SAMPLE POLICY ON SUSPECTED MISCONDUCT AND DISHONESTY

Provided by Gregg Capin, a partner in charge of Marketing and Practice Development for Capin Crouse LLP, a CPA firm devoted to serving not-for-profit organizations nationally and internationally.

The following exhibit provides a sample policy as a source of ideas. Any policy should be unique to its environment and culture. The purpose of such a policy is to move the individual to action when appropriate.

Introduction

Like all organizations, ours is faced with risks from wrongdoing, misconduct, dishonesty and fraud. As with all business exposures, we must be prepared to manage these risks and their potential impact in a professional manner.

The impact of misconduct and dishonesty may include:

- the actual financial loss incurred
- damage to the reputation of our organization and our employees
- negative publicity
- the cost of investigation
- loss of employees
- loss of customers
- damaged relationships with our contractors and suppliers
- litigation
- damaged employee morale

Our goal is to establish and maintain a business environment of fairness, ethics and honesty for our employees, our customers, our suppliers and anyone else with whom we have a relationship. To maintain such an environment requires the active assistance of every employee and manager every day.

Our organization is committed to the deterrence, detection and correction of misconduct and dishonesty. The discovery, reporting and documentation of such acts provides a sound foundation for the protection of innocent parties, the taking of disciplinary action against offenders up to and including dismissal where appropriate, the referral to law enforcement agencies when warranted by the facts, and the recovery of assets.

Purpose

The purpose of this document is to communicate policy regarding the deterrence and investigation of suspected misconduct and dishonesty by employees and others, and to provide specific instructions regarding appropriate action in case of suspected violations.

Definition of Misconduct and Dishonesty

For purposes of this policy, misconduct and dishonesty include but are not limited to:

- acts which violate the organization’s Code of Conduct
- theft or other misappropriation of assets, including assets of the company, our customers, suppliers or others with whom we have a business relationship
- misstatements and other irregularities in company records, including the intentional misstatement of the results of operations
wrongdoing
forgery or other alteration of documents
fraud and other unlawful acts
any similar acts.

The organization specifically prohibits these and any other illegal activities in the actions of its employees, managers, executives and others responsible for carrying out the organization's activities.

**Policy and Responsibilities**

**Reporting**

It is the responsibility of every employee, supervisor, manager and executive to immediately report **suspected** misconduct or dishonesty to [their supervisor, Security, Internal Audit., Corporate Compliance Officer, Legal, other]. Supervisors, when made aware of such potential acts by subordinates, must immediately report such acts to [their supervisor, Security, Internal Audit., Corporate Compliance Officer, Legal, other]. Any reprisal against any employee or other reporting individual because that individual, in good faith, reported a violation is strictly forbidden.

Due to the important yet sensitive nature of the suspected violations, effective professional follow up is critical. Managers, while appropriately concerned about "getting to the bottom" of such issues, should not in any circumstances perform any investigative or other follow up steps on their own. **Concerned but uninformed managers represent one of the greatest threats to proper incident handling.** All relevant matters, including suspected but unproved matters, should be referred immediately to those with follow up responsibility.

To facilitate reporting of suspected violations, especially in those situations where the reporting individual wishes to remain anonymous, the company has established a telephone hotline. [Elaborate as necessary on hotline procedures.]

**Additional Responsibilities of Supervisors**

All employees have a responsibility to report suspected violations. However, employees with supervisory and review responsibilities at any level have additional deterrence and detection duties. Specifically, personnel with supervisory or review authority have three additional responsibilities.

First, you must become aware of what can go wrong in your area of authority.

Second, you must put into place and maintain effective monitoring, review and control procedures which will prevent acts of wrongdoing.

Third, you must put into place and maintain effective monitoring, review and control procedures which will detect acts of wrongdoing promptly should prevention efforts fail.

Authority to carry out these three additional responsibilities is often delegated to subordinates. However, accountability for their effectiveness cannot be delegated and will remain with supervisors and managers.

Assistance in effectively carrying out these responsibilities is available upon request through the corporate controller, the internal audit and security departments, the corporate compliance officer and through other sources.

**Responsibility and Authority for Follow Up and Investigation**

The [Security, Internal Audit, Legal, other] Department has the primary responsibility for all investigations involving the company and all subsidiaries. [Security, Legal, other] may
request the assistance of Internal Auditing in any investigation, including access to Internal Auditing's periodic examinations and evaluations of internal controls.

Properly designated members of the investigative team will have:

- free and unrestricted access to all company records and premises, whether owned or rented
- the authority to examine, copy and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities (whether in electronic or other form) without the 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 investigative or related follow up procedures.

All investigations of alleged wrongdoing will be conducted in accordance with applicable laws and company procedures.

**Reported Incident Follow Up Procedure**

Care must be taken in the follow up of suspected misconduct and dishonesty to avoid acting on incorrect or unsupported accusations, to avoid alerting suspected individuals that follow up and investigation is underway, and to avoid making statements which could adversely affect the company, an employee, or other parties.

Accordingly, the general procedures for follow up and investigation of reported incidents are as follows:

1. Employees and others must immediately report all factual details as indicated above under Policy.
2. The [Security, Internal Audit, Legal, other] Department has the responsibility for follow up and, if appropriate, investigation of all reported incidents.
3. All records related to the reported incident will be retained wherever they reside.
4. Do not communicate with the suspected individuals or organizations about the matter under investigation.
5. In appropriate circumstances and at the appropriate time, [Security, Internal Audit, Legal, other] will notify the officer of the employee's organization.
6. [Security, Legal, other] will also notify the chief internal auditor of all reported incidents so that it may be determined whether this matter should be brought to the attention of the Audit Committee.
7. [Security, Internal Audit, other] may also obtain the advice of Legal at any time throughout the course of an investigation or other follow up activity on any matter related to the report, investigation steps, proposed disciplinary action or any anticipated litigation.
8. Neither the existence nor the results of investigations or other follow up activity will be disclosed or discussed with anyone other than those persons who have a legitimate need to know in order to perform their duties and responsibilities effectively.
9. All inquiries from an attorney or any other contacts from outside of the company, including those from law enforcement agencies or from the employee under investigation, should be referred to Legal.

Investigative or other follow up activity will be carried out without regard to the suspected individual's, position or level, or relationship with the company.
Questions or Clarifications Related to This Policy

All questions or other clarifications of this policy and its related responsibilities should be addressed to the corporation’s Chief Counsel, who shall be responsible for the administration, revision, interpretation, and application of this policy.

Approval

________________________________________  ___________
(CEO or other designated executive) Date

________________________________________
(Board Chair) Date

Acknowledgment

My signature signifies that I have read this policy and that I understand my responsibilities related to the prevention, detection and reporting of suspected misconduct and dishonesty.

Signature: ________________________________________

Print Name: _______________________________________

Date signed: _______________________________________

Reprinted with permission from the Engstrom Institute; © 2009 Christian Leadership Alliance - 800.727.4CLA. Visit CLA’s website to see what they offer your organization to help build leaders and enhance organizational effectiveness!

Gregg Capin serves as partner in charge of Marketing and Practice Development for Capin Crouse LLP, a CPA firm devoted to serving not-for-profit organizations nationally and internationally. The firms regional offices include: Atlanta, Chicago, Colorado Springs, Denver, Indianapolis, Grand Rapids, and Los Angeles. For more information, visit www.capincrouse.com