

Ten Tips for Preventing Corporate Fraud

Even before corporate scandals about companies like Enron and WorldCom made headlines, organizations were waging war against fraud, and they continue to today. According to the Association of Certified Fraud Examiners' in its *2008 Report to the Nation on Occupational Fraud and Abuse*, annual fraud losses topped \$900 billion last year.

Despite tough economic times and seemingly rampant misconduct, now is not the time to panic. There are simple, practical steps you can take to protect your organization from fraud.

1 SET AN ETHICAL TONE THAT STARTS FROM THE TOP.

Every organization needs a written code of conduct that reflects their ethics and values. But it can't just be on paper. Management must take that code to heart and demonstrate their commitment through their actions. Like any aspect of corporate culture, expectations regarding ethical behavior need to be communicated, understood and supported from the top down.

2 ESTABLISH REGULAR FRAUD DETECTION PROCEDURES.

Regular internal auditing procedures specifically designed to detect major fraud are valuable tools. Simply having these procedures in place discourages employees from committing fraud in the first place. Recent events have illustrated the importance of having a strong internal audit function that watches out for fraud.

3 HAVE A HOTLINE.

A confidential, 24/7 hotline operated by a third-party professional is your best option for uncovering fraud. Companies are now legally required to have a way for

employees to anonymously submit concerns. A hotline is the ideal tool, helping you identify issues early, investigate them and take action. In fact, the Association of Certified Fraud Examiners' 2008 Report to the Nation found that companies with fraud hotlines cut their losses by more than 50% per scheme, because activity was detected earlier through tips.

Today many companies with longstanding internal hotlines are seeing the value of adding an external hotline. From a legal perspective, this can help the organization demonstrate strong due diligence because employees with every possible opportunity to report issues and the organization can address them.

4 EDUCATE EMPLOYEES ABOUT FRAUD.

A hotline can't be effective if employees forget it's there and why to use it. Use tools like posters in break rooms, company intranet and employee newsletters to continually talk about ethical behavior. It is best to use a mixture of media to reach your key audiences, employees and suppliers. You can educate them on identifying and preventing fraud and encourage their involvement in bringing illegal or unethical behavior to light. Your ongoing communication about ethical behavior needs to include what is acceptable, what is not acceptable and how to report unacceptable activities.

By communicating regularly, investigating incidents and taking corrective action, your commitment to ethics gains credibility among employees. It becomes a part of your workplace culture.

5 HAVE CERTIFIED FRAUD EXAMINERS ON STAFF.

Detecting fraud is not an easy task, and special training can help. The Association of Certified Fraud Examiners offers training courses on the art of uncovering fraud and a certification program for anti-fraud professionals.

Your internal audit staff should be educated on the latest techniques for detecting fraud by taking these courses and some or all should study to become Certified Fraud Examiners. Alternatively, draw on independent CFEs who can assist your organization.

6

INVOLVE YOUR SUPPLIERS IN YOUR FRAUD DETECTION EFFORTS.

Look beyond your employees for tips on potential misconduct. Vendors and suppliers can be a valuable source. Offer the employees of your key suppliers access to the same hotline you provide internally, so that they also have the means to confidentially report any concerns.

Honest employees who work for your suppliers may be aware of fraudulent schemes that their employer or other suppliers may be committing. They may also know of employees within your organization who are taking kickbacks or committing other illegal acts. Once you receive a tip from a supplier, you can look for a paper trail to validate the allegation.

7

TAKE ALL TIPS SERIOUSLY AND INVESTIGATE.

Once any tip is received, it's critical that it gets to the right people within your organization and is thoroughly investigated. This way, every tip is documented, acted upon or even prosecuted. One common mistake in dealing with tips is spending time trying to discover the identity of an anonymous source, rather than getting right to the business of looking for evidence. It really doesn't matter who made an allegation; what matters is whether or not it is true.

8

DECIDE WHO WILL BE NOTIFIED ABOUT TIPS.

Companies handle anonymous tips in a variety of ways. The best way to handle hotline tips is to have your hotline provider do a sort of triage to determine where the tips are sent. For example, allegations of discrimination should be

sent to both your HR department and your legal department, while allegations of fraud should be sent to both your internal audit department and a representative of your board's Audit committee.

It is vital that reports of fraud are sent automatically to your audit committee or your external auditors because of the risk that the fraud could involve corporate executives. These individuals could intercept the report unless it is automatically disseminated beyond their reach.

9

CONDUCT BACKGROUND CHECKS.

This is a simple action that can prevent you from hiring someone who has a history of stealing from employers. No hiring effort is so urgent that this step can be skipped, because creating an ethical environment begins with hiring the best possible employees. If there is an incident in the candidate's past, it is best to know about it from the start, so you can decide if it is an issue.

10

HAVE OVERSIGHT BY A MEMBER OF SENIOR MANAGEMENT AND THE BOARD.

Fraud is the great unmanaged risk, exposing companies to costly and potentially catastrophic losses. A senior member of management should be tasked with implementing fraud risk assessment and fraud risk management activities. The board should oversee this effort to ensure it is done thoroughly. All executives should be held responsible for managing fraud risks in their part of the organization.

By following these simple tips, you can reduce fraud and its financial impact on your organization. In today's volatile climate, that can translate to millions of dollars saved. But beyond the bottom line, you'll find this approach helps you create a positive, productive work environment and demonstrate good corporate citizenship to your employees, customers and stockholders.