

Tackling the "Fraud Triangle" Part 1 of 3

Has your Fire District or Volunteer Fire Department (VFD) ever had petty cash, or checks and cash collected for annual fund drives, dues or donations come up missing? Have cash or other valuable items disappeared without explanation or the ability to account for them? Addressing the elements within the "fraud triangle" will help lessen the chance of fraud occurring within your organization.

Just what is the "fraud triangle"?

The fraud triangle is, in essence, a coming together of three elements – **pressure, opportunity** and **rationalization** – where each must be present for fraud to occur. The good news is that your Fire District or VFD officers and leaders can take steps to influence all three elements, thereby lessening the chance that fraud will take place.

Pressure

All leaders, employees and volunteers should be aware of personal **pressures** and how they relate to your organization's overall fraud risk. Employees and volunteers can be under varying degrees of pressure at any given point. It's these pressures which at times lead people to commit fraud.

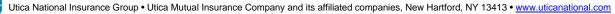
Examples of the pressures your employees and volunteers may be under include substance abuse/addiction, gambling debt and addiction, excessive medical bills or other bills, or tastes that are extravagant and expensive. In some cases, individuals may just be greedy; however, in the majority of fraud cases, a significant financial pressure is present where the person experiencing it believes he or she simply can't share the burden with anyone else. Guilt, shame or embarrassment may be contributing factors.

An awareness of these behaviors – commonly referred to as the *"red flags for fraud"* (see examples in part 3 of this alert series) – can help Fire Districts and VFD's identify those who may be in need of assistance and reduce the impact these pressures have on individuals' willingness to commit fraud.

Opportunity

The ability of individuals to commit fraud is referred to as **opportunity** within the fraud triangle. Opportunity exists when would-be fraudsters perceive that no one will be able to detect their activities. The best deterrent for the opportunity to commit fraud is a set of strong internal controls – particularly over petty cash, collections, donations, gifts and other financial transactions taking place. Having active management oversight of financial activities, and processes and procedures in place help mitigate the perception that opportunity exists. Your Fire District or VFD has significant control, possibly more than you are aware of, over the opportunity element.

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Rationalization

When individuals are under financial pressure and opportunity to steal exists, the final element needed to complete the fraud triangle is **rationalization**.

Individuals often believe they can rationalize – or justify – their acts of stealing. This is commonly based on the notion that what they are doing is valid or done with good intentions, and that these intentions outweigh the bad act. It's then the rationalization element becomes an often critical component to the person moving forward with the fraud. Creating and maintaining a strong culture of ethical behavior throughout the organization can help reduce people's ability to rationalize acts of fraud.

Remember: education, prevention and early detection must be paramount in your efforts to reduce your fraud risk. Early identification of employees and volunteers exhibiting behavior that might signal they are under financial or other pressure hinges on good training and a culture that supports and promotes ethical behavior. Training in ethics and the "red flags for fraud" will better-position your organization's leaders, employees and volunteers to prevent or detect fraud in its early stages.

Finally, a strong internal control process and procedures – particularly when it comes to petty cash, and checks and/or cash collections will lessen the opportunity for someone to steal funds and assets from your organization.

For further discussion of internal controls, the red flags for fraud and best practices to safe guard your petty cash funds or collections and donations, read *Tackling the "Fraud Triangle" parts 2 and 3* in this series.

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