

Youth On Their Own Fraud Risk Policy

1. Introduction

All organizations are subject to fraud risks. Frauds have led to the downfall of organizations, massive investment losses, significant legal costs, incarceration of key individuals and erosion of confidence in nonprofit and educational institutions. Public disclosure of significant fraud can irreparably damage an organization's reputation and ability to raise funds. Good governance principles dictate that Youth On Their Own ensure overall high ethical behavior and send clear signals to the public, funding sources, and other stakeholders about Youth On Their Own's fraud risk tolerance by adopting and faithfully executing this fraud risk management policy.

2. Scope of Policy

This policy applies to any irregularity, or suspected irregularity, involving employees, directors, consultants, vendors, contractors, agents and any other parties with a business relationship with Youth On Their Own.

Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title or relationship to Youth On Their Own.

3. Definitions

For purposes of this policy, the definition of fraud shall include but not be limited to:

- An intentional or deliberate act;
- Depriving Youth On Their Own or a person of something of value or gaining an unfair benefit; and
- Using deception, false suggestions, suppression of truth, or other unfair means which are believed and relied upon.

A fraudulent act may be an illegal, unethical, improper, or dishonest act including but not limited to:

- Embezzlement;
- Misappropriation, misapplication, destruction, removal or concealment of property;
- Alteration or falsification of documents;
- False claims made by students, employees, vendors, or others associated with Youth On Their Own;
- Theft of any asset including, but not limited to, money, tangible property, trade secrets, or intellectual property;
- Inappropriate use of computer systems, including hacking, and software privacy;
- Bribery, rebate, or kickback;
- Conflict of interest; or
- Misrepresentation of facts.

4. Objectives

The objectives of this policy are:

- To provide a clear statement to staff, volunteers, vendors, contractors, and agents forbidding any fraudulent or illegal activity;
- To ensure that management is aware of its responsibilities for identifying possible areas of exposure to fraudulent activity and for establishing controls and procedures to prevent such fraudulent activity;
- To provide guidance to employees as to action that should be taken when they suspect fraudulent or corrupt activity; and
- To provide guidelines for conducting investigations into fraudulent and corrupt activities.

5. Responsibilities

It is Youth On Their Own's policy to protect itself and its resources from fraud and other similar actions whether by members of the public, contractors, vendors, agents, volunteers, or employees. Youth On Their Own will pursue all suspected acts of fraud or similar actions and report these to law enforcement as required. Staff must be above fraud and corruption. Disciplinary action, up to and including termination, will apply to all instances of fraudulent activity committed by employees. Youth On Their Own will terminate all contracts with outside vendors in the instance of fraud. Youth On Their Own has the right to institute civil or criminal action against anyone who commits fraud.

To protect Youth On Their Own and its stakeholders effectively and efficiently from fraud, Youth On Their Own will adopt a structured fraud risk management program tailored to Youth On Their Own's size, complexity and goals. The program will be updated periodically and include risk identification, risk likelihood, and risk response.

Management is responsible for the detection and prevention of fraud, misappropriations and other irregularities. Youth On Their Own promotes an organizational culture that is committed to the highest level of honesty and ethical dealings and Youth On Their Own will not tolerate any act of fraud or corruption. Improper acts have legal consequences as well as the potential to damage Youth On Their Own's image, reputation, and financial position.

The Board of Directors:

- Considers and approves all policies and procedures relating to the control and investigation of fraud.
- Understands fraud risks.
- Maintains oversight of the fraud risk assessment by ensuring that fraud risk has been considered as part of Youth On Their Own's risk assessment and strategic plans. This responsibility is addressed under a periodic agenda item.
- Monitors management's reports on fraud risks, policies, and control activities that include obtaining assurances that controls are effective.
- Establishes mechanisms to ensure it is receiving accurate and timely information from management, employees, external auditors, and other stakeholders regarding potential fraud occurrences.

- Oversees internal controls established by management.
- Sets the appropriate tone at the top through the CEO's job description, hiring, evaluation, and succession planning processes.
- Retains outside experts where and when needed.
- Provides external auditors with evidence regarding the board's active involvement and concern about fraud risk management.
- Meets separately with finance or external auditors apart from management.
- Seeks the advice of legal counsel when dealing with issues of alleged fraud.

The Board of Directors may choose to delegate oversight of some or all such responsibilities to a committee of the board.

Youth On Their Own's CEO and Directors are responsible for:

- Setting the tone at the top for the rest of Youth On Their Own.
- Reviewing policies, systems, and procedures formulated by the Director of Finance.
- Recommending fraud policies and programs for approval by the Board of Directors.
- Ensuring that staffing policies and procedures are fair and equitable.
- Ensuring that staff are aware of the provisions of fraud policies.
- Monitoring the ethical culture of Youth On Their Own and responding to any issues identified.

The Director of Finance is responsible for:

- Managing fraud risk and reporting periodically to the Board of Directors on the fraud management program.
- Forming a fraud risk assessment team.
- Assessing fraud risk within Youth On Their Own.
- Designing a broad range program that encompasses controls to prevent, detect, and respond to incidents of fraud or misconduct.
- Designing and implementing processes used to ensure reporting and investigation of alleged violations.
- Monitoring controls for effectiveness.

Organization staff is responsible for:

- Obtaining a basic understanding of fraud and being aware of red flags.
- Understanding their roles within the internal control framework.
- Reading and understanding policies and procedures.
- Complying with policies, procedures, and controls.
- Acting ethically and in accordance with the principles contained in the Code of Conduct.
- Reporting potentially unethical or corrupt practices via established mechanisms.
- Making management aware of any weaknesses in the internal control systems and practices that might lead to fraud.
- Cooperating in investigations.

6. Mechanism for Reporting Suspected Fraud

Any individual who has a reasonable basis for believing a fraudulent act has occurred has a responsibility to promptly notify one of the following:

- His or her supervisor
- The appropriate administrator
- The police department

Employees who, in good faith, report unlawful activity are protected by Youth On Their Own's whistleblower policies against any retaliation by Youth On Their Own for making such a report. The reporting individual shall refrain from confrontation of the suspect, further examination of the incident, or further discussion of the incident with anyone other than the employee's or student's supervisor or others involved in the resulting review or investigation.

7. Investigation

a) Risk Tolerance Level

Youth On Their Own has established \$1,000 as its risk tolerance level. Certain fraud risks exist that Youth On Their Own considers to be too expensive and time-consuming to address via controls. Controls will not be established for those risks. However, if a fraud is discovered, zero tolerance for fraud will be applied. Overall, the objective is to have the benefit of the controls exceed the cost.

b) Youth On Their Own Fraud Management Program

A proactive approach to managing fraud risk is one of the best steps an organization can take to mitigate exposure to fraudulent activities. Although complete elimination of all fraud risk is most likely unachievable or uneconomical, Youth On Their Own will take positive and constructive steps to reduce its exposure. The combination of effective fraud risk governance, a thorough fraud risk assessment, strong fraud prevention and detection, as well as coordinated and timely investigations and corrective actions can significantly mitigate fraud risks.

c) Objectives

An effective fraud and misconduct risk management approach is one that is focused on three objectives:

Prevention: Controls designed to reduce the risk of fraud and misconduct from occurring in the first place. Elements of a prevention program:

- Fraud and misconduct risk assessment
- Code of conduct and related standards
- Communication and training
- Process-specific risk controls

Detection: Controls designed to discover fraud and misconduct when it occurs. Elements of detection include:

- Hotline and whistleblower mechanisms
- Auditing and monitoring
- Proactive forensic analysis
- Process-specific risk controls

Response: Controls designed to take corrective action and remedy the harm caused by fraud and misconduct. Elements of response include:

- Internal investigation protocols
- Enforcement and accountability protocols
- Disclosure protocols
- Remedial action protocols

d) Principles

Key principles for proactively establishing an environment to effectively manage Youth On Their Own's fraud risk include:

Principle 1: As part of Youth On Their Own's governance structure, a fraud risk management program should be in place, including written policies to convey the expectations of the Board of Directors and senior management regarding managing fraud risk.

Principle 2: Fraud risk exposure should be assessed periodically by Youth On Their Own to identify specific potential schemes and events that Youth On Their Own needs to mitigate.

Principle 3: Prevention techniques to avoid potential key fraud risk events should be established, where feasible, to mitigate possible impacts on Youth On Their Own.

Principle 4: Detection techniques should be established to uncover fraud events when preventive measures fail or unmitigated risks are realized.

Principle 5: A reporting process should be in place to solicit input on potential fraud and a coordinated approach to investigation and corrective action should be used to help ensure potential fraud is addressed appropriately and timely.

e) Program Phases

Developing a fraud prevention program involves the following phases:

Assessment: The foundations of an effective fraud risk management program are rooted in a risk assessment which identifies where fraud may occur. The assessment phase should be performed on a systematic and recurring basis, involve appropriate personnel, consider relevant fraud schemes and scenarios and map those potential frauds to mitigating controls. Fraud risk assessment should consider

the potential override of controls by management as well as areas where controls are weak or there is a lack of segregation of duties.

Assessing the likelihood and significance of each potential fraud risk is a subjective process that should consider not only monetary significance but also significance to Youth On Their Own's financial reporting, operations, and reputation as well as legal and regulatory compliance requirements. An initial assessment of fraud risk should consider the inherent risk of a particular fraud in the absence of any known controls that may assess the risk.

A fraud risk assessment includes three key elements: identify inherent fraud risk, assess the likelihood and significance of inherent fraud risk, and respond to reasonably likely and significant inherent and residual fraud risks.

All fraud risks are not considered equally likely nor will all frauds have a significant impact on Youth On Their Own. After mapping the identified risks to the relevant controls, certain residual risks will remain including the risk of management override of established controls.

Design and implementation: Youth On Their Own can address fraud risks by establishing practices and controls to mitigate the risk, accepting the risk but monitoring the actual exposure or designing ongoing and specific fraud evaluation procedures to deal with individual fraud risks. A combination of prevention and detection techniques will be adopted considering cost effectiveness and risk. Prevention techniques encompass Youth On Their Own's policies, procedures, training and communication that stop fraud from occurring. They are the first line of defense in minimizing fraud risk. Detection practices focus on activities and techniques that promptly recognize whether fraud is occurring. A strong deterrent to fraud is the awareness that effective detection controls are in place. Detection controls should occur in the ordinary course of business, draw on external information to corroborate internally generated information, formally and automatically communicated identified deficiencies and exceptions to appropriate leadership, and use result to enhance and modify other controls.

The Board of Directors and management should ensure Youth On Their Own has the appropriate control mix in place recognizing their oversight duties and responsibilities in terms of Youth On Their Own's sustainability and their role as fiduciaries to stakeholders. Management is responsible for developing and executing mitigating controls to address fraud risks while ensuring controls are executed efficiently by competent and objective individuals.

Monitoring: As management develops and implements components of the fraud prevention program, Youth On Their Own must monitor the program's effectiveness. Process checks are appropriate to monitor controls and red flags.

Fraud risk program documentation is static while Youth On Their Own is dynamic. Fraud risk management program procedures should be updated on an ongoing basis (at least annually) to reflect current conditions and to reflect Youth On Their Own's continuing commitment to the fraud risk management program.

No system of internal control can provide absolute assurance against fraud. As a result, Youth On Their Own will develop a system for prompt, competent, and confidential review, investigation, and resolution of instances of noncompliance and allegations involving potential fraud.

Investigation/Corrective Action: Once an allegation of fraud is suspected and reported, an investigation process will follow. The investigation may be conducted by qualified Organization personnel or outside experts may be hired.

It is essential that any violations, deviations, or other breaches of the fraud policy be reported and dealt with in a timely manner. Appropriate accountability must be imposed and suitable remediation completed. When fraud occurs within Youth On Their Own, a postmortem to identify the control weakness and implement corrective action will occur.

Exhibit 1
Examples of Fraud

Intentional manipulation of financial statements:

- Inappropriately reported revenues
- Contract revenue and expense recognition
- Inappropriately reflected balance sheet amounts, including reserves
- Misclassification of assets
- Inappropriate depreciation methods
- Concealed liabilities and expenses
- Inappropriately improved and/or masked disclosures
- Concealing misappropriation of assets
- Concealing unauthorized receipts and expenditures
- Concealing unauthorized acquisition, disposition, and use of assets

Misappropriation of assets by:

- Cash theft
- Fraudulent disbursements
- Payroll fraud
- Expense reimbursement
- Real estate
- Wire transfers
- Check and credit card fraud
- Inventory

Corruption:

- Bribery and gratuities
- Embezzlement
- Receipt of bribes, kickbacks, and gratuities
- Conflicts of Interest
- Unauthorized or illegal use of assets, information, or services for private purposes