

**Commonwealth of Pennsylvania
Public School Employees' Retirement System**

DATE: May 3, 2018

SUBJECT: Fraud, Waste and Abuse Reporting and Investigation Policy

TO: Bylaws/Policy Committee

FROM: Joseph E. Wasiak, Jr.
Assistant Executive Director

At the Bylaws/Policy Committee meeting, Alicia James will present and review the proposed Fraud, Waste and Abuse Reporting and Investigation Policy (Policy). At the end of the presentation, there will be a resolution presented to approve the Policy.

Background

PSERS identified a deficiency while completing the internal control assessments last year due to the fact we had an outdated Fraud Notification Policy and did not have a formal Fraud Response Plan. This Policy will resolve the internal control deficiency identified last year.

Purpose

The purpose of the policy is to facilitate the development of internal controls that will aid in the detection and prevention of fraud, waste and abuse against the Public School Employees' Retirement System (PSERS).

Scope of the Policy

This Policy applies to any FWA or suspected FWA involving PSERS' employees, Board members and their designees, as well as members, beneficiaries, survivor annuitants, alternate payees, employers, consultants, investment managers, vendors, contractors, and any other parties that have a business relationship with PSERS.

Development of the Policy

This Policy was developed using guidance from the Association of Certified Fraud Examiners and best practices from the public pension fund community.

Recommendation

The Bylaws/Policy Committee adopt the proposed Fraud, Waste and Abuse Reporting and Investigation Policy.

Public School Employees' Retirement System

Fraud, Waste and Abuse Reporting and Investigation Policy

Effective Date:

Purpose

To facilitate the development of internal controls that will aid in the detection and prevention of fraud, waste and abuse (FWA) against the Public School Employees' Retirement System (PSERS).

Definitions

Fraud: The intentional, false representation, or concealment of a material fact for the purpose of inducing another to act upon it to his or her detriment; or the intentional, false representation, or concealment of a material fact for the purpose of financial or personal gain.

Waste: The careless or needless expenditure of PSERS' funds, or the consumption of PSERS' property, that results from deficient practices, systems, controls, or decisions.

Abuse: The intentional excessive or intentional improper use of PSERS' or, if applicable, state resources to the detriment or potential detriment of PSERS. This definition includes the intentional destruction, damage, sabotage, diversion, manipulation, misapplication, maltreatment, or misuse of said resources.

Policy

PSERS stakeholders should have assurance that adequate internal controls exist to prevent, detect, and investigate FWA perpetrated against or by PSERS. Accordingly, management is responsible for developing and maintaining an adequate system of internal control to prevent and detect FWA. If suspected FWA is reported, it is PSERS' Internal Audit Office's policy to fully investigate the matter and as such has instituted a program of FWA reporting and investigation that is designed to protect PSERS assets.

Scope of Policy

This policy applies to any FWA or suspected FWA involving PSERS' employees, Board members and their designees, as well as members, beneficiaries, survivor annuitants, alternate payees, employers, consultants, investment managers, vendors, contractors, and any other parties that have a business relationship with PSERS. Any investigative activity required will be conducted without regard to the suspected wrongdoer's position/title, membership status, length of service, or relationship to PSERS. The use of one's authority or position to influence or coerce another to commit FWA will be viewed the same as having committed the act directly and will subject that individual to corrective action as well.

Acts Constituting FWA

An illustrative list of acts that are covered by this FWA policy is presented below. This list is not comprehensive and is provided only as an example of the acts covered by this FWA policy.

- Providing intentionally deceptive information.
- Embezzlement and/or misappropriation of cash, securities, supplies, property, equipment, or other assets.
- Impropriety in the handling or reporting of money or financial transactions.
- Questionable accounting or operating practices.
- Unauthorized disclosure of confidential, personally identifiable, or proprietary information to outside parties.
- PSERS' employee use of confidential and proprietary information for their own personal gain.
- PSERS' employee accepting or seeking anything of value from PSERS Board members and their designees, members, beneficiaries, survivor annuitants, alternate payees, employers, contractors, vendors, consultants, investment managers or persons providing services/materials to PSERS.
- Forgery, alteration, or falsification of records.
- Conflicts of interest, bribery, and other forms of official corruption.
- Disclosing to other individuals' securities activities engaged in or contemplated by PSERS.
- Using PSERS resources (e.g., email, servers, computers, facilities, or personnel) to conduct any business that does not relate to PSERS business or directly benefit PSERS, excluding incidental personal use.
- Intentionally taking any action that results in a benefit, advantage, or outcome to which the recipient is not entitled, such as circumventing established procedures or policy to meet targets resulting in increased incentive compensation, or intentionally misrepresenting performance data to another PSERS employee or agent, to the Board of Trustees, or externally.
- Intentionally distorting the truth to a member, beneficiary, survivor annuitant, alternate payee, employer, or an entity in a contractual relationship with PSERS to convince the person, employer, or entity to give up money, property, some right or entitlement, or other possession rightfully belonging to that person, employer, or other entity for personal reasons, such as personal gain or recognition, or to benefit PSERS improperly.
- Intentionally falsifying retirement information.
- Falsely claiming a disability retirement.
- Continuing to receive retirement benefits of a deceased member.
- Any intentional deceptive practice designed to improperly inflate a member's pension benefit.
- Contractual agreements or other arrangements intended to inflate a member's salary prior to retirement.
- Mischaracterization of non-regular compensation as base salary.
- Salary giveback schemes intended to inflate earnings for pension calculation purposes.
- Intentional misreporting of service credit.
- Improper enrollment of consultants or independent contractors (e.g., school solicitor) as members for service credit purposes.
- Earnings after retirement abuses.
- Improper school district approval of a prior service credit request.

Irregularities involving a PSERS employee's conduct that do not also involve FWA should be resolved by departmental management and Human Resources rather than the Internal Audit Office. The Internal Audit Office will refer any such reports to the Director of Human Resources.

Reporting and Investigation Process

The Internal Audit Office has the primary responsibility for the investigation of all suspected FWA . FWA should be reported to the Internal Audit Office through: [a complaint form \(link to complaint form\)](#), which can be submitted:

- Electronically
- Mail to: Internal Audit Office, PSERS, 5 North 5th Street, Harrisburg, PA 17101-1905

In addition, an FWA can be reported by calling (888) 222-0549 or Local phone number (717) 720-4602.

Great care must be taken in the investigation of suspected FWA to avoid mistaken accusations or alerting suspected individuals that an investigation is or may be under way. Unless the report is anonymous, the reporting individual should be advised of the following:

- Do not attempt to personally conduct investigations or interviews/interrogations related to any suspected FWA act.
- Do not contact the suspected individual to determine facts or demand restitution.
- Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the Office of Chief Counsel or the Internal Audit Office.
- Information concerning the status of the investigation will not be provided.

The Internal Audit Office will thoroughly investigate all reports, with the assistance of appropriate operating departments who act as subject matter experts.

- The Director of Benefits Administration or delegate will generally be notified and consulted on any allegation pertaining to PSERS' members, beneficiaries, survivor annuitants, or alternate payees.
- The Director of Communications and Counseling or delegate will generally be notified and consulted on any allegation pertaining to PSERS' employers.
- The Director of Human Resources or delegate will generally be notified and consulted on any allegation pertaining to PSERS' employees.
- Chief Counsel or delegate will generally be notified and consulted on any allegation pertaining to PSERS' Board members and their designees, executive staff members, consultants, investment managers, vendors, contractors, and any other parties that have a business relationship with PSERS as well as any other allegation that might lead to prosecution or litigation.

The Executive Director and/or Deputy Executive Director will be notified of FWA allegations, as appropriate. The Internal Audit Office will issue reports on their findings and recommendations to appropriate management and to the PSERS Board through the Audit/Compliance Committee.

Subsequent Actions

PSERS management has the responsibility to resolve incidents of FWA and take appropriate actions based on the investigation conducted by the Internal Audit Office. If reports of FWA activity are substantiated through the investigation process, all actions allowed by law should be recommended, including, but not limited to: referral to appropriate law enforcement and/or regulatory agencies, reduction in retirement benefits or service credit (where appropriate), termination of business relationships, corrective disciplinary action up to and including termination of employment and any appropriate civil remedies.

Confidentiality

The Internal Audit Office treats all information received as confidential. To the extent allowed by law or as required to thoroughly investigate the matter, the source of the reports and the results of the investigation will be kept confidential and will not be disclosed to, or discussed with, anyone other than those who have a legitimate need to know.

Whistleblowers shall remain anonymous to the extent practicable and shall be protected from retaliation pursuant to Management Directive 205.16 – Compliance with Whistle Blowers Act.

Related Policies

Executive Order 1980-18 (Revision #3) – Governor’s Code of Conduct

Management Directive 205.16 – Compliance with Whistle Blowers Act

PSERS Employee Ethics Policy (Effective July 1, 2010, as may be revised)

Code of Conduct for Investment Operations Policy (Effective April 1, 2017, as may be revised)