial Management Guide contains additional discussion on the risk assessment process and the Risk Assessment and Control Activities Worksheet that DFA will use to document our risk assessment process. The Administrator for the Office of Accounting shall coordinate the process and establish deadlines as needed to ascertain that the risk assessment is completed. The Internal Audit Section shall be available to facilitate and consult with offices as they go through the process.

1. Identification of DFA Activities

In support of DFA's mission, each administration has its own set of overall goals and objectives, whether they are formal or informal. Therefore, the first step of the risk assessment process is the identification of activities performed in each administration that supports the achievement of its overall goals and objectives. The listing of activities of each administration should be consolidated to a reasonable number of activities, which cover the major processes in that administration.

2. Listing Objectives for each Activity

Business objectives ensure that DFA operates in an efficient and effective manner and accurately processes financial transactions to

ensure proper financial reporting and compliance with state and federal laws and rules and regulations. These objectives will also assist in safeguarding state assets. Therefore, a list of all operational objectives of each activity identified in the first step must be made. Objectives may support more than one activity. Finally, fraud, waste and abuse of assets must be considered for each activity.

3. Identification of Risk

Identify all risks that would keep you from meeting your objectives. Risks can be both internal and external and may include: fraud, poor process design, technology, knowledge and skills of current employees, natural events, etc.

4. Rating Risk

Each risk must be rated as to the significance or impact that the risk has on your obtaining your objective if the threat is realized. This part of the process is subjective; therefore, you must rely on your experiences to properly rate each risk. Use Large, Moderate, or Small as the levels of significance/impact. Next, rate each risk on the likelihood of its occurrence. Use High (probable), Medium (reasonably possible) or Low (remote).

5. List Control Activities Designed to Mitigate Risk

For each risk with a Large or Moderate impact and High (probable) or Medium (reasonably possible) likelihood of occurrence, list control activities present that will mitigate the risk. Control activities may include: physical control over vulnerable assets, segregation of duties, access restrictions to transactions and records, top level management review of performance reports, controls to measure customer satisfaction, etc. If additional controls are needed to mitigate the risk to an acceptable level, please indicate an action plan and a timeline for implementing the additional control activities.

A hypothetical example of how the Risk Assessment and Control Activities Worksheet should be completed is included as ***Attachment D***.