

Preventing fraud: solutions and methods assignment



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When organizations leave one employee in close contact with the same vendors or customers for long periods of time, the risk to individuals deciding to refit personally increases dramatically, 6. Sometimes otherwise innocent vendors and customers are drawn into fraud by perpetrators because they fear that if they do not participate they will lose the business relationship. In most cases, such customers or vendors have only one or two contacts with the firm, and the person who requested illegal gratuities or suggested other types of illegal behavior often intimidates them.

A periodic letter to vendors that explains the organization's policy of no gifts or gratuities helps vendors understand whether company buyers and sellers are acting in accordance with the rules. Such letters clarify expectations, something that is very important in preventing fraud. Many frauds are uncovered when, after receiving such a letter, vendors express concern about their buying or selling relationships. 7. People who commit fraud and hoard their proceeds are virtually nonexistent. Perpetrators almost always use their stolen money to support expensive habits.

Organizations can monitor their employees by paying close attention to the enhanced lifestyles that result from these expenditures and by listening for verbalized rationalizations. 8. Proactive fraud auditing is conducted by following four steps: identifying risk exposures, identifying the fraud symptoms for each exposure, building audit programs that proactively look for symptoms and exposures, and investigating identified symptoms. 9. Even with advances in technology, fraud is most commonly detected through tips.

A good whistle-blowing program is an extremely effective prevention tool. When employees know that colleagues have an easy, anonymous way to report suspected fraud, they are more reluctant to commit fraud. 10. When placed in an environment of low integrity, poor controls, loose accountability, or high pressure, people tend to become increasingly dishonest. While a few people probably will not become dishonest at any point (about 30%), a large portion of the population will be influenced by negative stimuli and eventually cave to dishonesty.

In essence, this phrase means that a lot of people have a point where if the payoff is high enough, they will be dishonest. 11. Along with the standard interviewing, background and reference checks, some institutions are now conducting credit checks, checking employees fingerprints against law enforcement records, drug testing and pen-and-pencil onsets tests. 12, The Pygmalion effect states that when expectations are set below average, results will be substandard.

This relates to fraud in that if we expect people to be dishonest, they will often be dishonest, However, if we create a culture of honesty and expect employees to be honest, then employees will often be honest True/False I _ False. Under extreme pressure or with the right opportunity, most people would probably steal or embezzle. 2. False. A positive and honest culture helps to prevent fraud. 3. True 4. False. Although good internal controls help reduce the risk of fraud, they do not give complete assurance of the absence of fraud. 5. True 6. True 7. False.

Not prosecuting perpetrators can be very costly in the long run. 8. True 9. False. The increasingly complex nature of business tends to increase the number of collusive frauds. 10. True 11. Gales. Peps are intended to reduce fraud by helping employees With substance abuse, gambling, money management, health, family and personal problems. They are meant to help employees and Often serve to prevent fraud. 12. True. 13. False. Creating an expectation of punishment is probably the greatest deterrent to dishonestly, and would only result in lowering the morale of dishonest employees.

Companies must expect honesty, but also must create the expectation of punishment employees are dishonest. Multiple Choice 10. C al. D 12. B 13. B Short Cases Case 1 You would probably suggest that Karen implement the following policies and procedures: Hiring: A thorough interview should be conducted With each potential candidate. All candidates should supply three personal references, and each reference should be contacted before hiring. In addition, previous employers should be annotated and questioned about the candidate's performance and reason for leaving.

Open-door policy: The managers door should always be open. Employees should be encouraged to share new ideas, concerns, pressures, and problems with the management. Conversations between managers and employees should be confidential and should only be shared with others at the employee's request. Code of Ethics: Each employee should read and sign the companions Code of Ethics. The Code of Ethics identities what behavior is and is not acceptable.

Prosecution Policy: The company should have a policy that mandates that any employee who is found to have committed a dishonest act against the company should be released from employment and prosecuted to the fullest extent of the law, Suggestion's/Complaint Box: Employees should be encouraged to write suggestions, tips, and/or complaints and submit them anonymously. Karen should have the only key to this suggestion box and all suggestions/tips/ complaints should be seriously considered. Case 2 Senior management should develop a code of ethics or conduct and communicate it throughout the company.

Every employee should be required to read and sign the code each year. Case 3 First, the company has no monitoring of controls in place. Jason does not have a manager interviewing him, reviewing company policies, and following up on his activities, The company does not enforce a code of ethics, nor did it inform Jason that a code of ethics existed when he was hired. He only had to sign a document preventing the disclosure of software secrets. Employees do not know that fraudulent behavior is punished; they are left to guess why the employee left.

Case 4 First, Nellie should develop a system to monitor suppliers and buyers associated with the Company. A few easy queries can be installed in data ND accounting systems to make sure that fake companies are not set up for fraudulent purposes. Nellie needs to set up a system requiring that employees report suspicious activities to her. Nellie also needs to make sure employees understand the proactive stance the company takes in preventing, detecting, and prosecuting fraudulent activities. Nellie can help

prevent fraudulent activities by creating an atmosphere of trust and by reviewing the code of ethics the company has with each employee.

Case 5 . The client has some problematic internal processes, including extremely slow reedit memo processing, that can jeopardize the validity of such processes. The company's credit department had unusually high turnover and an intimidating COOP, resulting in a high-pressure environment. The current credit manager is a friend of the CB-O, so there could be a risk of collusion and the fact that they worked together at a previous company may be a red flag that a similar situation may have occurred in the past. 2.

The main problem is bad modeling or "tone at the top," including factors such as integrity, ethical values, and competence of management. If the COOP had integrity and realistic expectations, this fraud would probably have been avoided. Case 6 The couple is in charge Of handling the cash, recording the cash receipts, and making the deposits at the bank. One of the other part-time employees could make the daily deposits. The couple is in charge Of hiring the part-time personnel; they could easily hire friends or family and collude to steal money or even assets from the restaurants.

The owner should hire the part-time personnel himself and have them report daily records of rooms rented, meals served, and payments received. In general, the couple has too much control over the business, and duties need to be segregated With the part-time employees, segregation of duties could be easily and effectively achieved. Case 7 Gang Chevrolet should have created a better work environment. This could have been done using the

following steps: 1. Hiring honest people (doing background checks) and providing fraud awareness training& 2.

Having an open-door policy 3. Having a well-understood and respected code of ethics. 4. Providing an PEA that could have helped Danny With his problems. 5_ Creating an expectation that dishonesty will be punished. . Implementing a tighter set of internal controls. Case 8 Stronger internal controls would have prevented the fraud. However, internal controls are costly in a small firm. If Mary had taken a more active role in vendor management and required her signature on contract approvals, the fraud could have been prevented.

She could have also informed vendors that kickbacks and bribes are not acceptable. Even though this is a small firm, a more active role needed to be taken in monitoring employees. Mary could have established a formal code to ethics and had each employee sign it. There are a few basic things hat every small business owner should do, including: signing all checks (this would have allowed her to see payments going to devoted vendors), opening the bank statement, depositing all cash, and reviewing periodically all vendors and the amount of services they are providing.

Case 9 There was a serious lack of segregation of duties and independent checks as well as too much supervisory authority in one person in this bank The bank placed far too much trust and supervisory authority in Robert. Fifth bank would have had separate supervisors handle dormant accounts and customer complaints, r even if it would have required Robert to take mandatory vacations or rotated him from time to time (so that Other

employees would periodically deal With customer complaints), the fraud could not have continued for so long or become so substantial. Ease 10 The chapter states that a major factor in preventing fraud is to create a culture of honesty, openness, and assistance. In this case, there was no openness or assistance. No one communicated with this employee. Rather than assisting him, they treated him poorly and talked down to him, Fraud is usually high in his type of environment because employees see the company and its owners as adversaries rather than supporters. Case II Jorge is a high risk for fraud because he is facing significant financial pressures to repay his student loans and because of his credit card debt.

He is depressed, and has an alcohol problem, all of which will add to the desperation that often leads to employee fraud. An PEA could help Jorge deal with his financial, substance abuse and psychological problems and help him lead a financially healthy life. An PEA could help Jorge get medical assistance for his depression, and he could also et drug counseling for his alcohol problem. This assistance would reduce the likelihood that Jorge would succumb to the temptation to commit fraud. Case 12 First, the program does not allow employees to feel like they are giving anonymous tips.

If they are just calling someone in the office who is the fraud liaison, then that person may know the potential whistle-blower. Which would obviously discourage employees from making calls. Many of them would fear retaliation from blowing the whistle. Second, if the liaison is involved in the fraud, there would be no one to call. Third, putting a notice in the break room is not efficient. People must know about the program and he trained about how it works. This lack of training would also create failure in the program. <https://assignbuster.com/preventing-fraud-solutions-and-methods-assignment/>

Finally, top management must let employees know that the program is important to them and the company by frequently referring to the program.

Case 13 There are a number of techniques potential employers can use to screen to make sure they are hiring honest employees. Some mentioned in the book are background checks, reference checks, drug tests, criminal records checks, matching potential employees' fingerprints against fingerprint databases and credit checks. An extensive interview would also be helpful in trying to assess the integrity of the potential employee. Case 14

1.

Hire honest people and provide fraud awareness training: Even in a small business, you can establish hiring procedures that will result in a more honest workforce. You may not be able to perform extensive background checks, but you can at least check references and perform other simple and relatively inexpensive screening processes. Even if you don't have the resources to conduct lengthy fraud-awareness training seminars, discussions at the time of hiring or through the distribution of materials can provide new employees with information about how to handle fraud and the expected results of committing fraudulent behavior. 2.

Create a positive work environment: Employees should be aware that either you or another appointed employee is always willing to listen to them with respect to reports of fraudulent activities. No one should be afraid to come forward, You might even create a means of anonymous reporting, This does not necessarily need to include expensive hotlines. It can be something as simple as a locked comment box. As well, it is very important that you do not override controls. It may be true that you will never rob your own company, <https://assignbuster.com/preventing-fraud-solutions-and-methods-assignment/>

but if your example is one of ignoring controls, you open the door for your employees to do the same. . Have a well-understood and respected code of conduct or ethics: You should find a way to inform 311 employees about What is expected Of them With respect to fraudulent activities. This will remove part of their ability to rationalize their actions. 4. Provide an employee assistance program: Fraud usually results (at least in part) from pressures with which the employees are faced. You should attempt to monitor and mitigate these pressures by providing an alternative means for employees to receive assistance. 5.

Create an expectation that dishonesty will be punished: You should always prosecute employees who steal trot the company. The publicity this causes shouldn't harm the Corcoran as much as the potential long-term effects that may ensue from not punishing dishonesty; most people realize that fraud affects all companies. In fact, your responsible actions against fraud might instill confidence in others that your company is addressing the problem in a healthy manner, Other employees will be less likely to commit fraud if they know they will be punished severely if caught.

In the end, the savings will most certainly outweigh the costs. Case Studies Case Study I I _ This case is difficult to prevent because it involves " collusion. " That is, an insider was working with outsiders. While internal controls are quite helpful in preventing and detecting fraud committed by single individuals, they are much less effective in preventing collusive frauds. Nevertheless, because of the large size Of the transfers, there should have been some secondary approval required. In addition, telephone transfers are usually only authorized to go to certain accounts.

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The Lord Investments account should not have been an approved transfer account. Banks understand the huge risks involved with wire transfers and generally are very careful to use transfer keys and codes and require secondary approvals on large transfers. They also require the clients to sign transfer agreements in advance and specify into which accounts money can be transferred. Case Study 2 I. Companies use different approaches in preparing codes of conduct or ethics -? some have one code for the entire company. Others have one code for officers and directors, as required by the SEC, and a different one for employees.

The risks facing the two groups is different and separate codes can be tailored to those risks. On the other hand, having one code that everyone understands and agrees to is probably the best practice. Every year, the board of directors of companies have to review and update the codes for the executives and board and, if there is only one code, it is updated for everyone every year. 2. The Chief Executive Officer, Chief Financial Officer and other financial professionals have agreed to follow the Code. Obviously, this is not broad enough.

While Coos and Scoffs have been involved in many of the financial statement frauds, all key executives of a company, as well as directors, should agree to follow the Code. Furthermore, in many organizations, all employees are expected to agree to follow the Code. We authors recommend that all employees sign and agree to follow the Code. 3. Having a code of conduct sets expectations for the company. The combination of modeling and labeling are important in getting all executives and others to be honest, A

code of conduct is one way to 'label' what is appropriate and what is to appropriate.

Internet Assignment I _ The Committee of Sponsoring Organizations (COCO) does not provide a succinct definition of smaller organizations, Rather, it provides characteristics of smaller organizations, including: (1) they have fewer lines of businesses and fewer products within lines than other businesses, (2) they have a concentration of market focus, by channel or geography, (3) they have fewer levels of management With wider spans of control, (4) management usually has significant ownership interest or rights, (5) they have fewer personnel, with wider ranges of duties and (6) they usually have a limited ability to maintain deep resources.

As the article goes on to say, however, internal controls are extremely important in these types Of smaller businesses, usually because they have higher risks and exposures than larger businesses that can afford to have better segregation of duties, etc. 2. The other ways people are hurt by insurance fraud that are mentioned in the article are: a. People lose their savings.

Trusting citizens are bilked out of thousands of dollars, often their entire life savings, by insurance investment schemes, The elderly are especially vulnerable. B. Health is endangered. People's health and lives are endangered by swindlers who sell nonexistent health policies or perform quack medical care to illegally inflate health insurance claims. C. Premiums stay high. Auto and homeowner insurance prices stay high because insurance companies must pass the large costs of insurance fraud on to

policyholders. . Consumer goods cost more. Prices of goods at your department or grocery store keep rising when businesses pass higher costs of their health and commercial insurance on to customers. E. Honest businesses lose money. Businesses lose millions in income annually because fraud increases their costs or employee health coverage and business insurance. F. Innocent people are killed and maimed.

People die from insurance schemes such as staged auto accidents and arson -? including children and entire families. People and even animals also are murdered for life insurance money _ g. Employees lose jobs. People lose jobs, careers and health CNN. ' rage when insurance companies go bankrupt after being looted by fraud thieves. Debates a. Employee tips furnish companies with the most common means of detecting fraud. Frequently, companies detect more fraud through employee tips than wrought auditors.