



SHEPARD SCHWARTZ & HARRIS LLP

Business Advisors For Privately Owned Companies

BUSINESS ALERT

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Fraud Hotlines: A Sensible Resource for Protecting Your Company

Each year, companies lose millions of dollars to occupational fraud. In many cases, the fraud goes undetected for a significant period of time. One of the best ways a company can combat occupational fraud is to implement a tip hotline. Occupational frauds are much more likely to be detected by tips than by any other method, according to the *2010 Report to the Nations on Occupational Fraud and Abuse* which is published by the Association of Certified Fraud Examiners (ACFE). Tips were by far the most common initial detection method in the ACFE study, catching 40% of all occupational frauds, nearly three times as many as any other form of detection. Employees were the most common source of tips representing 49%. However, customers, vendors, competitors, and acquaintances (i.e. those outside the company) collaboratively provided 34% of tips. Companies that maintained fraud hotlines suffered much smaller fraud losses than companies without hotlines. Further, companies that utilized hotlines also tended to detect frauds seven months earlier than their counterparts.

Hotlines provide a confidential and anonymous way to report allegations of fraud, business misconduct, conflicts of interest, and noncompliance. This tool also improves employee morale and loyalty by empowering employees to feel secure in reporting potential misconduct, which in turn, promotes a desirable work environment. Unfortunately, while hotlines are the most common means of detecting fraud, many companies fail to utilize them. In these cases, company leaders perceived the cost too high, the management time too great, or the company too small to utilize a hotline.

A wide variety of hotline service providers are available to choose from. EthicsLine (www.ethicsline.com) is one of the largest providers and is the official hotline of the ACFE. EthicsLine offers a standard package that includes a toll-free phone number reserved for a company with 24/7 access to their call specialists and a web-based portal to report tips online. Highly-trained, college-educated call specialists utilize scripted interview questions to ensure a thorough and accurate tip report is submitted. Their website reporting process allows for the attachment of files, scanned documents, and photos to be transmitted to support an allegation. Once a tip is received, the company's designated administrator receives an email that a tip has been submitted. The administrator can then access EthicsLine's case management software program to view all tips received, and document the company's response to each tip.

Pricing for tip hotlines varies depending on the size of the company and the customization options available. Generally, a standard package for a company with up to 500 employees is approximately \$1,500 - \$2,000 annually with an initial \$500 - \$1,000 set-up fee. Most hotline providers are willing to negotiate the annual price for smaller companies.

For more information or if you are interested in implementing a fraud hotline in your organization, please contact Sherry Walters, CPA, CFE at SS&H and she will be glad to help you research which hotline service provider would be the best fit for you.

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