

THE FRAUD TRIANGLE



Three conditions are generally present when fraud occurs: pressure, rationalization, and opportunity.

Pressure: The motive or incentive which provides a reason to commit the fraud. This could include lifestyle issues, such as debts from gambling or drugs. Other reasons to commit fraud may be family pressures like unemployment, medical costs, or other crises, including business pressures such as unrealistic deadlines.

Rationalization: The ability to justify the person's actions in his or her own mind. Examples of rationalization may include:
"I don't get paid what I am worth!"
"I intend to pay it back later."
"Nobody will miss the money."
"There is no other way to manage my problems."
"If they don't know I'm doing it, they deserve to lose the money."

Opportunity: The circumstance within the organization that allows the fraud to occur and not be detected. Opportunity most likely results from a lack of or ineffective internal controls, especially lack of segregations of duties. It also can result from seemingly well-designed control activities that are not enforced or monitored.

MS 43A.38 CODE OF ETHICS FOR EMPLOYEES IN THE EXECUTIVE BRANCH

This statute provides requirements for acceptance of gifts or favors, use of confidential information, use of state property, and conflicts of interest.

MMB STATEWIDE OPERATING POLICY 0103-01, CODE OF CONDUCT

Employees must report violations of the [Code of Conduct policy](#) and any significant internal control weaknesses through the designated agency channels and/or other proper authorities.

MS 609.456 REPORTING TO LEGISLATIVE AUDITOR REQUIRED

In some cases, such as theft, embezzlement, or unlawful use of public funds or property, employees must report what they suspect to the Minnesota Office of the Legislative Auditor.

MS 181.932 WHISTLEBLOWER ACT

[The Whistleblower Act](#) protects employee's identity and prohibits the employer from disciplining, firing, threatening, penalizing, or discriminating against employees who make good faith reports.

Report suspected fraud through your agency's established reporting contact(s) and to the Minnesota Office of Legislative Auditor at: <http://www.auditor.leg.state.mn.us/reporting.htm>

My Agency Reporting Contact(s) Are:



Fraud Prevention: A Quick Reference Guide

It is Everyone's Job to Help Combat Fraud

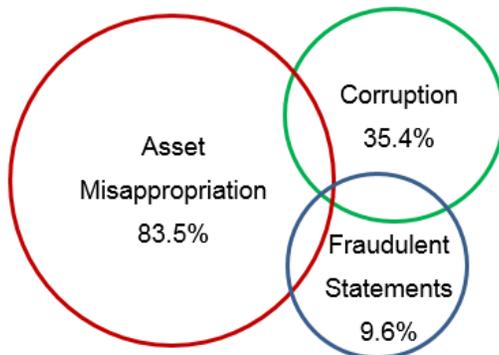
A publication of Minnesota Management & Budget
Internal Control and Accountability Unit
<http://mn.gov/mmb/internalcontrol/>
mn.gov/nofraud

Definitions of Fraud

Legal Definition (Black's Law Dictionary): A knowing misrepresentation of the truth or concealment of material fact to induce another to act to his or her detriment.

Practical Definition: A deliberate deception to secure unfair or unlawful gain.

Major Types of Fraud*



Source: ACFE Report to the Nations on Occupational Fraud and Abuse, 2016

Asset Misappropriation

Theft or misuse of the organization's resources, including cash, inventories, services, data, or other assets (e.g., theft of agency cash, false billing schemes, inflated expense reports)

Corruption

Misuse of authority or influence in a business transaction in order to gain a direct or indirect benefit (e.g., conflicts of interest, bribery, kickbacks)

Fraudulent Statements and Reporting

Intentional misstatement or omission of material financial or non-financial information

You are on the front line of helping prevent fraud within Minnesota state government.

Potential Signs of Fraud

Employees:

- Living beyond his or her means
- Financial difficulties, including significant personal debt or credit problems
- Unusually close association with certain vendors or customers
- Excessive control issues or unwillingness to share duties and work-related information
- Lifestyle problems, including addiction, instability, or family issues
- Excessive complaints about inadequate pay
- Refusal to take vacations or sick leave
- Refusal to sign Code of Conduct certifications

Management:

- High employee turnover
- Decisions dominated by one or few individuals
- Timesheets routinely completed by supervisors, rather than by employees
- Disrespect or disregard for oversight or regulatory bodies
- Reluctance to provide information to outside parties, auditors or employees
- Restrictions on employee contact with auditors
- Circumvention or override of control activities
- Unwillingness to act on employee reports of irregularities, internal control weaknesses, or suspicious activities
- Shrewd, aggressive, or unscrupulous behavior to advance his or her own interests
- Refusal to implement internal controls

Vendors, Contractors or Grantees:

- Missing or illegible signatures
- Lack of documentation for invoices
- Cost overruns and/or insufficient justification for budget changes
- Unusually close relationship with a single employee
- Repeatedly missed deadlines or requests for extensions, including consistently late financial or progress reports
- Alterations or obliterations on documents
- Requests for advances or all funds drawn down early in the contract period
- Lack of contractor or grantee internal controls
- Reluctance to provide requested information
- Unavailability for appointments or phone calls

YOU Can Help Fight Fraud

- **If you see something, say something:** Report suspected fraud through established agency channels.
- **Set the Tone:** Promote the highest standards of ethical behavior by setting an appropriate tone within your organization.
- **Take Time to Train:** Educate employees about potential fraud risks and make sure they understand their internal control responsibilities.
- **Offer a Reporting Channel:** Provide employees and vendors with a method for reporting unusual or suspicious activity. Maintain an open door policy to encourage open feedback and discussion about matters that are important to employees.
- **Spread the Word:** Deal promptly and directly with known fraudulent activity. Periodically remind employees of their responsibility to report suspected fraud.
- **Assess Risk:** Include fraud risks in the risk assessments performed on your most critical business processes.
- **Control It:** Review and update internal control activities that mitigate your key risks.
- **Write It Down:** Document and update operating policies and procedures to reflect all key control activities. Hold employees accountable by including key control activities in position descriptions.
- **Break It Up:** Verify that adequate segregations of duties are in place. Rotate employee duties if necessary, and enforce mandatory employee vacations.
- **Watch the Little Things:** Be alert to potential "red flags." Examine relevant documentation before approving. Review reconciliations and exception reports for unusual entries or deviations from normal activity.