

Fraud-Related Compliance

Fraud Prevention Programs

Fraud Prevention and Compliance

- Fraud prevention programs play a key role in fraud enforcement actions.
- Program should be based on:
 - Size of organization
 - Complexity of industry
 - Operating environment

Fraud Prevention and Compliance

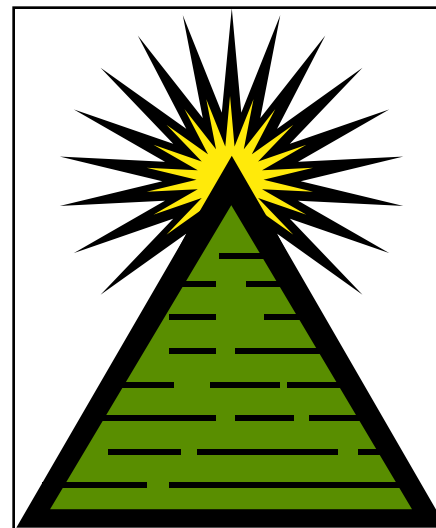


Fraud Prevention Program

- A robust fraud prevention program includes:
 - Tone at the top
 - Fraud risk assessment
 - Employee selection processes
 - Increasing the perception of detection
 - Fraud prevention policy
 - Ethics program

Tone at the Top

- Management's attitude affects employees.
- Company leadership should provide a strong atmosphere of ethics.
- Leadership should commit to policies of integrity.
- Company should enforce those policies.



Tone at the Top



Fraud Risk Assessment



- A systematic process aimed at proactively identifying and addressing an organization's vulnerabilities to internal and external fraud
- Viewed positively by regulators

Fraud Risk Assessment Team

- Members of the team should include:
 - Accounting/finance personnel
 - Nonfinancial personnel involved in day-to-day operations
 - Risk management personnel
 - Legal/compliance personnel
 - Internal auditors
 - External consultants with fraud prevention knowledge
 - Management responsible for fraud risk

Fraud Risk Assessment Strategy

- Identify potential inherent fraud risks.
- Assess the identified risks:
 - Likelihood of occurrence
 - Significance to the organization of risks
- Evaluate which people and departments are most likely to commit fraud, and identify the methods they are likely to use.

Fraud Risk Assessment Strategy

- Identify and map existing controls to the relevant fraud risks.
- Evaluate whether the identified controls are operating effectively and efficiently.
- Identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls.
- Respond to residual fraud risks.

Independent Compliance Monitoring

- 2010 Guideline Amendments mention use of “outside professional advisors” as part of appropriate response mechanism.
- Independent compliance monitor can:
 - Oversee compliance with DPA/NPA.
 - Lead organization in developing and implementing internal controls, ethics, and compliance programs.
 - Help correct noted deficiencies.
 - Identify and address risk areas.

Selecting the Right Employee

- Background checks are basic step in fraud prevention.
- Focus on employees with access to:
 - Cash
 - Checks
 - Company books
 - Any other easily stolen items
- Get the consent of the candidate.

Selecting the Right Employee

- Background check components
 - Past employment verification
 - Criminal conviction checks (where legal)
 - Drug screening
 - Reference checks
 - Education and certification verification
- Check legality of background check—“ban the box” laws

Increasing the Perception of Detection

- Might be the most effective fraud prevention method
- Lets all staff know that compliance officers, auditors, and investigators are seeking out information concerning fraud
- Employee education
 - Management oversight—management aware of behavioral red flags (e.g., luxury cars, extravagant vacations, etc.)
 - Known punishments for dishonesty

Increasing the Perception of Detection



Increasing the Perception of Detection

- Reporting activities
 - Actively encourage employees to report suspected fraud.
 - Spell out a precise reporting mechanism.
- Anonymous fraud hotlines
- Rewards for tips

Fraud Prevention Policy

- Policy objectives
 - Contain accurate financial and operating information.
 - Ensure compliance.
 - Safeguard assets.
 - Ensure efficient use of resources.
 - Meet operating objectives.



Elements of Fraud Prevention Policy

- Policy statement
- Scope of policy
- Actions constituting fraud
- Non-fraud irregularities
- Investigation responsibilities
- Confidentiality
- Authorization for investigation
- Reporting procedures
- Termination procedures

Communicating the Fraud Policy

- All employees should be made aware of the policy.
 - Initial employee orientation
 - Memo from management supporting the policy
 - Posters/display of the policy
- Legal considerations
 - Include a specific list of unacceptable conduct.
 - Discharging employees for cause may present issues if the dishonest conduct is not in the policy.

Ethics Programs

- A written policy communicates management's support of the ethics program.
- The policy should be disseminated to employees and even vendors.
- A good ethics policy distinguishes between what is legal and what is ethical.

Ethics Programs

- Factors that affect employees' ethical decisions:
 - Law/regulations
 - Industry and organizational ethical codes
 - Social pressures
 - Tension between personal standards and organizational needs

Ethics Programs



- Ethics programs have accelerated, partly due to their role in the Sentencing Guidelines.
- An ethics program that has been genuinely supported can mitigate penalties.

Ethics Program Development

- Identify key organizational characteristics.
 - Understand why good people can behave unethically.
 - Define values.
 - Determine if those values have been communicated.
 - Produce the written policy and procedures.
 - Ascertain how participants in the organization define success.
 - Determine if ethical leadership is an issue.

Ethics Program Development



12 Components of a Comprehensive Ethics Program

1. A focus on ethical leadership
2. Vision statement
3. Values statement
4. Code of ethics
5. Designated ethics official
6. Ethics task force or committee

12 Components of a Comprehensive Ethics Program

7. Ethics communication strategy
8. Ethics training
9. Ethics help and fraud report line
10. Behavior rewards and sanctions
11. Monitoring and tracking system
12. Periodic evaluation of ethics program

Ethics Program Summary

- Communicate what is expected of employees.
- Lead by example.
- Provide a safe mechanism for employees to report violations.
- Reward integrity.

Discussion Questions

- Suppose that you operate your own practice, specializing in developing fraud prevention programs for various types of companies. A potential client contacts you and tells you that his company has suffered several frauds recently that substantially harmed its bottom line. He wants you to help him “beef up” his fraud prevention program.

Discussion Question #1

- What initial questions should you ask the client to develop a fraud prevention program?

Discussion Question #2

- Would you recommend a fraud risk assessment for the client? What would that entail?

Discussion Question #3

- List some key items that the company should have in its fraud prevention and ethics policies.

Discussion Question #4

- The client mentions that he has heard something about the importance of *tone at the top*. What does this mean, and what would you recommend the client do to achieve it?

Discussion Question #5

- What are some methods that you would recommend to increase the company's perception of detection?