



## The flags are red for a reason

- **Employees should always be on alert for irregularities or “red flags.”**
- **Unusual circumstances or a variance from the norm are red flags that could indicate that fraud is present.**
- **When red flags are detected, additional inquiry and investigation should be completed.**

Why is she the only person that vendor will ever talk to about their account? Why is he so reluctant to provide me with information? How is it that company XYZ always wins the bid/contract? Why doesn't she ever take a vacation or stay home from work when she's sick? How can he afford another new sports car? Where is she getting the money to take another trip to Hawaii? Why was I told not to say anything about that to the auditors?

The answers to these questions might be legitimate and reasonable. However, the answers might also indicate that something inappropriate, possibly fraudulent, is going on. The events that caused the questions to be asked are actually warnings or “red flags.”

A red flag is a set of circumstances that is unusual in nature or a variance from normal activity. It is a warning to the presence of risk—something that could be amiss and in need of further inquiry or investigation. Red flags are not absolute indicators of guilt or defalcation but merely out-of-the-ordinary warning signs that fraud might be present.

Fraud case studies consistently show that red flags were present, but either not recognized or were recognized but not acted upon. These ignored warnings present a license for perpetrators to carry on illegal activities and represent missed opportunities for organizations to detect and possibly prevent fraud.

Establishing an organization culture in which employees are encouraged to be alert to irregularities and red flags, and feel empowered to raise concerns is one of the most effective strategies an organization can use to reduce fraud. It is equally important that employees, particularly supervisors and senior management, receive regular fraud training—what common fraud indicators are, what to look for, how to respond, and how to follow-up. It is through appropriate response to warning signs that fraud can be detected sooner, or prevented altogether, and losses reduced and associated costs minimized.

*Suggested action steps:* Ensure fraud-related training is provided to all employees (give consideration to inclusion in employee Individual Development Plans). Training should:

1. Instruct employees to pay attention to their surroundings and to be on the look-out for unusual events and changes from the norm;
2. Identify, define, and discuss common red flags, fraudster profiles, and fraud schemes; and,
3. Detail the reporting mechanisms for employees to use for reporting red flags and suspicious activities.

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