

FRAUD PREVENTION ALERT

WHY ARE WE ISSUING THIS ALERT?

As discussed in the prior Fraud Prevention Alert—*Fraud Triangle Part I: Opportunity*, there are three elements that are present when an individual commits fraud: opportunity, pressure, and rationalization.¹ Public officials can help prevent fraud by diminishing any one of the triangle's three elements and, ideally, taking steps to diminish all three elements.

This alert, the second in a three-part series, will focus on the pressure element and outline how public officials can identify employee pressures to steal and then take timely action to prevent fraud when they notice troublesome changes in an employee's behavior.



2015

Using the fraud triangle model to help prevent fraud

Throughout the last 25 years, our Office has issued numerous reports on fraud schemes perpetrated by employees who were under some type of pressure that caused them to turn to fraud. For example, our Office recently issued a report describing how a school district employee was able to steal more than \$30,000 by depositing a portion of the monies to her personal account, which she then used mostly for cash withdrawals, primarily at casinos, but also for her personal debt.²

Fraud triangle



Employees may experience a pressure to commit fraud because of a problem or need that outweighs the desire to act honestly, which could include:

- Financial problems, including personal debt, unpaid medical bills, living beyond one's means, and desiring luxury items.
- Drug, alcohol, or gambling addictions.
- Family difficulties such as a divorce or loss of a loved one.
- Maintaining job performance or working toward a promotion.
- Simple greed.

Public officials, including the entity's management, have little control over the fraud triangle's pressure element because it is reliant on that individual's motivations, problems, and needs. However, public officials should gain an understanding of the various pressures that can lead to employee fraud, and when they notice red flag behaviors, they can take timely action to help prevent a possible fraud waiting to happen.

Public officials can recognize red flag behaviors and take timely action to prevent fraud

Not all red flag behaviors mean that an employee is committing fraud; however, these behaviors can sometimes be a window into a deeper rooted problem. Public officials can monitor and look for red flag behaviors in their employees such as:

- Refusing to take sick or vacation leave, or working excessive/unneeded overtime.
- Denying coworkers or supervisors the ability to review their work.
- Unexplained changes to work schedule, including arriving late or leaving early.
- Borrowing money from coworkers.
- Receiving calls from creditors.
- Living beyond their means or purchasing high-ticket/luxury items.
- Developing close relationships with vendors.
- Exhibiting signs of a drug, alcohol, or gambling addiction.

¹ See Office of the Auditor General, Fraud Prevention Alert: *Fraud Triangle Part I: Opportunity*, May 2015, Report No. 15-403.

² See Office of the Auditor General, Special Investigation Report: *Roosevelt Elementary School District*, August 2015, Report No. 15-404.

Some important actions public officials can take when they notice troublesome changes or red flag behaviors in an employee include:

- Conducting a spot check of the employee's work.
- Rotating the employee's job responsibilities with another co-worker.
- Reviewing the internal control environment in that employee's area and ensuring that controls are adequate to detect and prevent fraud.
- Speaking with the employee about his/her behavior.

