

**CLIENT MEMO  
RED FLAGS**

Fraudsters exhibit behavioral warning signs of their misdeeds. These red flags are not to be ignored as they might be the key to detecting or deterring a fraud.

**Employee Red Flags –**

- Employee lifestyle changes: expensive cars, jewelry, homes, clothes
- Significant personal debt and credit problems
- Addiction problems: substance abuse, gambling, and excessive drinking
- Refuse to take vacation or sick leave
- Incomplete or untimely bank reconciliations
- Easily annoyed at reasonable questioning

**Management Red Flags –**

- Reluctant to provide information to auditors
- Managers engage in frequent disputes with auditors
- Managers display significant disrespect for regulatory bodies
- Refuse to use serial numbered documents
- Photocopied or missing documents

**Organization Red Flags –**

- High employee turnover, especially in those areas which are more vulnerable to fraud
- Lack of segregation of duties in vulnerable areas
- Accounting personnel are lax or inexperienced in their duties
- Decentralization without adequate monitoring
- Unrealistic performance expectations or financial goals

Once a red flag is noted, the next step is to evaluate its impact on the organization by performing observation and/or financial analysis. Some red flags may have no financial effect but require improvement or a change of procedure; whereas others may call for a further investigation.

Red flags are warnings that something could be or is wrong. Employees and management who are well informed of these warning signs are the first line of defense against fraud. According to studies conducted by Association of Certified Fraud Examiners, 47.1% of fraud cases are discovered through tips from employees. We can provide on-site fraud detection and prevention training, and assist you to evaluate red flags and formulate corrective actions as needed. If you would like to discuss further, please do not hesitate to contact us.

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