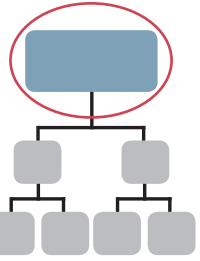


# SEVEN WAYS TO BUILD A CULTURE WITH ZERO TOLERANCE FOR FRAUD

BY JEFF AUCOIN

The typical business lost 5% of revenues to fraud in 2012, and more than 20% of companies lost at least \$1M per event.\* Add indirect costs – audits, legal expenses, increased insurance premiums, productivity losses, etc. – and the cost is probably double the amount of money or assets taken. The emotional toll can be greater than the financial burden, as many times trusted employees are involved.

Establishing a zero-tolerance culture is the foundation to fighting fraud. **Employees, vendors, partners and customers must understand that honesty and integrity are the standards for business behavior – and that you will not compromise.** Here are seven ways to help:

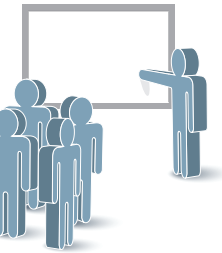


**LEAD BY EXAMPLE.** Poor tone at the top is cited as the primary factor in almost 20% of fraud cases with losses of \$1M or more.\* If you send the message – explicitly or implicitly – that fraud is acceptable, some individuals will rationalize that committing it is OK. A leader's attitude and choices often determine a company's culture, so one of the best anti-fraud strategies is to create a culture of integrity.

**PUT STRONG POLICIES IN PLACE.** Strong policies and procedures make your company a less attractive target. Implement code of conduct, conflict of interest, annual disclosure and gift policies. Carefully screen job applicants. Require job rotation and mandatory vacations. Never allow one person to initiate a transaction, approve, and carry it out without the approval of at least one other level of management. Most importantly, follow the policies you develop – fraud occurs when people don't follow policies.



**EDUCATE YOUR ENTIRE STAFF.** Organizations with anti-fraud training programs typically resolve cases faster and lose less. Start ethics and anti-fraud training at new employee orientation and reinforce annually. Clearly communicate what constitutes fraud, where to seek advice when faced with ethical decisions, and that fraud will not be tolerated. A Certified Fraud Examiner (CFE) can help you balance the need to train employees to detect and stop fraud while not teaching them to commit it.



**ESTABLISH A FRAUD TIP HOTLINE.** Tips are the most common way fraud schemes are detected. A well-designed hotline provides a confidential outlet to report misconduct, allows companies to act sooner, helps defend against legal issues, and makes it clear that fraud is unacceptable. There are a number of service providers with phone, email, and web-based solutions to help even the smallest companies protect against fraud.



**PROACTIVELY AUDIT OPERATIONS.** Proactive and surprise audits send powerful signals that fraud will not be tolerated. We emphasize prevention in our personal health, and you should do the same for your company's financial health. Don't wait for symptoms of a "financial illness" to appear before you review internal controls, because reactive companies typically experience larger losses.



**REGULARLY CONDUCT FRAUD RISK ASSESSMENTS.** Fraud risk assessments can reduce the average loss by 33%.\* Assessments systematically identify where and how fraud may occur and who may be in a position to commit it. More art than science, effective fraud risk assessments may require assistance from a Certified Fraud Examiner.



**REWARD INTEGRITY.** Ethical behavior should be rewarded. Positive recognition for ethical behavior will help reinforce a culture of integrity, encourage others to act in the same way, and build loyalty to the organization. Employees who feel greater levels of loyalty are less likely to commit fraud.



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\*Statistics cited are from research conducted by the Association of Certified Fraud Examiners, the world's largest anti-fraud organization, and reported in their 2012 Report to the Nations on Occupational Fraud and Abuse.