Most frauds are found through tips and most tips come through hotlines. Here are some suggestions if you're beginning a hotline for the first time.

This article is adapted from remarks of Tony Malone, ARM, CPCU, *chief executive officer of The Network Inc., which manages EthicsLine, endorsed by the ACFE.*

One of the many effects of the Sarbanes-Oxley Act of 2002 is that thousands of public companies are now considering offering their employees anonymous hotlines. This is an important step toward minimizing losses due to fraud. Studies found that companies with fraud hotlines cut their losses by approximately 50 percent per scheme.

While internal audits, external audits and background checks also significantly reduced losses, the greatest reduction in loss was associated with anonymous reporting mechanisms, such as a hotline.

Beyond the obvious financial benefit of stopping fraud in its early stages, a hotline, such as EthicsLine, endorsed by the ACFE, can give a company the opportunity to limit liability of offenses such as discrimination. Also, uncovering and dealing with issues long before they are exposed in the media can protect a company from the destruction of goodwill in the eyes of investors, customers, and other stakeholders.

If you're preparing to implement your first hotline, there are many actions that you can take to maximize its effectiveness.

Communicate to employees about behaviors that aren't acceptable, and how to report them. A comprehensive program includes periodic communication to employees and others about the behaviors that are acceptable and unacceptable. This communication should include everything from articles on the company intranet site to posters in break rooms to discussions at company meetings. This type of communication reinforces the recipient's perception that the company wants to uncover illegal and unethical activities and address them.

Encourage employees to use internal channels, but let them know they can remain anonymous by using the hotline. The anonymous report gives the company a chance to intervene in a potentially volatile situation, possibly preventing a costly lawsuit. An entity that's serious about preventing fraud will make every effort to give people an option for reporting that makes them comfortable. In response to Sarbanes-Oxley, some companies are adding a third-party hotline in addition to an internal hotline to make sure they have given employees every avenue for reporting malfeasance to the company rather than contacting an outside party like a lawyer or the media.

Have a trained interviewer handling the call. There is no substitute for human interaction when dealing with an anonymous caller, because there may never be another chance to gather information. An anonymous caller typically feels threatened, and is in an emotionally charged state, leading him or her to leave out important details. A professionally trained interviewer will ask questions that help the company gain enough information to be able to investigate the allegation.

Offer professional service 24 hours a day. Many employees call hotlines outside regular business hours. An employee who wishes to remain anonymous won't feel comfortable calling from work. Typically, he or she will make the call from home at night or over the weekend. A trained interviewer – rather than an answering machine – needs to handle every call at any time of the day or night.

Make the hotline available to all your corporate communities, not just employees. To be most effective, a hotline program must be comprehensive, involving employees, suppliers, investors, and customers. Different groups of people, like vendors, may be aware of different types of fraud. For example, employees of vendors might report fraud in the form of over-billing, while others may report other types of fraud. One way to reach the accounting employees of your suppliers is by printing the hotline number on the checks you cut.

Create a plan that ensures that reports are sent to the right people. A report dissemination routine should be set up with the hotline administrator so that issues like harassment are sent to human resources and/or legal departments, while issues like those mentioned in the Sarbanes-Oxley Act are sent an appropriate representative of the audit committee, as well as to the hotline administrator. Your hotline should include complaint topics that specifically address Sarbanes-Oxley such as insider trading, improper loans to executives, retaliation against whistle-blowers, conflict of interest, and accounting irregularities. This dissemination routine lets everyone know that you have done everything you can to comply with the spirit of Sarbanes-Oxley and you are dedicated to managing an ethical corporation.

We offer comprehensive employee fraud deterrence programs, customized to your organization particulars. Please contact Bob Garvey at 410 296-6200 for a non cost initial risk assessment.

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