



Acquiring the Facts to Empower our Clients

TWO OF THE MOST EFFECTIVE WAYS TO PREVENT FRAUD

Most of us by now would agree that fraud within United States organizations is a significant problem. Not only is fraud costly, currently estimated to take six percent of an organization's annual revenues, or \$660 billion in the aggregate annually, it is also destructive to business performance, profits, reputation, and employee moral.

The majority of us would also agree that the most cost effective way to deal with fraud is by preventing its occurrence. Historical evidence demonstrates that once an organization has been defrauded it is unlikely to recover its losses. The median recovery is only 20% of the original loss, and almost 40% of victim organizations recovered nothing at all.

Two of the most successful ways of preventing fraud are the unequivocal ethical tone at the top of the organization, and an anonymous tip program.

An organization's ethics come from the person or persons in charge. Leadership sets the tone in every area of an organization or business. Ethics are either essential to the way an organization functions, or they are not. The executives and managers either lead the ethical way, or they communicate that deception and noncompliance are acceptable. Staff employees will always mimic the type and level of ethical performance they see modeled above them.

An anonymous tip program, often a hotline, allows employees to report questionable activities without fear of retribution. Access to the program should also include customers, vendors, and other third parties. Several studies have indicated that anonymous tips are also the most common means of fraud discovery, accounting for 40% of detections. This, of course, lends support to the Sarbanes-Oxley Act mandate for confidential reporting mechanisms.



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