

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.

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

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.
