

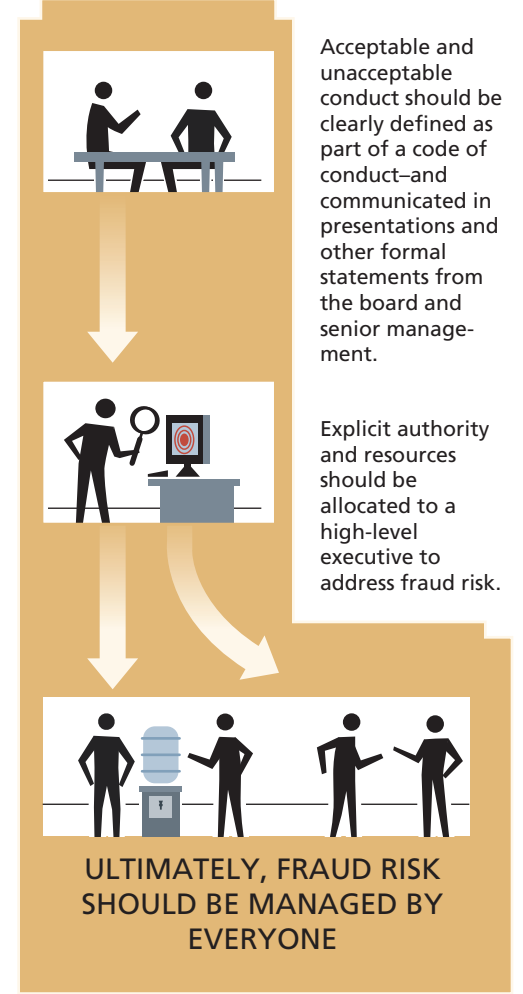
How Do We Manage the Business Risk of Fraud?

It is critical to recognize that fraud risk is not exclusively about the "good guys" catching "bad guys." Given the right (wrong) circumstances, even the best people can do some of the worst things. In light of that, an organization should approach fraud risk in a comprehensive manner so that the business does not put any individual in a position where they will be tempted to do something that they would not normally do – as well as rigorously prevent, detect and respond to the "bad guys" where they exist.

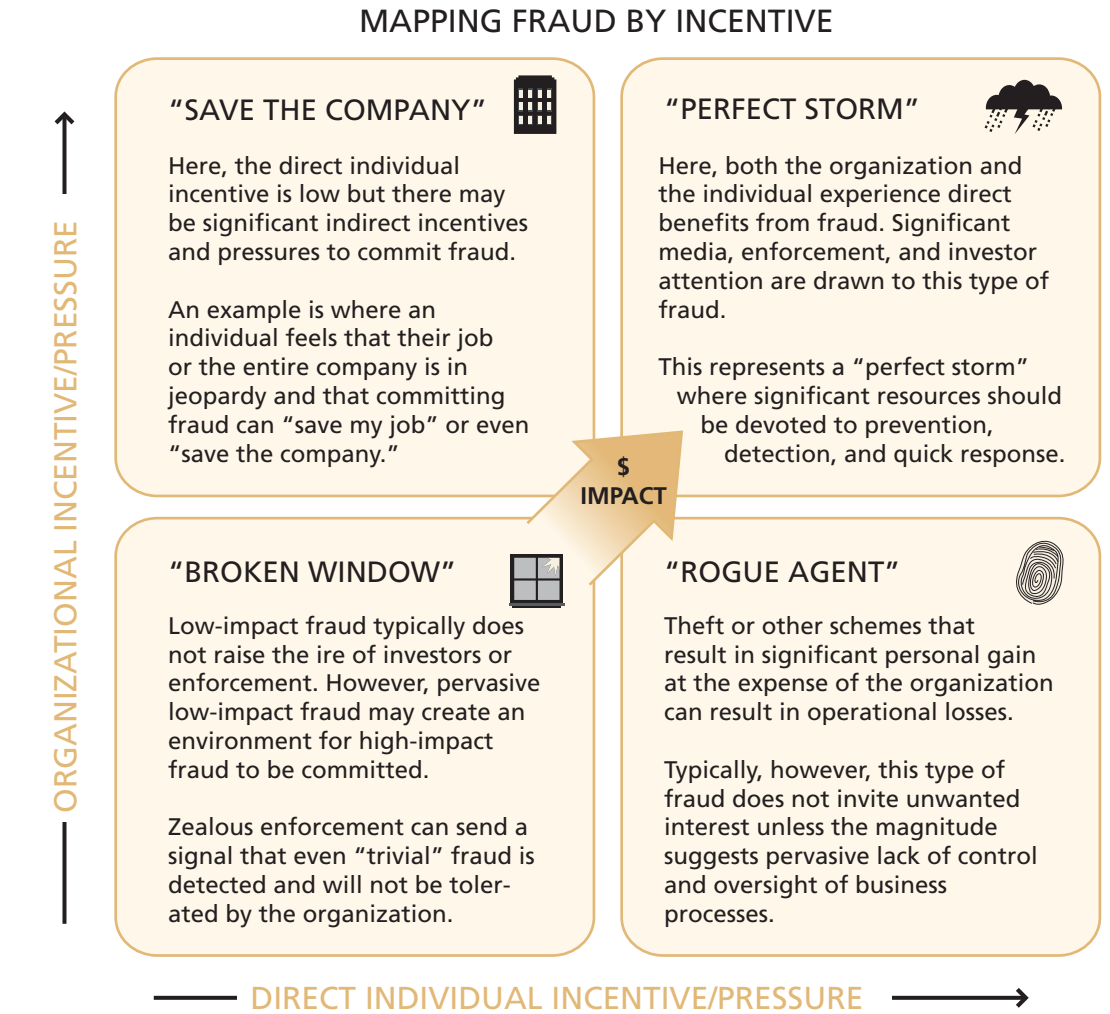
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1 SET THE TONE & CULTURE
The board and senior management must agree on and set the tone for managing fraud risk. The Audit Committee and its financial expert, should provide specific oversight.



2 IDENTIFY & ASSESS—Focus on significant assets, core processes, and business units. Where does fraud risk exist in your organization? What are the ramifications when it does occur? What should be the real priorities? Where should capital be allocated?



TYPES OF FRAUD

\$42,300.00
\$23,000.00
\$11,000.00

FINANCIAL MISSTATEMENT

- Under-/over-reported revenues or expenses
- Concealing transactions

MISAPPROPRIATION OF ASSETS

- Misappropriating money, property and other tangible assets
- Misusing intellectual property and other intangible assets

CORRUPTION & BRIBERY

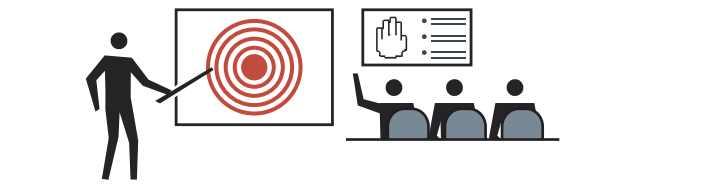
- Bribery and other inappropriate payments or receipts
- Aiding and abetting fraud and other collusive activities
- Taking personal advantage of proprietary business opportunities

BUSINESS PRACTICE FRAUD

- Defrauding customers and government
- Marketing unsafe products
- Making bogus claims

3 PREVENT & PROMOTE
To the extent possible, design controls and incentives to prevent fraud from occurring in the first place and to promote desirable conduct.

- Scrutinize processes and compensation plans for "attractive nuisances" and other incentives to actually commit fraud
- Evolve an environment where individuals are trained to recognize and report potential misconduct
- Check background of individuals in jobs with substantial authority or access to systems and controls



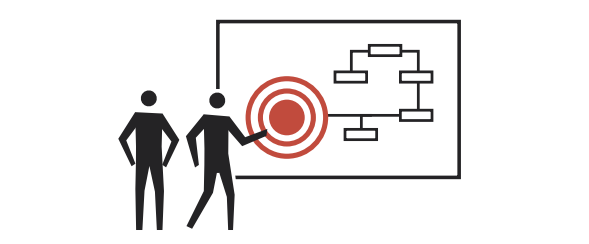
4 DETECT & DISCERN
Use a mix of detective controls, system monitoring, and human intelligence to uncover fraud.

- Provide a hotline/tipline for reporting fraud
- Monitor processes and filter messages for patterns of corrupt or fraudulent behavior
- Conduct workforce surveys and exit interviews that probe for the early signs of fraud



5 RESPOND & RESOLVE
Once fraud is detected, respond to the incident as quickly as possible to avoid ongoing damage.

- Is the problem unique or is it systemic?
- What was the opportunity, motivation, and rationalization for committing the fraud?
- How can we prevent, detect, and respond to this type of fraud in the future?



6 MONITOR & IMPROVE
Monitor the fraud risk management program to ensure that it continues to be effective over time.

- Test controls and incentives using scenario analysis and "white hat" scheming
- Analyze actual performance metrics (substantiated allegations of fraud, how the organization responded) to identify opportunities to improve.

