

**Douglas County Internal Audit Division
(DCIAD)**



**Audit of
Douglas County
Countywide Contracts
FY 2009/2010 -#04**

July 27, 2010

**Brandon Clark, Internal Audit Analyst
Primary Auditor**

Carmen Harmon, Internal Audit Administrator



DOUGLAS COUNTY INTERNAL AUDIT DIVISION

Douglas County Elected Officials and Department Heads
Douglas County
Omaha, Nebraska 68183

July 27, 2010

The Douglas County Internal Audit Division conducted a compliance review audit of Countywide Contracts for Douglas County. The audit was conducted in accordance with Standards for the International Professional Practice Framework (IPPF) of the Institute of Internal Auditing.

Douglas County Internal Audit will review the design and effectiveness of internal controls and summarize the significant elements of Countywide Contracts. The examination included verifying that controls are in place to ensure contracts are properly administered.

The purpose of this report is to describe the results of reviewed items, including internal controls and compliance, and not to provide an opinion on the internal controls or compliance.

We would like to thank you, and your staff, for your cooperation and assistance during this audit.

Carmen Harmon
Internal Audit Administrator
Internal Audit Division

TABLE OF CONTENTS

Executive Summary	4
Background	5
Scope and Methodology	7
Finding #1	11
Finding #2	13
Finding #3	14
Finding #4	16
Finding #5	17
Finding #6	19
Finding #7	20
Appendix A	
–Business Code of Ethics of Conduct	22
– Conflict of Interest	23
– Conflict of Interest Statement Acknowledgement	27

Executive Summary

The Douglas Purchasing Department, Douglas County Attorney, and the Douglas County Clerk/Comptroller were identified as part of the countywide contract process. Each department plays a key roll in the process and differs for each department. As part of the audit process, Internal Audit reviewed the contract process applicable to each department and obtained supporting evidence to ensure compliance was met.

The following findings were noted while conducting the audit:

FINDING #1:

The Douglas County Purchasing Department does not have formal written internal policies and procedures explaining contract administration activities and functions within the office.

FINDING #2:

The Douglas County Purchasing Department, County Attorney, and County Clerk/Comptroller do not have a formal centralized contract automated system which allows for the uploading, monitoring and automated reporting of countywide contracts.

FINDING #3:

The Douglas County Purchasing Department does not have a formal written conflict of interest policy.

FINDING #4:

Insufficient documentation consistently submitted for payment.

FINDING #5:

The Douglas County Purchasing Department does not have a code of ethics policy.

FINDING #6:

The Douglas County Purchasing Department does not have a nondiscrimination clause.

FINDING #7:

The Douglas County Purchasing Department does not have an audit clause.

Background

Douglas County and the City of Omaha have joined together under the Douglas County Purchasing Department to provide a single agency that is responsible for the purchasing requirements for City and County departments and agencies.

In carrying out its responsibilities, the Douglas County Purchasing Department processes seven types of contracts as follows: 1) personal services; 2) affiliation; 3) inter-local agreement; 4) lease; 5) contract; 6) cable franchise; and 7) service agreement

For contracted services, only the three entities/individuals listed have statutory authority to enter into a contract for Douglas County: 1) the Douglas County Board of Commissioners, 2) the Purchasing Agent, and 3) the Election Commissioner. When the Purchasing Agent has entered into a contract, there may or may not be a Board resolution pertaining to the expenditure.¹

Professional Services

Professional services are technical, special services or unique functions performed by specially skilled or licensed persons or businesses.

Examples of professional services include: accountants, actuaries, appraisers, architects, attorneys, brokerage firms, business consultants, business development managers, copywriters, engineers, law firms, physicians, public relations professionals, recruiters, researchers, real estate brokers, translators, software engineers and web designers.

Affiliation

An affiliate agreement typically allows the service provider the opportunity to have their students participate in a clinical rotation in a County facility. Examples of affiliate service providers include: UNMC, Creighton University, College of St. Mary, etc. Clinical supervision is provided by the service provider. Typically, there is no payment to the service provider or cost to the County.

Inter-local Agreement

An Inter-local Agreement is an agreement between local governments to share services/functions or to provide services or goods per Neb. Rev. Stat. 13-804.

¹ Source: Douglas County/Clerk Comptroller Finance Division Accounts Payable Manual, Documentation for Processing Payments – 2006.

Lease

A lease is an agreement between the Owner of real or personal property (Lessor/Landlord) and a person(s) or entity for the use the real or personal property (Lessor/Tenant).

Contract

A contract is an offer, acceptance and consideration. It is a binding agreement between two or more parties for service or goods.

Cable Franchise

A Cable Franchise is an agreement between a Cable provider and the County to provide television cable service to subscribers for a fee.

Service Agreement

A service agreement is an agreement to provide scheduled updates, service or maintenance on County personal property.

Quote

A quote is an invitation to suppliers for services or goods with an anticipated total cost of less than \$20,000.00.

Bid

A bid is an invitation to suppliers for goods or service with an anticipated total cost of more that \$20,000.00.

RFP

A request for proposal is an invitation to suppliers typically for complex services or goods that may not carry a fixed cost to include medical care for employees, technical services or professional services.

Scope

The scope of this audit will test the design, and operating effectiveness, of internal controls related to Countywide Contracts. Audit procedures will include; an examination of applicable policies, procedures, state statutes, and standards governing the program.

The review was coordinated, and conducted, with selected staff, and management, with the Douglas County Purchasing Department, Douglas County Attorney's Office, Douglas County Administration and the various Douglas County Departments – who engage in contract agreements.

Douglas County Internal Audit reviewed the design and operating effectiveness of internal controls relating to Countywide Contracts. The examination will include testing for compliance of the contract process and information technology applications used to centralize the contract documents.

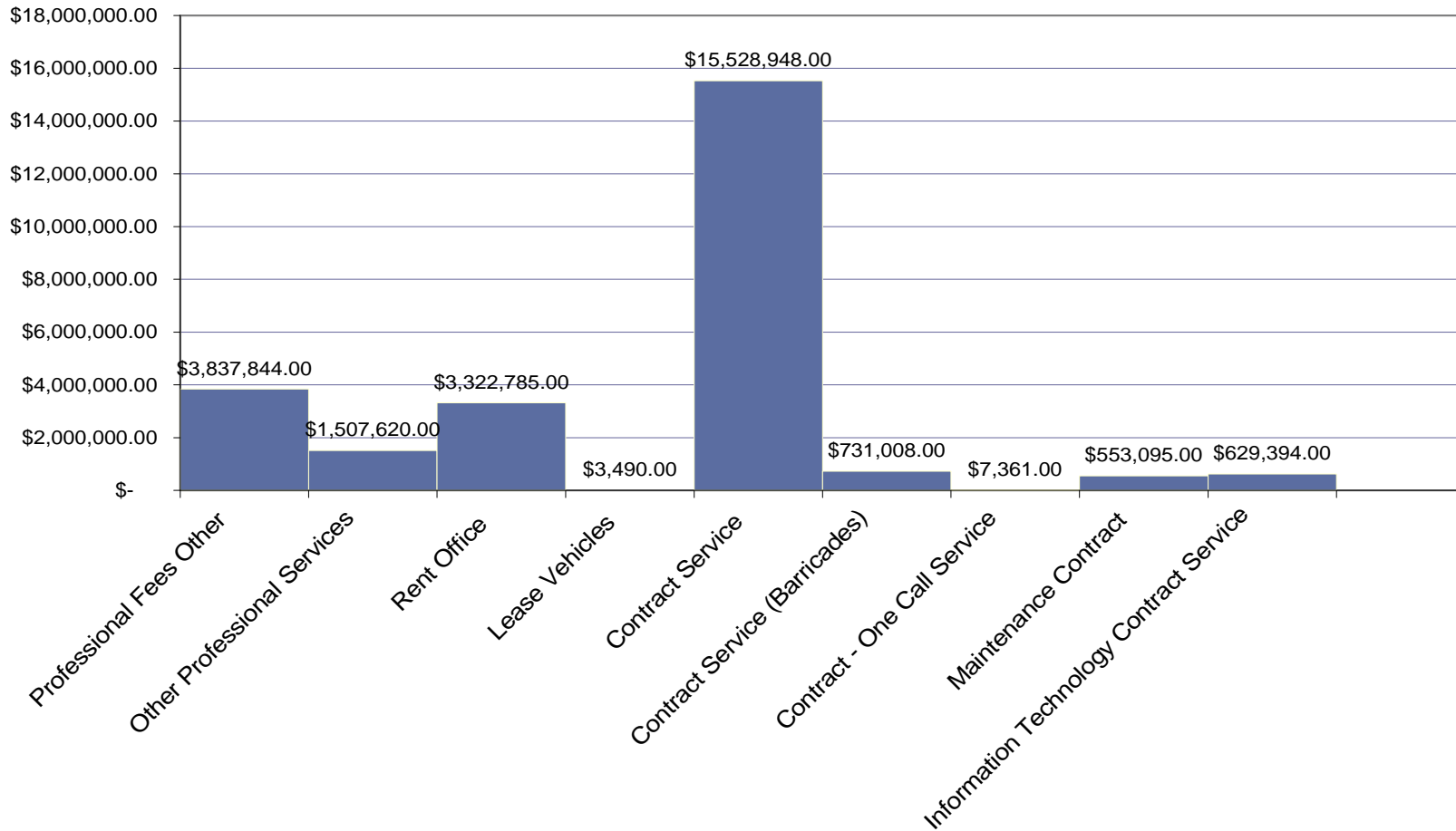
Methodology

Our methodology included a review of the County's purchasing manual and executive orders. We interviewed Purchasing staff, Administrative staff, and County Clerk staff, observed procedures, and documented our understanding of the process and the internal controls. We performed detailed testing and analysis of transactions. Finally, we conducted research on best practices.

Noteworthy Accomplishments

An on-line purchasing manual is available to employees on the County's intranet system. Previously, employees received a hard-copy manual which could become outdated quickly and was cumbersome to update.

FIGURE 1
Dollars Awarded from July 1, 2009 - March 1, 2010
By Contract Type



Source: Oracle Discoverer

Figure 2

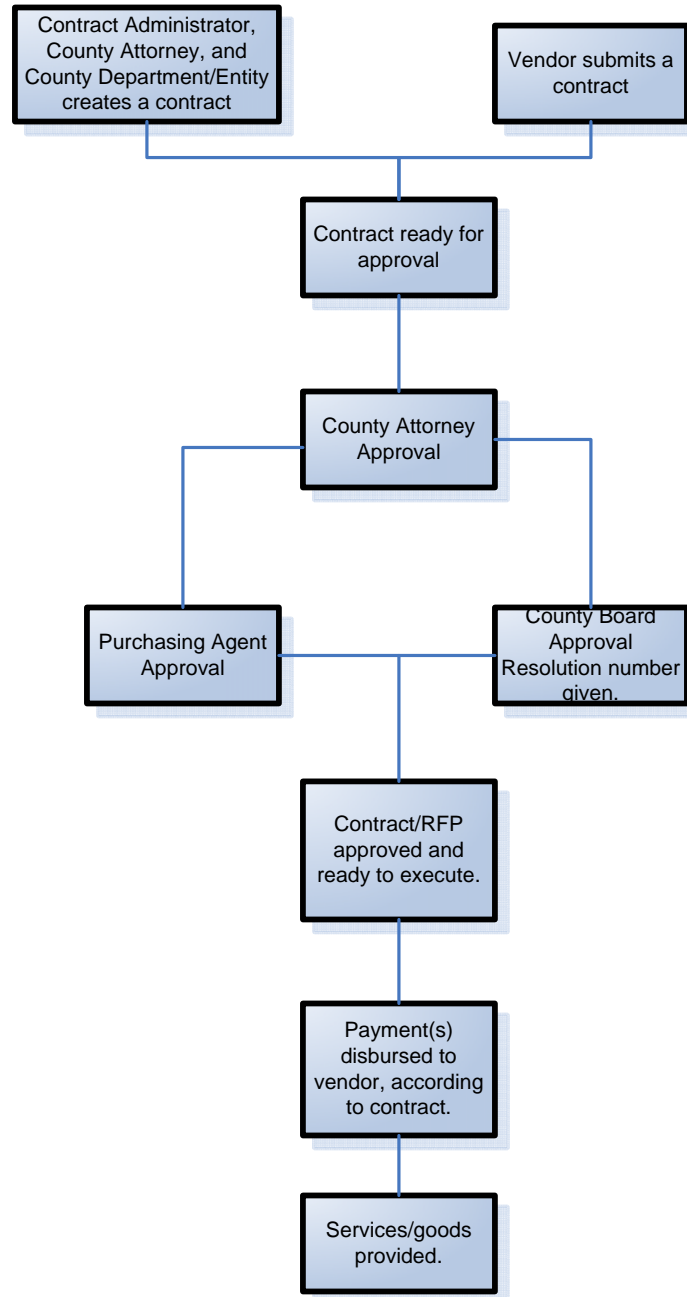
*Note -The highlighted contract types have increased for the 2009/2010 fiscal year before the end of the third quarter, FY 2009/2010 does not include 4th quarter totals.

*Time Period July 1, 2009 - March 1, 2010	
Type of Contract	Dollar Amount
Professional Services 1 (Professional Fees Other)	\$3,837,844.04
Professional Services 2 (Other Professional Services)	\$1,507,620.48
Lease 1 (Rent Office)	\$3,322,785.32
Lease 2 (Lease Vehicles)	\$3,490.14
Contract 1 (Contract Service)	\$15,528,947.93
Contract 2 (Contract Service Barricades)	\$731,007.67
Contract 3 (Contract - One Call Service)	\$7,361.17
Contract 4 (Maintenance Contract)	\$553,095.01
Contract 5 (Information Technology Contracted Services)	\$629,394.11
Total	\$26,121,545.87

Time Period July 1, 2008 - June 30, 2009	
Type of Contract	Dollar Amount
Professional Services 1 (Professional Fees Other)	\$4,039,741.79
Professional Services 2 (Other Professional Services)	\$964,085.91
Lease 1 (Rent Office)	\$3,178,808.12
Lease 2 (Lease Vehicles)	\$4,071.83
Contract 1 (Contract Service)	\$15,425,002.67
Contract 2 (Contract Service Barricades)	\$0.00
Contract 3 (Contract - One Call Service)	\$6,995.95
Contract 4 (Maintenance Contract)	\$1,098,448.06
Contract 5 (Information Technology Contracted Services)	\$464,733.11
Total	\$25,181,887.44

Figure 3

*Douglas County Process Flow for Contracts



*Approved by the Douglas County Purchasing Department on 3-24-2010

FINDING #1:

The Douglas County Purchasing Department does not have formal written internal policies and procedures explaining contract administration activities and functions within the office.

CONDITION:

Internal Audit requests department policies and procedures when performing audits to help gain an understanding of the applicable business process.

CRITERIA:

Written internal procedures are an important training tool for new or temporary staff and for current employees who fill in when colleagues are sick or on vacation. Written procedures thus helps continue to operate without interruption. Procedures must also comply with Douglas County policies.

EFFECT:

Employees benefit from reviewing their administrative processes to avoid, for example, improper duplication of responsibilities in job descriptions and cumbersome processes with insufficient, time-consuming steps.

CAUSE:

Internal Audit did not receive any internal policies or procedures from the Douglas County Purchasing Department.

RECOMMENDATION:

The Douglas County Purchasing Department should develop formal written internal policies and procedures that clearly identify daily operations of the contract manager held within the office.

Government Auditing Standards recommend that; every government document its accounting policies and procedures. The resulting documentation can provide specific direction to staff on-hand and also be used for training new personnel.

Well-written and organized procedures should:

- ✓ Implement and ensure compliance with policies; as well as document those policies;
- ✓ Protect the institutional knowledge of an organization; so as when experienced employees leave, new employees have the benefit of their years of experience;
- ✓ Provide the basis for training new employees;
- ✓ Offer a tool for evaluating employees based on their adherence to procedures and;
- ✓ Help prepare the Department for an external audit assessment of internal controls over processes.

To be effective, the manual should include job descriptions, with designated responsibilities. The Purchasing Department should set up a system for regular updates

and conduct periodic reviews to ensure that old policies are updated, or removed, when no longer needed.

MANAGEMENT RESPONSE:

We will review the duties of the Contract Administrator's responsibility to determine how to enhance the formal written policies and procedures pertaining to that position.

FINDING #2:

The Douglas County Purchasing Department, County Attorney, and Clerk/Finance Department, do not have a formal centralized contract automated system which allows for the uploading, monitoring and automated reporting of countywide contracts.

CONDITION:

Douglas County currently operates under a decentralized contract system. A comprehensive listing of every contract throughout Douglas County Government does not exist. Contracts are not designated or stored in one location. They may be located in the County Attorney's office, Purchasing Department, County Clerk/Comptroller, or individual department.

CRITERIA:

During a recent review of Douglas County Contracts, it appears that the Douglas County Clerk/Comptroller has started a contract storage system but, all County contracts are not stored in this location. If included into the data entering process, a centralized contract database system would deliver measurable improvements in financial and operational performance, throughout Douglas County Government.

EFFECT:

Benefits to adding a contract management automated system are but not limited to:

- Streamlined operations (reducing time to create and administer contracts, faster processing, more efficient record management)
- Reduce the manual processes and contract administration workload
- Automate contract request processing
- Performance Management (deliverables & quality)
- Risk mitigation (compliance to terms, verification)
- Improved financial management

CAUSE:

The Douglas County Purchasing Division has explored the option of integrating an automation contract management system; however, the purchasing department was unable to get a centralized contract database system, due to budget restraints.

RECOMMENDATION:

The DCIAD recommends that the Douglas County Purchasing Department acquire a centralized contract database system, to better assist the Purchasing Department and Douglas County Government; maintain contracts more efficient and effectively.

MANAGEMENT RESPONSE:

Currently the Contract Administrator uses an Access data base to track contracts. Only the Contract Administrator has access to that database. We will review the cost/benefit of an enhanced sharable database with DOT.Comm that would be available for widespread County use.

FINDING #3:

The Douglas County Purchasing Department does not have a formal written conflict of interest policy.

CONDITION:

During a recent review of the Douglas County Purchasing Policy Manual, it was established that the Douglas County Purchasing Department does not have a formal written conflict of interest policy.

CRITERIA:

Douglas County Contracts should avoid all conflicts of interest and all appearances of conflicts of interest. Vendors and or Douglas County employees should immediately notify Douglas County of any such instances encountered, so that other arrangements can be made to complete the contract.

A conflict of interest involves the abuse -- actual, apparent, or potential -- of the trust that people have in professionals. The simplest working definition states: A conflict of interest is a situation in which financial or other personal considerations have the potential to compromise or bias professional judgment and objectivity.²

EFFECT:

Conflict of interest could possibly impact of decisions on member's own work (e.g., policy changes). An employee, vendor, citizen or individual of the public has the opportunity to influence County business or other decisions in ways that could lead to personal gain or advantage of any kind, in the absence of a conflict of interest policy. Conflict of interest may exist when a person has a significant financial interest in a business from which he or she receives support or whose value may be affected by research in which the person participates.

CAUSE:

The Douglas County Purchasing Department and County Administration consider themselves to be covered from conflicts of interest through Nebraska State Statutes, Civil Service, and or the Douglas County Purchasing Manual; however, the information was not able to be obtained from the three sources listed above.

RECOMMENDATION:

The DCIAD recommends that the Douglas County Purchasing Department create and implement a written conflict of interest policy. Implementation of a conflict of interest policy would facilitate effective governance, promote transparency, and maintain public trust.

Board and committee members, elected officials, department heads and key employees should be asked *annually* to disclose potential conflicts, as well as whether Douglas County regularly and consistently monitors and implements compliance with the policy.

² http://www.columbia.edu/ccnmtl/projects/rcr/rcr_conflicts/foundation/index.html

The conflict of interest policy should be reviewed and approved by the Douglas County Board of Commissioners and the Douglas County Attorney's designee, and kept in a central location (located in the Douglas County Attorney's Office) and be available to the Purchasing Department for ongoing monitoring.

MANAGEMENT RESPONSE:

We abide by the Nebraska State Statutes (Neb. Rev. Stat. 23-3113) and Civil Service Policy Manual (Article 20) pertaining to conflict of interest. In addition we will include a Conflict of Interest section in the Douglas County Purchasing Policy Manual.

AUDIT COMMENT:

After reviewing the Nebraska State Statute (Neb. Rev. Stat. 23-3113) and Civil Service Personnel Policy Manual, the DCIAD does not perceive the statute and manual, covers any department(s) outside of the Purchasing Department and vendors – who are not governed by the state statute and the personnel policy.

We also believe it would be beneficial for every party involved in a service agreement/contract to sign a copy of the policy. This would ensure the parties involved fully understand and comply with the Nebraska State Statute and the policy.

FINDING #4:

Several invoices had insufficient documentation and were presented as exceptions to the Douglas County Board and processed for payment.

CONDITION:

Several invoices from DOT.Comm were billed to Douglas County for base services with insufficient documentation.

CRITERIA:

Douglas County Contracts should not be processed for payment without the necessary documentation and details of service(s) provided to Douglas County Purchasing and County/Clerk Comptroller. Documentation submitted needs to include enough detail to create a paper trail for an auditor (internal or external) to determine what the claim specifically covers; assure that the claim is valid, properly authorized; and that any member of the public seeking information about a specific payment has all the necessary information.

EFFECT:

Processing payments with insufficient documentation lacks proper accounting, and provides no baseline on services billed to Douglas County.

CAUSE:

In the Douglas County Purchasing manual it clearly states; if a vendor submits a claim/payment to Douglas County with insufficient documentation, Douglas County must pay the vendor; however, such claims may be separately listed as exceptions to the Board's agenda.

RECOMMENDATION:

The DCIAD recommends that the Douglas County Purchasing Department assist the Douglas County Board of Commissioners with a solution to the exception of insufficient documentation; require all vendors who make request for payment submit adequate documentation, thus elevating any presumption as to what Douglas County Government is being billed for.

MANAGEMENT RESPONSE:

It is our understanding that these pertains to one vendor DOT.Comm and also understand that more detailed supporting document is being developed by DOT.Comm.

AUDIT COMMENT:

DCIAD recommends the Douglas County Purchasing Department continues to request proper documentation from all vendors requesting payment from Douglas County.

FINDING #5:

The Douglas County Purchasing Department does not have a code of business ethics and conduct policy.

CONDITION:

The Purchasing Department should have a code of business ethics and conduct policy. The DCIAD did not receive any formal written policies involving a code of business ethics and conduct policy.

CRITERIA:

Providing such a policy would generally address the ethical business practices and expected standards of ethical and moral behavior, and the policy should also cover dealings with customers, suppliers, employees, and other parties.

The SEC rule describes the term “code of ethics” as written standards designed to deter wrongdoing and to promote:

1. Full, fair, accurate, timely, and transparent disclosures in reports and documents filed or submitted to the SEC and in other public communications.
2. Honest and ethical conduct throughout the company including the ethical handling of apparent or actual conflicts of interest between personal and professional activities and relationships.
3. Accountability for compliance with the established code of ethics.
4. Compliance with applicable regulations and professional standards.
5. The timely and effective internal reporting of noncompliance and any violations of the established code of ethics to an appropriate person or persons designated in the code.³

EFFECT:

Failure to add a code of business ethics and conduct policy could bring about discrepancies in the reporting process which includes; honesty and truthfulness, fairness, compliance, public interest, and consistency. It may also result in possible legal action against Douglas County from vendors.

CAUSE:

Internal Audit did not receive written policies on business ethics and conduct.

RECOMMENDATION:

The DCIAD recommends that the Douglas County Purchasing Department consult with the Douglas County Attorney’s office and:

³ SEC. 2003. Disclosure Required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002 (January). Available at: www.sec.gov/rules/final/33-8177.htm.

- (1) Adopt and disclose a code of business conduct and ethics for elected officials, department heads, and employees promptly disclose any waivers of the adopted code for elected officials and executive officers/department heads.

All organizations, regardless of their mission (e.g., profit oriented, nonprofit) and size (large vs. small), should establish an “organizational ethical culture”. The phrase “organizational ethical culture” consists of three words:

- (1) organization, which is defined as a group of individuals or entities bound to achieve a shared goal;
- (2) ethics, which is honorable behavior conforming to the norm of the group; and
- (3) culture, which is a pattern of shared beliefs adopted by the group in dealing with its internal and external affairs.

An appropriate code of ethics that sets the right tone at the top of promoting ethical and professional conduct and establishing the moral structure for the entire organization is the backbone of effective governance. (See Appendix A for sample document.)

⁴*Sample sources

⁵*Sample sources

⁶*Sample sources

MANAGEMENT RESPONSE:

We abide by Nebraska State Statutes (Neb. Rev. Stat 23-3113) and Civil Service Policy Manual (Article 20). In addition we will include a Code of Ethics section in the Douglas County Purchasing Department’s Internal Policies and Procedures.

AUDIT COMMENT:

After reviewing the Nebraska State Statute (Neb. Rev. Stat. 23-3113) and Civil Service Personnel Policy Manual, the DCIAD has determined that the statute and personnel manual, does not cover all employees; civil servants or non-civil servants, appointed or elected, union or non -union members.

We also believe it would be beneficial for every party involved in a service agreement/contract to sign a copy of the code of business ethics and conduct policy. This would ensure that all parties involved fully understand and comply with the Nebraska State Statute and the code of business ethics and conduct policy as it was intended.

⁴ http://www.lonmin.com/assets/pdf/code_of_business_ethics.pdf

⁵ <http://www.bcorporation.net/resources/bcorp/documents/B%20Resources%20-%20Creating%20a%20Code%20of%20Ethics.pdf>

⁶ <http://www.shakethatbrain.com/stb-ethics.Writing%20a%20Code%20of%20Ethics%20for%20Your%20Business.html>

FINDING #6:

The Douglas County Purchasing Department does not have a nondiscrimination clause incorporated into any vendor contract or service agreements.

CONDITION:

In review of several contracts and service agreements the DCIAD notices that the Purchasing Department does not incorporate a nondiscrimination clause into any of its vendor contract or service agreements.

CRITERIA:

In accordance with the Nebraska Fair Employment Practice Act, Neb. Rev. Stat § 48-1122, contractor agrees that neither it nor any of its subcontractors shall discriminate against any employee, or applicant for employment to be employed in performance of this agreement, with respect to hire, tenure, terms, conditions, or privileges of employment because the race, color, religion, sex, disability, or national origin of the employee or applicant.

EFFECT:

Failure to add the nondiscrimination clause could result in legal action against Douglas County from potential vendors.

CAUSE:

DCIAD assumes that the Douglas County Purchasing Department may have been unaware of the nondiscrimination clause for countywide contracts.

RECOMMENDATION:

The DCIAD recommends that the Douglas County Purchasing Department work with the Douglas County Attorney's office regarding adding a nondiscrimination clause to all contracts or service agreements, before entering into contract or service agreement with all vendors.

MANAGEMENT RESPONSE:

The Douglas County Purchasing Department does not have a nondiscrimination clause.

We disagree. Non-discrimination language has been included in contracts for a number of years.

AUDIT COMMENT:

Adding a nondiscrimination clause would be beneficial for all parties entering into an agreement/contract. The clause may elevate potential legal risk or action taken against Douglas County.

FINDING #7:

The Douglas County Purchasing Department does not have a “Right-to-audit clause” incorporated into any vendor contract or service agreements.

CONDITION:

In review of several contracts and service agreements the DCIAD notices that the Purchasing Department does not incorporate the “Right-to-audit clause” into any of its vendor contract or service agreements.

CRITERIA:

Monitoring the work of vendors and business partners is a fundamental procurement. However, too few organizations exercise the right-to-audit clauses in contracts, or understand where contractual obligations were not met and how that affects their business.

The right to audit is defined in the "right to audit" clause of a particular contract. This clause must be included in all contracts (where accounting is involved) to enable separate accountings of the same transactions. For example, with this clause in all contracts, Douglas County's accounting of goods or services received could be cross-checked with the accounting of vendors goods sold or services rendered. Just the presence of this clause will go a long way to insure that the appropriate credits are being made. Usually audits are not made to substantiate integrity, but rather, are undertaken because of the complexity of the business transactions involved.

Without a “Right-to-audit clause,” a vendor can restrict access to records pertaining to the contracted services or goods, thus having less ability to find issues that reside outside of Douglas County’s authority.

EFFECT:

If there is a “Right-to-audit clause,” the vendor is unable to restrict the ability to be audited unless Douglas County’s rights are specially and carefully documented in the contract.

Vendor audit clauses can help control fraud and abuse by affording a discovery device in a fraud examination. When the right to audit is exercised, the fraud examiner or auditor is generally looking for fraud by vendors and violations of company ethics policies such as:

- faulty or inferior quality of goods;
- short shipments;
- high prices when the goods can be bought directly and/or cheaper from the same or another vendor;
- goods not delivered;
- kickbacks;
- gifts and gratuities to company employees;
- commissions to brokers and others;
- services allegedly performed that weren't needed in the first place, such as equipment repairs; and

- conflicts of interest.⁷

CAUSE:

When entering into a contractual agreement, parties involved often believe not adding a “Right-to-audit clause” will not be an issue; however, once the agreement is signed the contract is final and any modifications made due to contract issues will not be permitted.

RECOMMENDATION:

The DCIAD recommends that the Douglas County Purchasing Department add a “Right-to-audit clause” to all contracts or service agreements, when entering into contract or service agreement with all vendors.

By obtaining the right, the buyer usually obtains the right to examine records of a vendor to determine if a fraud or a violation of company policy has occurred.

The “right to audit” agreement can be printed on the back of a purchase order, contract, or other procurement form. The clause could be worded as follows on a purchase order:

*"Seller shall establish a reasonable accounting system, which enables ready identification of seller's cost of goods and use of funds. Buyer may audit seller's records anytime before three years after final payment to verify buyer's payment obligation and use of buyer's funds. This right to audit shall include subcontractors in which goods or services are subcontracted by seller. Seller shall insure buyer has these rights with subcontractor(s)."*⁸

MANAGEMENT RESPONSE:

We will review this with the County Attorney.

⁷ **Reserving the Right to Audit the Suspicious Vendor Right-to-audit clauses in vendor contracts help control fraud and abuse by affording discovery devices in examinations.**

By Ralph Q. Summerford, CFE, CPA, CVA President, Summerford Accountancy, PC (www.summerfordcpa.com)

⁸ **Reserving the Right to Audit the Suspicious Vendor Right-to-audit clauses in vendor contracts help control fraud and abuse by affording discovery devices in examinations.**

By Ralph Q. Summerford, CFE, CPA, CVA President, Summerford Accountancy, PC (www.summerfordcpa.com)



Douglas County Internal Audit Division

Douglas County Code of Business Ethics and Conduct

Introduction

This section reaffirms the importance of high standards of business conduct. Adherence to this Code of Business Ethics and Conduct by all employees is one sure way we can merit the confidence and support of the public.

This code has been prepared as a working guide and not as a technical legal document. Thus, emphasis is on brevity and readability rather than providing an all-inclusive answer to specific questions. For example, the term "employee" is used in its broadest sense and refers to every officer and employee of Douglas County. The word "law" refers to laws, regulations, orders, etc.

In observance of this code, as in other business conduct, there is no substitute for common sense. Each employee should apply this code with common sense and the attitude of seeking full compliance with the letter and spirit of the rules presented. It is incumbent upon you, as an employee of Douglas County, to perform satisfactorily and to follow our policies and comply with our rules as they are issued or modified from time to time. Good performance and compliance with business rules lead to success.

You should familiarize yourself with this code so that you might readily distinguish any proposal or act that would constitute a violation. Each employee is responsible for his/her actions. *There will be no reprisal against an employee who in good faith reports a violation or suspected violation.*

We will conduct our affairs honestly, directly and fairly. The absence of a specific guideline practice or instruction covering a particular situation does not relieve an employee from exercising the highest ethical standards applicable to the circumstances. If any employee has doubts regarding a questionable situation that might arise, that employee should immediately consult his supervisor or higher level.

Each employee is charged with the responsibility of acquiring sufficient knowledge of the laws and orders relating to his duties in order to recognize potential dangers and to know when to seek legal advice.

When dealing with public officials, employees must adhere to the highest ethical standards of business conduct. Employees may not offer, provide or solicit, directly or indirectly, any special treatment or favor in return for anything of economic value or the promise or expectation of future value or gain.

Douglas County's books and records should accurately and fairly reflect all transactions and maintain a system of internal controls; transactions should conform to management's authorizations; and accounting records should be accurate. No employee will falsely report transactions or fail to report the existence of false transactions in the accounting records.



Douglas County Internal Audit Division

Employees certifying the correctness of records, including vouchers or bills, should have reasonable knowledge that the information is correct and proper.

Conflicts of Interest

There are several situations that could give rise to a conflict of interest. A potential conflict of interest exists for employees who make decisions in their jobs that would allow them to give preference or favor in exchange for anything* of personal benefit to themselves or their friends and families. Employees should refrain from involvement in any situation that could interfere with an employee's ability to make judgments solely in Douglas County's best interest.

** Gifts are items and services of value, but do not include the following items:*

- (1) Normal business entertainment items, such as meals and beverages;*
- (2) Items of minimal value, given in connection with sales campaigns and promotions or employee services, safety or retirement awards are not to be considered "gifts" for purposes of this code.*

Outside Employment

Employees may be employed outside Douglas County with the following exceptions:

- Where the outside employment would conflict with scheduled hours, including overtime, or the performance of Douglas County assignments. Employees must not use company time, materials, information or other assets in connection with outside employment.
- In a manner which would affect their objectivity in carrying out their company responsibilities.
- No employee who deals with individuals or organizations doing or seeking to do business with Douglas County, or who makes recommendations with respect to such dealings, should serve as an officer, director, employee or consultant for said individual or organization or own a substantial interest* in any organization doing or seeking to do business with Douglas County.

**Substantial interest means an economic interest that might influence or reasonably be thought to influence judgment or action, but shall not include an investment representing less than 1% of a class of outstanding securities of a publicly held corporation.*

Our policy is that employees will not do business on behalf of Douglas County with a close personal friend or relative; however, recognizing that these transactions may need to occur, they should be disclosed, in writing, to an immediate supervisor or the Board of Commissioners.

This policy is applicable equally to the members of the immediate family of each employee, which normally includes your spouse, children and their spouses, and the father, mother, sisters and brothers of yourself and your household.

Confidential Information

Confidential information includes all information, whether technical, business, financial or otherwise concerning Douglas County, which Douglas County treats as confidential, which is not available or is not made available publicly.



Douglas County Internal Audit Division

This policy protects the integrity of Douglas County's confidential information which may not be divulged. The obligation not to divulge confidential information is in effect even though material might not be specifically identified as confidential and the obligation exists during and continues after employment with Douglas County.

A few examples of prohibited conduct concerning confidential information are:

- Selling or otherwise using, divulging or transmitting confidential information;
- Using confidential information to knowingly convert county business for personal use;
- Using confidential company information to acquire real estate which the employee knows is of interest to Douglas County;
- Using, divulging or transmitting confidential company information in the course of outside employment or other relationship or any succeeding employment or other relationship at any time.

Cash and Bank Accounts

All cash and bank account transactions must be handled so as to avoid any question or suspicion of impropriety. All cash transactions must be recorded in Douglas County's books of account.

All accounts of County funds shall be established and maintained in the name of the Douglas County or one of its departments and can be opened or closed only on the authority of the Douglas County Board of Commissioners. All cash received shall be promptly recorded and deposited in a Douglas County bank account. No funds shall be maintained in the form of cash, except authorized petty cash. No disbursements of any nature should be made into numbered bank accounts or other accounts not clearly identified to Douglas County as to their ownership.

No payments can be made in cash (currency) other than normal disbursements from petty cash supported by signed receipts or other appropriate documentation.

Company Assets and Transactions

Compliance with prescribed accounting procedures is required at all times. Employees having control over county assets and transactions are expected to handle them with the strictest integrity and ensure that all transactions are executed in accordance with management's authorization. All transactions shall be accurately and fairly recorded in reasonable detail in Douglas County's accounting records.

Employees are personally accountable for County funds over which they have control. Employees who spend County funds should ensure Douglas County receives good value in return and must maintain accurate records of such expenditures. Employees who approve or certify the correctness of a bill or voucher should know that the purchase and amount are proper and correct. Obtaining or creating "false" invoices or other misleading documentation or the invention or use of fictitious sales, purchases, services, loans, entities or other financial arrangements is prohibited.



Douglas County Internal Audit Division

Expense Reimbursement

Expense actually incurred by an employee in performing County business must be documented on expense reports in accordance with County procedures. In preparing expense reports, employees should review these procedures for the documentation in order to be reimbursed for business expenses.

Computer Information

Computerized information is a valuable asset of Douglas County and must be protected from misuse, theft, fraud, loss and unauthorized use or disposal, just as any other company property.

Use of mainframe computers must be customer service or job related. Employees cannot access Douglas County records of any kind for their personal use. Misappropriation of computer space, time or software includes, but is not limited to, using a computer to create or run unauthorized jobs, operating a computer in an unauthorized mode or intentionally causing any kind of operational failure. Personal computers can be used for company-sanctioned education programs.

Conduct on Douglas County Business

Dishonest or illegal activities on Douglas County premises or while on Douglas County business will not be condoned and can result in disciplinary action, including dismissal and criminal prosecution. The following illustrates activities that are against Douglas County policy, and which will not be tolerated on Douglas County premises, in Douglas County vehicles or while engaged in Douglas County business:

- Consumption and storage of alcoholic beverages, except where legally licensed or authorized by an officer of the Douglas County.
- The use of controlled substances, such as drugs or alcohol. The unlawful manufacture, distribution, dispensation, possession, transfer, sale, purchase or use of a controlled substance.
- Driving vehicles or operating Douglas County equipment while under the influence of alcohol or controlled substances.
- Illegal betting or gambling.
- Carrying weapons of any sort on Douglas County premises, in Douglas County vehicles or while on Douglas County business. Even employees with permits or licenses cannot carry weapons on Douglas County property or while on Douglas County business.

Douglas County reserves the right to inspect any property that might be used by employees for the storage of their personal effects. This includes desks, lockers and vehicles owned by Douglas County. It is a violation of Douglas County policy to store any contraband, illegal drugs, toxic materials or weapons on Douglas County property.

Reporting Violations

All employees are responsible for compliance with these rules, standards and principles. In the area of ethics, legality and propriety, each employee has an obligation to Douglas County



Douglas County Internal Audit Division

that transcends normal reporting relationships. Employees should be alert to possible violations of the code anywhere in Douglas County and are encouraged to report such violations promptly. Reports should be made to the employee's supervisor, the appropriate security, audit, or legal department personnel, or elsewhere as the circumstance dictates. Employees will also be expected to cooperate in an investigation of violations. In addition, any employees who are convicted of a felony, whether related to these rules or not, should also report that fact.

All cases of questionable activity involving the code or other potentially improper actions will be reviewed for appropriate action, discipline, or corrective steps. Whenever possible, Douglas County will keep confidential the identity of employees about or against whom allegations of violations are brought, unless or until it has been determined that a violation has occurred. Similarly, whenever possible, Douglas County will keep confidential the identity of anyone reporting a possible violation. **Reprisal against any employee who has, in good faith, reported a violation or suspected violation is strictly prohibited.**

All employees are required to notify their Douglas County supervisor within two (2) days of any conviction of any criminal statute violation occurring on the job. In addition, any employee who is convicted of a felony, whether related to these rules or not, should report that fact.

Discipline

Violation of this code can result in serious consequences for Douglas County, its image, credibility and confidence of its customers and can include substantial fines and restrictions on future operations as well as the possibility of fines and prison sentences for individual employees. Therefore, it is necessary that Douglas County ensure that there will be no violations. Employees should recognize that it is in their best interest, as well as Douglas County's, to follow this code carefully.

The amount of any money involved in a violation might be immaterial in assessing the seriousness of a violation since, in some cases, heavy penalties might be assessed against Douglas County for a violation involving a relatively small amount of money, or no money.

- Disciplinary action will be considered for all violations and will be coordinated with the appropriate personnel. The overall seriousness of the matter will be considered in setting the disciplinary action to be taken against an individual employee.

Disciplinary action might also be taken against supervisors or executives, who condone, permit or have knowledge of illegal or unethical conduct by those reporting to them and do not take corrective action.

Disciplinary action might also be taken against employees who make false statements in connection with investigations of violations of this code.



Douglas County Internal Audit Division

Douglas County's rules and regulations regarding proper employee conduct will not be waived in any respect. Violation is cause for disciplinary action including dismissal. All employees will be held to the standards of conduct described.

Douglas County never has and never will authorize any employee to commit an act that violates this code or to direct a subordinate to do so. With that understood, it is not possible to justify commission of such an act by saying someone directed it in higher management.

Compliance Letter and Conflict of Interest Questionnaire

Each employee will review the Code of Business Ethics and Conduct and sign the code's Acknowledgment form.

I have read the Douglas County Code of Conduct and Compliance policy and:

- I understand that the standards and policies in that Code of Conduct represent the policies of Douglas County and that violating those standards and policies, or any legal and regulatory requirements applicable to my job, will result in appropriate sanctions.
- I understand that it is my responsibility to disclose any situation that might reasonably appear to be a violation of the Code of Conduct.
- I have read the attached Conflict of Interest/Statement of Financial Interest and have listed all relationships and outside activities which require disclosure under the policy. *(If there are no persons or entities to be listed, so indicate by writing "NONE" in the first space provided below.)*

Signature of Employee

Date

Signature of Supervisor

Date

ⁱ Appendix A was presented to the Douglas County Audit Committee as a sample draft, for the purpose of incorporating the documents into policy.