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FRAUD INVESTIGATORS DIVIDED: Should firms prosecute workers who steal?

By Jeff Bell
Business First Correspondent

Business is booming for Tom Golden, but that doesn't mean the PricewaterhouseCoopers partner is happy about it.

A certified fraud examiner for the accounting firm's Midwest practice, Golden tracks down white-collar criminals. He investigates corporate schemers, cybercriminals and others who cook the books for personal gain.

"White-collar crime is absolutely epidemic today," said Golden, based in Chicago. "But you don't hear about it because it's not prosecuted. It's an unknown cancer. It's like incest: No one wants to talk about it."

The scope of the problem is borne out by statistics compiled by the Association of Certified Fraud Examiners in Austin, Texas. Its studies show fraud and abuse cost U.S. organizations more than \$400 billion annually.

Other findings include:

- The average organization loses more than \$9 per day per employee to fraud and other wrongdoing.
- The average organization loses about 6 percent of its total annual revenue to fraud and abuse committed by employees.
- The median loss caused by males is about \$185,000; it's \$48,000 by females.

- The typical perpetrator is a college-educated white male, with men committing nearly 75 percent of the offenses.
- Losses caused by managers are four times those caused by lower-level employees; losses from fraud by executives are 16 times those of their employees.

- The highest median losses occur in the real estate financing sector, while the lowest are in the education field.

Golden added one more statistic to the mix. He claims only about 5 percent of white-collar criminals are prosecuted due to many companies' fears of adverse publicity that can send stock prices tumbling and lawsuits flying from angry stockholders.

Companies are wary about rolling the dice in a courtroom where they must prove an employee intended to defraud the company, he said.

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"Some people will say it was all a misunderstanding that they thought their boss meant for them to have the money because they worked so hard," Golden said. "These are the same people who left a money trail from the bank to Las Vegas."

Companies fear they will be sued for defamation of character should such employees win a jury's sympathy and be exonerated. Employers also can be forced to give them back their jobs.

(Over)

So fraud examiners such as Golden and Deloitte & Touche's Don Svendson are locked in a debate over whether it is better for their clients to prosecute suspected fraudsters or get them to resign and quietly pay back what they stole from the company.

"Not prosecuting sends the wrong message," Golden said. "It tells people, 'If you get caught, the company will not pursue it.' For a lot of people, it's worth a try. They think they can be set for life and keep it all."

But Svendson, who heads Deloitte & Touche's forensic and investigative services practice in the Midwest, said fraud cases are sometimes best contained within the walls of the corporation.

"Often we can very quickly determine who did it, how they did it and stop the bleeding," said the former Royal Canadian Mounted Police detective. "We can get a confession, restitution and a resignation, and you can get on with running your business."

Golden and Svendson, also based in Chicago, agree on a number of other issues. Number 1: Employers should not fly off the handle and start making accusations against workers suspected of fraud.

"Some people have seen too many episodes of 'Columbo' and try to ferret out the bad guy," Golden said. "That tips off the perpetrator, and the investigation can be over right there."

A better idea is to call on the services of auditing firms that have forensic accountants experienced in putting together the pieces of a financial puzzle. Technological advancements allow such investigators to swiftly plow through a company's financial ledgers and retrieve discarded e-mail messages to determine how crimes are being committed, Svendson said.

"We can detect in days what would have taken months before," he said. However, technology is also helping the bad guys misappropriate funds and cover their tracks.

"As companies go paperless and speed up things, a lot of people don't always understand what happens inside that cold black box," said Jim Cunha, a partner in the Columbus office of Arthur Andersen Consulting.

The best way to head off corporate fraud is by employing "strong internal controls assisted by an internal audit program," Svendson said. He also recommends periodic fraud detection audits, ethics training for employees, a company code of conduct, background checks on employees and a hotline for whistle blowers.

Cunha advises companies to have a conflict-of-interest statement and a clear-cut policy that tells all employees what will happen if they are caught stealing. And ethical behavior must start at the top.

"If a key owner or senior executive is allowed to do certain things that just aren't right, it sends a signal to other people in the company," Cunha said. "It allows things to get started that might not happen otherwise."

The best way to protect against fraud is to secure the company's stock of blank checks, Golden said. "Companies mistakenly believe the bank is going to catch the bad checks," he said. "They don't."

While companies can take steps to reduce fraud, Golden said they face an uphill battle in a society where a growing number of people rationalize the crimes they commit. He learned that fact of life while presenting talks on business ethics to eighth graders.

"We are growing the next generation of fraudsters," Golden said. "Kids have a 'go for it' mentality. They adopt a philosophy that if they defraud you, shame on you. It's like 'Buyer beware' out there."

"The need for my profession," said the 49-year-old Golden, "will be intact at least through my retirement date."

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