

Fraud Prevention Tip of the Month from



FRAUD IS SELDOM A SECRET

May 2010

This is the second in a series of tips designed to help you and your clients avoid and/or detect fraud.

IF INNOCENT EMPLOYEES KNOW ABOUT FRAUD, WHY DON'T THEY REPORT IT?

It is very common in a company where fraud is ongoing that employees other than the fraudster have at least some knowledge of the fraud. Often employees are afraid to come forward for a number of reasons, including:

- Uncertainty about who to talk to
- Fear of retaliation
- Fear that they will become a suspect
- Uncertainty about whether or not the observed acts actually constitute fraud
- Belief that nothing will be done to investigate the report



THEY'RE DYING TO GIVE THE DIRT TO THE GOOD GUYS - AN EXAMPLE

Sam, the CEO of a \$10 million food distribution company was falsifying the inventory and sales information being reported to his lender. We were brought in by the lender to investigate some inconsistencies in this reporting and were very quickly approached by Dave, the Controller, and Sue, the Accounts Receivable Clerk. Both were eager to share information about Sam's fraudulent activities. Even though they had known for some time about the fraud, they had no idea who to tell! The information provided by Dave and Sue enabled us to very quickly pinpoint the problem and report it to the client. In addition, Sue and Dave were very relieved to have had an opportunity to take action to halt Sam's fraud and get back to business as usual.

WHISTLEBLOWER HOTLINES - A SIMPLE, LOW-COST SOLUTION

Implementation of a "Whistleblower Hotline", if done right, can be very effective in helping businesses detect fraud. Nearly half of frauds are detected by tips from employees, vendors and others. It is important that the following points be kept in mind:

- Anonymity of the whistleblower must be maintained.
- It is best to have an independent outside service field the calls and report them directly to the Board of Directors. These services are very affordable, and definitely worth the cost.
- Employees must be educated about the types of information that may be reportable and be assured that there is no chance of retaliation for reporting information that turns out to be incorrect.

By implementing a Whistleblower Hotline and educating employees about its proper use, a company can greatly increase its chances of detecting fraud early and therefore limit fraud-related losses.

For more information on fraud prevention and detection, please call Lori Payne at (805) 527-1499.

About Payne Financial Forensics

Payne Financial Forensics is a financial consulting firm, specializing in Forensic Accounting; Fraud Investigations; Litigation Support, including Bankruptcy and Insolvency related litigation; and Expert Testimony.

With a middle market focus, our professionals have broad experience in financial consulting and are credentialed as Certified Public Accountants, Certified Fraud Examiners, Certified in Financial Forensics, and Certified Insolvency and Restructuring Advisors. Payne Financial Forensics provides personalized service by senior professionals with big firm experience and expertise at a reasonable cost.

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