

Toolbox Talk: A Panel's Perspective on Fraud Risk



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Are you in tune with the fraud risks of your business? On October 23, Dean Dorton's Nick Lynch and Simon Keemer, along with Timothy Beam, Supervisory Special Agent with the Federal Bureau of Investigations (FBI), shared recent examples and insights with construction professionals at the 2015 Ohio Valley Construction Conference. The panelists provided a variety of "best-practices" related to the deterrence of fraud within an organization.

According to Beam, the FBI continues to investigate cases of email phishing scams, more commonly known as the "Nigerian Email Scam." In this scheme, scammers target victims by email, letter, text message or through social media outlets soliciting assistance to transfer money from one bank account to another bank account. In a new twist to these email scams, the email accounts of C-Suite employees or owners of the business are spoofed to create the impression that it is the organization's executives or owners that are requesting lower level employees to make the bank transfers. If you or your organization receives such an unsolicited request, it is best to ignore the request and delete the communication immediately. In our world, where cyber security threats are continually evolving, it is important to remember to remain vigilant.

Other threats common in the construction industry include the misappropriation of assets through activities such as theft of tools and materials from job sites, bid rigging, kick-back schemes and inappropriate use of company credit cards. Financial fraud is also a risk through the manipulation of estimated costs to complete, misallocation of job costs between jobs, and general manipulation of job performance and profitability.

A common tool to assist in the detection and deterrence of fraud is the use of an ethics hotline. Hotlines are affordable to implement and provide an outlet for employees, vendors and customers to report suspected unethical behavior anonymously, either by phone or online. Certified Fraud Examiner (CFE) Nick Lynch advised that frauds are most often detected through tips – the Association of Certified Fraud Examiners (ACFE) Report to the Nations on Occupational Fraud for 2014 shows that 42% of frauds are initially detected through tips. Other common fraud detection methods include management review (16%) and internal audit (14%).

According to Lynch, "The perception of detection is one of the most effective means to prevent or deter fraud. In the construction industry, you can create the perception of detection by publicizing an ethics hotline within the organization and at construction sites." It is also important to ensure that management fully supports the use of an ethics hotline within the organization and takes the appropriate steps to maintain confidentiality and independence while verifying the accuracy of information received from tips.

Internal audit is also an effective fraud detection and prevention activity. The panel discussed alternative ways in which internal audit procedures can be implemented within an organization in a low cost high impact manner. The discussion included how to use existing accounting personnel to perform internal audit procedures, or even outsourcing or co-sourcing internal audit with an accounting firm.

Regardless of your industry, no organization is immune to the risk of fraud. However, recognizing and understanding the risks specific to your organization is a necessary first step.

If you would like to speak with someone at Dean Dorton regarding fraud prevention, or suspected fraud, please contact [Simon Keemer](#), [Payton Miller](#), or [Hunter Stout](#).