

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

Subject	Policy Number	Date Adopted	Date Revised
ANTIFRAUD POLICY	50	10/03/07	01/04/12

PURPOSE

The purpose of this policy is to establish guidelines and assign responsibility for the development of controls and conducting of investigations to aid in the prevention, detection and reporting of fraud against the District.

SCOPE

The District has zero tolerance for fraud and will investigate any fraud or suspected fraud without regard to the length of service, position / title, or relationship to the District of the suspected wrongdoer(s). Violation of this policy is an act of misconduct meriting dismissal without prior warning or disciplinary action in accordance with the District's Discipline Policy and Procedures. Further, an employee who directly observes or otherwise knows of fraudulent activity and fails to report it is in violation of this policy and may be subject to discipline as a result of this failure to act, up to and including termination of employment.

BACKGROUND

The Otay Water District's Pre-Employment Policies require a thorough background investigation which includes fingerprinting to ascertain a candidate's criminal history. The Employee Standards of Conduct requires all personnel to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. As employees and representatives of the District, we must practice honesty and integrity in fulfilling our responsibilities and comply with all applicable laws and regulations. This policy applies to all directors, officers, employees, volunteers, and agents of the District.

POLICY

1. Definition of Fraud:

Fraud is defined as the intentional deception, false representation or concealment of a material fact, misappropriation of resources, or manipulation of data to the advantage or disadvantage of a person or entity. Fraud is not restricted to instances in which monetary or material benefits are received or denied, but may include intangible benefits such as status, power, position, and avoiding discipline.

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2. Actions Constituting Fraud:

Examples of fraud include, but are not limited to, the following:

- Forgery, falsification or alteration of documents or instruments such as, but not limited to, timesheets, payroll records, travel and expense claims, checks, bank drafts, promissory notes, securities, invoices, purchase orders, receipts, other financial documents, contracts, vendor agreements, electronic files, etc.
- Misappropriation of funds, securities, supplies, inventory, or any other assets achieved through the use of deception or willful concealment.
- Impropriety in the handling or reporting of money or financial transactions.
- Profiteering as a result of insider knowledge of District activities.
- Bribery and corruption.
- Authorizing or accepting payments or payments in kind for goods or services not performed, or for hours not worked.
- Destruction, removal, theft or inappropriate use of records, furniture, fixtures, equipment, or any other assets achieved through the use of deception or willful concealment.
- Any violation of Federal, State, or local laws related to fraud or dishonest activities.
- Any similar or related irregularity or action.

3. Management Responsibilities:

The General Manager's Office is responsible for the prevention and detection of fraud, misappropriations, and other irregularities. District management shall identify the risks to which systems, operations and procedures are exposed, and develop, maintain and ensure compliance with an appropriate and effective internal control system to provide reasonable assurance for the prevention and detection of fraud. Each member of management shares in this responsibility and shall familiarize themselves with the risks and exposures inherent in their area of responsibility and be alert for any indication of irregularity.

4. Reporting Responsibilities:

Employees who know, or should reasonably suspect under the circumstances before them, that another employee is committing fraud, have a duty to report such knowledge or suspicion to District management, including the facts and/or observations upon

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which such knowledge is based. Failure to so report may result in disciplinary action, up to and including termination of employment. In most cases, an employee's immediate supervisor is in the best position to address an area of concern. However, if an employee is not comfortable speaking with their supervisor or is not satisfied with their supervisor's response, they should speak with the Manager of Human Resources or anyone in management whom they feel is more appropriate, including District's Legal Counsel.

Employees must not attempt to personally conduct investigations/interviews/interrogations, or discuss any details of the suspected fraudulent act with unauthorized personnel.

5. Acting in Good Faith:

Anyone filing a complaint concerning suspected fraudulent activity is presumed to do so in good faith and have reasonable grounds for believing the information disclosed indicates improper or illegal activity. However, based on the totality of the circumstances, any allegations found to be unsubstantiated and made in bad faith or for malicious reasons may constitute grounds for disciplinary action under the District's Discipline Policy and Procedures against the person filing the complaint.

6. No Retaliation:

No executive, manager, supervisor, or employee who in good faith reports suspected fraudulent activity shall suffer harassment, retaliation or adverse employment consequences. An employee who retaliates against a person who has reported a violation in good faith is subject to disciplinary action under the District's Discipline Policy and Procedures.

7. Confidentiality:

Violations or suspected violations may be submitted on a confidential basis by the complainant. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation. Information pertaining to the investigation shall not be disclosed or discussed with anyone other than those who have a legitimate need to know for the proper discharge of their duties.

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8. Investigation:

The General Manager, or designee, shall investigate all fraudulent or suspected fraudulent acts. Based on the severity of the allegations, an immediate decision will be made concerning coordinating the investigation with the appropriate law enforcement officials. District legal counsel may also be involved in the process, as deemed appropriate. The investigator(s) shall take immediate steps as needed to secure statements, physical assets including computers and any records thereon, and all other potentially evidential documents. Affected employees shall cooperate fully with investigators, including regulatory or law enforcement personnel.

Where an initial investigation reveals that there are reasonable grounds for suspicion and to facilitate the ongoing investigation, the suspected wrongdoer(s) may be suspended in accordance with District policies and procedures.

9. Reporting:

The investigator is responsible for keeping the General Manager informed of the status of all investigations and findings. Upon completion of the investigation the General Manager will then, as deemed appropriate, report the findings to the President of the District's Board of Directors. If an investigation substantiates that fraudulent or illegal activity has occurred, decisions to prosecute and/or refer the investigation results to the appropriate regulatory agencies for independent investigation will be made in conjunction with legal counsel.

10. Corrective Action:

The District will take the necessary steps, including legal action, to recover any losses arising from fraud or attempted fraud. This may include action against third parties involved in the fraud whose negligence contributed to the fraud. Management is responsible for taking the appropriate corrective action to ensure adequate controls exist to detect and prevent a recurrence of fraudulent activity.

11. Waste and Abuse:

Nothing in this policy shall preclude the District from investigating alleged or possible waste or abuse of District property, funds, or resources, regardless of whether the actions investigated constitute fraud or arise from an investigation of alleged or possible fraud. Nothing in this policy shall preclude

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the District from taking disciplinary action, where appropriate, for substantiated waste or abuse, regardless of whether the discovery of the waste or abuse arose from an investigation of alleged or possible fraud.