



How Fraud Ready is your Organization?

IF YOU ARE AN EXECUTIVE or in a leadership position with an organization, you will eventually feel the effects of fraud. The ability to act (or react) quickly not only limits the organization's loss from the fraud, it will also limit the extent of interruption that fraud has on your business. Leaders often prepare their organizations for various types of business interruption with insurance, enhanced cyber security, and business continuity plans. However, as a certified fraud examiner, I am constantly reminded that many business leaders do not have an action plan to follow if fraud is suspected or uncovered.

One of the ways organizations can prepare to address suspected fraud is to create a fraud response plan. A fraud response plan (plan) is simple to create, will help the organization respond to fraud, and will demonstrate

to employees that the organization takes fraud seriously. Creating a plan formalizes a strong process for dealing with suspected fraud. A fraud response plan identifies the critical steps and the individuals that will address suspected fraud, as follows:

Reporting protocols: Suspected fraud is a sensitive matter that must to be reported in a manner that complies with relevant legal requirements. The fraud response plan should outline a process for employees to report suspected fraud and how those reports are communicated within the organization. All suspected fraud needs to be addressed by the appropriate members of management. One best practice is to set up a fraud hotline to allow anonymous reporting of suspected fraud.

A response team responsible for conducting an initial assessment: The fraud response team are the members of management that are responsible for initially assessing the fraud and determining an appropriate course of action. The fraud response team should include key members of management with the flexibility to include additional members as appropriate. The fraud response team commonly includes the following parties:

- Legal Counsel
- A Certified Fraud Examiner
- Controller
- Internal Auditor
- Executive Team Member
- Information Technology
- Human Resources
- Business Manager

Factors used to determine the course of action: The plan should provide the response team with the more significant factors to consider when outlining an initial course of action. While the specific factors will vary by organization, the following are common factors to consider:

- Credibility of the allegation
- Type of incident
- Subject of the allegation
- Business purpose of the activity at issue
- Severity of the allegation

- Potential negative impact
- Likelihood that the incident will end up in court
- How similar prior incidents were handled

Litigation hold procedures: All organizations should have litigation hold procedures in place to ensure relevant documents are not destroyed if the organization is involved in a legal matter. In the case of a suspected fraud, a litigation hold will preserve documents that may allow the organization to quantify or document fraud that has occurred.

Principles for documenting the course of action – After considering all available information, the fraud response team will document a course of action. The team should document its decision-making process to support its course of action for responding to suspected fraud. One way to help the team is to create a fraud incident report log. A report log should include all the relevant details of each suspected fraud and how it was addressed.

The outlined steps hopefully give you a starting point to create a fraud response plan for your organization or starts the conversation about the tools

and processes your organization has in place if ever faced with fraud. ■



Michael E. Mast, CPA, CFE, is a manager of accounting and auditing at Belfint Lyons and Shuman, PA.

You May Call Your Best Witness



William A. Santora, CPA



Robert S. Smith, CPA



Stephen M. Conyers, CPA



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