

Proven Effectiveness of Whistleblowers

Three recent scientific studies objectively prove that whistleblowers are the most effective at detecting fraud:

1. PricewaterhouseCoopers – *Economic crime: people, culture and controls*¹

In 2007, PricewaterhouseCoopers (PWC) published a study of over 5,400 companies in 40 countries, including interviews of the CEOs, CFOs and other responsible executives, that concluded that whistleblowers play a “decisive role” in uncovering fraud. PWC determined that “fraud remains one of the most problematic issues for business worldwide” and concluded that companies could not rely on fraud controls (ex. internal audits) alone to detect and deter economic crimes. In fact, the study found that whistleblowers were responsible for 43% of the fraud detection, while law enforcement officers were only responsible for 3% of the fraud detection and corporate controls were responsible for 34% of the detection.

PWC recommended that companies create “whistle-blowing systems” and listed “safeguard employees who report misconduct against any form of retaliation (i.e., threats, harassment and demotion)” as the first requirement for a whistleblower program. The study explained that “there is no substitute for the perceptiveness and acuity of the individual when it comes to discerning those patterns of odd behaviour, unlikely coincidences and atypical work methods that often signal the presence of economic crime.”

2. Association of Certified Fraud Examiners – *2008 Report to the Nation on Occupational Fraud and Abuse*²

The Association of Certified Fraud Examiners’ (ACFE) *2008 Report to the Nation on Occupational Fraud and Abuse* examined 959 cases of occupational fraud. They recognized that “one of the primary characteristics of fraud is that it is clandestine, or hidden; almost all fraud involves the attempted concealment of the crime.” Consequently, insiders (i.e. whistleblowers) were viewed as essential for any effective anti-fraud program.

Like PWC, the ACFE concluded that “occupational frauds are much more likely to be detected by a tip than by audits, controls or any other means.” Significantly, the ACFE found that 46.2% of all frauds were uncovered by tipsters, while only 3.2% was detected by law enforcement. These statistics are remarkably similar to the PWC findings.

The ACFE also recognized the contributions of whistleblowers and strongly endorsed corporate cultural changes designed to encourage whistleblowers. The study concluded that

¹ http://www.whistleblowers.org/storage/whistleblowers/documents/pwc_survey.pdf

² <http://whistleblowers.nonprofitsoapbox.com/storage/whistleblowers/documents/acfefraudreport.pdf>

since over half of all fraud detection tips came from employees they “should be encouraged to report illegal or suspicious behavior, and they should be reassured that reports may be made confidentially and that the organization prohibits retaliation against whistleblowers.”

3. **Ethics Resource Center** – *National Government Ethic Survey: An Inside View of Public Sector Ethics*³

A 2007 survey of 3,452 employees, including 774 government employees, conducted by the Ethics Resource Center (ERC) mirrors the findings of the PWC and ACFE studies. However, in relation to detecting government misconduct, some of the ERC’s conclusions are very disturbing. The survey concluded that “government employees are increasingly working in environments that are conducive to misconduct” and that “signs point to a future rise in misconduct if deliberate action is not taken.” The ERC survey also concluded that “many of those who reported the misconduct they observed were retaliated” against. Specifically the ERC survey made the following findings:

“52% of federal employees observe misconduct”

20% of “federal government employees work in environments conducive to misconduct”

“24% of federal government employees who observed misconduct but chose not to report it feared retaliation from management”

“16% of non-reporters within the federal government feared retaliation from their peers”

Of those who reported misconduct, 83% only reported it to their supervisor or higher management [conduct not protected under the current federal Whistleblower Protection Act]

Only 6% of federal employees who disclosed misconduct were willing to report that misconduct to a “hotline” or outside of their agency

Only 47% of government agencies have comprehensive ethics and compliance programs

Conclusion

The PWC, ACFE, and ERC studies confirm with reliable scientific data that strong laws and policies should exist to protect and encourage whistleblowers. There is no doubt that whistleblowers objectively help the corporations and the government agencies for which they work. The deep-seated cultural bias against whistleblowers exhibited in many agencies is not only archaic, but also counterproductive. If the government is truly serious about detecting and preventing fraud, waste and abuse, and ensuring that the public safety is protected, effective anti-retaliation laws must be enacted which encourage, reward and protect whistleblowers.

³ <http://whistleblowers.nonprofitsoapbox.com/storage/whistleblowers/documents/ethicsresourcecentersurvey.pdf>