



## Tackling the “Fraud Triangle” Part 3 of 3 - Controlling your Fire District’s or VFD’s fraud exposure - The Red Flags for Fraud

All of your Fire District or VFD’s leaders, particularly those who have responsibility for oversight and administration of your organization’s resources, should become familiar with common red flags for fraud. When present, these red flags serve as warnings that your fraud risk might be higher. However, their presence does not necessarily indicate that fraud has occurred or will occur in the future.

Note, too, that employees and volunteers may exhibit one or two of the red flag behaviors listed and not commit acts of fraud. When assessing your fraud risk, keep in mind if multiple red flags are exhibited that fall within the three groupings below and you have a weak internal control process/procedure (see Tackling the “Fraud Triangle” Part 2), your organization is even more vulnerable to fraud. If cash/checks or property are missing, a thorough investigation should be initiated.

The red flags below are not a complete representation of the most common red flags. Always consult your organization’s attorney and law enforcement professionals for further guidance on suspicions or actual cases of fraud.

### **Common Personality Traits of Fraudsters**

Are “Wheeler-Dealers”; Domineering/Controlling; Don’t like people reviewing their work; Strong Desire for Personal Gain; Have a “Beat the System” Attitude; Live Beyond Their Means; Unable to Relax; Don’t take vacation or sick time or only take leave in small amounts; Often display a drastic personality or behavioral change.


### **Common Sources of Pressure**

Medical Problems – Especially for a loved one; Spouse loses a job; Divorce; Criminal Conviction or Civil Lawsuit; Purchase of a new home, a second home, or a home remodel; Need to Maintain a Certain Lifestyle – Person (or their spouse) either likes expensive things or feels pressure to “keep up with” or “outdo” others regarding material possessions; Excessive Gambling; Drug or Alcohol Addiction.

### **Changes in Behavior**

Suddenly appears to be buying more material items – houses, cars, boats, clothes, jewelry, electronics, etc.; Starts to carry unusual amounts of cash; Creditors/Bill Collectors show up at work or call frequently; Borrows money from co-workers; Becomes more irritable or moody; Becomes unreasonably upset when questioned; Starts coming in early or staying late; May start to mention family or financial problems; Exhibits signs of a drug or gambling addiction (absenteeism, become manipulative, looks ill, exhibits inconsistent or illogical behavior, has a loss of sleep or appetite, etc.).

Copyright 2010 by the Utica Mutual Insurance Company, all rights reserved. This material may not be copied, reproduced or distributed in any fashion, print or electronically, in whole or part, without the express permission of the Company. The information contained in this publication has been developed from sources believed to be reliable. It should not, however, be construed or relied upon as legal advice and Utica National accepts no legal responsibility for its correctness or for its application to specific factual situations.

 Utica National Insurance Group • Utica Mutual Insurance Company and its affiliated companies, New Hartford, NY 13413 • [www.uticanational.com](http://www.uticanational.com)

## **Administering petty cash funds, gifts, donations and other fund collections –**

### **Controlling petty cash funds:**

- Limit your organization's number of petty cash funds.
- Keep petty cash (as well as any cash and checks received for fund drives, donations, collections and gifts) in a segregated, locked, secure place (for example: registers, safes, locked secured cabinets) until safely deposited in a bank account. Access to the secured area should be restricted to authorized personnel only. The secured area should be locked when not occupied.
- Cash receipts retained on the premises overnight should be minimized and only minimal amounts of petty cash should be kept on hand.
- Require original (no photocopies) receipts to disburse petty cash. Maintain the receipts in the petty cash fund box for reconciling. The original receipts should be approved and signed by an appropriate, authorized individual, such as the treasurer or financial officer. The individual signing should not be the same as the one(s) being reimbursed.
- Any person who wishes to be reimbursed from petty cash should indicate on their original receipt what was purchased and the purpose of the purchase.
- The petty cash fund should not be used for personal expenses, personal loans or the cashing of personal checks.
- Responsibility for a petty cash account should be vested in only one person (with a designated back up for disbursements when the custodian of the account is out).
- The custodian of the petty cash fund is responsible for regularly reconciling the fund. (The sum of cash plus original receipts plus any outstanding reimbursements should equal the full, original amount of the fund.)
- Petty cash checking accounts should be reconciled monthly by a person other than the custodian.
- Surprise counts of petty cash should be made periodically by a person other than the custodian of the fund.
- In the event of an unexplained petty cash shortage, follow your organization's procedures for suspected theft. Discrepancies in the account should be brought to the attention of department/organization officers immediately.

### **Controlling annual fund drive, gifts, donations and other monetary collections:**

- Incoming cash must be made a matter of record as soon as possible.
- Bank deposits must be made at least once daily unless otherwise authorized in writing by the treasurer or chief financial officer. Regardless of frequency of bank deposits, all checks and cash should be secured at the end of each day in the centralized designated secure/locked area.
- Use security measures that will best protect cash assets when making deposits.
- Deposits should be reviewed by an employee who was not involved in the cash collection process. Authenticated, duplicate deposit slips should be retained and compared with amounts recorded in cash receipts records.
- Prepared deposits should be kept in a locked safe until picked up or deposited.
- Require an employee with no cash handling responsibilities to verify the amounts actually deposited equal the amounts from the log or receipts, not from the receipt voucher.
- Maintain a manual or electronic log of all cash, checks and credit card payments received (include check numbers). This log should list the amount received, its form (cash, check or credit card), the payor and the purpose of the payment.
- Provide sequentially numbered receipts for all payments received, regardless of payment type (cash, check or credit card). Two-part forms should be used. Receipts should only be issued after the transaction is complete and all cash/check/other funds have been collected.
- Using a stamp, immediately restrictively endorse checks received.
- A balance and summary of all cash receipts should be prepared daily when warranted.
- Two people should open the mail when cash or checks are expected. Remittances by mail should be listed in duplicate at the time the mail is opened. A person other than the one opening the mail should prepare the listing.
- Amounts of currency contained in each item of mail should be verified. Documents enclosed with the currency received should be date stamped or dated and initialed by the employee opening the mail.

It is always advisable to consult with your financial advisory team, your organization's attorney and law enforcement professionals when instituting financial controls and/or initiating an investigation into possible fraud.

Copyright 2010 by the Utica Mutual Insurance Company, all rights reserved. This material may not be copied, reproduced or distributed in any fashion, print or electronically, in whole or part, without the express permission of the Company. The information contained in this publication has been developed from sources believed to be reliable. It should not, however, be construed or relied upon as legal advice and Utica National accepts no legal responsibility for its correctness or for its application to specific factual situations.



Utica National Insurance Group • Utica Mutual Insurance Company and its affiliated companies, New Hartford, NY 13413 • [www.uticanational.com](http://www.uticanational.com)