

# DECISION PAPER



**Review and Update  
Of  
TDA Board of Directors  
Resolution 2005-3  
Fraud Policy**

**June 24, 2016**

**Issue:** The Finance Committee, at the direction of the Board and in accordance with the Association's commitment to review and update resolutions every five years, has reviewed the Association's Fraud Policy, Resolution 2005-3 (TAB A). A final draft of the updated policy, entitled Administrative Resolution 2016-5, Fraud Prevention Policy is at TAB B.

**Background:** Resolution 2005-3 was established to define the requirements and responsibilities related to the detection and prevention of fraud, impropriety or irregularity within the Association. The Finance Committee recommended that the Association enhance certain fraud prevention related processes to strengthen corporate governance and improve the overall fraud management program, in conjunction with updating the Policy.

Several sources were utilized to identify enhancements to the Association's fraud management program and policy, including "Managing the Business Risk of Fraud: A Practical Guide" published jointly by the AICPA, the IIA and the ACFE as well as sample policies provided by the AICPA and other organizations. The Association's legal counsel also provided feedback on the revised Fraud Prevention Policy.

**Key Provisions/Changes:**

Key Provisions/Changes are categorized as either enhancements to the overall Fraud Management program or changes to the written Policy.

**Enhancements to Fraud Management Program**

1. Institute a Whistleblower Protection Policy (2016-6).
2. Adopt Codes of Conduct for full time regular employees and Senior Management, including conflict of interest provisions.
3. Require annual affirmation of Fraud Prevention Policy, Whistleblower Protection Policy and Codes of Conduct by regular full time employees and Senior Management.
4. Subscribe to third party Fraud Hotline Service for anonymous tip reporting.
5. Involve Board in investigations involving Senior Management, in addition to General Manager.

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6. Provide quarterly reporting to Board on fraud risk management activities and incident resolution.
7. Incorporate fraud reporting protocols, whistleblower protection and other fraud prevention information into the Employee Handbook.
8. Require mandatory cooperation by employees with investigations into alleged or suspected fraud.
9. Establish mandatory Annual Leave for Finance employees.
10. Strengthen New Hire Background Checks/pre-employment screening for Senior Management and Finance department employees.

## **Policy Changes:**

1. Updated and reorganized all sections to comply with the Association's standard Policy template by adding relevant "WHEREAS" and "SCOPE AND PURPOSE" sections.
2. Updated "SCOPE AND PURPOSE" section to more clearly define the objectives of the Policy.
3. Provided a definition of Fraud and updated actions constituting fraud.
4. Consolidated responsibilities related to fraud prevention in one section, "RESPONSIBILITIES".
5. Added "ELEMENTS OF THE FRAUD RISK MANAGEMENT PROGRAM" to provide a comprehensive description of the key aspects of the Association's fraud risk management program
6. Added Fraud Program enhancements listed above to relevant sections of the Policy.
7. Clarified processes for reporting and investigating suspected fraud.

## **Options:**

- A. Approve updated Resolution and review in 5 years (TAB B).
- B. Reject updated Resolution and provide further guidance.
- C. Revalidate existing Resolution and extend validity 5 years.

**Recommendation:** To approve the updated Resolution, Option A.

**Prepared By:** Finance Committee, Resolution Review Subcommittee-John Dundas, Michael Eyton-Lloyd, Meghan McShannic, Corey Leibow and Mike Salmon, Director Finance & Accounting, June 24, 2016.

**Approved By:** Finance Committee, June 9, 2016

**Board Meeting Date:** June 24, 2016

**General Manager Approval to Place on the Agenda:** \_\_\_\_\_



**TAHOE DONNER ASSOCIATION  
BOARD OF DIRECTORS**

**ADMINISTRATIVE RESOLUTION 2016-5**

**FRAUD PREVENTION POLICY**

**WHEREAS**, Tahoe Donner Association (the “Association”) has adopted Codes of Conduct (the “Code”) that requires directors, officers employees and volunteers to comply with all applicable laws and regulations and observe high standards of business and personal ethics in the conduct of their duties and responsibilities on behalf of the Association; and,

**WHEREAS**, it is the intent of the Board of Directors (the “Board”) to facilitate the development of controls that will aid in the detection and prevention of fraud against the Association; and,

**WHEREAS**, it is the intent of the Board to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conducting investigations; and,

**WHEREAS**, the following constitutes the policy regarding fraud prevention for the Association and supersedes all previously approved policies pertaining to fraud including Resolution 2005-3;

**NOW, THEREFORE, BE IT RESOLVED** that the Board of the Association approves and adopts the following Fraud Prevention Policy:

**SCOPE AND PURPOSE**

This policy applies to any actual or suspected fraud, impropriety or irregularity committed against the Association involving directors, officers, employees, volunteers, consultants, vendors, contractors, employees with outside agencies and/or any other parties with a business relationship with the Association.

The objectives of this Fraud Policy are to provide:

- Clearly defined protocols for reporting suspected fraud issues;
- A consistent process for conducting investigations;
- A comprehensive description of the key aspects of the Association's fraud risk management program.

### **ACTIONS CONSTITUTING FRAUD**

*Fraud* is defined as any intentional act or omission designed to deceive others, resulting in the organization suffering a loss and/or the perpetrator achieving a gain.

### **FRAUD, IMPROPRIETIES AND IRREGULARITIES**

Actions constituting fraud include, but are not limited to, the following:

- Any dishonest or fraudulent act.
- Forgery or alteration of any document, including financial documents, or account belonging to the Association.
- Impropriety in the handling or reporting of money or financial transactions.
- Misappropriation of funds, supplies, or other assets,
- Profiteering as a result of insider knowledge of Association activities.
- Personal use of Association equipment, including personal use of computers and telephones that can be considered abusive.
- Disclosing confidential and/or proprietary information to outside parties.
- Accepting or seeking anything of material value from contractors, vendors or persons providing services/materials to the Association with a value of more than \$100 annually.
- Destruction, removal or inappropriate use of records, furniture, fixtures, vehicles, and equipment; and/or,
- Any similar or related fiscal or other irregularity to those actions specified above.

If there is any question as to whether an action constitutes potential fraud, the Association's General Manager or a member of the Board of Directors should be contacted for guidance.

### **RESPONSIBILITIES**

The Board and Association management ("Management"), through their behaviors, communications and policies, are responsible for establishing a corporate culture and "tone at the top" that prevents and detects fraud, misappropriations and other irregularities against the Association.

The Board and Management are responsible for maintaining entity level controls that have a pervasive influence throughout the organization.

All employees are responsible for the detection and prevention of fraud, misappropriations and other irregularities. Each member of the Management team should be

familiar with various types of fraud that might occur within his/her area of responsibility, and be alert for any indication of irregularity.

The Association's General Manager has primary responsibility for the Association's fraud risk management program and policies, quarterly reporting to the Board on fraud related activities and oversight of reports on and investigation and resolution of suspected fraud.

The Association's General Manager is responsible for the administration, revision, interpretation, and application of this policy.

### **ELEMENTS OF THE FRAUD RISK MANAGEMENT PROGRAM**

The following policies and entity level controls contribute to creating an environment for effective management of the Association's fraud risks:

- Codes of Conduct for the Association's Board of Directors (Resolution 2014-3), Senior Management (Directors and above) and employees prescribe expected professional and ethical conduct, including potential conflicts of interest. Directors, Senior Management and full-time, regular employees affirm their Codes annually.
- The Association has adopted a Whistleblower Protection Policy (Resolution 2016-6).
- Senior management and full-time, regular employees affirm that they have read, understood and complied with this Fraud Policy and the Whistleblower Protection Policy annually.
- The Association provides a third party Fraud Hotline Service to employees for anonymous reporting of concerns about occurrences of fraud, illegal or unethical acts, or actions that violate the Association's policies or Code of Conduct.
- The Board of Directors and Legal Counsel are directly involved in conducting investigations of fraud or illegal acts that pertain to the General Manager and/or Association Senior Management.
- Management provides quarterly reporting to the Board of Directors on:
  - The Association's fraud risk management activities;
  - Reported suspected fraud or other acts that may be illegal, unethical or in violation of adopted policies, including the Code of Conduct;
  - Results of investigations and incident resolution.
- The Association has adopted a formal delegation of authority for authorizing and executing transactions on behalf of the organization and two individuals are required for transactions over defined limits (Resolution 2009-10).
- Duties are adequately segregated throughout the organization.
- Financial results, with variance analysis to prior periods and budgeted amounts, are reviewed monthly with the Finance Committee and Board or Directors.
- Related party transactions, including with Board members, are reviewed annually in conjunction with the audit of the financial statements.
- Security cameras exist in various locations throughout Tahoe Donner. Digital video from the security cameras is reviewed periodically and/or when appropriate and relevant to an investigation.

- Cooperation with investigations into alleged fraud is mandatory for all employees. Failure to cooperate is subject to disciplinary action, up to and including employment termination.
- Employees in Finance and Accounting are required to take at least five days of consecutive paid time off annually.
- Background checks are performed for all new hires in Senior Management and the Finance Department, including confirmation of work history, education, criminal record, credit report and follow up with references. Background checks related to criminal history are also performed for employees that will regularly interact with minors.
- The Employee Handbook is provided to all employees at the time of hiring and includes the following information:
  - Employee Code of Conduct;
  - Association policy on accepting gifts;
  - Basic provisions from this Fraud Policy and the Whistleblower Policy describing responsibilities, reporting and investigation processes and retaliation protections;
  - Requirements for cooperating with investigations into alleged fraud or any other suspected actions that may be illegal or unethical or in violation of Association policies, including the Code of Conduct.

#### **PROCESS FOR REPORTING SUSPECTED FRAUD**

Any suspected or detected fraudulent act must be reported promptly to an immediate supervisor, and/or the General Manager. The employee or other complainant may remain anonymous by reporting the suspected fraud via the Association's Fraud Hotline. If considered necessary due to the nature of the issue (e.g., the General Manager or other senior management may be involved), the Board President and/or Vice-President should be contacted directly.

The reporting individual should be advised 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 Association's Legal Counsel or the General Manager.

#### **PROCESS FOR INVESTIGATING SUSPECTED FRAUD**

The General Manager has the primary responsibility for the investigation of all suspected fraudulent acts as defined in this Policy. The General Manager will coordinate all investigations with the Association's Legal Counsel and other affected departments and agencies, both internal and external.

Any investigative activity and evaluation will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship with the Association.

For matters concerning the General Manager or other Senior Management, the Board of Directors, along with the Association's Legal Counsel, shall evaluate suspected irregularities and initiate and manage necessary investigative activities.

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is in progress.

Where there exists reasonable cause, and to the extent permitted by law, the General Manager or Board representative is authorized upon the initiation of an investigation, and after consulting with the Association's Legal Counsel, to have free and unrestricted access to all Association records and premises including the authority to examine, copy and/or remove all or any portion of the contents of files, desks, cabinets, computers and other storage facilities on the premises without prior knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of the investigation.

All inquiries concerning the activity under investigation from the suspected individual, his or her attorney or representative should be directed to the Association's Legal Counsel.

If the investigation substantiates that fraudulent activities have occurred, a report will be issued to appropriate management personnel and the Board.

A decision to file a criminal complaint or refer a matter to the appropriate law enforcement and/or regulatory agency for independent investigation, as well as the final decision concerning the disposition of the matter, will be made in conjunction with the General Manager, Association's Legal Counsel and the Board

## **DISCIPLINE**

Employees whose actions are considered to be fraudulent, as defined by this Policy, will be subject to disciplinary action up to and including termination and/or pursuit of civil or criminal action.

## **CONFIDENTIALITY**

The General Manager and Board of Directors shall maintain the confidentiality of all information received.

No information concerning the status of an investigation will be given to anyone without a legitimate need to know. The proper response to any inquiries should be "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.

Unless required by law or as may be approved by the Association's General Manager or Board, the results of any investigation shall not be disclosed or discussed with anyone other

than those individuals who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected of misconduct but subsequently found innocent of any wrongdoing, and to protect the organization from potential civil liability.

**APPROVAL**

Approval of the Policy regarding Fraud and any changes, amendments or modifications thereafter, may only be accomplished through Board action at a properly noticed meeting of the Board

**ACCEPTED AND DATED:** June 24, 2016

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Steve Miller, President

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Jim Stang, Vice President

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Jeff Bonzon, Treasurer

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Courtney Murrell, Secretary

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Ron Wulff, Director