

Red Flags of Fraud

These red flags are only warning signs that can indicate a high risk of fraud. They are not evidence that fraud is occurring. However, if multiple flags are present and accounting irregularities are identified, the situation should be closely reviewed.

Common personality traits:

- Wheeler and dealer
- Domineering/controlling
- Resists people reviewing their work
- Strong desire for personal gain
- Has a “beat the system” attitude
- Lives beyond their means
- Close relationship with customers or vendors
- Unable to relax
- Often has a “too good to be true” work performance
- Doesn’t take vacation or sick time
- Often works excessive overtime
- Displays a drastic change in personality or behavior

Common sources of pressure:

- Medical problems—especially of a loved one
- Unreasonable performance goals
- Spouse loses a job
- Divorce
- Criminal conviction
- Civil lawsuit
- Purchase of a new home, a second home, home remodel
- Excessive gambling
- Drug or alcohol addiction

Changes in behavior:

- Sudden spending spree
- Brags about new purchases
- Carries unusual amounts of cash
- Creditors/bill collectors call/show up at work
- Borrows money from coworkers
- Becomes unreasonably upset when questioned
- Turns down promotions
- Irritable or moody
- Mentions family/financial problems



University of Michigan

Office of University Audits

We are committed to supporting the University with objective assurance and advisory services that assess risk and promote a strong internal control environment.

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Other Resources

University Standard Practice Guide

<http://spg.umich.edu/>

University Compliance Hotline

<http://www.med.umich.edu/compliancehotline/>

Office of Internal Controls

<http://www.umich.edu/~avpf/InternalControls.htm>

University Statement on Stewardship

<http://www.hr.umich.edu/stewardship.html>

The Fraud Triangle

Pressure

Opportunity

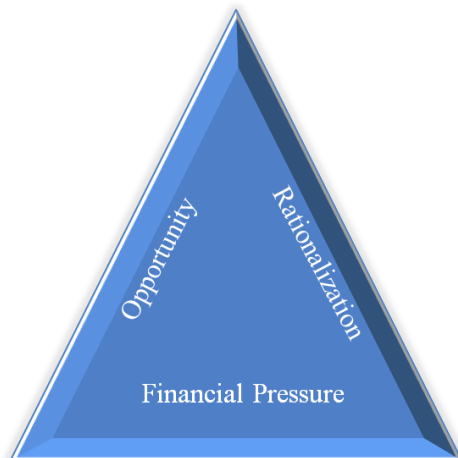
Rationalization



The Fraud Triangle

For fraud to occur, all three elements of the fraud triangle must be present. The University and its individual departments can take steps to mitigate all three components.

- University employees should be cognizant of pressures and how they relate to the University's overall fraud risk.
- By implementing strong internal controls, the University can remove many opportunities for fraud, and can increase the chance of detecting it.
- A strong sense of ethical behavior and creating a positive work environment can reduce an employee's ability to rationalize fraud.



► Pressure

Most pressure comes from a significant financial need or problem. Pressure is frequently what causes a person to commit fraud. Pressure can be caused by almost anything including family situations, medical bills, expensive tastes, or addiction problems. Often, the person believes, for whatever reason, that their problem must be solved in secret. However, some frauds are committed simply out of greed.

► Opportunity

Opportunity facilitates the ability to commit fraud. Because employees who commit fraud do not wish to be caught, they must believe that their activities will not be detected. Opportunity is created by a weak internal control environment, poor management oversight, and/or the misuse of position or authority.

Failure to establish adequate procedures to detect fraudulent activity also increases the opportunity for fraud to occur. Of the three components of the fraud triangle, opportunity is the part over which organizations have the most control. It is essential that organizations build processes, procedures, and controls that do not needlessly put employees in a position to commit fraud and that effectively detect fraudulent activity if it occurs.

► Rationalization

Rationalization is a crucial component in most frauds. Rationalization involves a person reconciling his/her fraudulent behavior with the commonly accepted notions of decency and trust. Some common rationalizations for committing fraud are:

- The person believes committing the fraud is justified to save a family member or loved one.
- The person believes that they will lose everything—family, home, car—if they do not commit the fraud.
- The person believes that no help is available.
- The person labels the theft as “borrowing” and fully intends to pay the stolen money back at some point.
- The person, because of job dissatisfaction (salaries, job environment, treatment by managers), believes that something is owed to him/her.
- The person is unable to understand or does not care about the consequences of their actions or of accepted notions of decency and trust.