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EAST TENNESSEE STATE  
U N I V E R S I T Y

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## **Preventing and Reporting Fraud, Waste, or Abuse**

# **Policy Name: Preventing and Reporting Fraud, Waste, or Abuse**

## **Policy Purpose**

This policy specifies the reporting mechanism for Fraud, Waste, and Abuse, as well as the university's commitment to prevent Fraud, Waste, and Abuse.

## **Responsible Official, Office, and Interpretation**

The Audit Committee of the Board of Trustees in consultation with the Chief Audit Executive is responsible for the review and revision of this policy. For questions about this policy, please contact the Secretary of the Board of Trustees. The Board of Trustees, in consultation with the Office of University Counsel, has the final authority to interpret this policy.

## **Defined Terms**

*A defined term has a specific meaning within the context of this policy.*

### Abuse

Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interest or those of an immediate or close family member or business associate. Abuse does not necessarily involve Fraud, violation of laws, regulations, or provisions of a contract or grant agreement. (U.S. Government Accountability Office, Government Auditing Standards, July 2007.)

### Fraud

An intentional act to deceive or cheat, ordinarily for the purpose or result of causing a detriment to another and/or bringing about some benefit to oneself or others. Fraudulent activities may include, but are not limited to the following: theft, misappropriation, misapplication, destruction, removal, or concealment of any institutional assets or resources, including but not limited to funds, securities, supplies, equipment, real property, intellectual property or data; improper use or assignment of any institutional assets or resources, including but not limited to personnel, services or property; improper handling or reporting of financial transactions, including use, acquisitions and divestiture of state property, both real and personal; authorization or receipt of compensation for hours not worked; inappropriate or unauthorized use, alteration or manipulation of data,

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computer files, equipment, software, networks, or systems, including personal or private business use, hacking and software piracy; forgery or unauthorized alteration of documents; falsification of reports to management or external agencies; pursuit of a personal benefit or advantage in violation of the ETSU Conflict of Interest Policy; concealment or misrepresentation of events or data; or acceptance of bribes, kickbacks or any gift, rebate, money or anything of value whatsoever, or any promise, obligation or contract for future reward, compensation, property or item of value, including intellectual property.

### Internal Controls

Internal Controls are processes performed by management and employees to provide reasonable assurance of: safeguards over institutional assets and resources, including but not limited to cash, securities, supplies, equipment, property, records, data or electronic systems; effective and efficient operations; reliable financial and other types of reports; and compliance with laws, regulations, contracts, grants and policies.

### Waste

Waste involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Waste is a thoughtless or careless act, resulting in the expenditure, consumption, mismanagement, use, or squandering of institutional assets or resources to the detriment or potential detriment of the institution. Waste may also result from incurring unnecessary expenses due to inefficient or ineffective practices, systems, or controls. Waste does not necessarily involve Fraud, violation of laws, regulations, or provisions of a contract or grant agreement.

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## **Policy**

The Board of Trustees is committed to the responsible stewardship of its resources. Management of the university is responsible for maintaining a work environment that promotes ethical and honest behavior. Additionally, it is the responsibility of management to establish and implement internal control systems and procedures to prevent and detect irregularities, including Fraud, Waste and Abuse. Management at all levels should be aware of the risks and exposures inherent in their areas of responsibility, and should establish and maintain proper Internal Controls to provide for the security and accountability of all resources entrusted to them.

### **1. Preventing Fraud, Waste, or Abuse.**

#### **1.1. Maintaining an Ethical Work Environment.**

Management of the university is responsible for maintaining a work environment that promotes ethical and honest behavior on the part of all employees, students, contractors, vendors and others. To do so, management at all levels must behave ethically and communicate to employees and others that they are expected to behave ethically. Management must demonstrate through words and actions that unethical behavior will not be tolerated.

#### **1.2. Implementing Effective Internal Control Systems.**

Management of the university has the responsibility to establish and implement internal control systems and procedures to prevent and detect irregularities, including Fraud, Waste and Abuse. To determine whether Internal Controls are effective, management of the university should perform periodic risk and control assessments, which should include the following activities: review the operational processes of the unit under consideration; determine the potential risk of Fraud, Waste, or Abuse inherent in each process; identify the controls included in the process (or controls that could be included) that result in a reduction in the inherent risk; assess whether there are Internal Controls that need to be improved or added to the process under consideration; and implement controls or improve existing controls that are determined to be the most efficient and effective for decreasing the risk of Fraud, Waste or Abuse.

Most managers will find that processes already include a number of Internal Controls, but these controls should be monitored or reviewed for adequacy and effectiveness on a regular basis and improved as needed. Typical examples of Internal Controls may include, but are not limited to: adequate separation of duties among employees;

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sufficient physical safeguards over cash, supplies, equipment and other resources; appropriate documentation of transactions; independent validation of transactions for accuracy and completeness; documented supervisory review and approval of transactions or other activities; and proper supervision of employees, processes, projects or other operational functions.

### **1.3. Reviews of Internal Control Systems.**

Audits or other independent reviews may be performed on various components of the internal control systems.

### **1.4. Internal Audits.**

Internal Audit is responsible for assessing the adequacy and effectiveness of Internal Controls that are implemented by management and recommend any identified control improvements as a result of this assessment. During an audit of a department or process, Internal Audit will also perform tests designed to detect Fraud, Waste, or Abuse that may have occurred.

### **1.5. External Audits.**

The Tennessee Department of Audit, Division of State Audit, performs periodic financial audits of the university. One purpose of this type audit is to evaluate an institution's Internal Controls, which will often result in recommendations for control improvements. State Audit will also perform tests designed to detect Fraud, Waste or Abuse that may have occurred.

### **1.6. Other Reviews.**

Various programs may be subject to audits or reviews by federal, state or other outside agencies based on the type of program, function, or funding. Although audits and reviews may include assessments of Internal Controls, the primary responsibility for prevention and detection of Fraud, Waste or Abuse belongs to management of the university. Therefore, management should take steps to review Internal Controls whether or not audits are to be performed.

## **2. Reporting Fraud, Waste, or Abuse.**

### **2.1. Responsibility for Reporting Fraud, Waste, or Abuse.**

Any employee of the university having knowledge that a theft, forgery, credit card Fraud, or any other act of unlawful or unauthorized taking, or Abuse of, public money, property, or services, or other shortages of public funds has occurred shall report the information immediately to Tennessee's Office of the Comptroller of the Treasury.

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Others, including institutional management, faculty and staff with a reasonable basis for believing that Fraud, Waste or Abuse has occurred are strongly encouraged to immediately report such incidents. Students, citizens and others are also encouraged to report known or suspected acts of Fraud, Waste or Abuse. Although proof of an improper activity is not required at the time the incident is reported, anyone reporting such actions must have reasonable grounds for doing so. Employees with knowledge of matters constituting Fraud, Waste or Abuse, that fail to report it or employees who knowingly make false accusations may be subject to disciplinary action.

To ensure compliance, the university provides a means for employees and others to report such matters, which are subsequently reported to the Comptroller's Office. Institutional administration with knowledge of Fraud, Waste or Abuse will report such incidents immediately.

### **2.2. Methods for Reporting Fraud, Waste, or Abuse.**

Any employee who becomes aware of known or suspected Fraud, Waste, or Abuse should immediately report the incident to an appropriate departmental official. Incidents should be reported to one of the following officials or offices: a supervisor or department head; an institutional official; the institutional Internal Audit department via website ([Report Suspected Fraud, Waste, or Abuse Website](#)); or the Tennessee Comptroller of the Treasury's Hotline for Fraud, Waste and Abuse at 1-800-232-5454.

If the incident involves their immediate supervisor, the employee should report the incident to the next highest-level supervisor or one of the officials or offices listed above.

Employees should not confront the suspected individual or initiate an investigation on their own since such actions could compromise the investigation. A department official or other supervisor who receives notice of known or suspected Fraud, Waste or Abuse must immediately report the incident to the following: President/Chief Financial Officer (or designee); Internal Audit Office; or Campus Police (when appropriate). The President/Chief Financial Officer or designee receiving such notice will immediately notify the Chief Audit Executive (CAE) regarding the acknowledged or suspected Fraud or misconduct.

The CAE will notify the Comptroller of the Treasury of instances of Fraud, Waste, or Abuse. After initial notification, the university should refer to applicable policies/guidelines related to institutional losses for additional reporting procedures.

### **2.3. Protection from Retaliation.**

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State law and university policies prohibits discrimination or retaliation against employees for reporting allegations of dishonest acts or cooperating with auditors conducting an investigation. The Higher Education Accountability Act of 2004 directs that a person who knowingly and willingly retaliates or takes adverse action of any kind against any person for reporting alleged wrongdoing pursuant to the provisions of this part commits a Class A misdemeanor. Employees should report retaliation to Internal Audit or the Office of Human Resources. An employee found to have retaliated is subject to discipline, including and up to termination.

### **2.4. Confidentiality of Reported Information.**

Detailed information received pursuant to a report of Fraud, Waste, or Abuse or any on-going investigation thereof shall be considered working papers of the internal auditor and shall be confidential. Although every attempt will be made to keep information confidential, circumstances such as an order of a court or subpoena may result in disclosure. Also, if the university has a separate legal obligation to investigate the complaint (e.g. complaints of illegal harassment or discrimination), the university cannot ensure anonymity or complete confidentiality.

## **3. Investigations/Actions.**

### **3.1. Cooperation of Employees.**

Individuals involved with suspected Fraud, Waste, or Abuse must cooperate in any investigation, including, but not limited to, providing complete, factual responses to questions and either providing access to or turning over relevant documentation immediately upon request by any authorized person. The refusal by an employee to provide such assistance may result in disciplinary action, including and up to termination.

### **3.2. Remedies Available.**

The university management will evaluate the information provided and make a determination concerning external reporting obligations, if any, and the feasibility of pursuing available legal remedies against persons or entities involved in Fraud, Waste, or Abuse against the institution. Remedies include, but are not limited to: terminating employment; requiring restitution; and forwarding information regarding the suspected Fraud to appropriate external authorities for criminal prosecution.

In those cases where disciplinary action is warranted, the Office of Human Resources, Office of University Counsel, and other appropriate offices shall be consulted prior to taking such action, and applicable institutional and Board of Trustees policies related to imposition of employee discipline shall be observed.

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### **3.3. Resignation of Suspected Employee.**

An employee suspected of gross misconduct may not resign as an alternative to discharge after the investigation has been completed. An employee may resign before the investigation is completed. Exceptions to these requirements may only be granted by the President. If the employee resigns during the investigation, the employment records must reflect the situation as of the date of the resignation, and the outcome of the investigation.

### **3.4. Effect on Annual Leave.**

An employee who is dismissed for gross misconduct or who resigns or retires to avoid dismissal for gross misconduct shall not be entitled to any payment for accrued but unused annual leave at the time of dismissal.

### **3.5. Student Involvement.**

Students found to have participated in Fraud, Waste, or Abuse as defined by this policy will be subject to disciplinary action pursuant to the student disciplinary policy. The Vice President of Student Life and Enrollment or designee will be responsible for adhering to applicable due process procedures and administering appropriate disciplinary action.

### **3.6. Confidentiality During Investigation.**

All investigations will be conducted in as strict confidence as possible, with information sharing limited to persons on a “need to know” basis. The identities of persons communicating information or otherwise involved in an investigation or allegation of Fraud, Waste, or Abuse will not be revealed beyond the university unless necessary to comply with federal or state law, or if legal action is taken.

### **3.7. Management’s Follow-up Responsibility.**

Administrators at all levels of management must implement, maintain, and evaluate an effective compliance program to prevent and detect Fraud, Waste, and Abuse. Once such activities have been identified and reported, the overall resolution should include an assessment of how it occurred, an evaluation of what could prevent recurrences of the same or similar conduct, and implementation of appropriate controls, if needed.



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## **Procedures**

N/A

## **Applicable Forms and Websites**

[Reporting Suspected Fraud, Waste or Abuse](#)

## **Authority and Revisions**

**Authority:** T.C.A. §§ 49-8-203, 8-19-501(a), 8-50-116, 49-14-103, 8-50-807

**Previous Policy:** N/A

The ETSU Board of Trustees is charged with policy making pursuant to TCA § 49-8-203, et seq. This policy may only be revised by the Board of Trustees. Before a substantive change to the policy section may take effect, the requested changes must be: (1) presented to the Audit Committee of the Board of Trustees for review and approval; and (2) if approved by the Audit Committee, presented for a vote of the Board of Trustees and approved by a majority of the Board of Trustees. The Secretary of the Board will provide a notification to the Board of Trustees if a technical revision to this policy is implemented or a revision to the procedure section is implemented.

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