UNDERSTANDING FRAUD

Every year billions of dollars are lost to fraud and corruption resulting in inefficiencies, aborted projects, financial challenges, organizational failure, etc. It is often a baffling question how fraud can happen in an organization. So how does fraud happen? What contributes to it?

Haywood Hunt and Associates Inc. wrote an excellent article on this topic. You can view it at https://www.haywoodhunt.ca/understanding-why-fraud-occurs-the-fraud-triangle/. The article is re-published with the permission of the author.

The Fraud Triangle model, developed by the well-known criminologist Donald R. Cressey, helps us understand the rationales and circumstances behind instances of occupational fraud. The triangle is composed of the following:

1. Opportunity
Nothing would happen if not presented with an opportunity. In fact, normally honest individuals can be seduced to commit fraud if there is an opportunity. Fraudsters take advantage of weak internal controls, low likelihood of detection, poor security, and lack of clear policy enforcement to abuse or use their position of trust to get some personal gain. All it takes is one weak moment and opportunity!

Effective internal controls can reduce Opportunity and likely prevent fraud and theft.

2. Pressure
Need and greed are common motivations for committing fraud. The temptation becomes too great when an opportunity presents itself as well. If pressured, an individual may commit fraud to cover needs to pay bills, sustain an addiction (such as gambling or drugs), meet productivity targets in one’s work, and afford a better lifestyle, etc.

3. Rationalization
Even ‘nice’ people can commit fraud! It all boils down to what they tell themselves to be able to excuse such as act as ‘acceptable’. Believe it or not, some very righteous individuals possess a character, attitude, and set of ethical values that allows them to commit dishonest acts intentionally. Fraudsters often have a very normal view of themselves and do not consider their actions as wrong, or even bordering on criminal. It is often the case that employees who steal from the company rationalize their acts by reasons such as not getting promoted, not getting a raise, feeling that they are being paid too little, or thinking that their employer ‘deserves’ to be fleeced.

IN THE NEWS

- In December 2020, California State University, Chico placed four of its employees in the College of Business on leave following a fraud investigation that found more than $1-million of misappropriated spending of university money. - February 15, 2021

- The former comptroller for Bossier Parish Community College (BPCC), was sentenced for conspiracy to commit wire fraud and was ordered to pay restitution in the amount of $286,987.08. - February 22, 2021

- Two employees stole $307,000 from the University of Alabama at Birmingham (UAB) parking machines. - March 1, 2021