Preventing Corporate Fraud with a Whistleblower Hotline

White Paper

Written by the Benefit Experts at **eni**

**eni** is an industry leading employee benefits solution provider.

We specialize in Total Wellbeing Solutions designed to better your employees' experience and increase overall ROI for your largest investment, your team.

Corporate fraud refers to dishonest and illegal activities perpetrated by individuals or companies and designed to provide an advantageous financial outcome to the individual or company.

When people think of corporate fraud images of Ponzi schemes or secret transfers to Swedish bank accounts often come to mind. Many employers don't give much thought to fraud, assuming that their business is not susceptible, that their employees are infallible, or that simply having a yearly audit will catch any suspicious behavior. Unfortunately, fraud is extremely widespread and comes in many shapes and sizes.

Types of corporate fraud include:
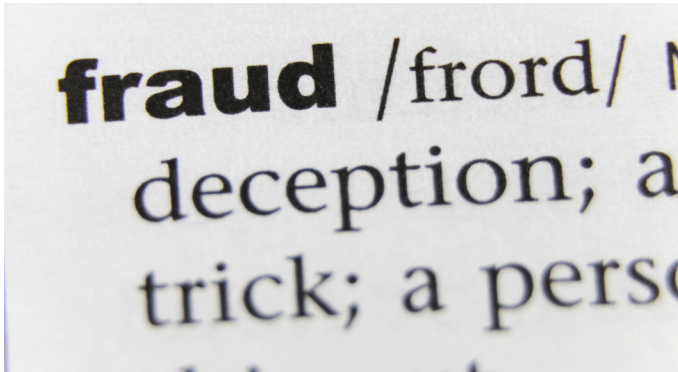
Theft of money

- Stealing petty cash
- Using a corporate credit card for personal purchases
- Submitting faulty receipts for reimbursement
- Stealing from the cash register

Theft of merchandise/supplies

- Stealing office supplies
- Taking for oneself or giving away store merchandise, food from a restaurant, merchandise from a warehouse, etc.

Embezzlement

This involves taking money that has been placed in your trust but belongs to another person. Embezzlement can range from a few dollars to millions and can be a quite simple to a very complex scheme:

- A letter carrier taking an envelope with money it that belongs to someone else
- A sophisticated computer scam where a banker sets up fake accounts and deposits other people's money into it

Money Laundering

- This refers to the process of concealing the source of illegally obtained money

Bribery

This is the act of giving or receiving gifts or money with the intent to alter behavior. Some examples include:

- An employee accepting gifts from a vendor in exchange for recommending their services to the company
- An employee giving a regulatory committee gifts in exchange for gaining credentials or licensure

Extortion

- This is when someone obtains money, property, or services through coercion

As you can see there are a wide variety of circumstances that constitute corporate fraud. With so many ways to commit fraud, employers must be mindful of this issue.

How Widespread is Fraud

Organizations in every industry and of every size are susceptible to fraud. According to the 2018 Global Fraud Study connected by the Association of Certified Fraud Examiners, 22% of cases resulted in losses of over $1 million. There were more than 2,600 real cases of occupational fraud from 125 countries with the median amount lost per case at more than $100,000. In total, more than $7 billion was lost to fraud.

Although fraud can affect every business in some way, small businesses are generally at a greater risk because they have fewer fraud detection and prevention practices in place than larger corporations. There are also certain industries that tend to be at a greater risk for fraud:

- Stores/Restaurants (venues where cash is readily available)
- Banking/Financial Services
- Manufacturing
- Government/Public Administration Sectors

"When we discovered inconsistencies in the records, Samantha assured us that she had accidentally misallocated the funds..... I want to believe her, but she has never made a mistake like this...... I don't know how to proceed"

-CEO, Financial Sector

Since corporate fraud is based upon deception, it can be extremely difficult to detect. It is believed that the majority of fraud actually goes undetected, meaning that the amount of revenue lost to fraud is potentially even higher than reported. Further complicating matters, it can be difficult to distinguish poor record keeping from actual instances of fraud.

03

Detecting Fraud

There are a few different fraud prevention and detection methods. A key to fraud prevention is having adequate fraud detection controls in place. This acts as a deterrent as employees know that if they do commit fraud there is a strong likelihood of being caught. Having fraud detection controls in place also conveys to the employees that the organization is committed to an ethical corporate culture.

Audits

Audits are an unbiased examination and evaluation of the financial statements of an organization. Audits are the most widely used fraud detection and prevention method. Audits, especially surprise audits do serve as a fraud deterrent. However, comparatively, audits alone rank poorly in preventing fraud. Many organizations over-rely on audits, utilizing them as their only way to detect fraud. Although audits are important to an overall fraud prevention and detection strategy, they should not be relied upon exclusively for fraud detection.

Pay Attention

It's important to monitor your employees as many fraud perpetuators display warning signs. Common behaviors include spending beyond their means, having financial difficulties, offering to work excessive amounts of overtime, failing to obtain authorization signatures on financial documents, and unusual expense account entries.

Employee Education

It is extremely important to educate your employees on what constitutes fraud, how and why any type of fraud is harmful to the company as a whole, and how to recognize and report fraud if necessary. Organizations who take the time to educate their employees experience fewer instances of fraud. Fraud education acts as a deterrent, rendering it vital to include anti-fraud training in your company's overall fraud prevention and detection strategy.

Fraud Prevention and Detection

For best results, organizations should engage in a holistic approach to fraud prevention including creating an ethical and honest corporate culture, conducting occasional audits, and providing employees with anti-fraud trainings. However, the single most effective tool to prevent and detect fraud is establishing a T*ips or Whistleblower Hotline*. Reporting mechanisms are critical to effective fraud prevention and detection. According to the 2018 Global Fraud Study conducted by the ACFE:

- Tips are the most common fraud detection method, catching nearly 3 times more fraud than any other means

- 50% of corruption cases were detected by a tip
- Fraud losses were 50% smaller at organizations with hotlines than those without
- Employees are the most common source of fraud tips at 53%

Organizations with a tips hotline detected more fraud by tip more often than those without.

Anti-fraud training coupled with a Whistleblower Hotline is the cornerstone of an effective fraud prevention and detection strategy. This educates employees on fraud and gives them the means to report the fraudulent activity. The key to establishing a successful hotline is to set up a confidential **3rd Party** Whistleblower Hotline. Utilizing a 3rd Party to manage your hotline ensures that your employees feel comfortable reporting illegal activity because they will not fear retribution or being discovered by other employees as the person who reported the activity. Employees will trust that with a confidential 3rd Party Hotline, the company will never know who reported the fraudulent activity.

1.888.331.4364   eni   www.eniweb.com

How it Works

To establish a Whistleblower Hotline, simply partner with a provider who will set up a confidential toll free phone number, provide your employees with literature on accessing the hotline, and transcribe all received calls, and provide them back to your company in a timely fashion. It is a quick and easy process for both you and your employees, and it provides unparalleled results.

Employee identifies potential impropriety

Investigate reported concern

24/7 anonymous call placed to toll free number

Secure email sent to designee's business

Call is transcribed within 24 hours

Getting Started

DirectAccess is a confidential, third-party hotline that encourages your employees to report witnessed activity, including theft, fraud, harassment, discrimination, safety concerns, illegal activity and other issues or questions.

This simple, smart, safe, and unbiased outlet effectively protects your employees and your bottom line. This service will give you piece of mind, so you are free to focus on increasing profits instead of managing internal losses.

FEATURES:

24/7 Toll-Free Access

Exclusive 24/7 access to our secure and confidential Contact Management Center ensures that all information is kept private and protected from improper access, loss, or misuse.

Rapid Response Reports

A complete and anonymous report of each call or concern is immediately transcribed and delivered in order for you to review and react accordingly.

Confidentiality

Well defined security access protocols ensure that your employees can easily and anonymously report their concerns without the risk of recognition and/or retaliation.

BENEFITS:

Employee Advocacy

Position yourself as a zero-tolerance employer by utilizing your employees who will act as anonymous advocates, with the ability and encouragement to identify inappropriate activity.

Affordability

DirectAccess is practical solution for the detection and deterrence of corrupt activity that causes avoidable expenses.

Accountability

Unethical and illegal behavior improves once the potential of being caught is introduced. Promote your company's core values by empowering employees to take an active role in preventing fraud.

Sarbanes Oxley Compliance

The Sarbanes-Oxley Act of 2002 states that in order for companies to continue being listed on the various exchanges (as per the SEC), they must establish a way for boards of directors to receive, retain, and treat complaints regarding accounting, internal accounting controls or auditing matters. This process must be secure and allow for anonymity.

Contact eni to learn how you can protect your organization 1.800.364.4748

DirectAccess^{SM}