



## **Internal Audit Department**

### Examples of Red Flags of Fraud

Remember that red flags do not indicate guilt or innocence but merely provide possible warning signs of fraud. By themselves, they don't necessarily mean anything, but the more that are present, the higher the risk that fraud, waste and abuse is occurring, or could occur. The below lists are not meant to be all inclusive.

#### **Unusual activity that is suspicious as to:**

- Time (of day, week, month, year, or season)
- Frequency (too many, too few)
- Places (too far, too near, and too "Far out")
- Amount (too high, too low, too consistent, too alike, too different)

#### **Common Types of Fraud in Higher Education**

- Personal purchases on the procurement card
- Inappropriate charges to a travel or account payable voucher
- Theft of money or inventory items
- Theft of cash from deposits
- Falsifying time card with time not worked
- Misappropriation of Assets
- Conflict of Interest
- Unauthorized System Changes
- Forgery
- Nepotism
- Identity Theft
- Use of University resources for personal benefit
- Misrepresentation/Concealment of material facts
- Using duplicate invoices to pay vendors
- Frequent use of sole-source procurement contracts

#### **Factors contributing to fraud:**

- Lax or ineffective internal controls
- Ineffective management
- Management or control overrides
- Collusion among employees over whom there is little to no supervision
- Lack of account review reconciliation
- When significant policies are absent or outdated (e.g. code of ethics, transparency, periodic monitoring of business and academic performance indicators, management systems, internal audit procedures and annual external financial audits)
- The presence of unethical behavior poses significant risk to any organization



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#### **Behavioral Red Flags**

- Employee lifestyle changes: expensive cars, jewelry, homes, clothes
- Behavioral changes: these may be an indication of drugs, alcohol, gambling, or just fear of losing the job
- Living beyond one's means. Bragging about significant new purchases
- Carrying unusually large sums of money
- Financial difficulties.
- An unusually close association with a vendor or customer.
- Control issues or an unwillingness to share duties.
- Irritability, suspiciousness, and defensiveness; easily annoyed at reasonable questions
- Refusal to take vacation or sick leave.
- Refusing promotions
- Complaining about their lack of authority.
- Increased smoking.
- Photocopied or missing documents - Making up excuses for missing documentation or shortages and finding scapegoats.
- Providing unreasonable responses to questions

#### **Department/ Management Red Flags:**

- High employee turnover for key employees either by quitting or firing
- Operating on a crisis basis
- Lack of segregation of duties in key areas
- Reluctance to provide information to auditors
- Managers engage in frequent disputes with auditors
- Managers who regularly assume subordinates duties
- Management decisions are dominated by an individual or small group
- Managers display significant disrespect for authority
- There is a weak internal control environment
- Personnel are lax or inexperienced in their duties
- Decentralization without adequate monitoring
- Low employee morale

#### **Fiscal Fraud:**

- Excessive number of checking accounts
- Frequent changes in banking accounts
- Unauthorized bank accounts



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- Sudden activity in a dormant banking accounts; Bank accounts that are not reconciled on a timely basis
- Discrepancies between bank deposits and posting
- Excessive number of year end transactions
- Unexpected overdrafts or declines in cash balances
- Abnormal number of expense items, supplies, or reimbursement to the employee

### **Payroll**

- Inconsistent overtime hours for a cost center
- Consistent overtime
- Overtime charged during a slack period
- Overtime charged for employees who normally would not have overtime wages
- Budget variations for payroll by cost center
- Employees with duplicate Social Security numbers, names, and addresses
- Employees with few or no payroll deductions
- Failure to deactivate or terminate access after employees have separated from a position, unit or the university
- Falsifying timesheets for a higher amount of pay
- Creating fictitious employees and collecting the paychecks

### **Purchasing**

- High volume of purchases from new vendors
- Purchases that bypass the normal procedures
- Vendors without physical addresses
- Vendor addresses and/or phone numbers matching employee data
- Purchasing agents that pick up vendor payments rather than have it mailed
- Using duplicate invoices to pay vendors
- Frequent use of sole-source procurement contracts