

# MARINA COAST WATER DISTRICT FRAUD POLICY

## Purpose and Scope

It is the intent of the Marina Coast Water District (“MCWD” or the “District”), ~~also called the District~~ to protect the District, its assets, operations, and employees against financial risks, operational breaches and unethical activities. This e fraud policy establishes procedures for clarifying acts that are considered to be fraudulent and the steps to be taken when fraud or other related dishonest activities are suspected. Accordingly, it is the policy of the District to identify and promptly investigate any possibility of fraudulent or related dishonest activities against the District, and when appropriate, to pursue legal remedies available under the law.

This policy applies to employees as well as Directors, consultants, vendors, contractors, outside agencies doing business with employees of such agencies, and/or any other parties with a business relationship with the District.

**Definitions.** As used in this policy, the following terms shall have the following meanings:

- A. “Fraud” shall mean defalcation, misappropriation, and other fiscal irregularities and shall include, but not be limited to:
1. Any dishonest or fraudulent act.;
  2. Misappropriation of funds, securities, supplies, or other assets.;
  3. Impropriety in the handling or reporting of money or financial transactions.;
  4. Profiteering as a result of insider knowledge of District activities.;
  5. Disclosing confidential and proprietary information to outside parties.;
  6. Disclosing to other persons activities engaged in or contemplated by the District.;
  7. Authorizing or receiving payment for goods not received or services not performed.;
  8. Accepting or seeking anything of material value by a District employee or director from any contractor, vendor, or person providing services, materials, or construction work to the District. (See MCWD Employee Handbook Policy Nos. 3.4 Conflicts of Interest and 5.12 Gift or Gratuity Acceptance.)
  9. Destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment. ; and/or
  10. Any apparent violation of Federal, State, or Local laws related to dishonest activities or fraud.
  11. Unauthorized alteration or falsification of records.
  12. Falsification or inflation of expenses and invoices.
  13. Knowingly providing false information on job applications, timesheets, requests for reimbursement or funding, and other personnel documents.
  14. Unauthorized use, disclosure, alteration, destruction, manipulation or misappropriation of the District’s electronic information.

- B. “Internal Auditor” means the District employee responsible for conducting the internal investigation of suspected fraud. —Unless otherwise assigned by the General Manager, the Risk Manager will be the Internal Auditor. ~~responsible to conduct internal investigations of suspected fraud.~~ In the event the General Manager is under investigation, an External Auditor will be assigned by the Board of Directors.
- C. “External Auditor” means the ~~refers to~~ independent audit professionals who perform audits of the District’s financial statements.

## **Deterring Fraud and Corruption**

The District has established internal controls, policies and procedures in an effort to deter, prevent, and detect fraud.

All new employees, plus temporary and contract employees, are subject to background investigations including any appropriate background check as permitted by law. Prior to making an offer of employment to any applicant, the District will also verify some or all of the following items: employment history, education, and personal references.

All vendors, contractors, and suppliers must be in good standing, and authorized to transact business in the state of California and with the District. Vendors, contractors and suppliers are also subject to screening.

Contractual agreements with the District may contain provisions prohibiting fraudulent or corruptive acts and will include information about reporting fraud and corruption.

District employees will receive fraud and corruption awareness training before policy implementation and on a regular basis. New employees will receive training as part of orientation at the commencement of employment.

## **Procedures**

It is the District’s intent to fully investigate any suspected acts of fraud. An objective and impartial investigation will be conducted regardless of the position, title, length of service, or relationship with the District of any party who might be or become involved in or becomes the subject of such investigation.

Management is responsible for the detection and prevention of fraud. ~~All employees have a duty to report any information or suspicions about possible violations of the policy to the General Manager.~~

Each manager will be familiar with the types of fraud that might occur within his or her area of responsibility, and be alert for any indication of fraud. Management should not attempt to conduct investigations, interviews or interrogations. However, management is responsible for taking appropriate corrective measures to ensure adequate controls exist to prevent reoccurrence of improper actions.

Management must give full and unrestricted access to all necessary records and personnel to the Internal/External Auditor during the course of an investigation. All District furniture and contents, including desks and computers are open to inspection at any time by the Internal/External Auditor during the course of an investigation.

Pursuant to District policy, employees shall have no expectation of privacy with regards to District property (physical and electronic).

If an employee is aware of, or suspects, fraudulent acts, the employee is encouraged to discuss his/her complaint with his/her immediate supervisor. If an employee believes he/she is unable to discuss the complaint with his/her supervisor or his/her supervisor is the source of the problem, the employee shall make the report to the next higher level of management.

If neither of the above alternatives is satisfactory the employee should immediately contact the Management Services Administrator or General Manager. If the General Manager is the one suspected of committing fraud, the complaint shall be forwarded to the President of the Board of Directors who shall coordinate all investigations with the External Auditor and Legal Counsel.

Anonymous complaints may also be made by calling the District Fraud Hotline at 883-5997.

~~Any irregularity that is detected must be reported to the General Manager (unless the General Manager is the one suspected of committing fraud, in which case the suspected fraud must be reported to the President of the Board of Directors), who shall coordinate all investigations with the External Auditor and Legal Counsel.~~

Retaliation and retribution will not be tolerated against any employee who in good faith reports activities he or she suspects are in violation of this policy. If an employee's report of fraud is not made in good faith, but with deceit or malicious intent, the employee will be subject to disciplinary action.

Upon assignment by the General Manager, the Internal Auditor will promptly investigate the suspected fraud. In all circumstances where there appears to be reasonable grounds for suspecting that fraud has taken place, the Internal Auditor, in consultation with Legal Counsel may will contact the local law enforcement agency.

If evidence is uncovered showing possible fraud, the Internal Auditor will proceed as follows:

- a. Discuss the findings with the General Manager and Legal Counsel
- b. Advise management if the case involves staff members and, to meet with the General Manager to determine if disciplinary action should be taken.
- c. Report to the External Auditor such activities in order to assess the effect of the fraud on the District's financial statements.
- d. Notify the Risk and Liability carriers regarding insurers and filing of insurance claims.

- e. Take immediate action, in consultation with ~~District~~ Legal Counsel, to prevent the theft, alteration, or destruction of evidentiary records. Such action shall include, but is not limited to:
  1. Removing records and placing them in a secure location of limiting access to the location where the records currently exist.
  2. Preventing the individual suspected of committing the fraud from having access to the records.
- f. If the Internal Auditor is contacted by the media regarding an alleged fraud or audit investigation, the Internal Auditor will forward that request to the General Manager and Legal Counsel. If the General Manager is the one being investigated, the request will be forwarded to the President of the Board of Directors and Legal Counsel.

Upon conclusion of the investigation, the Internal Auditor will document the results and forward to the General Manager who will take appropriate action. If the investigation substantiates that fraud has occurred, the General Manager will issue a report to the Board of Directors. If the suspected fraud involves the General Manager, the Board of Directors will assume responsibility for the investigation.

Unless exceptional circumstances exist, a person under investigation for fraud is to be given notice in writing of essential particulars of the allegations following the conclusion of the investigation. Where notice is given, the person against whom allegations are being made may submit a written explanation to the General Manager no later than seven (7) calendar days after the notice is received.

Offenders at all levels of the District will be treated equally regardless of their position or years of service with the District. Determinations will be made based on a finding of facts in each case, actual or potential damage to the District, cooperation by the offender, and legal requirements.

Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with Legal Counsel, General Manager, and the Board of Directors, as will final decisions on disposition of the case. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know or as otherwise required by law. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect the District from potential civil liability.

Upon completion of the investigation, including all legal and personnel actions, all records, documents, and other evidentiary material originally obtained from the department under investigation will be returned to that department unless determined otherwise by Legal Counsel.