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Employee Fraud Hotlines Are a Cost-Effective Fraud Identification Tool

by Frank Suponic, CPA, CFE, CFF

Blondie's 1980 #1 hit, the rocker urged listeners to "Call Me". With one "minor" modification, the chorus line from her top-selling single was as follows:

*Call me (call me) on the line
Call me, call me any, anytime
Call me (call me) my **employee**
You can call me any day or night
Call me*

Let's forget for a minute that the song was written for the movie "American Gigolo." It also is a great reminder that any business should encourage its employees to "Call Them" anytime they see or become aware of any sort of fraudulent conduct.

Fraud hotlines are one of the most cost-effective fraud prevention and reporting tools. Some have told me that a fraud hotline is a reactionary tool. True. However, one can also argue that such an effortless employee fraud reporting mechanism is a fraud deterrent.

Internal tips are the number one source of fraud detection. According to the 2016 American Institute of Certified Fraud Examiners' Report to the Nations, there is a direct correlation between having a fraud hotline and reducing fraud losses with quicker incident detection.

The backbone of an effective fraud hotline is providing anonymity and confidentiality. Some employees want to help by notifying management of questionable conduct. However, many employers do not offer the employee an option to communicate other than an anonymous note under the door or an email from a nondescript email address. In some of those circumstances, the employee is left guessing what to do and who to contact.

Some preventive fraud programs fail because the employee may not trust the internal person designated as the company contact. Other employees will not become involved because nothing is in it for them, they don't want to make waves, they fear co-worker retaliation, or just don't care if another employee's conduct may be placing the company at jeopardy.

Employees who report fraudulent conduct must be protected from retaliation. The fear of fellow employee retaliation is the primary reason why many employees choose to anonymously report fraudulent conduct. They want the company to be made aware and to address a wrong, yet they do not want their name associated with it or otherwise be involved in any way.

While my focus is on encouraging employees to report any type of financial fraud, an effective fraud hotline enables an employee to report additional misconduct such as:

1. Theft
2. Conflicts of interest
3. Corruption
4. Falsification of records
5. False financial statement representations
6. Ethical violations
7. Violation of laws
8. Regulatory negligence
9. Violations of company policies, including workplace safety
10. Discrimination and harassment

While some companies designate an internal employee to serve as the recipient of such notifications, it is significantly more effective to have an outside individual or service handle this service. Confidentiality is so important. If the employee feels that their voice could be recognized, the chance of them calling a co-worker is slim. Employees used to fear that their employer would recognize their handwriting (pre-internet). Employees should have a way to communicate with the employer's designee via the internet, email, telephone, snail mail to a P.O. box or fax. Reporting via the internet is a very popular mechanism.

Employers should have the option of an internal or external reporting contact. Remember, external fraud hotlines are nominal in cost and much more effective. While internal fraud hotlines are less expensive, they are less trusted by employees. Skoda Minotti has served as the external fraud alert contact for some of our clients.

Fraud hotlines should be promoted throughout the company in posters, newsletters and reinforced in all forms of internal marketing and communication. Management should repeatedly encourage employees to utilize the fraud hotline to report misdeeds, emphasize the proper tone at the top and reassure those reporting that they will be protected.

For more information on fraud prevention in the workplace, download our e-book, **Fraud Prevention Measures**. Questions? Contact **Frank Suponcic** in our **Valuation and Litigation Advisory Services Group** at 440-449-6800.