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February 2009

Combating Fraud – Whistleblower Hotlines

By Kimberly Sanzone

The purpose of this article is to provide information to small and mid-size businesses and tax-exempt organizations about the effectiveness of whistleblower programs as a fraud detection and prevention tool.

According to the Association of Certified Fraud Examiners' (ACFE) 2008 Report to the Nation on Occupational Fraud & Abuse, "tips continue to be the most effective means of detecting fraud." The Association goes on to say, "...organizations could improve their detection efforts by establishing formal structures to receive reports about possible fraudulent conduct." One of the most practical ways to improve fraud prevention and detection is by implementing a hotline.

Data consistently shows that hotlines are one of the most effective fraud prevention tools.

Public companies are required under the Sarbanes-Oxley Act to have a formal reporting mechanism, such as a hotline. For public companies however, the focus is on fraudulent financial reporting because of the underlying importance of protecting the investor. It is essential that investors have accurate and reliable information in order to make informed investment decisions.

While the focus of public companies is on financial reporting, for small to medium-sized private companies and non-profit organizations, the focus is usually on protecting against the misappropriation of assets.

One of the most common types of fraud is asset misappropriation - essentially the stealing or misusing of an organization's resources. The following are three of the more common sub-categories of asset misappropriation and examples as to how they might occur:

- Billing schemes – An employee creating a shell company and billing for nonexistent services or an employee submitting invoices for payment for personal purchases.
- Check tampering – Using company checks, an employee transfers funds to his own account, or an employee steals outgoing checks to deposit in his own bank account.
- Cash on hand misappropriations – An employee simply steals cash from a vault or safe.

To be effective the program generally involves carefully thought out elements associated with the dissemination of information of whistleblower reports, accessibility of the system to the whistleblower, confidentiality of the whistleblower's identity and training of those charged with the responsibility to receive and act upon information provided by the whistleblower.

In its Compliance Guidance publication for nursing facilities, the Department of Health and Human Services' Office of Inspector General (OIG) indicated that organizations should have a compliance officer to handle reported problems, implying that only one person can be responsible for accumulating and addressing information obtained through hotlines.

Other authoritative sources have indicated that that might not be enough. Instead, the idea of dual dissemination has proven to be a much more effective way of assuring that complaints do not get overlooked. Dual dissemination involves having a qualified individual - in addition to the investigative unit - obtain duplicates of all hotline events.

Other important features of any hotline are its accessibility and confidentiality. The most ideal setup is a hotline that offers 24/7 accessibility and is provided by a third party. By using a third party, callers are more likely to share information. Third party access 24/7 helps to avoid the uneasiness callers may feel when a hotline goes to voicemail after business hours. Internal hotlines simply don't offer this same level of accessibility and confidentiality.

The importance of third party access 24/7 was reiterated in an article from the Institute of Internal Auditors' Internal Auditor magazine, written by Dave Slovin. Slovin mentioned that according to research by a workplace reporting services firm, "*nearly 50 percent of all hotline calls are made at night or on weekends.*"

Another key reason many people choose to use a third party is because employers can receive assurance that the hotlines are staffed with trained interviewers. As Slovin pointed out, "these people will have specialized training to help callers remain calm, cover the concern thoroughly, and use a standardized interview process." All of these things are very important in order to ensure that the call will be handled as efficiently as possible.

According to Slovin, "internal auditors will receive better information if a trained interviewer is available to ask the questions any time of day or night."

Several companies offer external hotline services. While we cannot endorse any particular company, the following has been compiled from information supplied by the respective company. The information was deemed valid when supplied.

- Lighthouse Services provides anonymous hotline services. Prices start at \$525 a year and increase based on client size and needs.

Andy Brownstein
(215) 884-6150
andy@lighthouse-services.com
<http://www.lighthouse-services.com/index.html>

- The Network uses software and call center systems to deliver 24/7 hotline services. Prices are based specifically on number of employees and individual client needs. The company did not supply pricing examples.

Melissa Lawson
(678) 248-7244
melissalawson@tnwinc.com
<http://www.tnwinc.com/default.asp>

- Report it Systems offers 24/7 hotline phone and web-based services. The average annual price for small and mid-sized clients is \$1,200. Non-profit organizations receive discounted prices.

Anthony Lavallo
(631) 337-2258
alavallo@reportit.net
<http://www.reportit.net/default.asp>

- SilentWhistle uses both web and phone-based technology to provide anonymous hotline services. Prices start at \$1,000 a year and vary depending on the amount of service desired and size of the client.

Chris Cottle
(801) 617-8034
chris.cottle@allegiance.com
<http://www.allegiance.com/silentwhistle/>

So while any organization is subject to fraudulent activity, the good news is that there is plenty you can do to help prevent it.

If you would like more information on how we can assist your organization design and implement a whistleblower system or assess the effectiveness of your current system, please contact Vincent Ruocco, LLC, CPA at 203.932.2931.

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