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If You're Waiting For A Sign, This Might Be It - Six Behavioral Red Flags Of Fraud

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According to the Association of Certified Fraud Examiners' ("ACFE") 2018 *Report to the Nations*, in 85% of the cases studied, fraudsters displayed at least one behavioral red flag. In 50% of the cases, multiple red flags were evident.

Would you be able to recognize the six behavioral red flags of fraud if presented within your own organization?

The ACFE's findings are based on a study of 2,690 cases of occupational fraud that were investigated between January 2016 and October 2017.

By far, the most common behavior exhibited by perpetrators was living beyond their means. This red flag was identified in 41% of the cases. The most common red flags identified and their percentage of occurrence were as follows:

1. Living beyond one's means (41%) – a person's lifestyle seems to exceed their income or available funds;
2. Financial difficulties (29%);
3. Unusually close association with a vendor or customer (20%);
4. Excessive control issues or unwillingness to share duties (15%);
5. Recent divorce or family problems (14%); and
5. A general "wheeler-dealer" attitude (13%).

Some of the other red flags occurring less often, but still reported as being present, included: irritability, suspiciousness, or defensiveness; addiction problems; complained about inadequate pay; excessive pressure from within the organization; social isolation; past legal problems; and refusal to take vacations. The study also showed that no behavioral red flags were displayed in 15% of the cases.

The study pointed out that 45% of fraudsters committed some type of non-fraud workplace violation.

That finding indicates a possible link between occupational fraud and other forms of misconduct in the workplace.

The top five examples of non-fraud-related misconduct and their percentage of occurrence in the cases studied were as follows:

1. Bullying or intimidation (21%);

2. Excessive absenteeism (14%);
3. Excessive tardiness (10%);
4. Excessive internet browsing (7%); and
5. Sexual harassment (4%).

Another category of red flags identified in the study is human resources-related red flags. Human resources-related red flags sometimes occur as a result of events such as poor performance evaluations or loss of pay or benefits which can ultimately cause financial stress or resentment towards the organization. The study showed that human resource-related flags were present in 39% of the cases, with negative performance evaluations and fear of job loss being the top two indicators.

If you think your organization might be a victim of fraud contact Joel Rosenthal at 412.697.5387 or jrosenthal@sdcpa.com or Alyssa Brunatti at 412.697.5371 or abrunatti@sdcpa.com. For similar articles, [visit the Our Thoughts On blog](#).

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