

Southern District Health Board

Fraud Policy (District)

This policy outlines the irregularities that constitute fraud, as well as the responsibilities of Southern District Health Board (Southern DHB) employees and the Board of Directors regarding fraud.

Note: This document is authorised, but does not meet normal MIDAS documentation standards, for instance it may be a mix of policy, procedure, chart, etc.

Policy Applies to

All Southern District Health Board (Southern DHB) employees, including temporary employees and contractors. Any person who is involved in the operation of Southern DHB, including Board members, joint appointments with third parties, volunteers and those people with honorary or unpaid staff status

Any person or provider contracted to Southern DHB, including those contracted for services and others contracted for the delivery of health care services

Policy Summary

The purpose of this policy is to:

- Provide guidelines regarding appropriate actions to follow for the reporting and investigation of suspected fraud or similar activities.
- Define fraud and provide examples of potentially fraudulent activity.
- Outline the fraud prevention strategic framework.
- Raise fraud awareness and its consequences.
- Provide guidance to reflect the public sector perspective towards fraud.
- Convey Southern DHB's attitude towards fraud.

Definitions

Southern DHB hereafter will be referred to as the DHB.

This policy adopts the definition of fraud set down by the Auditing Standard AS-206 which states:

"The term fraud refers to an intentional act by one or more individual(s) among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage."

Examples of actions constituting fraud, misappropriation, and other fiscal wrongdoings include, but are not limited to:

- Forgery or unauthorised alteration of any document belonging to the DHB with a view to

- personal gain or gain for another person.
- Accepting or offering bribes or inducements.
- Granting a contract, or engineering the granting of a contract, to a particular third party with a view to direct or indirect personal gain.
- Disclosing confidential information to third parties with a view to personal gain or gain for another person.
- Using official position to secure unwarranted benefits, privileges or profit.
- Knowingly approving for payment false or deliberately misleading invoices.
- Knowingly issuing false or deliberately misleading purchase orders.
- Presenting false credentials or qualifications.
- Knowingly submitting a false time sheet, leave form or expense claim.

The question of whether a fraud has been committed may only be determined finally following a decision by a court of law. For convenience this policy uses the term 'fraud' even though the DHB will normally be concerned with suspected, rather than proven, fraud. Invariably, some discretion will be needed by the Investigator in determining whether the matter concerned is potentially fraud or serious misconduct as each type of event can have differing consequences.

Matters of serious misconduct (e.g. theft or excessive unauthorised personal use of DHB equipment) are dealt with by the DHB's Code of Conduct and Integrity, Employment Agreements and Disciplinary policies and procedures.

Expectations

DHB Attitude Towards Fraud

Southern DHB regards fraud as totally unacceptable and will apply a principle of 'zero tolerance' to fraud.

Following internal investigation, matters of suspected fraud will be referred to the New Zealand police authorities.

Employees who commit fraud, or are suspected of fraud, will also be subject to the DHB's disciplinary procedures.

Third parties and contractors who commit fraud, or are suspected of fraud, will be subject to remedies available under contract and common law.

Recovery of money or property fraudulently obtained will be pursued wherever possible and practical. The criteria for this

will be assessed using cost/benefit analysis. Where the benefit of recovery exceeds the cost then, ordinarily, the DHB will seek to recover.

The DHB has crime/fidelity insurance cover. Insurance parties will often also seek recovery and may have differing criteria for recovery.

**Staff
Responsibilities**

Employees must be scrupulously fair and honest in their dealings with their employer, patients, suppliers, contractors, other health service providers and their fellow employees.

Employees must take reasonable steps to safeguard the DHB's funds and assets against fraud, waste, loss, unauthorised use and misappropriation.

Employees must report suspected fraud and/or breakdowns in internal control systems to their managers or other parties as detailed in the 'Fraud Notification' section below.

**Contractor Provider
Responsibilities**

Southern DHB's contract with a provider specifies services to be delivered and the terms and conditions for payment for those services. It is the DHB's expectations that the provider:

- Delivers a quantity and quality of services that at least meet the terms and conditions of its contract.
- Claims only that funding that the terms and conditions of the contract entitle it to claim.

Deliberate claiming of payment for amounts outside the terms and conditions set out in the contract, or for services claimed to be delivered when they have not been, will be regarded as fraud by the DHB.

**Management
Responsibilities**

Managers and governors of public entities - whether elected or appointed to office - have a duty to conduct their affairs in a fair, business-like manner, with reasonable care, skill, and caution and with due regard to the interests of taxpayers, ratepayers and others they serve.

Management is responsible for maintaining internal controls, including setting appropriate policies (and monitoring compliance with these), and maintaining proper accounting records and other appropriate management information that ensures effective stewardship of public health funds as required by the New Zealand Public Health and Disability Act 2000, and with reference to the 'Ethics Framework for the State Sector'. This is a management responsibility for each manager's respective areas.

Management should be familiar with the types of improprieties that might occur within their respective areas and be alert for any indication of irregularity.

Fraud Assessment & Detection

The chief financial officer (CFO) is primarily responsible for the DHB's financial internal control systems and fraud control and is available to provide guidance as required.

The CFO is primarily responsible for communication of the fraud strategy awareness programme to employees.

The 'Fraud Strategy Framework' component of this policy (below) identifies high risk areas for potential fraud.

Fraud risks are to be assessed regularly to ensure internal control procedures are reviewed as any form of business practice changes.

To assist with fraud prevention and detection, the DHB:

- Has an electronic hierarchy approvals system.
- Undertakes employee and vendor bank account checks.
- Uses data mining for irregular and suspicious transactions via annual internal audit.
- Maintains a centralised contracts database.
- Reports and checks high level vendor expenditure.
- Has segregation of duties.
- Has vendor creation approval processes.
- Undertakes fraud risk assessment.
- Maintains fraud awareness training.
- Has a dedicated telephone contact available (see 'Fraud Hotline' below).

Investigation Principles

All allegations of fraud will be thoroughly and fairly investigated with reference to other organisational policies as required, e.g. the Disciplinary Policy (Regional) (55569).

External agencies may be used for investigation if deemed appropriate.

Allegations should be documented and include:

- A summary of the matter of concern.
- The source of the information and explanation of how the individual became aware of the matter.
- Names and positions of any employees or third parties involved.
- Any details of significant times, dates and locations relating to the matter.
- Detail of any information and evidence to

support the allegation (documents, records, etc).

- List of any other persons who may be able to assist in any investigation.

Verbal reports however can be made: the manager to whom the matter is being reported must make notes, as above, and confirm accuracy with the person making the disclosure.

Any investigation must be fully documented.

Following internal investigation, where matters of fraud are suspected, the matter will be reported to the police and a complaint laid. This may result in criminal prosecution.

Following internal investigation, where matters of fraud or serious wrongdoing are suspected and where no criminal prosecution is likely or delayed, the DHB may exercise its rights of civil or contractual litigation if deemed appropriate.

National Fraud Hotline

Anonymous reports or calls will be treated seriously and should contain sufficient information to allow further investigation.

An 0800 number has been set up within the Audit & Compliance section of the Ministry of Health to provide an independent reporting mechanism, if required. The phone number is **0800 377 277**.

Confidentiality

It should be noted that maintaining confidentiality is particularly important as the individual(s) allegedly involved will not normally be alerted to the process of gathering and assessing evidential information. This is also to protect the rights of individual(s) involved.

The staff member discovering suspected fraud should not discuss the suspicion with anyone other than the person they report it to, or as otherwise directed by the investigator.

Employees must not attempt to investigate their concerns themselves or to contact the suspected individual(s) in an effort to determine the facts.

The DHB will make its best endeavour not to disclose any identifying information. However, confidentiality cannot be guaranteed. For example, confidentiality may not be able to be maintained where the disclosure of identifying information is in the public interest or is essential to having regard for the principles of natural justice, the effective investigation of an allegation, legal proceedings or criminal complaint.

The Protected Disclosures / Whistle-blowing Policy (Regional) (19708) and the Protected Disclosure Act 2000 detail the obligations and rights of employees and employers relating to

notification of serious wrongdoing.

The Protected Disclosures Act 2000 defines a serious wrongdoing as including:

- An unlawful, corrupt, or irregular use of public funds or public resources.
- An act, omission or course of conduct that constitutes a serious risk to public health or public safety or the environment.
- An act, omission or course of conduct that constitutes a serious risk to the maintenance of the law, including:
 - the prevention, investigation, and detection of offences and;
 - the right to a fair trial
- An act, omission, or course of conduct that constitutes an offence.
- An act, omission, or course of conduct by an employee that is oppressive, improperly discriminatory, or grossly negligent, or that constitutes gross mismanagement.

False Allegations

Individuals who make false or vexatious allegations or otherwise act in bad faith may not be afforded protection under the Protected Disclosures Act 2000 and may be dealt with under the DHB's disciplinary procedures and policies.

Fraud Notification Directives

Staff Member Suspects Fraud By:	Report it to:	Means by Which Allegation is Investigated
Another employee	Line manager who must notify the chief financial officer (CFO)	Human Resources in conjunction with CFO
Their line manager	CFO	Human Resources in conjunction with CFO
The CFO	Chief executive officer (CEO)	Human Resources in conjunction with CEO
Contractor, supplier of the provider / governance-arm	Line manager who must notify the CFO	GM of the relevant service in conjunction with the CFO
Contractor / provider of the DHB funder	GM, Planning & Funding who must then notify the CFO	GM Planning & Funding in conjunction with the CFO and the DHB's non-governmental organisation (NGO) provider/audit contractor - currently Healthpac of

		the South Island Shared Service Agency (SISSAL)
Board / committee members	CEO who must notify the Board chair and CFO	CEO in conjunction with the Board chair, CFO and Human Resources, as required
Board member suspects fraud by:	Report it to:	Means by which Allegation is Investigated
Another Board member	Board chair who must then notify the CEO & CFO	CEO in conjunction with Board chair, CFO and Human Resources, as required
Board chair	Chair of the Audit & Risk Committee Chair of A&RC must then notify the CEO & CFO	CEO in conjunction with Audit & Risk Committee chair, CFO and Human Resources, as required
All other parties	Board Chair who must then notify the CEO & CFO	The investigation will be the same as specified in the employee section above and vary according to whom the suspected party is.
If a contractor suspects fraud by:	Report it to:	Means by which Allegation is Investigated
Staff, Board members, other contractors	CFO who must then notify the CEO	Depending on the party, the investigation will be managed as above; for example, if staff, then by Human Resources & CFO, if by other contractors, then by relevant GM of service/department & CFO

Internal Procedure for Investigation Following Notification

Responsible Actions

Investigator	<ol style="list-style-type: none"> 1. Undertake a preliminary assessment for the purposes of seeking clarification and gathering further information. The purpose of the preliminary assessment is to: <ul style="list-style-type: none"> ▪ Seek clarification and determine if there is any substance to the allegation ▪ Protect employees or contractors from false or vexatious allegations ▪ Gather and protect further evidence ▪ Provide a set of recommended actions for the CEO. 2. Liaise with appropriate parties and seek such advice as deemed necessary to protect all parties.
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3. Where the preliminary assessment shows a prima facie case of fraud, and has been approved by the CEO, the allegation should be investigated fully, including any assistance deemed necessary by external agencies and / or the police.
4. Where employees are involved, it may be necessary to suspend: a decision to suspend will be taken in context of the disciplinary policy and in line with the Delegation of Authority Policy (Regional) (21584).
5. Ensure full documentation is kept of any preliminary and subsequent full investigation and filed/stored appropriately.

Chief Financial Officer (CFO)

1. Is to maintain and update a central, detailed register of all fraud incidents and reports. The register is to incorporate:
 - Parties involved
 - Nature of event
 - Amounts involved and/or recovered
 - Investigation detail
 - Recommendation/outcome
 - Control environment issues/weaknesses
 - Control improvements made (if any)
2. Upon advice of a suspected fraud is to:
 - Notify the CEO.
 - Notify the Audit & Risk Committee.
 - Notify the DHB's insurers of any potential fidelity claim or incidence as required under the insurance policy.
 - Notify the internal and/or external auditor

The notifications will give due regard to privacy issues given the suspected status of the matter at this stage.

3. On completion of the preliminary and/or full investigation:
 - Updates the above parties, as required.
 - Lodges any insurance claim.
 - Provides feedback to the reporting individual, where appropriate, regarding whether or not evidence was found to support the allegations, that the investigation (if any) is complete, and confirmation that appropriate actions were taken but not the detail of such actions.
 - Reviews and makes corrective actions to the internal control systems if the investigation reveals any deficiencies.

Chief Executive Officer (CEO)

1. On completion of the preliminary and/or full investigation:
 - Notifies the Board chair, Ministry of Health and health minister under the Ministry's 'no surprises' policy if

the matter is deemed significant enough.

- Deals with all media enquiries or, in agreement with the Board chair, defers to the chair to handle certain enquiries, if appropriate.
- Following receipt of the preliminary assessment report, determines the next actions to take, including any referral to enforcement agencies.

Fraud Strategy Framework

Background

While it is not possible to eliminate fraud, it is possible to significantly reduce opportunities for fraud through adoption of multiple, aligned strategies and policies that address different aspects of the control environment where potential fraud risk exposure exists. This part of the policy explores those aspects of the control environment and outlines the strategy.

Key Risk Areas

Analysis of the DHB's spend identifies the following primary areas of exposure for exploitation by potential fraudsters. These areas are:

- Provider Arm: 50% of DHB costs
- Personnel: 65% of Provider Arm costs
- Contracts with suppliers of goods and services: 35% of Provider Arm costs
- Funder contracts with health service providers: 50% of DHB costs

The DHB will be informed of its understanding of key risks by reviewing the internal and external auditors' organisational risk assessments annually.

Fraud Control Framework

The control framework sets out the strategies that form the basis for a multi-stranded approach to fraud prevention and detection. The control framework will be supported by appropriate policies.

Human Resources

Human resource policies and processes will outline the behaviour expected of staff and management. They will project a clear expectation of honesty and full disclosure and support the creation and maintenance of an ethical work environment. Specific policies and processes are:

- Recruitment screening and declarations (e.g. CV checks, criminal record checks, registration checks, reference checks, etc).
- Development of appropriate culture (e.g. inclusion of fraud alert in the staff orientation

programme).

- Ongoing Fraud Awareness training.
- Robust payroll processes (segregation of duties, review and appropriate authorities).
- Annual payroll audit/review using forensic software (e.g. IRD number checks, duplicate bank account checks, etc).

- Expenses claim policy and audit.
- Code of conduct and integrity policy.
- Policy on receiving gifts and entertainment.

- Declarations of conflicts of interest by the executive management team via the conflicts register.
- Declarations of conflicts of interest by all staff involved in a procurement project via the conflicts register held by Procurement for that project.

Internal Audit

The Internal Audit + NGO Auditing Policy (44704) sets out the investment required and focus of internal audit at the DHB. It will ensure that the mix of internal audit services employed each year is informed appropriately by an annual risk assessment.

It is envisaged that the expenditure profile of the DHB would mean there is a heavy weighting towards payroll and purchasing processes and validation. The Internal Audit Policy will be reviewed annually and the annual internal audit work plan set by the Audit & Risk (A&R) Committee, in consultation with the internal auditors.

The Internal Audit Policy will require an annual internal audit work plan and will also include guidance on matters such as, weightings for forensic audit spend, risk identification processes, the importance of committee only time with the internal auditors, the overall internal audit budget, required skill sets for internal audit personnel and the monitoring of compliance with all policies linked to the fraud control framework.

It is envisaged the annual work plan will include as a minimum:

- Fraud risk identification and assessment.
- Targeted forensic audit (including data mining), drawing on specialist skills based on target area (e.g. IT specialist for IT, procurement specialist

for procurement, etc).

- Scheduled A & R Committee (without management present) interview with auditors.
- 'Closing the Loop' systems audit (i.e. tests for vendor approval, procurement process, contract and/or purchase order approval, invoice, payment, delegations of authority, etc).
- Audit of compliance with personnel anti-fraud controls.
- Control environment review, e.g. contract approval process, vendor creation control, rules-based invoice approval process, etc.
- Interface and interaction with the external audit programme and auditors.

In addition to the regular internal audit programme for the Provider Arm, a plan will be set annually for Healthpac and SISSAL audits of Funder contracts. External providers may be used from time to time for issues such as the forensic audit arising out of fraud investigation.

External Audit

While external audit is primarily influenced by the Office of the Auditor General and largely focuses on providing an opinion on financial statements, opportunities to maximise the value of the audit in a fraud control context will be utilised. This includes:

- Annual A & R Committee (without management present) interview with auditors.
- Sample transaction test — validation/ratification/ 'appropriateness'.
- Maximising the interaction between external and internal audit processes.

Delegations of Authority

The Delegation of Authority Policy is important in a fraud control context as it sets out the authority levels for expenditure and procurement. Key to its utilisation for fraud control is the setting of appropriate levels for authorisation of expenditure and ability to contract the DHB, and then monitoring compliance with these.

The Delegation of Authority Policy needs to be clear, concise and have good visibility in the organisation. The fraud control aspects therefore includes:

- Annual review by the A&R Committee (for

segregation of duties, expenditure levels etc).

- Appropriate linkages with internal audit.
- Annual review of high level cumulative spend on single providers by authorised officer.

Procurement Processes

Procurement of goods and services is governed by the Procurement Policy, which covers many aspects of the process, including ensuring there is compliance with government good practice requirements. In the fraud control setting the Procurement Policy needs to ensure there are robust processes in place for the selection of suppliers and approval of contracts. It includes:

- Vendor approval processes (sign off).
- Contract review at the point of origination.
- Personal pecuniary gain and/or association.
- Central Contracts Register.
- Biannual review of said policy by the A&R Committee
- Annual review of high use suppliers, by cumulative spend, and authorising officer, by management and the A&R Committee.

Fraud Policy

This policy is in place to set out the DHB's attitude towards fraud and the appropriate response to its occurrence.

Included in this policy is an outline of:

- Annual review by A&R Committee.
- Principle of zero tolerance to fraud.
- National Fraud Hotline
- Protected disclosures

Role of the Audit and Risk (A&R) Committee

A&R Committee members are appointed by the Southern DHB Board. The committee's composition will support this fraud control framework by ensuring members include persons with previous experience in one or more governance/audit committees, audit generally, and financial matters.

The A&R Committee will have an annual work plan and meeting schedule that reflects the need to effectively monitor retrospective compliance with the policies associated with this fraud control framework and the need to review the related policies annually for prospective robustness. In particular the committee will set the Internal Audit Work Plan and review the outcomes of all internal and external audits and any fraud

investigations.

Associated Documents:

- Code of Conduct and Integrity (Regional) (18679)
- Disciplinary Policy (Regional) (55569)
- Delegation of Authority Policy (Regional) (21584)
- Internal Audit + NGO Auditing Policy (44704)
- Protected Disclosures / Whistle-blowing Policy (Regional) (19708)

References:

Legislation

- Protected Disclosures Act 2000, Crimes Act 1961 and Privacy Act 1993
- Auditor General Statement (AS 206)