

Strange Behavior: Warning Signs of Fraud

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The fifth in a series about preventing fraud from affecting your business.

Certain workplace behaviors can tip you off that an employee may be fleecing your company's assets. Here are some warning signs to watch out for.

Evasive Behavior

Although you should expect all your employees to be completely honest with you, those in sensitive financial positions must understand that they are held to an even higher standard of accountability and disclosure.

Be alert to any of the following types of evasive behavior:

- Not being able to answer direct questions, not providing requested information, or dawdling when asked to provide information.

If your accounting system is set up properly, competent accountants or bookkeepers will be able to answer your questions fairly quickly.

Recommendation: Make sure you've got a good accounting system in place, that the people who use it are well trained, and that they can provide the necessary management reports for tracking your company's finances. Write reporting duties into employees' job descriptions.

- Answering a question with a question, or directing your attention elsewhere. For example:

You: "Why are our materials costs so much higher than we budgeted for?"

Response #1: "Hmmm. I don't know. Do they really seem that high to you? Could the lumber company have changed their pricing structure?"

Response #2: "That's a good question. I'll take a look at it. By the way, are you planning on taking Fred to the International Builders' Show with you this year?"

Neither response answers your question, and both subtly "push" you in another direction without directly refusing your request. You may even forget that you asked the question.

Recommendation: Make notes about questions you want answered. Then set a time or date to follow up on the specifics.

- The "look over there" approach.

An employee up to no good may try to direct your attention to another area before you begin probing areas where fraud is occurring. For example, if he or she is stealing from the materials expense account, the conversation may go like this:

You: "Thanks for giving me those monthly reports. I'll look through them right now."

Bookkeeper: "I noticed our materials cost is a little high, but what I'm really concerned about is the amount of overtime that's showing up! We really need to focus on working with the production supervisors so they begin to get those overtime costs under control!"

Recommendation: When you review information, carefully scrutinize areas that need analysis. Don't allow yourself to get sidetracked by someone else's opinions or comments.

- Providing incomprehensible or overly complex answers.

Accounting can seem very technical and even boring to most business owners. Nevertheless, a good accountant should be able to clearly explain even the most complicated set of transactions in basic terms. Don't let your bookkeeper or accountant talk "over your head."

Recommendation: If you don't understand something, keep asking questions until you do. Request pictures, flowcharts, or written explanations if necessary. If your current bookkeeper or accountant can't explain it to you, look for outside assistance. It's your money, so you should be motivated to understand what it's doing for you.

- Distracted, confused, disorganized, or inept demeanor.

Employees who seem to be in over their heads may be trying to hide fraudulent activity. Your assets are at risk if you often hear comments such as:

"You know, I've been trying to finish those bank reconciliations, but my sister-in-law has been in the hospital, and my son just got a promotion and had to move so he needed help, and Fred down the hall asked me to help him with his mailing, and then...."

"I don't understand how this whole accounting software package works. I put the numbers into this account and the next thing I know they show up in a different account or they're just missing altogether! I'm totally confused."

"I've just had so much going on here, I don't know where those papers went. They must be around here somewhere. Maybe under this stack of papers...."

"I don't know anything about numbers at all! I can't add 2 and 2 and make them come out to 4. No, I don't have any idea at all how we sent three identical checks out to the same vendor. I must have been thinking about something else when I was entering bills."

Recommendation: All of us are occasionally distracted, confused, or disorganized. But if you notice a pattern of any of these behaviors, immediately find different caretakers to safeguard your financial and accounting operations.

- Defensive, indignant, or flippant attitude.

Never accept disrespectful, non-accountable responses to your questions. They're another tip-off of possible fraud.

Say you ask an employee, "Why are our materials costs so much higher than the budgeted amount?" Non-acceptable responses may include:

- "What? Don't you think I entered the numbers correctly?"
- "What? Don't you trust me? Do you think I'm stealing from you?"
- "Beats me. I have no idea what those guys in purchasing are doing."
- "I just enter the bills. I don't analyze the numbers."

Recommendation: Remember — it's your business and your money. Assuming you respect your employees, give them adequate training, and compensate them fairly, you have every right to expect full explanations, or an immediate, helpful offer to investigate and provide the requested information.

Acting Out: Other Odd Traits

- Possessiveness.

A healthy sense of job ownership is good, but embezzlers often are extremely possessive about their work and environment. Be on the lookout for employees who:

- Never take vacation or sick time, even when urged to do so.
- Aren't willing to cross-train others to do their work.
- Resist sharing duties that act as checks and balances (e.g., not wanting someone else to mail out vendor checks).
- Work unusual and/or excessive hours without a valid reason.
- Closely guard and/or lock up their desks and papers.

Recommendation: Insist that employees take one- to two-week vacations, cross-train others in their job, and that their desks and papers remain accessible to the company owner.

- Signs of ongoing stress.

It takes a lot of time and attention to keep a fraud afloat. Not surprisingly, embezzlers often work long hours. Guilt can take a toll on those who carry on lengthy schemes and cause its own set of "symptoms."

While respecting their rights, see what you can learn about employees who appear to be:

- Overly stressed
- Irritable
- Self-medicating
- Having family problems

Recommendation: No matter how busy you are, it's important to pay attention to your employees' emotional states. Ongoing stress can indicate other situations that may pose a risk to your business. Monitor stressed employees closely.

Note and Warning: After fraud is discovered, company owners and managers often realize they ignored warning signs or didn't know what to look for. That's why it's so important to learn about behavior patterns that may precede or accompany fraudulent activity. Please remember, however, that recognizing any of the behaviors discussed above doesn't mean that fraud is actually in progress.

If you suspect an employee of wrongdoing, respect the person's legal rights and immediately locate a qualified professional to assist you. [Read Protecting Yourself From Fraud: Principles of Self-Defense](#) for some pointers on how to proceed.