



Examining the Darkside of an Organization

Assessing and Reducing the Risk of Fraud: a multi-disciplinary approach



The Bright Side/Dark Side Dichotomy of an Organization

- ✦ The links between the dark side and the bright side of organizations are the social relations and networks in the environment. These very links that play a role in generating trust and discouraging wrong doing can also at the same time increase the opportunity for fraud.**



Definition

↓ Fraud-any illegal act characterized by deceit, concealment or violation of trust. Fraudulent acts are perpetrated by individuals and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

● Factors Affecting Fraud in an Organization

- Integrity level of corporate leaders and employees
- Commitment to the organization's value system
- Organizational culture and dynamics
- Peer pressure
- The perception of detection
- Consequences



Preventing Fraud: A “Best Practices Approach”

- ✚ **Management Commitment to Create a Culture of Integrity**
- ✚ **Fraud Risk Assessment**
- ✚ **Fraud Deterrence Plan**



Management Commitment

- **An organization's structure can create an environment that increases the likelihood that fraud will occur. Most incidences of fraud occur in an environment characterized by irresponsible and ineffective corporate governance.**



Management Commitment

- ✚ **Set the Tone at the Top**
- ✚ **Develop a Code of Ethics**
- ✚ **Create a Positive Workplace Environment**
- ✚ **Hiring and Promoting Appropriately**
- ✚ **Reward Systems for Ethical behavior**
- ✚ **Communicate Organizational Policies to Employees**



Assessing Fraud Risk

- **The fraud risk-assessment process should consider the vulnerability of the entity to fraudulent activity including fraudulent financial reporting, misappropriation of assets, and corruption and whether any of these exposures could result in a material misstatement of the financial statements or material loss to the organization.**



Unclaimed Property—High Risk for Fraud

- ✦ Unclaimed Property is forgotten money and therefore seen as safe to steal**
- ✦ Unclaimed Property can be stolen by employees or the company itself (purposely writing off abandoned property)**



Unclaimed Property Fraud

Misappropriation of assets-the theft of an entity's assets, accompanied by financial statement misrepresentation. Misappropriation of assets can be accomplished in various ways, including embezzling receipts, stealing assets, or causing an entity to pay for goods or services not received. Misappropriation of assets may involve one or more individuals among management, employees or third-parties.

Fraudulent Financial Reporting-intentional or reckless conduct, whether act or omission, that results in materially misleading financial statements.

Claims Fraud-may involve identity theft, false documentation or money laundering



Elements of Risk Assessment

• Three elements of Risk Assessment

- **Risk Identification: Determining what is at risk and from what sources**
- **Risk Measurement: Determining the consequences of the risk (and to a lesser extent, the likelihood of its occurrence).**
- **Risk Prioritization: Determining the appropriate resources to manage the risk**



Managing Fraud Risk Effectively

- **Managing fraud risk means ensuring sensitivity to detect fraud, ensuring flexibility to respond to fraud, and ensuring capability of resources to deter fraud.**



Fraud Deterrence Plan

Corporate Governance

Fraud Awareness Environment

Reporting Policy

Internal Controls

Oversight

Send a Message

*Corporate Governance

- ✦ **Builds upon the requirement for transparent and accountable processes consistent with sound business practices and organizational standards of compliance. (Sarbanes-Oxley)**
- ✦ **Corporate insiders have a fiduciary duty to act in the best interests of their stakeholders including financial transparency. Auditors should have access to financial information that bears on this issue.**



***Corporate Governance**

Appropriate corporate governance ensures a high standard of accountability at all levels of the organization.



***Fraud Awareness Environment**

- * Motives to commit fraudulent acts arise from job dissatisfaction, financial pressure or both. To reduce these motives:**
 - Provide an ethical work environment and lead by demonstration; ethical behavior in all business activities**
 - Treat employees well**
 - Listen to and address employees' complaints and problems, especially when they are expressing dissatisfaction with their jobs or discussing financial difficulties**

Fraud Awareness Environment Specific to Unclaimed Property

- **Be cognizant of the abandoned and unclaimed property laws of each state that your company conducts business**
- **Recognize how your organizations policies and procedures impact unclaimed property**
- **Be mindful of the high risk areas susceptible to unclaimed property fraud**
 - **Pay particular attention to areas where Unclaimed Property is commonly found**

Accounts Receivable	Equity & Debt
Wages	Gift Certificates & Gift Cards
Accounts Payable	
 - **Securitize areas where unclaimed property is not normally found**
 - **Be proactive in looking for Unclaimed Property**



*Reporting Policy

- ✦ **All employees have the responsibility to report suspected corrupt and/or fraudulent activity. Any staff member who suspects such activity must immediately notify her supervisor or those responsible for investigations such as Internal Audits. In situations where the supervisor is suspected of involvement in corrupt activity, the activity should be reported to the next level of supervision.**
- ✦ **“Hot-line”**

*Internal Controls

- **Develop financial transparency within your organization (Sarbanes)**
- **Well-developed control environment**
- **An effective and secure information system**
 - **Limited access to data**
 - **Adequate authorization and approval of transactions**
- **Effective monitoring activities**
- **Establish communication procedures to report any wrong doing**
- **Segregation of duties**
- **Rotation of employees**
- **Qualified employees (ie. CPA, CIA, Certified Fraud Examiners)**



Internal Controls (cont.)

- ✚ **Background checks of new employees**
- ✚ **Regular fraud audit**
- ✚ **Established fraud policies**
- ✚ **Willingness of companies to prosecute**
- ✚ **Anonymous fraud reporting mechanisms**
- ✚ **Workplace surveillance**



Internal Controls Relevant to Unclaimed Property

- ✦ Increase Record Retention Period and include all detail information**
- ✦ Perform due diligence periodically and especially during mergers and acquisition**
- ✦ Establish an Unclaimed Property Liability Account to hold property until due to the states**
- ✦ Evaluate and assess the adequacy of Internal Controls to prevent fraud especially controls over unclaimed property**



***Oversight**

Appropriate Oversight Procedures

- **Independent Auditors**
- **Internal Auditors**
- **Board of Directors**
- **Audit Committee**
 - **In exercising their oversight responsibility, the audit committee should consider the potential for management override of controls or other inappropriate influence over the financial reporting process**



***Send a Message**

Organizations have a responsibility to send a message by:

- ✦ Employing a “best practices” approach to fraud prevention**
- ✦ Prosecuting offenders**
- ✦ Committing resources to find workable solutions**



“Someone is Watching”

To mitigate the dark side:

Remember “Someone is Watching”