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**FRAUD – RED FLAGS**

**Introduction:** Based on a recent survey by the Association of Certified Fraud Examiners (ACFE), occupational fraud substantially increases organizational costs. It is a **myth** that fraud is a big scheme that should have been uncovered sooner and easy to detect. **Fraud starts small and just gets bigger and bigger, until** **something becomes noticeably different or unusual.**

***What is Fraud?*** Occupational Fraud is defined by the ACFE as:*“The use of one’s occupation for personal enrichment through the deliberate misuse of misapplication of the employing organization’s resources or assets.”*

***What is a Red Flag?*** A **red flag** is a set of circumstances that are unusual in nature or vary from the normal activity. Red flags are warnings that something could be or is wrong and may need to be investigated further**.** Remember that **red** **flags** do not indicate guilt or innocence but merely provide possible warning signs of fraud**.**

**Do not ignore a red flag*.*** Studies of fraud cases consistently show that red flags were present, but were either not recognized or were recognized but not acted upon by anyone. If you recognize a red flag, you may report it to school or district administration or the internal audit department. If you wish to remain anonymous, you may use the Ethics Hotline.

**Sometimes an error is just an error.** An appropriate person should investigate red flags, however, sometimes an error is just an error and no fraud has occurred. In that case, an investigation does no harm and may simply identify practices that need to be corrected.

***What are the red flags that are common to most types of fraudulent activity?***

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| Lifestyle changes: expensive cars, jewelry, homes, clothes, and/or significant personal debt and credit problems | Abnormal number of expense items, supplies, or reimbursement to the employee |
| Refusal to take vacation or sick leave | Photocopied or missing documents |
| Managers display significant disrespect for regulatory bodies | Creditors or collectors appearing at the workplace |
| Staff are lax or inexperienced in their duties | Easily annoyed at reasonable questioning |
| Borrowing money from co-workers | Bragging about significant new purchases |
| Carrying unusually large sums of money | Providing unreasonable responses to questions |
| Rewriting records under the guise of neatness in presentation | Behavioral changes: indication of drugs, alcohol, or gambling |
| Purchases that bypass the normal procedures | Personal or inappropriate purchases on the p-card |
| inappropriate charges related to travel | Theft of cash from deposits |
| Theft of inventory items, supplies or goods | Falsifying time card with time not worked |

***Fact: Researchers conclude that the most common reason employees commit fraud has to do with motivation – the more dissatisfied the employee, the more likely he or she will engage in criminal behavior.***

***Conclusion***

**Employees who notice that red flags are ignored may mistakenly believe that it is okay to game the system or that they won’t get caught. A little fraud soon becomes a large one if left to grow.**