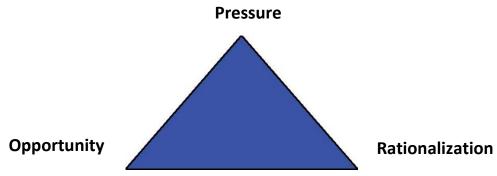
## **Fraud Triangle**

# <u>Overview</u>

The following describes what is known as the fraud triangle. In order for fraud to occur, all three elements have to be present. School districts and charter schools can take steps to influence all three legs. Employees should be cognizant of pressures and how they relate to the school district's and charter school'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 district 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 fraud for 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 school district and charter school 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 appropriate authorities (including the superintendent's office and internal auditing) should be contacted.

Common	Wheeler and Dealer
Personality	Domineering/Controlling
Traits of	Don't like people reviewing their work
Fraudsters	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
Common	Medical Problems – Especially for a loved one
Sources of	
Pressure	Spouse loses a job
	Divorce  Outside a proper has in a company to the contract of the contrac
	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
	<ul> <li>Need to maintain a certain lifestyle ('champagne tastes' or 'keep up with the Jones') –</li> </ul>
	person (or 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
Changes in	<ul> <li>Suddenly appears to be buying more material items – houses, cars, boats, clothes,</li> </ul>
Behavior	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 or mention family or financial problems
	<ul> <li>Exhibits signs of drug or gambling addiction (absenteeism, become manipulative, look ill,</li> </ul>
	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)