Warning Signs of Fraud What to Look for and When to Worry
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Introduction:
Fraud is everywhere. Unfortunately, economic conditions, materialism, and declining ethical values have all contributed to the increase in white collar crime. It is our job as managers, directors, board members, and employees to help keep honest people honest and to detect and report those activities that are illegal.

We need to be able to identify warning signs of potential illegal activity by those people we deal with on a day-to-day basis. Employees, vendors, and customers are just a few general groups that can perpetrate crimes against your business.

In order for us to be able to identify indicators of fraud we must first understand what factors play on people who commit fraud.

THE FRAUD TRIANGLE:

There are 3 factors that are present in most incidents of fraud. The factors may be broken into:

1. Perceived Economic Need - Things like illness or living beyond known income.
2. Opportunity - The lack of or breakdown in internal controls.
3. Rationalization - "They owed me" or "I am just borrowing he money, I will repay it next week."

Employee Fraud:
The GOLDEN RULE: take the time to know your employees! How do you know they have changed if you don't know where they started?

Warning signs:

- Excess vacation or annual leave. Employees who commit fraud traditionally take little or no time away from work. Banks require employees to be absent from work for at least 2 weeks per year. This is done specifically to expose potential fraud.
- Sick leave. Declining sick leave balances do to sudden, serious, or prolonged illness often equate to financial strain on employees. It is important for these honest employees to not be given the opportunity to be dishonest.
- Change in personal choices and habits. When an employee's spending habits out distance their income then consider the source. When an employee begins to "run with a different crowd" consider the effects on security.
- After hours work or alternative work sites. Criminals do not like to work when and where others can see them.
- Unwillingness to provide information or goods when requested by management. If you have asked 3 times for the digital camera and you can't seem to get it.
Head for the pawn shops. If you can't review bank reconciliations because your staff just has not had time, start doing them yourself.

**Fraud by Vendors:**
Vendor fraud is no laughing matter. Vendors can damage your cashflow and reputation.

- Invoices from companies with names similar to a company you already do business with or similar to a large national company.
- Consecutively numbered invoices. Chances are you are not the only customer a legitimate company has.
- Invoices from businesses that are not folded. Most legitimate bills are sent through the mail and thus are folded.
- Business addresses that are off site drop boxes. ie...Mailboxes etc.
- Over billing. There are several variations of this.
  1. Issuing credits for merchandise or services and never posting the credit to your account.
  2. Billing for items never received and then demanding payment.
  3. Quick counting at the dock or point of delivery.
  4. Providing inferior products or products not specified in contracts.

**Customer &/or Participant Fraud:**
As the economy gets tighter and people have to do more with less this area has grown.

- Consecutive ID numbers such as social security or state ID numbers.
- Unreasonable dates. This is usually birthdates of children or parents living in the same household.
- Duplicate receipts

**How to keep the criminals out:**

- Reference checks
- Background checks
- Due diligence for vendors
- Require Conflict of Interest Statements from employees and vendors.
- Require Bonds

**Conclusion:**
Many frauds could have been prevented or stopped in their early stages thus preventing large losses and damage to many companies. By simply being aware of the signs of potential fraud you have already taken a large and proactive step in protecting your operation.