Fraud Hotlines:
Design, Performance & Assessment

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The Institute of Internal Auditors
Philadelphia Chapter
Exelon Hall
Philadelphia, PA

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About Me

- Worked on a hotline as a confidential investigator for NYC DOI.
- Studied hotlines since 2007.
- My PhD dissertation was on the topic of fraud hotlines.
- Wrote a book about hotlines, which was published by CRC Press in 2014.
Key Themes

• **Design**: Fraud hotlines are ubiquitous and effective yet often underutilized, due in part to design flaws.

• **Performance**: Fraud hotline performance is important, yet often overlooked.

• **Assessment**: Evaluating other people’s hotlines can help you create a better hotline.
Definition

Fraud Hotlines:
Anonymous reporting mechanisms for employees, and third parties, to report organizational crime, fraud, waste and abuse.
Delaware County never had a fraud hotline. Its new controller changed that

by Vinny Vella, Posted: June 7, 2018
How did Philly lose track of $33 million?

by Claudia Vargas, Posted: April 26, 2018
City officials resolve case of ‘missing’ $33 million

by Claudia Vargas, Updated: January 26, 2019
2,690 real cases of occupational fraud from 125 countries in 23 industry categories.

63% of victim organizations had hotlines.

Fraud losses were 50% smaller at organizations with hotlines than those without.

Organizations without hotlines were more than twice as likely to detect fraud by accident or by external audit.

46% of cases detected by tip.

30% of organizations detected fraud by tip more often.

NOT ALL TIPS COME THROUGH HOTLINES
When a reporting mechanism is not used, whistleblowers are most likely to report to:
- DIRECT SUPERVISOR 32%
- EXECUTIVE 15%
- FRAUD INVESTIGATION TEAM 13%
- CO-worker 12%
- INTERNAL AUDIT 10%

Source: ACFE 2018 Report to the Nations, Pg. 4
Characteristics of Fraud

- Technology was a significant enabler for 24 percent of the fraudsters and for the first time our survey includes 31 cyber fraudsters investigated by KPMG.

- The most-prevalent fraud surveyed is the misappropriation of assets (47 percent), which is mainly embezzlement and procurement fraud. The second most-prevalent is fraudulent financial reporting (22 percent).

- 24 percent of the frauds in Africa and the Middle East are in the energy and natural resources sector, while 26 percent in Oceania are in the public sector.

- 66 percent of frauds were perpetrated over one to five years (72 percent in 2013) and 27 percent cost the company US$1 million or more, little changed from 2013.

- 44 percent of fraudsters were detected as a result of a tip, complaint, or formal whistle blowing hotline; a further 22 percent were detected as a result of a management review.
ACFE Report to the Nations, 2018

FIG. 9 How is occupational fraud initially detected?

- Tip: 40%
- Internal audit: 15%
- Management review: 13%
- By accident: 7%
- Other: 6%
- Account reconciliation: 5%
- Document examination: 4%
- External audit: 4%
- Surveillance/monitoring: 3%
- Notified by law enforcement: 2%
- IT controls: 1%

Source: ACFE 2018 Report to the Nations, Pg. 17
Corruption or compliance – weighing the costs
10th global fraud survey

Understanding that in certain countries this may not be legally possible, a code of conduct that lacks an anonymous reporting mechanism, or has one that is not widely and constantly publicized, is missing a key element. Our survey indicates that less than half of respondents are aware of the presence of a hotline where they can report any suspicious activity.

Source: E&Y Global Fraud Survey, 2008, p. 10
Overcoming compliance fatigue
Reinforcing the commitment to ethical growth

13th Global Fraud Survey

Additionally, the survey results suggest that compliance efforts may not always be targeting the right risks in the most effective way.

▶ Less than a third of businesses are always or very frequently conducting anti-corruption due diligence as part of their mergers and acquisitions process.

▶ 45% of organizations are not mitigating risks by introducing a whistleblower hotline.

▶ ABAC training is less likely to occur in jurisdictions where there is a higher perceived risk of bribery.

▶ Sales and marketing executives are the least likely of all our respondents to be included in risk assessments – despite being exposed to and aware of significant risks.

45% of businesses do not have a whistleblower reporting hotline.

Source: 2014 E&Y Global Fraud Survey, p 3
Driving ethical growth – new markets, new challenges

11th Global Fraud Survey

Another aspect of failing to implement a robust anti-fraud program might be called a tick-box mentality. Here, the elements are put in place but not properly embedded within the overall culture of the organization. One example is the whistle-blower hotline. More than half of the companies with a whistle-blower hotline in place told us they have seen usage rise over the last two years, yet it is not always clear who has responsibility for evaluating and responding to these reports.
Driving ethical growth – new markets, new challenges

11th Global Fraud Survey

Figure 9
Board requests for fraud information could be more focused

<table>
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<th>Category</th>
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<th>LA</th>
<th>WE</th>
<th>CEE</th>
<th>MEA</th>
<th>FE</th>
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<td>60</td>
<td>45</td>
<td>24</td>
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<td>A fraud risk assessment</td>
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<td>23</td>
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<td>18</td>
<td>38</td>
<td>23</td>
</tr>
<tr>
<td>Details of any internal investigations into fraud, bribery or corrupt practices</td>
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<td>43</td>
<td>23</td>
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<td>17</td>
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<td>6</td>
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<tr>
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<td>26</td>
<td>43</td>
<td>21</td>
<td>20</td>
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Q: Which, if any, of the following has the board asked you for in the last 12 months?
Base: All CFO respondents (492)
Percentage of all respondents are split by region. Regional percentages significantly different from global results are highlighted.

Source: E&Y 2011, p. 13
Corporate misconduct – individual consequences

Global enforcement focuses the spotlight on executive integrity

14th Global Fraud Survey

Companies should:

- Use forensic data analytics to identify irregularities
- Assess the effectiveness of whistleblowing hotlines and awareness amongst employees

Source: 2016 E&Y Global Fraud Survey
Increase in Whistleblower Tips
Throughout the history of the whistleblower program, the Commission’s receipt of whistleblower tips has reflected an upward trajectory, and the number of tips received this past fiscal year proves to be no exception to this trend. Since August 2011, the Commission has received over 28,000 whistleblower tips, and in FY 2018 alone, received more than 5,200 tips. The table below shows the number of whistleblower tips received by the Commission on a yearly basis since the inception of the whistleblower program.40

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<td>3,238</td>
<td>3,620</td>
<td>3,923</td>
<td>4,218</td>
<td>4,484</td>
<td>5,282</td>
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As reflected in this table, from FY 2012, the first year for which we have full-year data,41 to FY 2018, the number of whistleblower tips received by the Commission has grown by approximately seventy-six percent.42
Intake of Whistleblower Tips

The Commission’s Tips, Complaints, and Referrals Intake and Resolution System (TCR System) serves as a central repository for all tips and complaints received by the Commission, as well as referrals from self-regulatory organizations and other government agencies. In January 2018, the Commission released an updated, more user-friendly version of the TCR System. OWB encourages all individuals to submit their whistleblower tips and any additional information electronically through the Commission’s online portal. There are several benefits of using the online portal, including the fact that individuals receive an immediate acknowledgement of their submission along with a confirmation number. The tip is also automatically populated in a queue for staff who triage tips and complaints. For greater efficiency and quicker review, OWB recommends electronic submission over hard-copy submission.

For more information on the number and types of tips received, please refer to pages 20–23 of this report.
TCR Evaluation
OMI reviews every TCR submitted by a whistleblower to the Commission that references a possible securities law violation. OMI examines each tip to identify those with high-quality information that warrant the additional allocation of Commission resources. Generally, when the evaluation of a tip could benefit from the specific expertise of another Division or Office within the SEC, the tip is forwarded to staff in that Division or Office for further analysis. When OMI determines that a tip should be considered for investigation, OMI assigns the tip to one of the Commission’s eleven regional offices, a specialty unit, or to an Enforcement group in the Home Office. Tips that relate to an existing investigation are forwarded to the staff working on the matter.
HOW THE PROCESS WORKS

1. Whistleblowers Submit Tips to the SEC
2. Tip Analysis/Investigation
3. Cases Filed/Penalties Ordered
4. Notices of Covered Actions Posted
5. Whistleblowers File Claims
6. Review/Analysis of Claims
7. Preliminary Determinations Issued
8. Possible Record and Reconsideration Requests
9. Additional Analysis
10. Final Orders Issued/Resolution of Appeals

Rumours of individuals called to account after appearing at #PICInquiry

ECONOMY / 13 MARCH 2019, 11:23AM / SIZWE DLAMINI

PRETORIA – Development manager at the Public Investment Corporation (PIC) Alvin Schiel, said on Wednesday that there were rumours of individuals being called to account after having appeared before the PIC Commission of Inquiry to give evidence.

Schiel made this startling revelation during his appearance before the commission where he said whether real or not the rumour in itself was intimidating for most.

Schiel also said: “Though much fanfare was made about the whistleblowers' hotline including emails and randomly placed signs, I don’t believe anyone trusted it.”
Delaware County never had a fraud hotline. Its new controller changed that

by Vinny Vella, Posted: June 7, 2018
County controller’s office sets up new fraud hotline

by Kathleen E. Carey  May 24, 2018  Comments

“There’s a deterrent factor and there’s also an ability to identify problems,” she said. “It is the number one way, proven method to detect fraud and abuse.”

Source: The Inquirer, Philadelphia June 7, 2018
County controller’s office sets up new fraud hotline

by Kathleen E. Carey  May 24, 2018  Comments

“Our tip line will be effective and helpful because we’re making it confidential and easy for people to use,” she said.

Both the phone line and the email go directly to Phillips. A name and phone number are not needed. The email address is not traceable on when filing the web form.
The establishment of an “ethics hotline” employees can use to anonymously report wrongdoings within City Hall received unanimous approval Thursday from Palm Desert City Council.

The hotline would be run by an outside agency, which has yet to be determined, at a cost of about $1,500 per year, Palm Desert Resources Manager Lori Carney said.
Complaints: City manager took a naked picture of a colleague, said 'everyone should see it' at City Hall

Former Palm Desert City Manager John Wohlmuth was asked to resign after he circulated a nude photo of another employee. Officials paid him nearly $300,000 out of fear he would sue the city.

Former Palm Desert City Manager John Wohlmuth took a photo of a naked male colleague in March and then gleefully showed the picture to several other employees at City Hall — insisting that "everyone should see it" — according to two written complaints released by the city Friday.

One employee, whose name has been redacted from their complaint, said that Wohlmuth and the colleague had worked a half-day on the previous day so he could watch March Madness basketball games at Wohlmuth's house. Wohlmuth said the colleague went skinny-dipping because he wanted to go swimming but didn't have a swimsuit. As the man entered the pool, Wohlmuth took a picture of him from behind. The next day at work, Wohlmuth showed off the photo, according to the complaints.
Complaints: City manager took a naked picture of a colleague, said 'everyone should see it' at City Hall

Brett Kelman, The Desert Sun  Published 11:33 a.m. PT Aug. 12, 2016 | Updated 4:15 p.m. PT Aug. 12, 2016

The hotline may be a direct reaction to one of the complaints about Wohlmut, in which an employee says they had witnessed the city manager misbehave before — including bullying and sexual remarks — but was afraid to report him out of "fear of retaliation."

"However, the most recent incident is so out of line that I feel it's my duty to come forward and lodge a formal complaint," the fearful employee wrote. "Since this episode on Friday morning has occurred, I've been feeling very stressed and haven't been able to sleep at night. This feeling of anxiety is terrible."
Former Upper Darby Township Employee Accused Of Embezzling Over $200,000

May 22, 2018 at 11:57 pm  Published Under: Jessica Smith McCusker, Local TV, Talkers

Credit: CBS3
Former Upper Darby Township Employee Accused Of Embezzling Over $200,000

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The Fraud

Authorities say she would take cash payments, issue a receipt, log that the account had been paid, but post the payment to a date that had already been reconciled. She later admitted she used the money to pay for her drug habit.

The Discovery

The first sign something was wrong arose in May 2017 when money was reported missing from the township tax collector’s office. The township police department referred the theft case to the Delaware County District Attorney’s Office.

The Fix

For its part, the Township has spent hundreds of thousands on new software and no longer accepts cash payments at the tax office.
Prince George’s Hotline designed to protect tax dollars, wastes tax dollars
Former Prince George's exec Johnson to be released from custody

By Dennis Foley | @djfoleyWTOP
June 3, 2017 8:34 am

Prince George's County Executive Jack B. Johnson and his attorneys, Brian McDaniels, left, and Billy Martin, briefly speak to the press outside the Federal Courthouse in Greenbelt, Md., on Nov. 12, 2010. (Marvin Joseph/THE WASHINGTON POST)
Johnson served as county executive from 2002 until December 2010. He pleaded guilty in 2011 to evidence tampering and destruction of evidence in a broad corruption scheme he was charged with masterminding. Prosecutors said he received more than $1 million in bribes. His wife, Leslie Johnson, and several developers, county officials and business executives also were implicated.

Johnson and his wife — who was briefly a member of the Prince George’s County Council — were overheard on a wiretap plotting to stash $79,600 in cash in her underwear and flush a $100,000 check that he got as a bribe down the toilet. He also was videotaped taking cash bribes.
Central Bank whistleblower hotline went unanswered

Karl Deeter: Situation over phone line not good enough

Source: Charlie Weston, The Irish Independent, January 26, 2017
Low Call Volume

- Employees are unaware a hotline exists.
- Employees are aware, but do not appreciate the value of their report.
- Employees fear retaliation.
**Disclaimer:** Individuals can choose to submit their tips via phone, mail or the online form. All methods of submission provide the individual with anonymity, should they choose. An investigation will be opened within 7 to 10 business days of receiving the tip. It is not necessary to call and check the status of your tip. While our office intends to make every reasonable effort to maintain confidentiality, there may be circumstances where we are required by law to provide information to other government departments that are relevant to a particular issue. If you have provided contact information, we may follow up with you on your report if appropriate but a response may not be given. The Fraud, Waste & Abuse Hotline only applies to Delaware County governmental assets, monies and resources. Any other fraudulent activity not related to Delaware County activities should be reported to the appropriate law enforcement authorities.
SEC Announces Award to Whistleblower in First Retaliation Case

FOR IMMEDIATE RELEASE
2015-75

Washington D.C., April 28, 2015 — The Securities and Exchange Commission today announced a maximum whistleblower award payment of 30 percent of amounts collected in connection with In the Matter of Paradigm Capital Management, Inc. and Candace King Weir, File No. 3-15930 (June 16, 2014), the SEC’s first retaliation case. The whistleblower will receive over $600,000 for providing key original information that led to the successful SEC enforcement action. The whistleblower in this matter suffered unique hardships, including retaliation, as a result of reporting to the Commission.

The SEC charged Paradigm with retaliating against the whistleblower after the firm learned that the whistleblower reported potential misconduct to the Commission. Paradigm immediately engaged in a series of retaliatory actions against the whistleblower including removing the whistleblower from the whistleblower’s then-current position, tasking the whistleblower with investigating the very conduct the whistleblower reported to the SEC, changing the whistleblower’s job function, stripping the whistleblower of supervisory responsibilities, and otherwise marginalizing the whistleblower.
Cover Article

Top 10 factors leading to hotline distrust

Understanding why no one calls

July/August 2016

By Ryan C. Hubbs, CFE, CIA, CCEP, PHR, CCSA; and Julia B. Kniesche, CFE, CPA, ACAMS

Source: Fraud Magazine, Association of Certified Fraud Examiners
Key Themes

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Questions?

Contact me:

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