

### Fraud-Prevention Checklist

Do you need to size up how vulnerable your company might be to fraud? Ask the following questions. CPAs in public practice can use this list to help clients test the strength of their fraud-prevention and -detection measures.

- ✓ Is ongoing antifraud training provided to all employees of the organization?
  - Do employees understand what constitutes fraud?
  - Have the costs of fraud to the company and everyone in it—including lost profits, adverse publicity, job loss, and decreased morale and productivity—been made clear to employees?
  - Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
  - Has a policy of zero tolerance for fraud been communicated to employees through words and actions?
  
- ✓ Is an effective fraud-reporting mechanism in place?
  - Have employees been taught how to communicate concerns about known or potential wrongdoing?
  - Is there an anonymous reporting channel available to employees, such as a third-party hotline?
  - Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
  - Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?
  
- ✓ To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?
  - Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
  - Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
  - Are surprise fraud audits performed in addition to regularly scheduled fraud audits?
  - Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?
  
- ✓ Is the management climate/tone at the top one of honesty and integrity?
  - Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
  - Are performance goals realistic?
  - Have fraud-prevention goals been incorporated into the performance measures against which managers are evaluated and that are used to determine performance-related compensation?
  - Has the organization established, implemented, and tested a process for oversight of fraud risks by the board of directors or others charged with governance (for example, the audit committee)?
  
- ✓ Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?
  
- ✓ Are strong antifraud controls in place and operating effectively, including the following?
  - Proper separation of duties
  - Use of authorizations
  - Physical safeguards
  - Job rotation
  - Mandatory vacations
  
- ✓ Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?
  
- ✓ Does the hiring policy include the following?
  - Past employment verification
  - Criminal and civil background checks
  - Credit check
  - Drug screening
  - Education verification
  - References check

- ✓ Are employee support programs in place to assist employees struggling with addiction, mental/emotional health, family or financial problems?
  - ✓ Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?
  
  - ✓ Are anonymous surveys conducted to assess employee morale?
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### Audit Committee Considerations for Whistleblower Hotlines

Audit committees should consider the following questions when assessing the design effectiveness of a hotline:

- Does the hotline have a dedicated hotline number, fax number, website, e-mail address, and regular mail or post office box address to expedite reports of suspected incidents of misconduct?
- Does the hotline demonstrate confidentiality, including showing how caller ID, e-mail tracking, and other technologies cannot be used to identify the whistleblower? Has the entity considered use of an independent hotline operator to enhance the perception of confidentiality in addition to any real improvement?
- Does the hotline use trained interviewers to handle calls to the hotline rather than a voice mail system?
- Is the hotline available 24 hours a day, 365 days a year?
- Does the hotline have multilingual capability to support hotline callers with different ethnic backgrounds or who are calling from different countries?
- Are callers provided with a unique identification number to enable them to call back later anonymously to receive feedback or follow-up questions from investigators?
- Does the entity have a case management system to log all calls and their follow-up and to facilitate management of the resolution process, testing by internal auditors and oversight by the audit committee?
- Has the entity established protocols for the timely distribution of each type of complaint, regardless of the mechanism used to report the complaint, to appropriate individuals within the company and to the audit committee and board of directors where appropriate? Are complaints of any kind involving senior management automatically and directly submitted to the audit committee without filtering by management or other entity personnel?
- Does the entity effectively distribute comprehensive educational materials and training programs to raise awareness of the hotline among potential users? Are these materials available in all relevant languages given the potential user base, and do they take into consideration cultural differences that may require alternative approaches to achieve the desired goal?
- Does the entity support outreach to potential stakeholders other than employees?
- Do the entity's internal auditors periodically evaluate the design and operating effectiveness of the hotline? What were the internal auditors' conclusions regarding (a) how the hotline reflects changes in the company's operations and in best practices, (b) whether the hotline is receiving satisfactory support from management, employees and other participants, and (c) whether protocols established for forwarding information to the audit committee have been followed?

—Prepared by the AICPA Antifraud Programs and Controls Task Force.