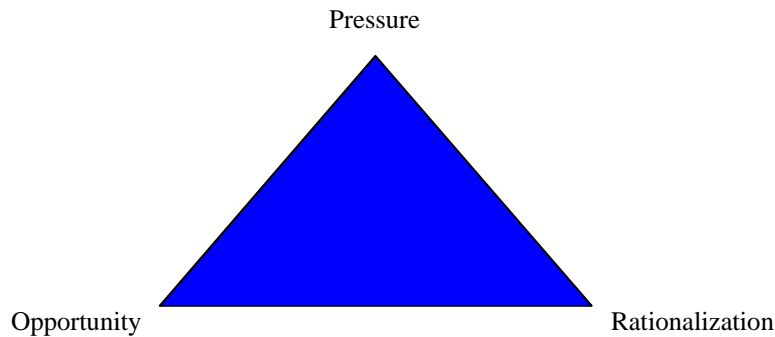


Fraud Triangle

Overview

The following describes what is known as the fraud triangle. In order for fraud to occur, all three elements have to be present. The University and its individual Departments can take steps to influence all three legs. University employees should be cognizant of pressures and how they relate to the University's overall fraud risk. Rationalizations can be reduced by promoting a strong sense of ethical behavior amongst employees and creating a positive work environment. By implementing strong internal controls, the University can remove much of the opportunity for fraud to occur and can increase the chances of detecting it.



Pressure

Pressure is what causes a person to commit fraud. Pressure can include almost anything including medical bills, expensive tastes, addiction problems, etc. Most of the time, pressure comes from a significant financial need/problem. Often this need/problem is non-sharable in the eyes of the fraudster. That is, the person believes, for whatever reason, that their problem must be solved in secret. However, some frauds are committed simply out of greed alone.

Opportunity

Opportunity is the ability to commit fraud. Because fraudsters don't wish to be caught, they must also believe that their activities will not be detected. Opportunity is created by weak internal controls, poor management oversight, and/or through use of one's position and authority. Failure to establish adequate procedures to detect fraudulent activity also increases the opportunities for fraud to occur. Of the three elements, opportunity is the leg that organizations have the most control over. It is essential that organizations build processes, procedures and controls that don't 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 behavior (stealing) with the commonly accepted notions of decency and trust. Some common rationalizations for committing fraud are:

- The person believes committing fraud is justified to save a family member or loved one
- The person believes they will lose everything – family, home, car, etc. if they don't take the money
- The person believes that no help is available from outside.
- 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, etc.), believes that something is owed to him/her
- The person is unable to understand or does not care about the consequence of their actions or of accepted notions of decency and trust.

Red Flags of Fraud

Overview

Managers and employees responsible for stewardship of University resources should be aware of red flags of fraud. These are only warning signs that may indicate the fraud risk is higher, they are not evidence that fraud is actually occurring. Also, the existence of one or two flags is not something to be overly concerned about. Many employees demonstrate one or more of flags on the list. However, if multiple flags are present that span the three groupings AND accounting irregularities or weak controls are identified, then IAAS should be contacted.

<p>Common Personality Traits Of Fraudsters</p>	<ul style="list-style-type: none"> ▪ Wheeler and Dealer ▪ Domineering/Controlling ▪ Don't like people reviewing their work ▪ Strong Desire for Personal Gain ▪ Have a "Beat the System Attitude" ▪ Live Beyond Their Means ▪ Close relationship with customers or vendors ▪ Unable to Relax ▪ Often have a "too good to be true" work performance ▪ Don't take vacation or sick time or only take leave in small amounts. ▪ Often work excessive overtime ▪ Outwardly, appear to be very trustworthy. ▪ Often display some sort of drastic change in personality or behavior
<p>Common Sources of Pressure</p>	<ul style="list-style-type: none"> ▪ Medical Problems – Especially for a loved one ▪ Unreasonable performance goals ▪ Spouse loses a job ▪ Divorce ▪ Starting a New Business or Current Business is Struggling ▪ Criminal Conviction ▪ Civil Lawsuit ▪ Purchase of a new home, a second home, or a home remodel ▪ Need to Maintain a Certain Lifestyle (Champaign Tastes or Keep Up With the Jones) – person (or their spouse) either likes expensive things or feels pressure to "keep up with" or "out-do" others in regards to material positions. ▪ Excessive Gambling ▪ Drug or Alcohol Addiction
<p>Changes in Behavior</p>	<ul style="list-style-type: none"> ▪ Suddenly appears to be buying more material items – houses, cars, boats, clothes, jewelry, electronics, etc. ▪ Brags about new purchases ▪ Starts to carry unusual amounts of cash ▪ Creditors/Bill Collectors show up at work or call frequently ▪ Borrows money from coworkers ▪ Becomes more irritable or moody ▪ Becomes unreasonably upset when questioned ▪ Becomes territorial over their area of responsibility ▪ Won't take vacation or sick time or only takes it in small increments ▪ Works unneeded overtime ▪ Turns down promotions ▪ Start coming in early or staying late ▪ Redo or Rewrite work to "make it neat" ▪ May start to mention family or financial problems. ▪ Exhibits signs of a drug or gambling addiction (absenteeism, become manipulative, look ill, inconsistent or illogical behavior, loss of sleep or appetite, etc.) ▪ Exhibits signs of dissatisfaction (decrease in productivity, change attire, irregular schedules, frequent complaining about inequities or work issues)