Answering the Call

Increased Ethics, Governance & Compliance through the implementation of a Whistleblower Hotline.

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Agenda

Why?
Definitions, Regulations, Fraud, Culture, Good Sense

How?
Policies and Procedures, Executive Support, In-House? Education

Future!
Maintenance, Learn from Experience, Continued Assessment, Ongoing & Complete Investigations
Definition
What is Whistle-blowing?

A whistleblower (whistle-blower or whistle blower) is a person who tells the public or someone in authority about alleged dishonest or illegal activities (misconduct) occurring in a government department or private company or organization.\[1\]

INTERNAL
- When an individual advocates beliefs or reveals information within the organization.

EXTERNAL
- When an individual advocates beliefs or reveals information outside the organization.

Why?

Regulation
- The Whistleblower Protection Law ~ 1989
- The Whistleblower Act ~ 1994
- Sarbanes Oxley § 301 ~ 2002
- Model Audit Rule (Insurers) ~ 2010
- Dodd Frank Act - 2010

Benefits
- Proactive Approach
- Cost Savings
- Saving Face (Reputation)
- Ensuring Transparency

Culture
- Tone at the Top
- Confidentiality and Anonymity

Proactive Approach
Source: Report to the Nations, ACFE

- Frauds reported last a median of 18 months before being detected.
- Occupational fraud is more likely to be detected by tip and by any other method.
- The longer a perpetrator has worked for an organization, the higher fraud losses tend to be.
Cost Savings
Source: Report to the Nations, ACFE

- Typical organization loses 5% of its revenues to fraud each year
- The median loss caused by occupational fraud is $140,000
- Financial statement fraud cause the greatest median loss at ~$1,000,000

Important! Announcement

- For a Whistle blowing/fraud hotline to be effective, employees/colleagues must be EDUCATED
  - Regarding its existence.
Saving Face / Reputation
Source: Internet

- W. Mark Felt – Watergate (what was he also known by)
- Karen Silkwood – Kerr McGee
- Linda Tripp – Monica Lewinsky Scandal
- Cynthia Cooper – Worldcom
- Sherron Watkins - Enron

Ensuring Transparency

- You can't fix what you haven't identified as being broken.
- Cultural Impacts on employees
  - Improved Trust
- Improved market trust
  - Tylenol, Merck vs. Enron, Tyco
- Improved Shareholder relations
- Thieves generally don't steal in open view i.e. if they feel they may be reported or get caught, they will not act.
Tone at the Top

- Corporate commitment to Ethics, Transparency, and good governance.

- Sets the Message, Attitude and Culture for an organization. (Trickle down effect)

Defines expectations

Studies show that good governance leads to increased performance.

Colleagues/Employees feel safe and positive and are encouraged to do “the right thing”

Confidentiality and Anonymity

YOU DID THE RIGHT THING, WHISTLEBLOWER. SO NATURALLY, WE HAVE TO FIRE YOU. GOOD-BYE!
For a Whistle blowing/fraud hotline to be effective, employees/colleagues must be **EDUCATED**

- Regarding protection from retribution.

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49% of employees state they have witnessed an unethical act in the workplace.[1]

Organizations with some form of hotline in place saw a much higher likelihood that fraud would be detected by a tip (51%) than organizations without such a hotline (35%).[2]

Fraud is more often detected via “tip” than any other method. ~40% as opposed to nearest other methods at 15%.[2]

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**Hotline How-To**

- For a Whistle blowing/fraud hotline to be effective, employees/colleagues must be **EDUCATED** on appropriate use of the hotline.

**Important! Announcement**

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Hotline How-to
Just the Basics
• Buy in and executive support.
• A phone number
• Someone to take the calls
• Investigation Process
• A method for reporting
• Methods for education

Executive Support
• Buy in
• Tone at the top
• Corporate policies and procedures
• Management Support
A phone number

- Easy to remember
- Catchy
- Think Marketing
- Get Creative.
- Can you remember yours?

Someone to take the calls

Internal vs. External

- Would you like to take the calls?
  - Live or Memorex.
  - Does not build trust regarding anonymity.
  - Not independent.
  - Appropriate distribution may not occur.

- Let’s have someone else do it – how bout a Vendor?
  - Independent
    - **Builds Trust regarding anonymity**
  - Standardized operations, distribution.
  - Experienced, Experts in methodology, languages
Important Announcement

For a Whistle blowing/fraud hotline to be effective, employees/colleagues must be **EDUCATED**

- Continuously regarding the availability of the resource.

Results

- Internally Operated
  - 2008 - 5 (3 non-issues i.e. hang ups)
  - 2009 - 20 (4 non-issues)
  - 2010 - 38 (3 non-issues)

- External Vendor (All legitimate calls)
  - 2011 - 10
  - 2012 - 10
Investigative Process

- Preliminary fact finding
- Proper preparation and notification
- Independence
- Conducting interviews
- Performing follow up
- Documenting results
- Making decisions
  - Outcomes
  - Reporting
- Take Required Action
- Final Report

Potential Actions/Remedies

- Should be guided by Policies and Procedures, Requirements of law, etc.
  - Written Reprimand
  - Censure
  - Respondent Action
  - No Action
  - Transfer
  - Suspension
  - Termination
  - Referral to law enforcement
Methods of Reporting

- Regulatory Requirements
  - SEC, Insurance Departments, Governing Bodies, etc.
- Internal Only?
- External Reporting and Public relations?
- Periodic Summaries to Board of Directors.

Looking Forward

Where do we go from here?
- Maintenance Diligence
- Learn from Experience
- Continued Assessment/Improvement
- Continuous Advocacy
- Continuous EDUCATION