

LEISURE WORLD OF MARYLAND CORPORATION ANTI-FRAUD POLICY

Background and Scope of Policy:

This policy is established to provide controls for detecting and preventing fraud, waste, abuse or theft (“Wrongful Conduct”) against or within Leisure World of Maryland Corporation (LWMC). It is the intent of LWMC to promote lawful and financially responsible behavior by providing guidelines and assigning responsibility for the development and maintenance of controls, conduct of investigations, and Wrongful Conduct awareness training for each LWMC employee. This policy includes any fraud or suspected fraud, theft, waste, or abuse against LWMC involving any LWMC employee (including management) or person(s) doing business with LWMC. Any investigative activity required will be conducted without regard to the suspected wrongdoer’s length of service, position/title, or relationship to LWMC.

Failure to comply with this policy subjects an employee (including Management) to disciplinary action, including but not limited to immediate termination. Failure to comply by a consultant, vendor, contractor, outside agent, or person doing business with LWMC or in any other relationship with LWMC could result in cancellation of the business or other relationship between the entity and LWMC.

The General Manager of LWMC may pursue prosecution if the results of an investigation indicate the possibility of criminal activity.

For purposes of this policy, the term *fraud* or *fraudulent* includes theft, waste, and abuse as defined below. The term *employee* includes but is not limited to employees in management positions. The term *management* includes directors, managers, assistant managers, supervisors and any other employee who has authority to sign another employee’s performance evaluation.

Definitions and Examples of Wrongful Conduct:

Fraud is an intentional deception designed to obtain a benefit or advantage or to cause some benefit that is due to be denied or otherwise recognized as not due or obtainable.

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

- Any dishonest or fraudulent act;
- Forgery or alteration of a check, bank draft, or other financial record;
- Theft of a check or other diversion of resident/employee payment;
- Misappropriation of funds, securities, supplies, equipment or other assets;
- Impropriety in the handling or reporting of money or financial transactions;
- Profiteering as a result of insider knowledge of LWMC operations or using insider knowledge of LWMC operations without authorization;
- An employee who sells confidential resident information or uses it for any unauthorized purpose;
- Disclosing to others LWMC's business initiatives or LWMC's activities engaged in or contemplated by LWMC;
- Falsified or intentionally inaccurate employee expense reports or records;
- Accepting or seeking anything of material value (greater than \$49) from contractors, vendors, or persons providing services/materials to LWMC;
- Destruction, removal or inappropriate use of records, furniture, fixtures or equipment; or
- Any similar or related inappropriate or unauthorized conduct.

Waste is the loss or misuse of LWMC resources that results from deficient practices, system controls or decisions misdirecting materials and services due LWMC. An example of waste is not taking advantage of available early bird conference registration discounts.

Abuse is the intentional, wrongful or improper use of resources, management authority or misdirection that causes the loss or misuse of LWMC resources such as tools, vehicles, computers, copy machines or contracted services. Examples of abuse are as follow:

- Using LWMC equipment or supplies to conduct personal business or for purposes other than LWMC business; or
- Selling or otherwise transferring resident information and records to unauthorized business ventures or persons.

Theft is the act of taking or removing an asset or property unlawfully or without proper authorization. This could involve misdirection of funds, equipment, cash or other assets. An example of theft is taking home a printer belonging to LWMC for personal use without authorization.

Other Inappropriate Conduct:

Suspected improprieties concerning an employee's conduct should be resolved by departmental management and Human Resources rather than the Comptroller. If there is any question as to whether an action constitutes Wrongful Conduct, contact the Comptroller or the Audit Committee for guidance.

Responsibility to Report Suspected Wrongful Conduct:

Each employee is required to report any suspected fraud, theft, waste or abuse or other dishonest conduct to the employee's management or to the Comptroller or the Audit Committee.

Management is required to report suspected fraud, theft, waste or abuse or other dishonest conduct, including reports from employees or other individuals, to the Comptroller or the Audit Committee.

Management does not have the authority to determine the merits of a report of suspected fraud – the Comptroller and the Audit Committee make this determination with the assistance of the General Manager and/or legal counsel.

The identity of an employee or complainant who reports suspected fraud will be protected to the fullest extent feasible.

LWMC Anti-Fraud Policy:

LWMC management is dedicated to detecting and preventing fraud, misappropriations and other inappropriate financial conduct. Each member of the LWMC management team must be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indication of irregularity.

Any detected or suspected fraud is to be reported immediately to the LWMC Comptroller or Audit Committee. Such reports shall be investigated in coordination with LWMC's Legal Advisor and General Manager.

This policy applies to any fraud or suspected fraud involving employees as well as councils, committees, consultants, vendors, contractors or any other party with a business relationship with LWMC. Although this policy applies primarily to financial improprieties, it extends to materials, services, misrepresentations or

concealment of material misdirection and will be investigated just as vigorously as financial fraud. Financial fraud typically falls into four broad categories:

- Fraudulent Financial Reporting - Most fraudulent financial reporting schemes involve earnings mismanagement arising from improper revenue recognition and overstatement of assets or understatement of liabilities.
- Misappropriation of assets - This category involves external and internal schemes such as embezzlement, payroll fraud and theft of LWMC assets.
- Expenditures and liabilities for improper purposes - This category refers to commercial and public bribery as well as other improper payment schemes.
- Fraudulently obtained revenue and assets and costs and expenses avoided – This category refers to schemes where an entity commits a fraud against its employees or third parties, or when an entity improperly avoids an expense, such as tax fraud.

Management Tools to Prevent Wrongful Conduct:

To prevent Wrongful Conduct, it is necessary for management to know the risks to which business systems and conduct are susceptible. LWMC senior management shall research, produce and implement strong internal controls sufficient to deter and prevent personnel from engaging in Wrongful Conduct. Everyone should be alert to Wrongful Conduct, especially fraud. Fraud may be diverse and is usually concealed and a product of the individual operational situation. It often occurs where critical controls are weak or not functioning. Necessary controls should be implemented and include but may not be limited to oversight procedures and internal audits by a fraud, abuse and ethics committee that would investigate and prevent fraudulent activity at the senior management level. As these added controls are finalized and printed, they become a part of this policy.

Guidelines for Personnel Reporting Suspected Wrongful Conduct:

Regardless of whether the initial report is received by LWMC management, the LWMC General Manager, the LWMC Comptroller, or the Audit Committee, the reporting individual should receive the following instructions and information. Should this report involve any senior managers, the report should be made directly to LWMC Board of Directors and/or LWMC Audit Committee. Instructions to the reporting individual are as follows:

- Do not contact the suspected individual in an effort to determine facts or demand restitution
- Allow the General Manager or Comptroller to conduct the investigation. Do not attempt to investigate allegations further.
- Observe strict confidentiality. Do not discuss the case, facts, suspicions or allegations with anyone unless specifically asked to do so by the General Manager or Comptroller or such individual appointed by General Manager or Comptroller (legal/police representative).
- You, as reporting individual, will not be retaliated against for making a good faith report of suspected improper activity. However, making a false report will subject the reporting person to disciplinary action, including but not limited to termination.
- When and to the extent feasible, reasonable efforts will be made to protect the identity of a reporting individual.

Guidelines for the Investigation of Suspected Wrongful Conduct:

Upon receipt of a report of suspected Wrongful Conduct, the General Manager or Comptroller will document the contact immediately, acknowledge receipt of the report and provide the reporting individual with the above instructions and information. A preliminary investigation will be conducted to determine the credibility of the report. If the report appears credible, a full investigation will be conducted by the General Manager, Comptroller or a qualified investigator (consulting auditor, attorney or investigator) assigned by the General Manager.

Any required investigative activity shall be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to LWMC.

Persons investigating reports of fraud shall be entitled to the following:

- Free and unrestricted access to all relevant LWMC records and premises; and
- The authority to examine, copy, and/or remove all or any portion of the contents of relevant files, desks, cabinets, and other storage facilities on the 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 reasonable scope of their investigation.

Appropriate documentation will be maintained regarding incidents of Wrongful Conduct. Guidelines for access to and security of this documentation shall be developed and maintained.

If an investigation substantiates the occurrence of Wrongful Conduct, as soon as practicable, the LWMC General Manager will prepare an incident report to the LWMC independent auditors, Audit Committee, and Executive Committee. The incident report shall describe the investigative efforts undertaken, the investigative findings, any disciplinary action taken as a result of the findings; and shall provide recommendations, as appropriate, to deter and/or prevent Wrongful Conduct in the future.

Any inquiries from the suspected individual, his or her attorney/representative, or any other inquirer shall be directed to the LWMC General Manager.

When and to the extent feasible, the investigator(s) will make reasonable efforts to protect the identities of persons who are the subject of investigations, as well as persons who reported suspected Wrongful Conduct.

Upon determining that a report of Wrongful Conduct is not credible or is not a report of Wrongful Conduct fraud or was not made in good faith, the investigator shall document such a determination and shall include all supporting data. The General Manager will address questions regarding this determination and disciplinary action required, including but not limited to discipline of person(s) who made a bad faith or false report.

If the report is credible and subsequent investigation supports a finding of Wrongful Conduct, the following shall occur:

- Insure that the General Manager is notified promptly of all investigative results and has sufficient information to administer appropriate disciplinary action.
- If the situation warrants immediate action, such as obvious theft has occurred or possible recovery of assets may occur, the General Manager will make the recovery decision such as notification of police.
- Do not directly or indirectly communicate with the suspected offender or his/her legal advisor(s) or others to discuss facts or findings or to demand restitution. Under no circumstances should there be any reference to the allegations or findings or events that may create the opportunity for a claim or lawsuit to be filed by the suspected offender or others.

- If the Wrongful Conduct has far reaching implications in LWMC, appropriate disciplinary action is to be administered promptly by the General Manager.
- Under no circumstances, discuss this case, investigation, or its findings with anyone other than the General Manager or Comptroller.
- Direct all inquirers such as media, suspected offender and family/friends/coworkers to the General Manager or designee.

All personnel should exercise caution when communicating with suspected offenders about suspected fraudulent activity and/or other persons who may be inquiring about suspected offenders or fraudulent activity. All personnel must avoid providing any incorrect or unsubstantiated accusations or information to suspected offenders or others concerning allegations, pending investigations, results of investigations, or actions taken as a result of investigations.

Disciplinary Action – Termination:

Failure to comply with any part of this policy is grounds for disciplinary action, including but not limited to immediate termination.

An employee who:

- has engaged in any form of fraud, waste, theft or abuse of LWMC assets;
- suspects or discovers fraudulent activity and fails to report their suspicions as required by this policy; or
- intentionally reports false or misleading information

shall be subject to disciplinary action, including but not limited to termination.

Any member of management who does not report to the Comptroller or Audit Committee each and every report of suspected Wrongful Conduct made by an employee or other person shall be subject to disciplinary action, including but not limited to immediate termination.

Further, if an investigation results in recommendation to terminate an individual, the recommendation will be reviewed for approval by the designated representatives as assigned by the General Manager and/or Comptroller in coordination with the Human Resource Manager. It is also directed that legal counsel be given the opportunity, prior to discipline, to review the entire

investigative process and proposed disciplinary action. Should legal counsel believe the management decision inappropriate for the facts presented, the decision may be reviewed and adjusted accordingly. Final decision can then be made by the LWMC General Manager.

Administration:

The Board of Directors through the Audit Committee oversees and monitors LWMC Fraud Policy. The General Manager is responsible for the administration, revision, interpretation, and application of this policy. The policy will be reviewed annually and revised as needed.

Approval:


General Manager

2/12/09
Date