



BOARD OF REGENTS

SUMMARY OF ITEM FOR ACTION, INFORMATION OR DISCUSSION

TOPIC: Policy on the Communication of Suspected Fraud, Unethical and Illegal Business Activity (Fraud Hotline)

COMMITTEE: Committee of the Whole

DATE OF COMMITTEE MEETING: April 12, 2010

SUMMARY: The purpose of this policy is to establish the principle that University System of Maryland (USM) employees, students and others in the campus community are strongly encouraged to communicate suspected fraud or other financial irregularities to appropriate authorities in their institution or to the USM's Office of Internal Audit; to establish mechanisms that create a confidential and convenient USM "Hotline" for the reporting of such concerns; and, as a result, to advance the deterrence and detection of fraud, unethical practices, and financial irregularities at USM institutions.

The policy identifies four mechanisms for confidential reporting of fraudulent, unethical and other irregularities. These are a website, a toll free telephone number, fax number and US Mail. Each method is operated by UMS's Office of Internal Audit. Upon receipt of a report, the Office of Internal Audit will evaluate the allegation and determine an appropriate strategy for resolution. As appropriate, the Office of Internal Audit may ask institutional officials or the Office of the Attorney General to conduct or collaborate in an investigation.

Establishing the "hotline" would also assure compliance with FAR CONTRACT CODE OF BUSINESS ETHICS REQUIREMENTS [Federal Acquisition Regulation (FAR), Subpart 3.10] which requires a hotline or other internal system for anonymous, confidential employee reporting of improper conduct and the investigation of such allegations. This FAR applies to organizations with federal contracts with a value over \$5 million or performance period of at least 120 days.

ALTERNATIVE(S): Outsource the confidential reporting system, or require each institution to develop its own confidential reporting system.

FISCAL IMPACT: Hotline will be supported with current staff; a minimum of \$20,000 is needed for posters or other items to publicize the hotline.

CHANCELLOR'S RECOMMENDATION: The Chancellor recommends approval of the new policy.

COMMITTEE ACTION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Janice B. Doyle, 301 445-1906, joyle@usmd.edu

Policy on the Communication of Suspected Fraud, Unethical and Illegal Business Activity

I. Purpose: The purpose of this policy is to establish the principle that University System of Maryland (USM) employees, students and others in the campus community are strongly encouraged to communicate suspected fraud or other financial irregularities to appropriate authorities in their institution or to the USM's Office of Internal Audit; to establish mechanisms that create a confidential and convenient USM "Hotline" for the reporting of such concerns; and, as a result, to advance the deterrence and detection of fraud, unethical practices, and financial irregularities at USM institutions.

II. Scope: This policy describes a non-retaliatory resource ("the Fraud Hotline") for University stakeholders to report perceived fraud, theft and other suspected unethical or illegal business activity. Fraud generally involves a willful or deliberate act, expression, omission or concealment with the intent of obtaining an unauthorized benefit, such as money or property, by deception or other unethical means.

Other incidents that may be reported to the Fraud Hotline include:

- Forgery or unauthorized alteration of institution documents, including checks, bank drafts, computer files, or any other financial document;
- Misappropriation or theft of funds, securities, supplies, or other assets;
- Fraudulent activity relating to research grants and contracts;
- Impropriety in handling or reporting of money or financial transactions;
- Purposely reporting inaccurate financial information;
- Authorizing or receiving compensation for goods not received or services not performed;
- Accepting or seeking anything of material value from contractors, vendors, or persons providing services/material to the institution that is not consistent with campus or USM policy;
- Destruction, removal, or inappropriate use of institution records, furniture, fixtures, and equipment; and/or unethical procurement practices.

The Fraud Hotline is not intended to replace existing reporting mechanisms for matters such as employment-related complaints, including complaints of discrimination; sexual and other unlawful harassment; and student academic and residential life problems; and health and safety hazards, and criminal behavior not related to financial irregularities. These matters should continue to be addressed through other, existing institution channels, which may include campus human resources, student affairs or law enforcement offices. Health and safety emergencies should be addressed urgently by contacting 911.

The USM Fraud Hotline is also not intended to supplant individual campus channels of communication for the reporting of suspected financial wrongdoing. Employees who know or suspect that other employees, business partners or

vendors are engaged in a fraudulent act are encouraged to report such activity to their supervisor, department head, responsible official, or campus Hotline. The USM Fraud Hotline provides an additional option for the confidential communication of such concerns.

III. Hotline Options and Operations: The USM provides four mechanisms for reporting suspected or known fraudulent, unethical or illegal activities to the USM Office of Internal Audit:

- A. Online: A hotline link provided on the homepage of the USM website and operated by USM's Office of Internal Audit.
- B. Telephone: A toll free telephone number operated by the USM's Office of Internal Audit, and voicemail messages recorded on the system are accessible only to the Internal Audit staff.
- C. Fax: The Office of Internal Audit's direct fax number, which is accessible only to Internal Audit staff.
- D. U.S. Mail: Written communication by U.S. Mail to the headquarters of the Office of Internal Audit. Mail directed to the hotline is received by Internal Audit staff.

Upon receipt of an allegation the Office of Internal Audit will evaluate the submission and determine an appropriate strategy for investigating and resolving the situation. As appropriate, institution officials or the Office of the Attorney General and may be asked to conduct or participate in an investigation. Decisions regarding the appropriate response to a report made on the Hotline are otherwise wholly within the discretion of the Office of Internal Audit.

IV. Protections for Hotline Reporters: Persons who make reports to the USM Fraud Hotline will have the following protections:

- A. Non-Retaliation: Persons using the USM Fraud Hotline will have the full protections of Maryland's Whistleblower Act for state employees (Maryland Code §§ 5-301 thru 5-13 of the State Personnel and Pensions Article).

No faculty, administrator, staff, student, or other member of the campus community may be subject to interference, coercion or reprisal for making a fraud hotline report in good faith. The USM and its institutions will not retaliate against any person making a good faith report of an unethical or illegal act, and will not knowingly permit retaliation by any manager, supervisor, faculty, or administrator.

- B. Confidentiality: Individuals reporting via the Hotline may choose to identify themselves or remain anonymous. The identity of any person reporting an incident will be used for investigative purposes only and will not be disclosed

outside of the investigative team, except under narrow circumstances where disclosure is expressly required by law or necessary to protect the safety of the reporting individual or others. Strict confidentiality otherwise shall be maintained over Hotline documents at all times, and hotline cases should not be discussed with anyone outside of the investigative personnel.

V. Reporting by the Office of Internal Audit: On an annual basis, the Office of Internal Audit will prepare a USM Hotline Summary Report. The report will be presented to the Board of Regents for review and approval.

The Director of Internal Audit will, on a case-by-case basis, determine if a fraud audit report will be issued for allegations investigated by the Office of Internal Audit. When a report is issued it will include the results of the investigation, and if appropriate, recommendations for further action.

VI. Effective Date: This policy shall become effective on _____.

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