

## **PURPOSE**

The District's fraud policy is established to facilitate the development of controls which will aid in the detection and prevention of fraud against Trophy Club Municipal Utility District No. 1 (the "District"). It is the intent of the District to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conduct of investigations.

## **SCOPE**

This policy applies to any fraud, or suspected fraud, involving employees, 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. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the District.

## **POLICY**

**General:** Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity. Any fraud that is detected or suspected must be reported immediately to the District Manager, who coordinates all investigations with the Board of Directors and Legal Counsel and other affected areas, both internal and external. In cases of suspected fraud by the District Manager, a complaint should be given directly to the President of the Board. In cases of suspected fraud by a member of the Board of Directors, a complaint should be given to the District Manager who will report directly to District's legal counsel.

**Actions Constituting Fraud:** The terms defalcation, misappropriation, and other fiscal wrongdoings refer to, but are not limited to:

- Any dishonest or fraudulent act
- Forgery or alteration of any document or account belonging to or representing the District
- Forgery or alteration of a check, bank draft, or any other financial document
- Misappropriation of funds, securities, supplies, or other assets
- Impropriety in the handling or reporting of money or financial transactions
- Profiteering as a result of insider knowledge of District activities
- Disclosing confidential and proprietary information to outside parties
- Disclosing to other persons securities activities engaged in or contemplated by the District
- Accepting or seeking anything of material value from contractors, vendors, or persons providing services and/or materials to the District. Exception: Gifts less than \$50 in value.
- Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment; and/or
- Any similar or related inappropriate conduct

**Other Inappropriate Conduct:** Suspected improprieties concerning an employee's moral, ethical, or behavioral conduct, should be resolved by the District Manager. If there is any question as to whether an action constitutes fraud, contact the District Manager for guidance.

**Investigation Responsibilities:** The District Manager has the primary responsibility for the investigation of all suspected fraudulent acts as defined in the policy unless he/she is suspected of fraud. In such case, the President of the Board of Directors shall have the primary responsibility for investigation. If there is an investigation of suspected fraudulent activities, the District Manager will issue a report to the Board of Directors. Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made by the Board of Directors as will final decisions on disposition of the case.

**Confidentiality:** The District treats all information received confidentially to the extent allowed by law. Any employee who suspects dishonest or fraudulent activity will notify the District Manager immediately, and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act (see **Reporting Procedure** section below). Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct.

**Authorization For Investigating Suspected Fraud:** Members of the Investigation Unit will have:

- Free and unrestricted access to all District records and premises, whether owned or rented; and
- The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on District premises without prior knowledge or consent of any individual who may use or have custody of any such items or facilities when it is within the scope of their investigation.

**Reporting Procedures:** Great care must be taken in the investigation of suspected improprieties or wrongdoings so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way. An employee who discovers or suspects fraudulent activity will contact the District Manager immediately, unless the suspected fraud involves the District Manager, in which case the President of the Board should be contacted. All inquiries concerning the activity under investigation from the suspected individual, his or her attorney or representative, or any other inquirer should be directed to Legal Counsel through the District Manager. No information concerning the status of an investigation will be provided without expressed authorization. The proper response to any inquiries is: "I am not at liberty to discuss this matter." Under no circumstances should any reference be made to "the allegation," "the crime," "the fraud," "the forgery," "the misappropriation," or any other specific reference. The reporting individual should be informed of the following:

- Do not contact the suspected individual in an effort 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 Board of Directors, District Manager, or Legal Counsel.

**Administration:** The District Manager is responsible for the administration, interpretation, and application of this policy. The policy will be reviewed annually and amended as needed by the Board of Directors.

## **COMPLIANCE**

Adherence to the above is mandatory for all Trophy Club Municipal Utility District No. 1 employees and Directors.