DR. SOX, CFE

ACFE FRAUD PREVENTION
CHECK-UP

ACFE®
Association of Certified Fraud Examiners

Together, Reducing Fraud Worldwide

One of the ACFE's most valuable fraud prevention resources, the **ACFE Fraud Prevention Check-Up** *is a simple yet powerful test of your company's fraud health. Test fraud prevention processes designed to help you identify major gaps and fix them before it is too late.*

OVERVIEW

The Benefits of Taking the ACFE Fraud Prevention Check-Up

❏ Since fraud can be a catastrophic risk, taking the ACFE Fraud Prevention Check-Up can save your company from disaster. If you do not proactively identify and manage your fraud risks, they could put you out of business almost overnight. Even if you survive a major fraud, it can damage your reputation so badly that you can no longer succeed independently.

❏ The ACFE Fraud Prevention Check-Up can pinpoint opportunities to save you money. Fraud is an expensive drain on a company's financial resources. In today's globally competitive environment, no one can afford to throw away the five percent of revenues that represents the largely hidden cost of fraud. Those businesses that have identified their most significant fraud costs (such as insurance and credit card companies) have made great strides in attacking and reducing those costs. If your organization is not identifying and tackling its fraud costs, it is vulnerable to competitors who lower their costs by doing so.

❏ Fraud is a common risk that should not be ignored. Fraud is now so common that its occurrence is no longer remarkable, only its scale. Any organization that fails to protect itself appropriately faces increased vulnerability to fraud.

❏ It is the least expensive way to find out your company's vulnerability to fraud. Most organizations score very poorly in initial fraud prevention check-ups because they don't have appropriate anti-fraud controls in place. By finding this out early, they have a chance to fix the problem before becoming a victim of a major fraud. It's like finding out you have seriously high blood pressure. It may be bad news, but not finding out can be a lot worse.

❏ It is a great opportunity for your organization to establish a relationship with a Certified Fraud Examiner (CFE) you can call on when fraud questions arise. CFEs are experts in detecting fraud and helping organizations prevent it in the future.

❏ Strong fraud prevention processes help increase the confidence investors, regulators, audit committee members and the general public have in the integrity of your company's financial reports. This could help to attract and retain capital.

Before You Take the ACFE Fraud Prevention Check-Up

❏ Let your organization's general counsel or outside legal counsel know you plan to take the test. They may want to have you use the test under their direction, to protect your legal rights.

❏ Do not take the check-up if you plan to ignore the results. If it shows you have poor fraud prevention processes, you need to fix them. Failing to act could cause legal problems.

Who Should Perform the ACFE Fraud Prevention Check-Up?

❏ The check-up should ideally be a collaboration between objective, independent fraud specialists (such as CFEs) and people within the organization who have extensive knowledge about its operations. To locate a CFE in your area, visit **ACFE.com/FindaCFE** or call (800) 245-3321.

❏ Internal auditors bring extensive knowledge and a valuable perspective to such an evaluation. At the same time, the perspective of an independent and objective outsider is also important, as is the deep knowledge and experience of fraud that full-time fraud specialists provide.

❏ It is helpful to interview senior members of management as part of the evaluation process. But it is also valuable to interview employees at other levels of the organization, since they may sometimes provide a "reality check" that challenges the rosier view management might present, e.g., about management's commitment to ethical business practices.

How Many Points Should We Award For Each Answer?

❏ The number of points available is given at the bottom of each question. You can award zero points if your organization has not implemented the recommended processes for that area. You can give the maximum number of points if you have implemented those processes and have had them tested in the past year and found them to be operating effectively. Award no more than half the available points if the recommended process is in place but has not been tested in the past year.

❏ The purpose of the check-up is to identify major gaps in your fraud prevention processes, as indicated by low point scores in particular areas. Even if you score 80 points out of 100, the missing 20 could be crucial fraud prevention measures that leave you exposed to major fraud. Therefore, there is no passing grade other than 100 points.

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	Results
Organization: _____	

Date of Check-up: _____

1. Fraud risk oversight

❑ To what extent has the organization established a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., an audit committee)?

Score from 0 (process not in place) to 20 points (process fully implemented, tested within the past year and working effectively).

Score:

2. Fraud risk ownership

❑ To what extent has the organization created "ownership" of fraud risks by identifying a member of senior management as having responsibility for managing all fraud risks within the organization and by explicitly communicating to business unit managers that they are responsible for managing fraud risks within their area?

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

Score:

3. Fraud risk assessment

❑ To what extent has the organization implemented an ongoing process for regular identification of the significant fraud risks to which it is exposed?

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

Score:

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4. Fraud risk tolerance and risk management policy	**Results**
❑ To what extent has the organization identified and had approved by the board of directors its tolerance for different types of fraud risks? For example, some fraud risks may constitute a tolerable cost of doing business, while others may pose a catastrophic risk of financial or reputational damage.	_____ _____ _____ _____ _____ _____ _____ _____ _____ _____
❑ To what extent has the organization identified and had approved by the board of directors a policy on how it will manage its fraud risks? Such a policy should identify the risk owner responsible for managing fraud risks, what risks will be rejected (e.g., by declining certain business opportunities), what risks will be transferred to others through insurance or by contract, and what steps will be taken to manage the fraud risks that are retained.	
Score from 0 (processes not in place) to 10 points (processes fully implemented, tested within the past year and working effectively).	**Score:**

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5. Process-level anti-fraud controls / reengineering	Results

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❑ To what extent has the organization implemented measures to eliminate or reduce through process reengineering each of the significant fraud risks identified in its risk assessment? Basic controls include segregation of duties relating to authorization, custody of assets and recording or reporting of transactions. In some cases it may be more cost-effective to reengineer business processes to reduce fraud risks rather than layer on additional controls over existing processes. For example, some fraud risks relating to receipt of funds can be eliminated or greatly reduced by centralizing that function or outsourcing it to a bank's lockbox processing facility, where stronger controls can be more affordable.

❑ To what extent has the organization implemented measures at the process level designed to prevent, deter and detect each of the significant fraud risks identified in its risk assessment? For example, the risk of sales representatives falsifying sales to earn sales commissions can be reduced through effective monitoring by their sales manager, with approval required for sales above a certain threshold.

Score from 0 (processes not in place) to 10 points (processes fully implemented, tested within the past year and working effectively).

Score:

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6. Environment-level anti-fraud controls	**Results**

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Major frauds usually involve senior members of management who are able to override process-level controls through their high level of authority. Preventing major frauds therefore requires a strong emphasis on creating a workplace environment that promotes ethical behavior, deters wrongdoing and encourages all employees to communicate any known or suspected wrongdoing to the appropriate person. Senior managers may be unable to perpetrate certain fraud schemes if employees decline to aid and abet them in committing a crime. Although "soft" controls to promote appropriate workplace behavior are more difficult to implement and evaluate than traditional "hard" controls, they appear to be the best defense against fraud involving senior management.

❑ To what extent has the organization implemented a process to promote ethical behavior, deter wrongdoing and facilitate two-way communication on difficult issues? Such a process typically includes:

— Having a senior member of management who is responsible for the organization's processes to promote ethical behavior, deter wrongdoing and communicate appropriately on difficult issues. In large public companies, this may be a full-time position, such as ethics officer or compliance officer. In smaller companies, this will be an additional responsibility held by an existing member of management.

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	Results
— A code of conduct for employees at all levels, based on the company's core values, which gives clear guidance on what behavior and actions are permitted and which ones are prohibited. The code should identify how employees should seek additional advice when faced with uncertain ethical decisions and how they should communicate concerns about known or potential wrongdoing.	
— Training for all personnel upon hiring, and regularly thereafter, concerning the code of conduct, seeking advice and communicating potential wrongdoing.	
— Communication systems to enable employees to seek advice where necessary prior to making difficult ethical decisions and to express concern about known or potential wrongdoing. Advice systems may include an ethics or compliance telephone help line or email to an ethics or compliance office/officer. The same or similar systems may be used to enable employees (and sometimes vendors, customers and others) to communicate concerns about known or potential wrongdoing. Provision should be made to enable such communications to be made anonymously, though strenuous efforts should be made to create an environment in which callers feel sufficiently confident to express their concerns openly. Open communication makes it easier to resolve the issues raised, but protecting callers from retribution is an important concern.	

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	Results
— A process for promptly investigating (where appropriate) and resolving expressions of concern regarding known or potential-wrongdoing, then communicating the resolution to those who expressed the concern. The organization should have a plan that sets out what actions will be taken, and by whom, to investigate and resolve different types of concerns. Some issues will be best addressed by human resources personnel, some by general counsel, some by internal auditors and some may require investigation by fraud specialists. Having a prearranged plan will greatly speed and ease the response and will ensure appropriate persons are notified where potentially significant issues are involved (e.g., legal counsel, board of directors, audit committee, independent auditors, regulators, etc.).	
— Monitoring of compliance with the code of conduct and participation in related training. Monitoring may include requiring at least annual confirmation of compliance and auditing of such confirmations to test their completeness and accuracy.	
— Regular measurement of the extent to which the organization's ethics/compliance and fraud prevention goals are being achieved. Such measurement typically includes surveys of a statistically meaningful sample of employees. Surveys of employees' attitudes towards the company's ethics/compliance activities and the extent to which employees believe management acts in accordance with the code of conduct provide invaluable insight into how well those components are functioning.	
— Incorporation of ethics/compliance and fraud prevention goals into the performance measures against which managers are evaluated and which are used to determine performance-related compensation.	
Score from 0 (process not in place) to 30 points (process fully implemented, tested within the past year and working effectively).	**Score:**

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7. Proactive fraud detection	Results
❑ To what extent has the organization established a process to detect, investigate and resolve potentially significant fraud? Such a process should typically include proactive fraud detection tests that are specifically designed to detect the potentially significant frauds identified in the organization's fraud risk assessment. Other measures can include audit "hooks" embedded in transaction processing systems that can flag suspicious transactions for investigation and/or approval prior to completion of processing. Leading-edge fraud detection methods include computerized email monitoring (where legally permitted) to identify use of certain phrases that might indicate planned or ongoing wrongdoing.	
Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).	**Score:**
ADD ALL SCORES FOR THE TOTAL SCORE (Out of a possible 100 points)	**TOTAL SCORE:**

Interpreting the Score

A brief fraud prevention check-up provides a broad idea of your organization's performance with respect to fraud prevention. The scoring necessarily involves broad judgments, while more extensive evaluations would have greater measurement data to draw upon. The important information to take from the check-up is the identification of particular areas for improvement in your company's fraud prevention processes. The precise numerical score is less important and is only presented to help communicate an overall impression.

The desirable score for an organization of any size is 100 points, since the recommended processes are scalable to the size of your organization. Most companies should expect to fall significantly short of 100 points in an initial fraud prevention check-up. That is not currently considered to be a material weakness in internal controls that represents a reportable condition under securities regulations. However, significant gaps in fraud prevention measures should be closed promptly in order to reduce fraud losses and reduce the risk of future disaster.

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