

GAO Topic of the Month – December 2024

Occupational Fraud – Reporting Mechanisms



Background

Continuing on our topic of occupational fraud, this month's topic will focus on the importance of established reporting mechanisms and the important role they play in the prevention and detection of fraud. September's topic, *Occupational Fraud - Initial Detection*, identified that tips were by far the highest fraud detection rate at 43%. It also identified that employees were responsible for reporting 52% of these tips and that employees who had received formal fraud awareness training were responsible for reporting 67% of the reported frauds. This month's topic will expand on these concepts and identify how these tips were reported.

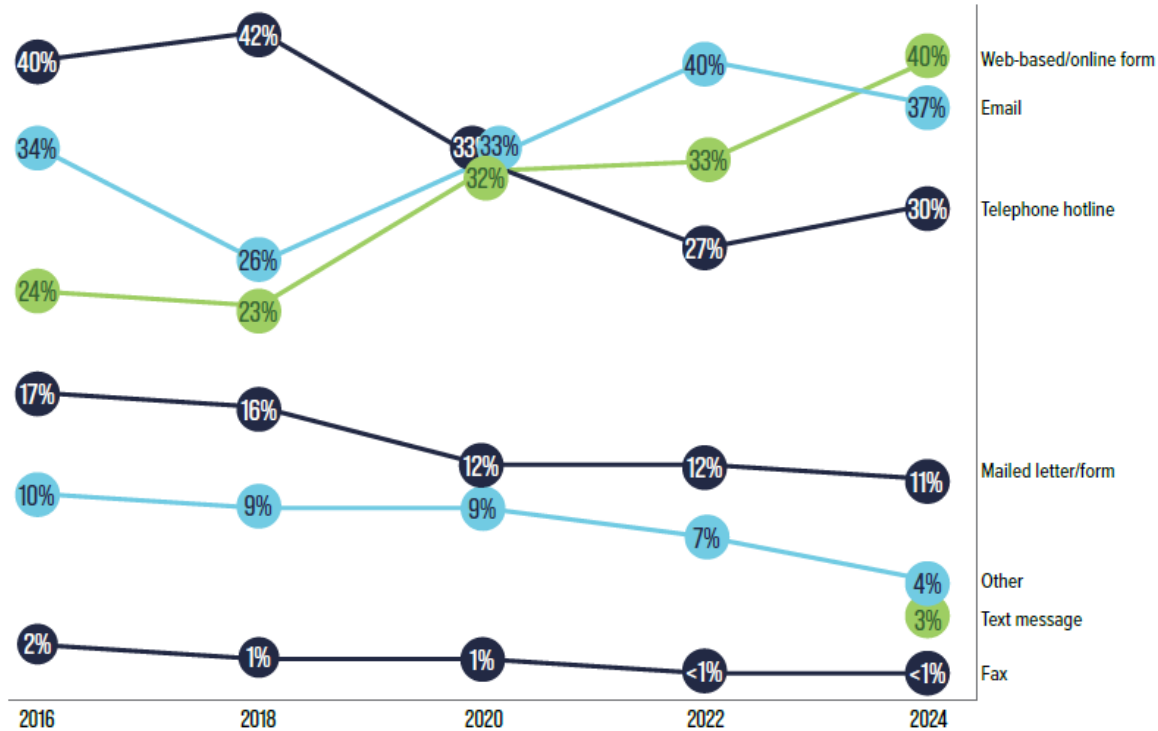
Reporting Mechanisms

According to the data, more than half (53%) of fraud tips were provided through a formal reporting mechanism, such as a fraud hotline. The chart below reflects the specific types of formal reporting mechanisms used by fraud whistleblowers over the course of the last five fraud studies covering ten years. While telephone hotlines have historically been one of the most common mechanisms used by whistleblowers, the percentage of tips reported via telephone has been decreasing. Since 2018, email and online reporting forms have both overtaken telephone hotlines as a reporting mechanism. This chart is a good indication of how processes can change or evolve over time as technology changes. As you can also see on the chart below, text message reporting is a new mechanism found starting in 2024 that had not been previously used or reported.

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FIG. 16 WHAT FORMAL REPORTING MECHANISMS DID WHISTLEBLOWERS USE?



Having a formal and established reporting mechanism is another critical component of having a comprehensive anti-fraud program at your organization.

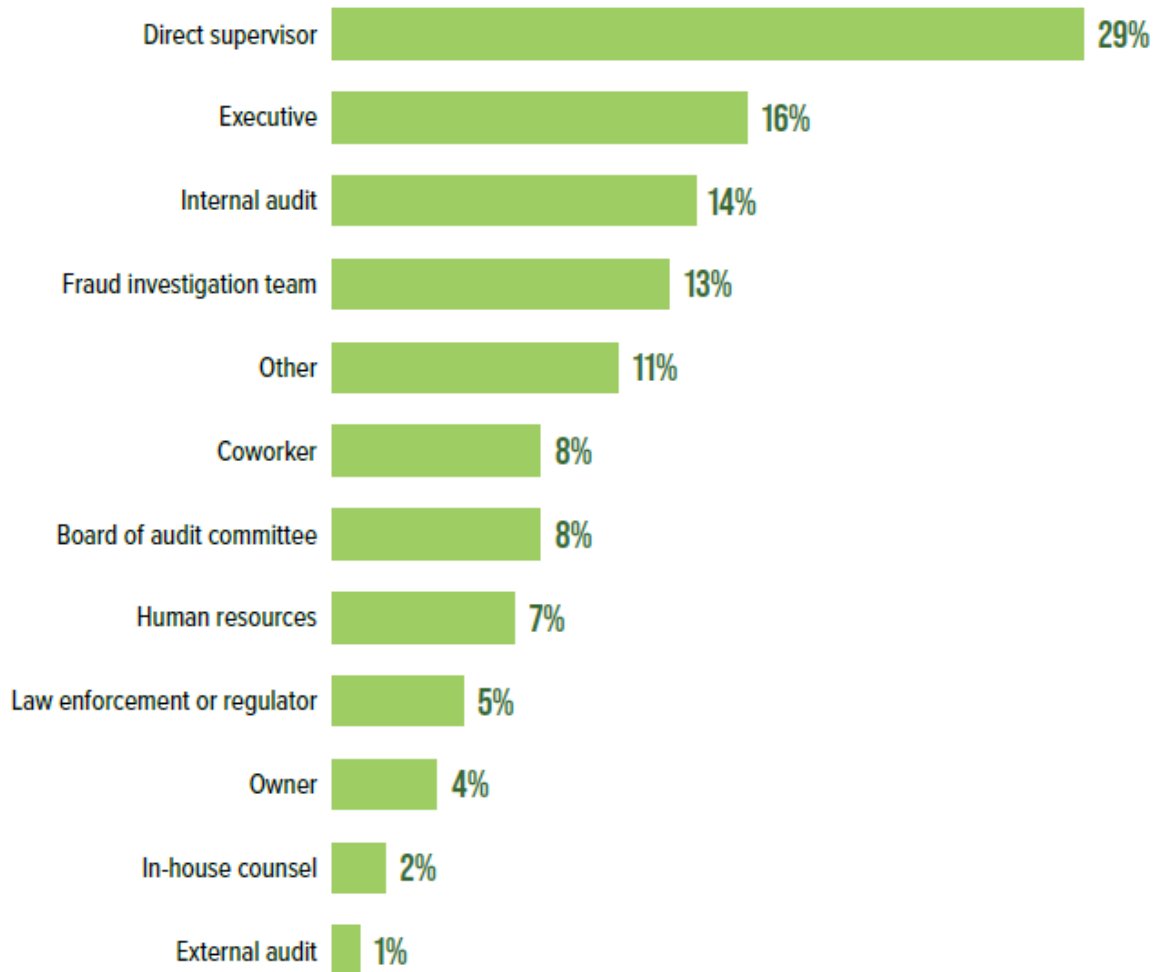
Parties to Whom Whistleblowers Report

As indicated by the chart above, some reports are submitted informally to individuals within the organization rather than through a formal reporting mechanism. It is important to understand all of your organization’s reporting mechanisms, especially if there are different mechanisms at your organization and/or multiple groups, such as internal audit, OIG, fraud investigation team, executives, etc. to ensure that information is reported both timely and accurately to the appropriate parties. All staff should be provided with guidance on how fraud allegations should be handled within the organization. It is particularly important to educate those who are likely to receive informal complaints as to the proper protocol for dealing with reports about suspected fraud. As shown in the chart below, direct supervisors (29%) were the party most whistleblowers reported IF a hotline mechanism was not used.

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FIG. 17 TO WHOM DID WHISTLEBLOWERS INITIALLY REPORT?



Conclusion/Next Steps

Agencies should strongly **consider implementing an agency-specific reporting mechanism(s)**, such as a fraud hotline to help detect and prevent fraud, and to establish a culture of accountability and ethical behavior. As the data has strongly indicated, implementing a fraud hotline or other reporting mechanism at your agency significantly decreases both the cost and duration of fraud.

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Implementing a fraud hotline has **additional benefits** to your agency, including:

- *Fraud Detection* – 43% of fraud cases are detected through tips to a fraud hotline. The data has continued to indicate that organizations with established fraud hotlines reduce both the cost and duration of fraud by roughly 50%.
- *Fraud Prevention* – Hotlines can help prevent fraud by increasing the perception of detection among employees.
- *Culture of Accountability* – Hotlines demonstrate to employees and the public that the organization cares about their concerns and strives to foster a culture of responsibility and ethical behavior.
- *Protect Employees* – An anonymous hotline protects employees from retaliation.
- *Gathering Data* – Many organizations make their hotline available to other stakeholders, like third party-suppliers and partners, to gather more data about potential risks.
- *Other Benefits* – Creates a “speak-up” culture, shows zero-tolerance for misconduct, helps keep fraudulent activities at bay while promoting cost-effectiveness and potentially shielding your agency and/or the State from unwanted media attention.

Agencies should consider having and maintaining an agency specific reporting mechanism(s) (e.g. a website, email, hotline phone number, etc.), policies, and processes. An agency-specific reporting mechanism will allow for the fastest potential agency response. When developing fraud reporting mechanisms your agency should consider what information should be collected (e.g. dates, services, contact information, details, descriptions, amounts, supporting documentation in the form attachments, etc.). Your agency should also determine if there would be internal reporting mechanisms, external reporting mechanisms, or both.

Another important consideration is what **proactive steps** can your agency take if and when fraud is suspected? Can employees stop processing a transaction if fraud is suspected and if so, how should they do so and whom should they work with internally? Stopping fraud before it occurs is always better than reporting after the fact.

If you need **examples** to set up a reporting mechanism, look at other organization’s fraud reporting sites. If gathering information by phone, consider drafting scripts and lists of questions to obtain as much relevant information as possible. Although confidential reporting can encourage additional reporting if someone is concerned about retaliation, it can be difficult to follow up when additional information is needed to follow up on the issue. Many times the initial report can be missing critical information. You may want to consider adding statements regarding how you handle confidentially and make providing personal contact information optional.

All agencies need to consider **what actions will be taken** when fraud is reported and/or found, either through your agency’s reporting mechanism(s) or through another entity (e.g. GAO, etc.). The responsibility to monitor and report on the reporting mechanisms should be assigned to more than one individual due to possible absences, turnover, diversified skill-set, etc. Each agency should have an understanding of all its reporting mechanisms and the parties that should be alerted to the fraud, both initially and after the fraud has actually been discovered. This should include all internal parties within your organization, as well as, any external parties including the Attorney General, Auditor General, the General Accounting Office, local law enforcement, other potential agencies or parties involved, etc. It is necessary to understand your resources and expertise, and **develop plans of actions** before finding

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yourself in a situation where immediate action is required. Fraud can affect many different areas of your agency and may need additional involvement from groups such as ADOA Human Resources, ADOA Risk Management, AZ Homeland Security Cyber Command, grantors, internal operations, etc. As fraudsters continue to find new ways of conducting fraud, it is usually a matter of when and how often, not if, your agency will need to address a possible fraudulent situation.

Your organization should ensure that all instances of fraud are reported timely and that employees and whistleblowers know the mechanisms to report suspected or known instances of fraud. All parties at your organization should be aware of its fraud structure including who and where to report all instances or known or suspected fraud starting with the initial detection and reporting all the way through until the fraud has been fully investigated and/or closed out. While the GAO Report Fraud mailbox collects reports of fraud to help facilitate communication with others as necessary and collect information for proper statewide financial reporting, the GAO does not conduct fraud investigations.



If fraud is reported pertaining to a particular agency, the **agency will still need to conduct and/or coordinate any necessary investigation and corrective actions**, including involving the appropriate law enforcement agencies if needed. In most cases, on-going communication is necessary as the investigation continues, when additional information is discovered and follow-up actions are taken. The GAO can assist with helping agencies evaluate their related internal controls to determine what actions can be taken to help reduce the risk of the fraud occurring again in the future.

Hotlines and improved internal policies and procedures are low-cost tools that help organizations detect fraud and, when accompanied with employee training, can significantly reduce fraud by increasing the perception of detection among employees, customers, vendors and the public. The information requested/collected and the agency actions can change and develop over time and should not be static.

Regardless of the status of your agency's reporting mechanism, all employees should be trained on the proper reporting mechanisms and responsibilities, both agency-specific and statewide (i.e. reportfraud@azdoa.gov).

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Resources

- [2024 Report to the Nations](#), Occupational Fraud 2024: A Report to the Nations. Copyright 2024 by the Association of Certified Fraud Examiners, Inc.
- SAAM Topic 05, *Internal Controls*
- SAAM 0530 - *Fraud, Theft, Waste, and Abuse*
- [GAO Topics of the Month](#) (May 2024 – *Occupational Fraud*, January 2024 - *Reporting Fraud*, October 2023 - *Internal Controls*)
- “[Occupation Fraud.](#)” *Florida Atlantic University College of Business*, <https://business.fau.edu/centers/center-for-forensic-accounting/public-resources-on-fraud/fraud-in-businesses-and-non-profits/occupation-fraud/>. Accessed 14 May 2024.”
- “[What is Occupational Fraud and How to Prevent it?](#)”, *NSKT Global*, March 4, 2024, <https://www.nsktglobal.com/usa/blog/what-is-occupational-fraud-and-how-to-prevent-it>