FRAUD PREVENTION & DETECTION – WHOSE RESPONSIBILITY IS IT?

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Topics

- The Cost of Fraud
- Take the Fraud “Check-up”
- Why is a Strong Fraud Policy Statement Important?
- Benefits of a Whistleblower Hotline
- Whistleblower Hotline Recommendations
- Websites to Consider
The Cost of Fraud

“More money has been stolen at the point of a pen than at the point of a gun.”

*Source: Towards a Sociology of Organizational Crime, Frank Schmallenger, Ph.D 1991
The Cost of Fraud

- **Findings From the Association of Certified Fraud Examiners 2010 Report to the Nation:**
  - Fraud is most prevalent in organizations with fewer than 100 employees, accounting for 31% of the victim organizations.
  - The research showed that smaller organizations suffer disproportionately large losses due to fraud.
  - Not-for-profits had a median loss of $90,000 per reported fraud scheme.
The True Cost of Fraud

• The true costs of fraud to an organization goes well beyond any specific dollar losses.

• *These costs include:*
  • Intense public scrutiny
    • Public sentiment is one of zero tolerance.
  • Loss of reputation
    • Internet and social media sites provide forums to quickly spread negative publicity.
  • Severe damage to brand value
    • Value may be difficult to measure until diminished.
A Fraud Check-Up

• **Does your Association:**
  - Consider fraud a business risk and periodically identify the fraud risks to which it is exposed?
  - Have a strategy for the prevention, detection, investigation, and prosecution of fraud?
    - Fraud Policies and Fraud Response Plans cost very little to develop and communicate, but can make a strong statement about the Association’s stance against fraud
  - Have a designated individual(s) who maintains ownership for managing the risk of fraud?
  - Promote anti-fraud programs as the responsibility of everyone in the Association?
    - Does the Association have and effectively communicate a zero tolerance policy for fraud?
A Fraud Check-Up – Cont’d

• **Does your Association:**
  • Provide fraud prevention and detection education for its employees?
  • Do employees understand what the Association considers to be a fraudulent act?
  • Do employees understand the true costs of fraud?
  • Do employees know where to report suspicions of fraud?
  • Monitor aggressively for fraudulent conduct and evaluate the strategy periodically?
    • Are reviews/surprise audits conducted?
    • Is there a policy for mandatory vacations?
  • Have a plan of action in the event fraud is detected?
Who is Responsible for Managing the Risk of Fraud?

• Leadership is charged with a fiduciary duty to safeguard the Association’s assets and reputation.

• The fulfillment of this responsibility requires the implementation, communication and enforcement of appropriate policies and procedures that are designed to protect the financial health and reputation of the Association.

• To be effective, EVERYONE within the Association must take ownership.
Why is a Fraud Policy Important?

• A strong Fraud Policy serves as a strategic communication that effectively conveys an organization’s commitment to take a proactive stance against fraud.

• The best Fraud Policy communicates:
  • the organization’s level of commitment to ethical business practices, and
  • its desire to accept accountability for doing so.

• A great Fraud Policy acts as both a:
  • deterrent to employees who may be tempted to perpetrate a fraudulent act, and
  • guide to employees who suspect or detect fraud.
Elements of a Strong Fraud Policy Statement

• A formal fraud policy statement:
  • Communicates leadership’s belief in the importance of ethical conduct and its commitment to ensuring it’s sustained;
  • Provides consistent standards for dealing with improprieties;
  • Establishes an expectation for everyone working within and with the organization to behave honestly and with integrity;
  • Clarifies what the organization considers to be a fraudulent act;
  • Assigns responsibility for conducting investigations; and
  • Provides guidance regarding the appropriate reporting channels and procedures.
**Elements of a Strong Fraud Policy Statement**

- **Contents should communicate the organization’s intent to:**
  - Implement measures to deter fraud;
  - Establish and maintain procedures to detect fraud;
  - Encourage employees to report any suspicion of fraud;
  - Investigate all suspected fraud; and
  - Report suspected fraud to law enforcement, as appropriate.
Benefits of a Whistleblower Hotline

• As illustrated in the next slide, in its 2010 Report to the Nation, the Association of Certified Fraud Examiners (ACFE) reported that the most common and successful method for the initial detection of fraud is an employee tip.

• This is consistent with the findings in prior ACFE reports. Tips have been far and away the most common means of detection in every study since 2002, when the ACFE began tracking the data.

• This data indicates that effective reporting mechanisms and open channels of communication can have a positive effect on reducing fraudulent activity.

• Tactics with success include a whistleblower hotline. 47% of the tips were reported in organizations that had a hotline. And, where a hotline was in place, the average duration of a fraud scheme was reduced by 7 months and the median loss was reduced by 59%.
Benefits of a Whistleblower Hotline

Source: ACFE 2010 Report to the Nation – Initial Detection of Fraud

<table>
<thead>
<tr>
<th>Detection Method</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>40.2%</td>
</tr>
<tr>
<td>Management Review</td>
<td>15.4%</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>13.9%</td>
</tr>
<tr>
<td>By Accident</td>
<td>8.8%</td>
</tr>
<tr>
<td>Account Reconciliation</td>
<td>6.1%</td>
</tr>
<tr>
<td>Document Examination</td>
<td>5.2%</td>
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<tr>
<td>External Audit</td>
<td>4.6%</td>
</tr>
<tr>
<td>Surveillance/Monitoring</td>
<td>2.6%</td>
</tr>
<tr>
<td>Notified by Police</td>
<td>1.8%</td>
</tr>
<tr>
<td>Confession</td>
<td>1.6%</td>
</tr>
<tr>
<td>IT Controls</td>
<td>0.8%</td>
</tr>
</tbody>
</table>
Benefits of a Whistleblower Hotline

Benefits include the organization’s ability to:

- Uncover fraud – 40% of fraud schemes detected through tips
- Mitigate fraud losses – monetary, reputational, and morale, by reducing detection time
- Empower employees to effect change
- Promote its expectation for everyone working within and with the organization to behave honestly and with integrity
Whistleblower Hotline Recommendations

• **Recommendations for a successful whistleblower hotline:**
  - Protect confidentiality – employees need to report without fear of reprisal
  - Ability to anonymously report may alleviate concerns of negative consequences
  - Easily accessible – telephone, web portal and mail options
  - 24/7 access, staffed by interviewers well trained in collecting relevant facts
  - Appropriately monitor and resolve all reported matters – make clear to employees that this will be done timely and in a thorough matter.
  - Dual dissemination of information so that one person does not control
  - Communicate Whistleblower Policy
Websites to Consider

Organizations:

- National Association of Realtors: www.realtor.org
- Association of Certified Fraud Examiners: www.acfe.com
- American Institute of Certified Public Accountants: www.aicpa.org/antifraud
- Institute of Internal Auditors: www.theiia.org/guidance/standards-and-guidance/fraud/
- Committee of Sponsoring Organizations: www.coso.org
- Department of Justice: www.justice.gov/criminal/fraud/websites/idtheft.html
- Center for Audit Quality: http://thecaq.org/