

FRAUD WARNING SIGNS

Fraud is defined as a type of illegal act in which the perpetrator obtains something of value through willful misrepresentation. Fraud usually occurs within the context of legitimate business transactions and is carried out in such a manner that legitimate business unwittingly conceals it.

The incentives or pressure for most fraud is financial in nature. Sometimes the pressures are real (personal or family financial or medical concerns); but sometimes they represent mere greed (improved lifestyle or exotic vacations). The opportunity to commit fraud must exist, and weak internal controls provide such an environment. Individuals responsible for fraud then rationalize their fraud.

If you suspect fraud in your department, notify your supervisor immediately. If there are reasons not to notify your supervisor, notify your area's vice-president, vice-chancellor, or the Maricopa Concern Line.

Specific indicators of fraud are generally difficult to identify; however, generic indicators or "red flags" (warning signs) are almost always present. Some of these specific warning signs of fraud are as follows:

Behavioral red flags

- Extremely possessive of work records and reluctant to share tasks
- Resistant to detailed oversight/review of work or becomes defensive to inquiries
- Apprehensive about vacations and time off, while often starting work early and/or finishing late
- Exhibits marked personality changes
- Experiences substantial change of lifestyle, unexpected wealth, or living beyond apparent means
- Shows possible substance abuse or gambling problem
- Has close ties to particular vendors/suppliers

Operational red flags

- Limited segregation of duties
- Significant control over key systems or processes limited to just one person
- Processes that are often run in "crisis mode" or are not consistent among employees
- Lack of structured review and approval process
- Limited operational oversight or review
- Limited individual accountability
- High turnover, especially with new staff

Accounting red flags

- Significant number of unusual transactions (off-hours entries, unusual people involved, numerous entries with same vendor)
 - Large numbers of adjusting entries, discrepancies, or unreconciled differences
 - Missing or altered documents
 - Unusual delays in providing information or supporting documentation
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Situational Pressure Red Flags

- High personal debts
- Severe illnesses in family
- Living beyond means
- Excessive gambling
- Excessive use of alcohol or drugs
- Perceived inequities (e.g., underpaid, poor job assignment)
- Resentment of superiors
- Frustration, usually with the job

Opportunity Red Flags

- Very familiar with operations
 - In a position of trust
 - Close association with cohorts, suppliers, and other key people
- A. Environments which can foster fraud opportunities
- Nonexistent or ineffective controls
 - Weak reporting system that constricts reporting of improprieties or fraud
 - Insignificant penalties for improper behavior
 - Employees not informed about ethics standards, rules and potential discipline
 - Rapid turnover of key employees – quit or fired
 - No annual vacations taken by employees
 - No rotations or transfers of key employees
 - Inadequate personnel screening when hiring new employees
 - No documented code of ethics
 - Weak leadership
 - Dishonest management or environment
 - Always operating on a crisis basis
 - Pays no attention to details
 - Too much trust in key employees
 - No viable complaint or grievance outlets
 - No personnel evaluations

Personality Red Flags

- Lacking in the development of personal moral honesty
 - No well-defined code of personal ethics
 - Wheeler-dealer
 - Neurotic, manic-depressive, or emotionally unstable
 - Arrogant or egocentric
 - Personal Demographics
 - Criminal history
 - Questionable associates
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