

Instilling ethics

Consider a fraud hotline in your business to set the tone from the top.

Fraud is a major concern among business executives. But how do you ensure your employees and management team practice ethical behavior?

“All companies have to realize they should have some mechanism in place to combat fraud,” says Ernie Cooper, a certified fraud examiner and consultant at Vicenti, Lloyd & Stutzman. “Creating a culture of honesty and high ethics, [running] background checks on employees and [installing] antifraud measures, including a hotline — those are things every company needs to have in place.

“It’s just like having locks on your doors, passwords for your computers and a safe. These are all security measures, and a hotline reporting process is the same thing.”

Smart Business spoke with Cooper about fraud hotlines and why you might consider one for your business.

What are fraud hotlines?

The fraud hotline is a method for reporting concerns about illegal or improper behavior within a company. The most important hotline is your telephone, and the one that is most effective is a 24-hour hotline, which allows for employees, customers and even vendors to give an anonymous tip.

It could be as simple as a recording at the other end. You call, leave a message and record your concerns. That is probably the most basic. But the one that is the best is where a live, experienced interviewer is at the other end of the line and is trained to ask the appropriate questions to elicit the information.

For example, if you are an employee of a large company and have information regarding fraud going on in the company, you may not feel like talking to your boss because he could be the one committing the illegal act. You may not want to talk to other employees because you’re not sure how they’re going to act.

But you want to get the information out to somebody. And you may want to protect yourself; you don’t want to give your name. So you call up this hotline number and get



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a live body at the other end. The employee is going to report the information.

The interviewer is trained to ask pertinent questions to get all the information they need so they can get the information back to the company, who can investigate and determine what corrective action needs to be done.

The best hotlines are 24 hour/365 days a year and equipped to handle different languages spoken within a company.

What types of businesses need a fraud hotline?

Almost every company. Sarbanes-Oxley requires public companies to have an anonymous reporting system. Companies with 25 or more employees should definitely have some hotline in place.

Statistics, trends and experience show that just having a hotline acts as a deterrent to fraud.

What factors should be considered when determining which type of hotline to implement?

Management needs to ask, ‘Do I want to have an internal hotline or do I want to go outside and have a third party?’ An internal

hotline may be cheaper, but experience has shown that you are going to miss a lot of anonymous reporting.

You need to have a third party, an independent person out there that the employees can call. An outside hotline is more effective. Also, the people manning the outside hotline should be certified fraud examiners who are trained in asking the proper questions and are able to obtain the information, record it and get it back to the proper person in the company on a timely basis for action.

How do you get started?

Someone within the company, typically the audit committee, internal audit, security or loss prevention needs to form a team to look at all the issues. Then, identify whether it should be internal or external, identify potential third-party hotline services and make a decision based on the cost involved and whether the hotline services meet the needs of their company.

How do you communicate to employees about the hotline?

Communication is very important. It sets the tone at the top. Management gets the message out that they want a culture of ethics and honesty, and as part of that, they are going to implement this hotline to let everybody know they’re serious. Communicate to everybody that a program is in place, the phone number and what kind of incidents should be reported. Let them know that this is 24 hours/365 days.

Also, bring in somebody from the outside hotline service to talk about how the information is going to be protected and anonymous, how it is going to be reported and how it is going to be disseminated back to the company.

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