



Fraud With A Side of Red Flags

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Meet the Presenter



Jamie Amos, PhD, PMP, CFE

Senior Manager

Email: jamie.amos@us.forvismazars.com

Phone: 770-377-1887

forvismazars.com

Meet the Presenter



Agenda

1. Introduction
2. What is Fraud?
3. Why Do People Commit Fraud?
4. Let's Talk About Trust
5. What is a Red Flag?
6. Why Do People Ignore Red Flags?
7. Red Flags Game
8. Interesting Facts About Fraud
9. Fraud Risks in Remote Work Environments
10. Most Common Types of Fraud



Key Takeaways

1. Outside factors contribute to someone committing fraud
2. Good people commit fraud
3. Focus on perceived opportunities
 - Take the person out of the picture – TRUST IS NOT A CONTROL
 - Assess the ENVIRONMENT, not the person
4. Perpetrators of fraud come in all sizes and shapes
5. Remote work can be a benefit to some and not to others.



Learning Objectives

By the end of this session, participants will:

1. Recognize common fraud schemes in government processes.
2. Identify red flags in real-world scenarios.
3. Apply ethical decision-making and internal controls.
4. Understand escalation and reporting protocols.

**“The first and
worst of all frauds
is to cheat
oneself.”**



“It is always right to detect a fraud, and to perceive a folly; but it is very often wrong to expose either”



“The fraudster’s greatest liability is the certainty that the fraud is too clever to be detected.”



What is Fraud



What is Fraud

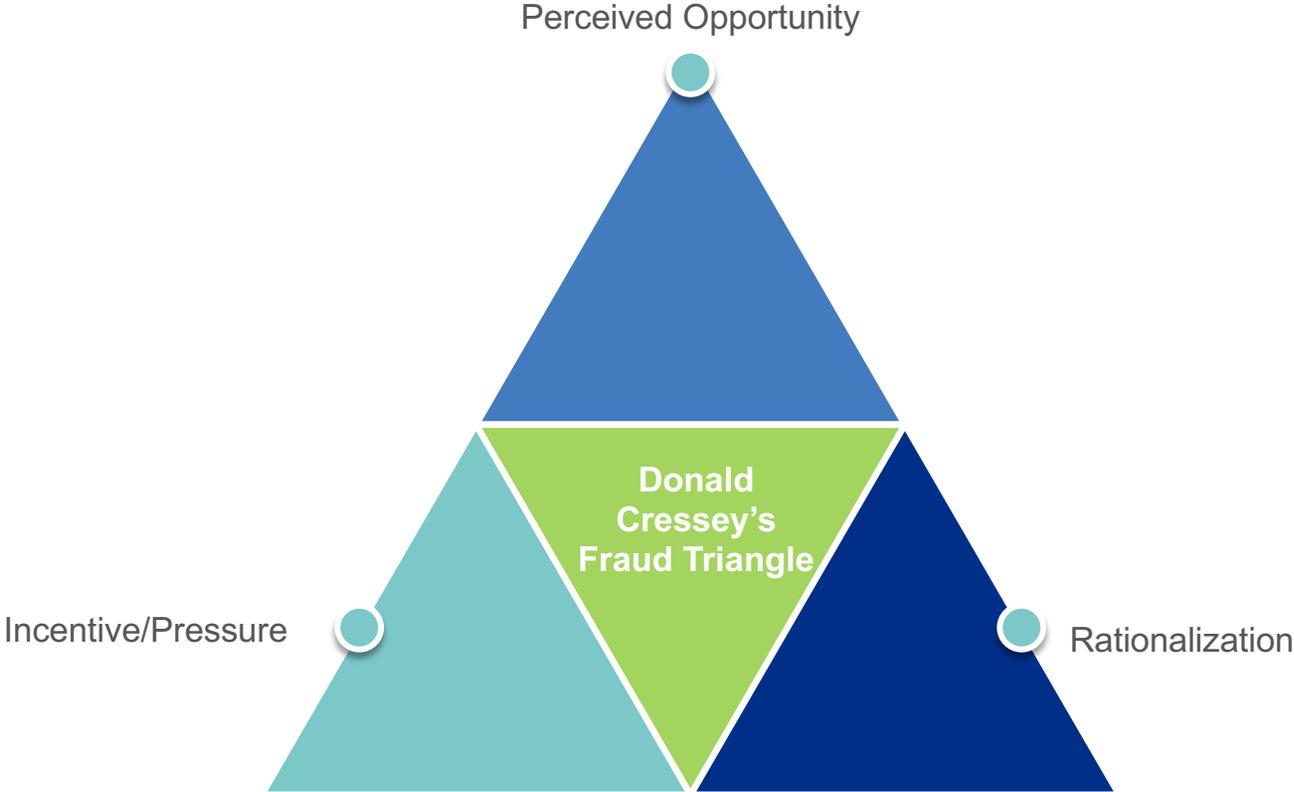
- Fraud is a deliberate act (**or failure to act**) with the intention of obtaining an unauthorized benefit, either for oneself or for the institution, by using deception or false suggestions or suppression of truth or other unethical means, which are believed & relied upon by others

Why Do People Commit Fraud?

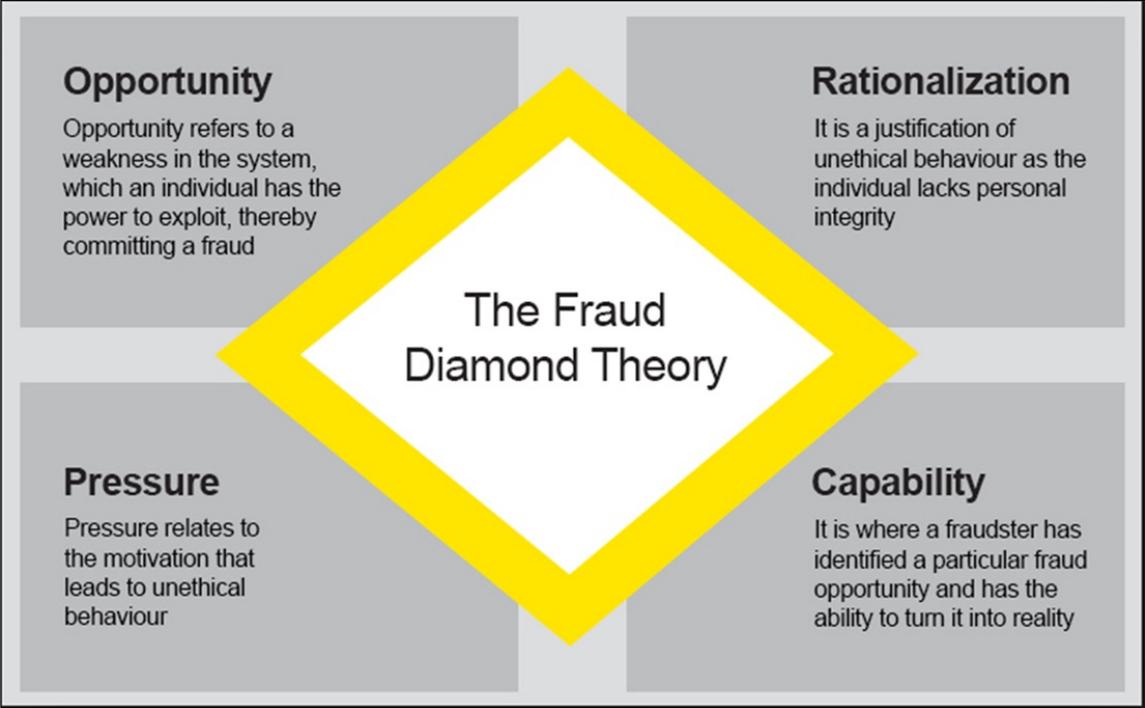
Pole Question 1



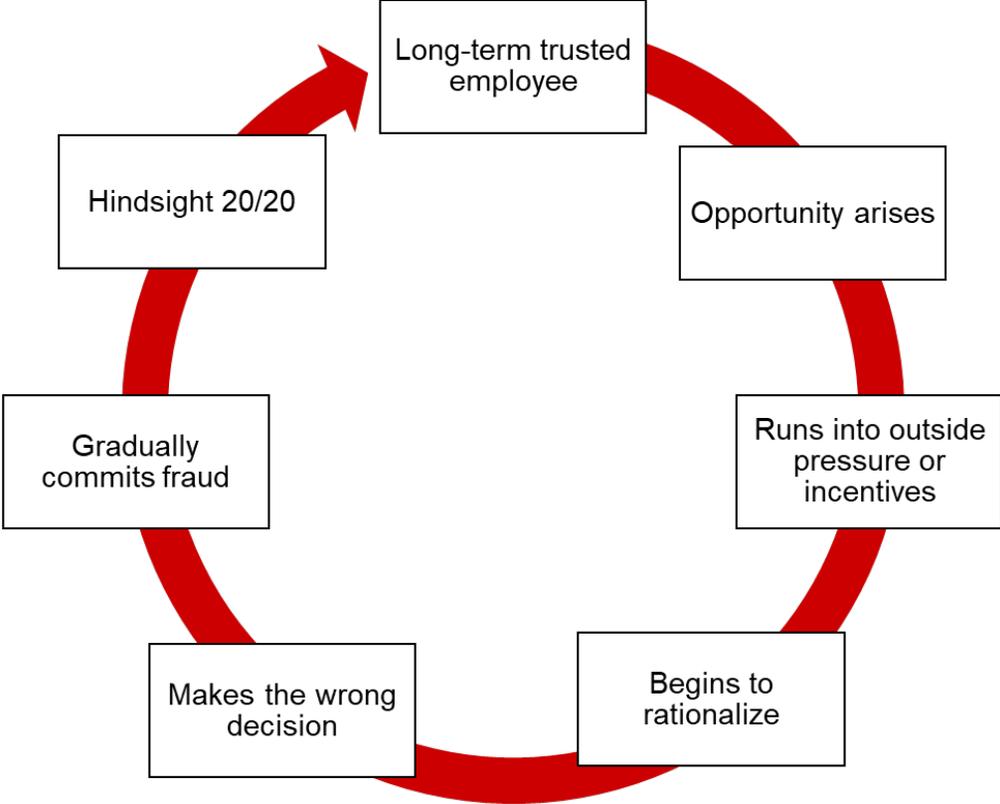
Enabling Factors



Fraud Diamond



The Fraud Cycle



**Let's Talk About
Trust**

Pole Question 2



Let's Talk About "TRUST"

- **Trust**

- Trust is not an internal control
- Trust, at its core, is a firm belief in the reliability, honesty, and integrity of someone or something. It involves a willingness to be vulnerable, expecting that the person or thing you trust will act in a way that benefits you.

- **Trust Exercise**

- Think of someone you trust.
- What qualities do they possess?
- What would you trust them with?
- WHAT IF?

What is a Red Flag?



What is a Red Flag

- Red flags are warning signs or indicators that suggest the possibility of fraudulent activity within an organization's operations, financial records, or employee behavior. They do not confirm fraud, but they signal areas that require closer scrutiny and investigation. These indicators often arise from anomalies, inconsistencies, or behaviors that deviate from normal patterns.

Why Do People Ignore Red Flags

In Romantic Relationships

- **Denial & Comfort** - It's easier to deny problems than to confront them or end a relationship.
- **Hope & Belief in Change** - People often see potential and believe they can change their partner or that things will return to how they were.
- **Fear of the Unknown** - The uncertainty of breaking up can feel scarier than staying in an unsatisfying, known situation.
- **Investment & Inertia** - Having invested time and emotion, people resist starting over, making them more likely to overlook flaws.
- **Confirmation Bias** - People look for evidence that confirms their initial positive impression, downplaying contradictory signs.

In Business Relationships

- **Too Close To The Situation** - Being so involved in the day-to-day process that you can't see what is happening right under your nose.
- **Hope & Optimism** - Believing issues will resolve themselves or partners will change, rationalizing poor behavior.
- **Denial** - Avoiding painful realities or uncomfortable truths, a defense mechanism against facing major problems.
- **Ego** - Leaders may fear appearing weak or incompetent by admitting mistakes or asking for help, especially in competitive environments.
- **Trust** - An unwillingness to believe someone they trust could be involved in unethical behavior or fraud.

Red Flags to Watch For

List of Things to Watch

- Lifestyle indicators: Sudden wealth, expensive purchases
- Work habits: Refusal to take vacations, excessive overtime
- Relationships: Close ties with suppliers or customers
- Documentation gaps: Missing invoices, altered records
- Unusual transactions: Large, frequent, or complex payments
- Control weaknesses: Lack of segregation of duties
- Behavioral changes: Defensive or secretive attitude
- Accounting anomalies: Irregular revenue recognition or expense manipulation

Behavioral Red Flags

- Living beyond means (luxury lifestyle inconsistent with salary)
- Financial difficulties or personal debt
- Unusually close association with vendors/customers
- Control issues or unwillingness to share duties
- Irritability, suspiciousness, or defensiveness
- “Wheeler-dealer” attitude (overly shrewd or secretive)
- Bullying or intimidation
- Divorce or family problems

Transactional and Process Red Flags

- Off-book transactions or payments outside official records
- Lack of transparency and documentation in procurement
- Non-competitive bidding or favoritism in awarding contracts
- Unusual payments or lavish gifts to employees
- Involvement of unnecessary intermediaries
- Inconsistent quality of goods/services accepted
- Confidential information leaks to favored bidder

Financial Statement Red Flags

- Unexplained discrepancies in financial statements
- Sudden revenue spikes without matching cash flow
- Frequent changes in accounting policies
- Last-minute journal entries improving financial performance
- Missing documents or duplicate payments

Examples of Missed Red Flags in Real Fraud Cases

Enron Scandal

Complex financial statements and use of special purpose entities were ignored. Auditors failed to question nontransparent disclosures.

WorldCom

Improper capitalization of expenses was a clear accounting anomaly, but internal and external auditors overlooked it.

Bernie Madoff Ponzi Scheme

Consistent, unrealistic returns and lack of transparency were major red flags dismissed by investors.

Tyco International

Extravagant executive spending and unauthorized transactions were ignored due to weak oversight. Thousands of consumer complaints and suspicious agent activity were not acted upon, leading to \$100M forfeiture.

Examples of Missed Red Flags in Real Fraud Cases

1. Wirecard (2020)

Missed Red Flags:

Fake transaction documents presented to auditors.

Unverifiable cash balances of €1.9 billion (Euros).

Bribes offered to auditors to overlook irregularities.

Impact: Wirecard collapsed after years of inflated financial statements, causing billions in investor losses.

2. Luckin Coffee (2020)

Missed Red Flags:

Fabricated sales figures totaling \$310 million.

Aggressive growth targets without supporting operational data.

Impact: Stock delisted from NASDAQ; massive reputational damage.

3. Theranos (2015–2018)

Missed Red Flags:

Lack of independent validation of technology.

Suppression of whistleblowers and internal dissent.

Impact: Investors and patients misled; executives convicted of fraud.

Examples of Missed Red Flags in Real Fraud Cases

4. Volkswagen Emissions Scandal (2015)

Missed Red Flags:

Internal knowledge of defeat devices in diesel engines.

Compliance concerns ignored for short-term gains.

Impact: \$30+ billion in fines and buybacks; global reputational crisis.

5. Wells Fargo Fake Accounts (2016)

Missed Red Flags:

Internal complaints and customer grievances.

Unrealistic sales targets fostering unethical behavior.

Impact: Millions of unauthorized accounts created; \$3 billion settlement.

Pole Questions 3

Fraud Detection Game - Instructions

Sample Scenario

Situation: You are a procurement officer reviewing bids for a \$10M infrastructure project.

- Vendor A offers a lavish gift before contract award.
- Vendor B's bid is 30% higher than market rate but has political backing.
- Documentation for Vendor C is incomplete.

Player Task: Identify red flags, apply policy, and decide whether to escalate or approve.

Scenario 1: Procurement Kickback

Situation:

You are reviewing bids for a \$5M government infrastructure project. One vendor offers you an expensive gift before the contract award.

Options:

- A) Accept the gift and proceed with evaluation.
- B) Politely decline the gift and report the incident to the ethics hotline.
- C) Ignore the gift and continue without reporting.

Best Action:

B) Politely decline and report to the ethics hotline.

Reason: Accepting or ignoring creates a conflict of interest and violates procurement integrity rules. Reporting ensures transparency and compliance.

Discussion: Why gifts create conflicts of interest; reporting channels.

Scenario 2: Payroll Fraud

Situation:

You notice an employee who processes payroll has created multiple new employee records, all with similar bank account details.

Options:

- A) Assume it's a data entry error and ignore.
- B) Conduct a surprise audit of payroll records and verify employment status.
- C) Ask the employee directly without documentation.

Best Action:

B) Conduct a surprise audit and verify employment.

Reason: This is a classic “ghost employee” scheme. Independent verification prevents collusion and ensures proper controls

Discussion: Ghost employee schemes; importance of independent verification.

Scenario 3: Bribery in Licensing

Scenario 3: Bribery in Licensing

Situation:

A contractor offers a “facilitation fee” to speed up approval of a government license.

Options:

- A) Accept the fee as a normal business practice.
- B) Refuse the payment and escalate to compliance.
- C) Delay the process until the fee is paid.

Best Action:

B) Refuse and escalate.

Reason: Facilitation payments are illegal under anti-bribery laws and government ethics standards.

Discussion: Anti-bribery laws; zero-tolerance policy.

Scenario 4: Vendor Overbilling

Situation:

A vendor submits an invoice for \$250,000 for services that were budgeted at \$150,000. No supporting documentation is provided.

Options:

- A) Approve the invoice to maintain good relations.
- B) Request detailed documentation and compare to contract terms.
- C) Split the invoice across two months to avoid detection.

Best Action:

B) Request documentation and compare to contract.

Reason: Overbilling is a common fraud tactic. Verification against contract terms and deliverables is essential.

Discussion: Overbilling is a common fraud tactic. Verification against contract terms and deliverables is essential.

Scenario 5: Identity Theft in Government Systems

Situation:

You overhear a manager discussing plans to use employees' personal data to apply for credit cards.

Options:

- A) Ignore the conversation to avoid conflict.
- B) Report the incident to the fraud hotline immediately.
- C) Confront the manager privately.

Best Action:

B) Report immediately to the fraud hotline.

Reason: Identity theft involving PII is a serious crime. Reporting ensures investigation and protects victims.

Discussion: Identity theft involving PII is a serious crime. Reporting ensures investigation and protects victims.

Scenario 6: Pandemic Relief Fraud

Situation:

An applicant requests expedited approval for a COVID-19 relief loan and offers a “bonus” for quick processing.

Options:

- A) Accept the bonus and approve the loan.
- B) Decline the bonus and flag the application for review.
- C) Approve the loan without reporting the offer.

Best Action:

B) Decline and flag for review.

Reason: Offering incentives for expedited government funds is a fraud indicator.

Escalation prevents misuse of public funds

Discussion: Offering incentives for expedited government funds is a fraud indicator.

Escalation prevents misuse of public funds.

Key Takeaways

- **Always document and escalate suspicious activity.**
- **Use fraud hotlines, compliance teams, and internal audit protocols.**
- **Never rationalize unethical behavior as “normal practice.”**

Interesting Facts About Fraud



Types Of Organizations Victimized By Occupational Fraud

FIG. 20 WHAT TYPES OF ORGANIZATIONS ARE VICTIMIZED BY OCCUPATIONAL FRAUD?

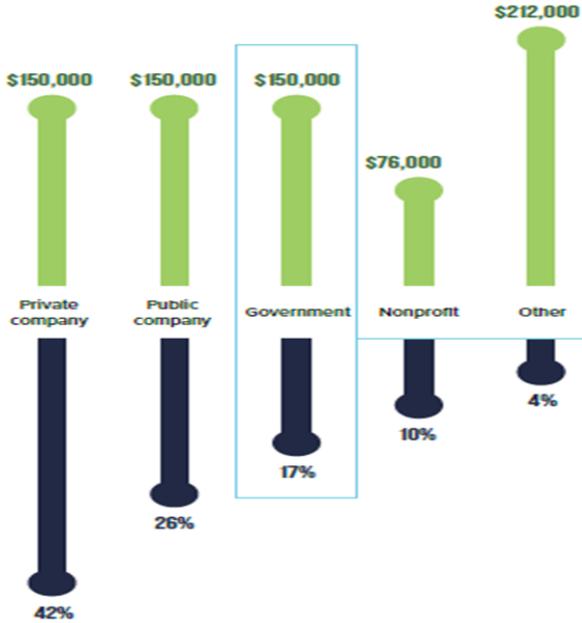
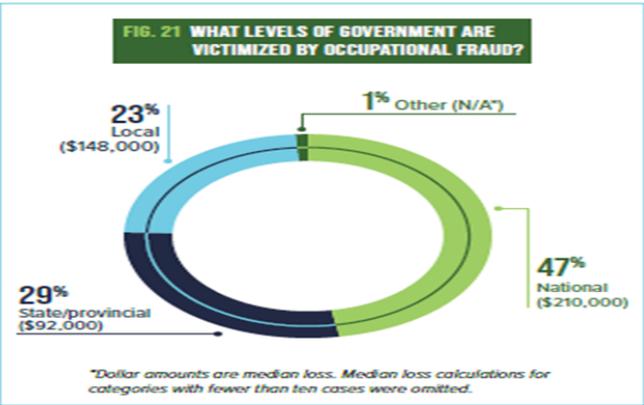
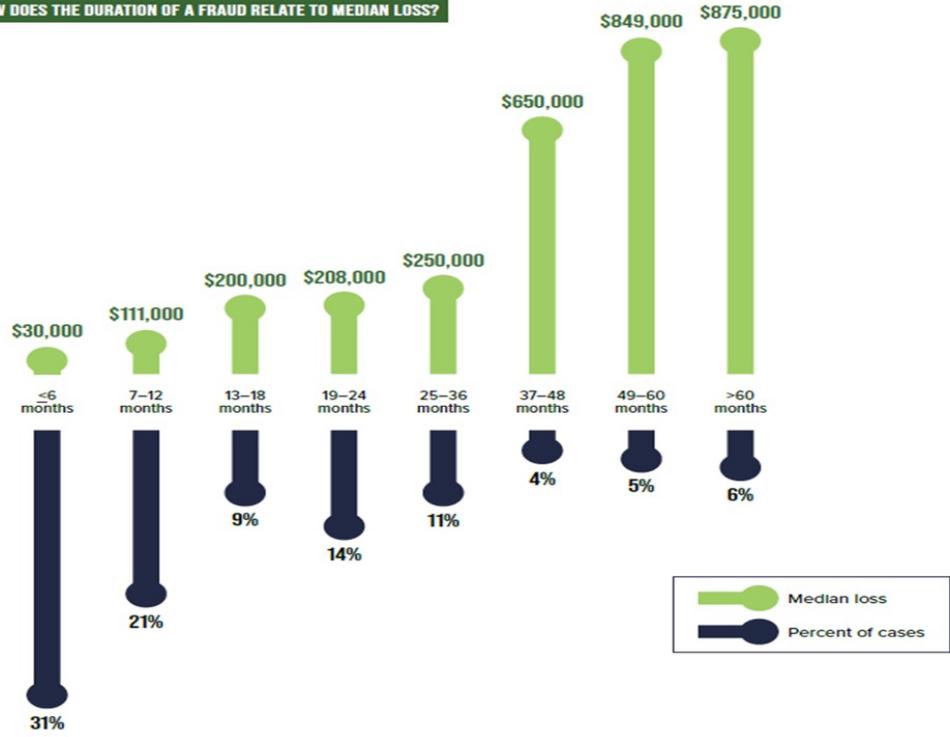


FIG. 21 WHAT LEVELS OF GOVERNMENT ARE VICTIMIZED BY OCCUPATIONAL FRAUD?



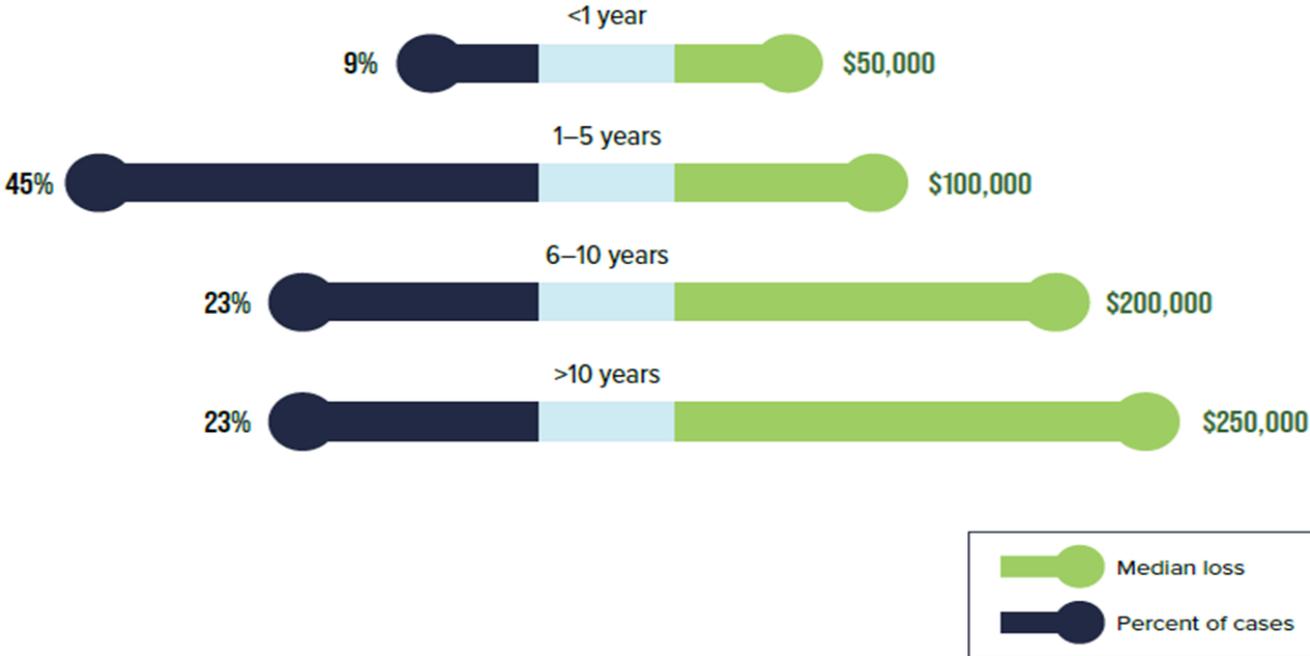
Duration

FIG. 7 HOW DOES THE DURATION OF A FRAUD RELATE TO MEDIAN LOSS?



Tenure

FIG. 42 HOW DOES THE PERPETRATOR'S TENURE RELATE TO OCCUPATIONAL FRAUD?



Greatest Fraud Risk By Department

| Department* | Number of cases | Percent of cases | Median loss |
|------------------------------|-----------------|------------------|-------------|
| Operations | 227 | 14% | \$100,000 |
| Accounting | 202 | 12% | \$208,000 |
| Sales | 202 | 12% | \$75,000 |
| Customer service | 154 | 9% | \$55,000 |
| Executive/upper management | 146 | 9% | \$793,000 |
| Purchasing | 109 | 7% | \$143,000 |
| Administrative support | 98 | 6% | \$88,000 |
| Finance | 82 | 5% | \$285,000 |
| Warehousing/inventory | 64 | 4% | \$200,000 |
| Facilities and maintenance | 59 | 4% | \$150,000 |
| Information technology | 52 | 3% | \$156,000 |
| Manufacturing and production | 43 | 3% | \$120,000 |
| Board of directors | 37 | 2% | \$800,000 |
| Human resources | 29 | 2% | \$100,000 |
| Marketing/public relations | 23 | 1% | \$321,000 |
| Research and development | 9 | 1% | * |
| Legal | 9 | 1% | * |
| Internal audit | 4 | <1% | * |

*Departments with fewer than ten cases were omitted.

Fraud Types By Department

FIG. 44 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN HIGH-RISK DEPARTMENTS?

| Department | Cases | Billing | Cash larceny | Cash on hand | Check and payment tampering | Corruption | Expense reimbursements | Financial statement fraud | Noncash | Payroll | Register disbursements | Skimming |
|----------------------------|-------|---------|--------------|--------------|-----------------------------|------------|------------------------|---------------------------|---------|---------|------------------------|----------|
| Operations | 227 | 22% | 7% | 10% | 8% | 44% | 13% | 2% | 20% | 12% | 2% | 8% |
| Accounting | 202 | 33% | 19% | 17% | 32% | 36% | 21% | 9% | 16% | 15% | 6% | 21% |
| Sales | 202 | 13% | 9% | 7% | 4% | 49% | 7% | 4% | 20% | 4% | 2% | 12% |
| Customer service | 154 | 10% | 11% | 15% | 12% | 40% | 6% | 2% | 25% | 3% | 3% | 10% |
| Executive/upper management | 147 | 33% | 11% | 10% | 14% | 65% | 24% | 11% | 18% | 16% | 4% | 8% |
| Purchasing | 109 | 33% | 8% | 6% | 4% | 79% | 6% | 4% | 21% | 4% | 3% | 5% |
| Administrative support | 98 | 31% | 15% | 19% | 15% | 46% | 17% | 4% | 18% | 10% | 4% | 20% |
| Finance | 82 | 20% | 23% | 24% | 22% | 45% | 17% | 11% | 11% | 11% | 4% | 13% |



Initial Detection of Occupational Frauds

FIG. 13 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

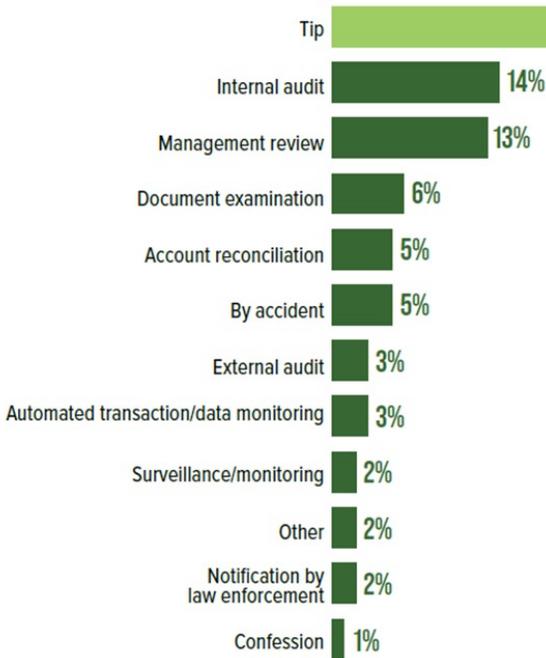


FIG. 14 WHO REPORTS OCCUPATIONAL FRAUD?



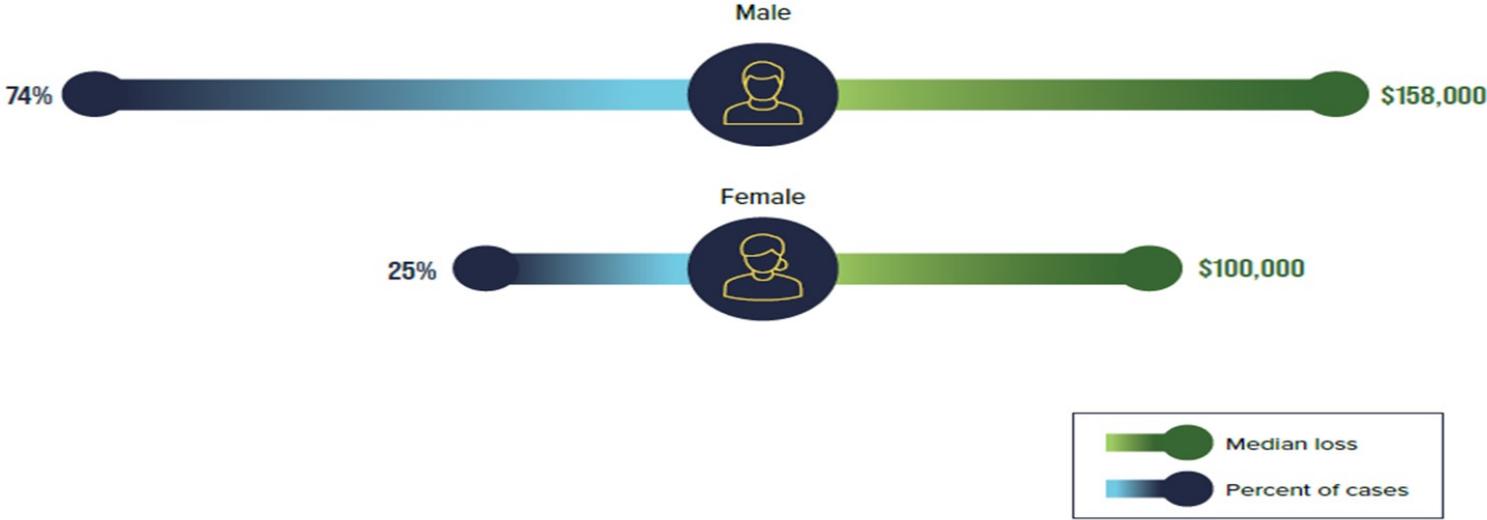
Length of Fraud Schemes Before Detection

FIG. 8 HOW LONG DO DIFFERENT OCCUPATIONAL FRAUD SCHEMES LAST?



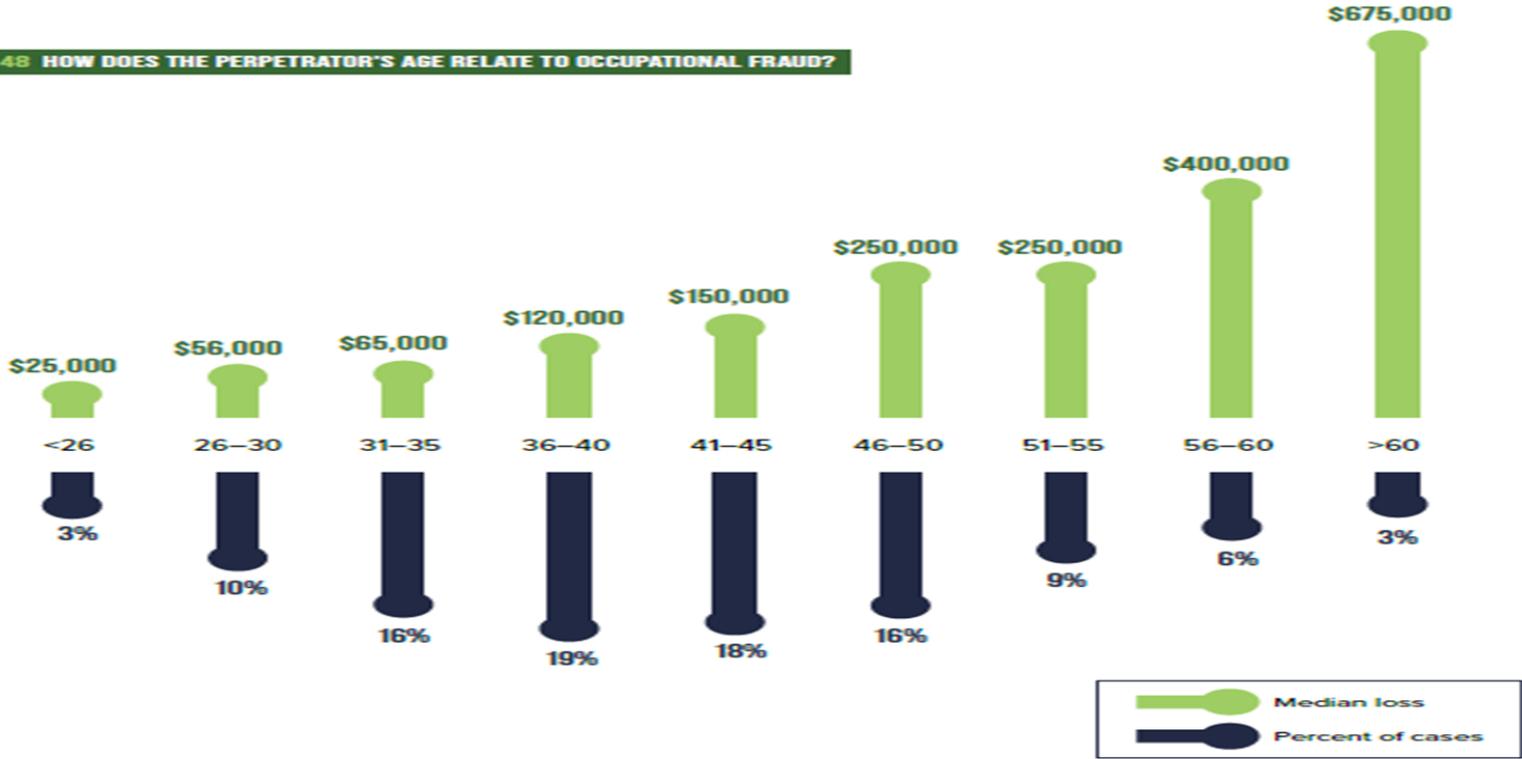
Fraud By Gender

FIG. 45 HOW DOES THE PERPETRATOR'S GENDER RELATE TO OCCUPATIONAL FRAUD?



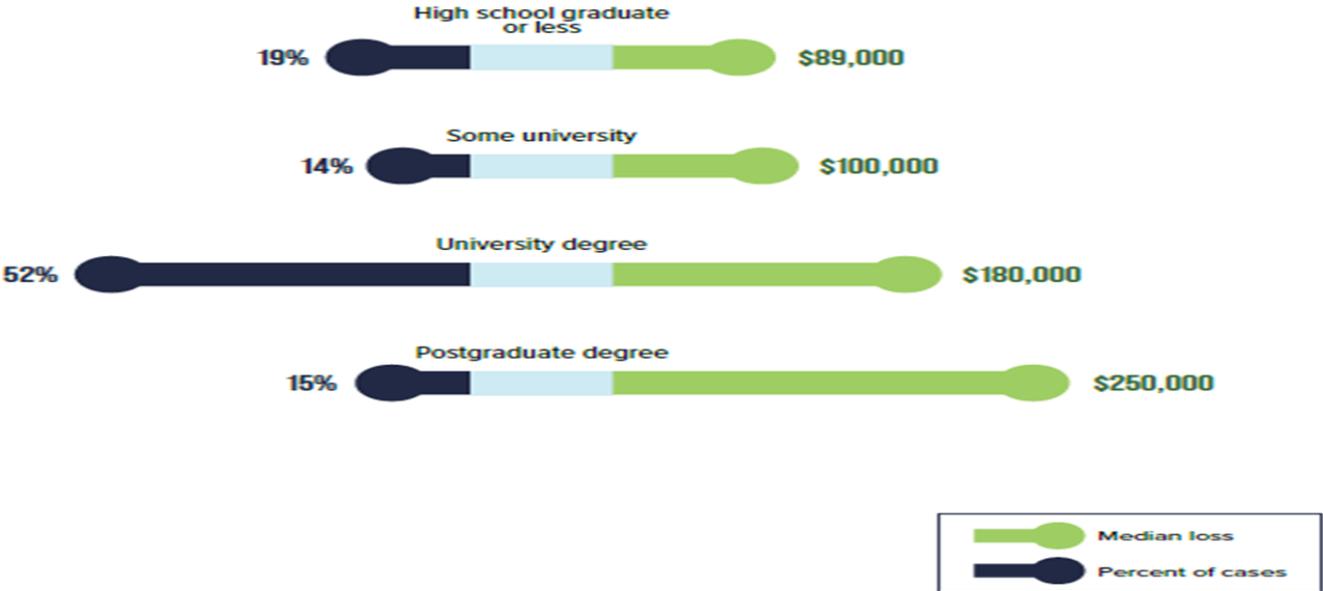
Fraud By Age

FIG. 48 HOW DOES THE PERPETRATOR'S AGE RELATE TO OCCUPATIONAL FRAUD?



Fraud By Educational Level

FIG. 49 HOW DOES THE PERPETRATOR'S EDUCATION LEVEL RELATE TO OCCUPATIONAL FRAUD?



Criminal & Employment Backgrounds

FIG. 51 DO PERPETRATORS TEND TO HAVE PRIOR FRAUD CONVICTIONS?

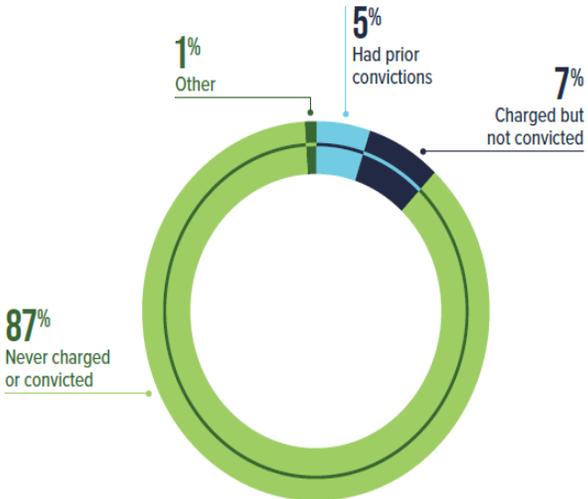


FIG. 52 DO PERPETRATORS TEND TO HAVE PRIOR EMPLOYMENT-RELATED DISCIPLINARY ACTIONS FOR FRAUD?

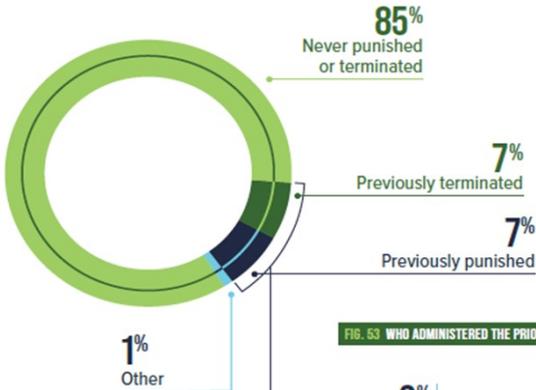
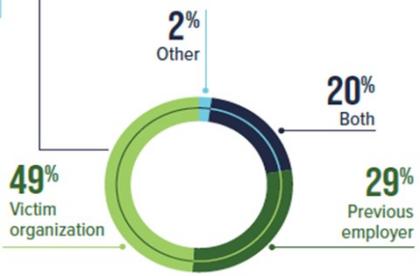


FIG. 53 WHO ADMINISTERED THE PRIOR DISCIPLINE?



Fraud Risks in Remote Work Environments



Challenges Associated with Remote Work

Occupational Fraud

- Time theft
- Locality cost of living
- Overemployment
- Steal corporate data and sensitive information

Low Productivity

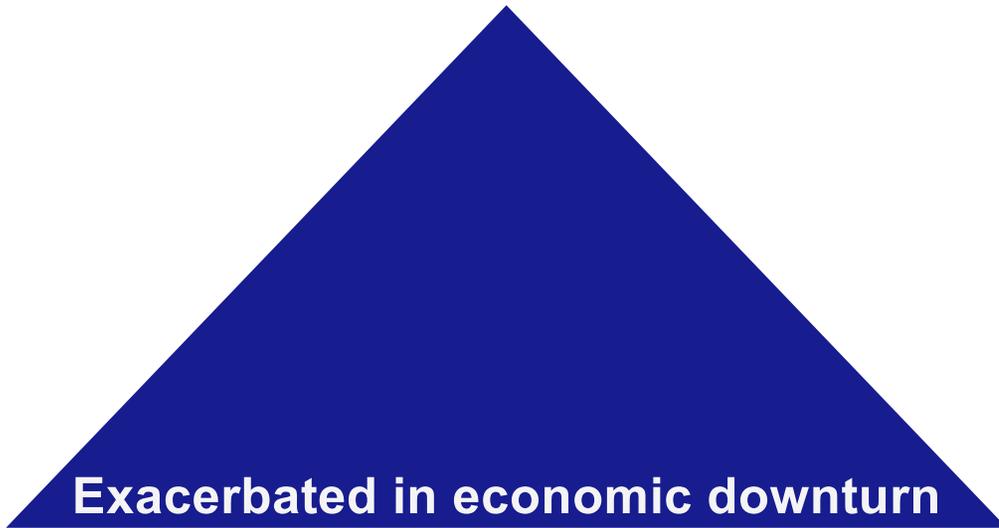
- Running errands
- Other leisure activities

External Data Theft and Cyber Threats

- Lowered sense of awareness of cybersecurity threats

Remote Work Can Increase Risk of Fraud

The biggest threat is from unsupervised employees



Perceived Pressure

- Salaries that don't keep abreast of inflation
- Financial situations

Opportunity

- Physical access and less strict IT controls
- Less managerial oversight

Rationalization

- Emotional disconnect with employer or team
- Many employers still striving to do more with less

Time Theft

Red Flags

- Not responding to emails, chats, or calls during business hours
- Not attending or joining late for phone or video call meetings
- Completing work assignments late
- Taking long or frequent breaks that are unaccounted for
- Logging a full day on timesheets despite starting late or ending early
- Logging a full day despite doing personal and/or non-work activities while on the clock, including outside employment
- Asking for overtime that a manager has not authorized
- Asking a colleague to clock-in and out for them (“buddy punching”)

Strategies for Combatting Time Theft

- Change KPI from time-based to achievement-based targets
- Schedule routine check-ins with employees to assess productivity
- Ask employees to work from the office a few days a week
- Use of technology platforms that indicate activity, or monitoring of computer or network activity logs and phone or video call logs
- Employer Code of Conduct, including penalties for violations, annually read and signed by employees

Overemployment/Moonlighting

Red Flags

- Candidate asks to be hired as a contractor
- Candidate's CV has periods of overlapping employment
- Employee is slow to answer/return emails, chats, and calls
- Employee does not want to be on camera during video calls
- Technology platform/activity tracking indicates employee routinely works outside of normal work hours
- Employees work is often last minute, seems rushed, and often does not meet expectations

Strategies for Combatting Overemployment

- Discuss stance on moonlighting/overemployment in interview
- Employment contract prohibits moonlighting/overemployment
- Ad hoc check-ins with employees to assess productivity
- Ask employees to work from the office a few days a week
- Use of technology platforms that indicate activity, or monitoring of computer or network activity logs and phone or video call logs

Low Productivity

Red Flags

- Declining work quality
 - Frequent mistakes
 - Missed deadlines
- Decreased employee engagement
- Inability to reach reasonable goals
- Exhibiting stress in communications and interactions

Strategies for Combatting Low Productivity

- Emphasize performance rather than hours worked
- Provide the right technology
- Set reasonable goals
- Assist your remote employees in creating a dedicated WFH space
- Eliminate low-quality meetings where an email will suffice
- Practice inclusive communication
- Invest in professional development



Cybercrime

Risks for Remote Worker IT Security

- Weak passwords and lack of multifactor authentication
- Unsecured Wi-Fi networks
- Phishing attacks
- Unsecure home network devices
- Lack of security updates
- Data backup and recovery

Managing Remote Workers to Mitigate Fraud

- Culture of accountability
- Policies regarding remote work
- Cybersecurity training and requirements
- Time-tracking software
- Flexible work schedules
- Office-issued equipment and devices



Most Common Types of Occupational Fraud



Occupational Fraud

Top occupational frauds in public sector

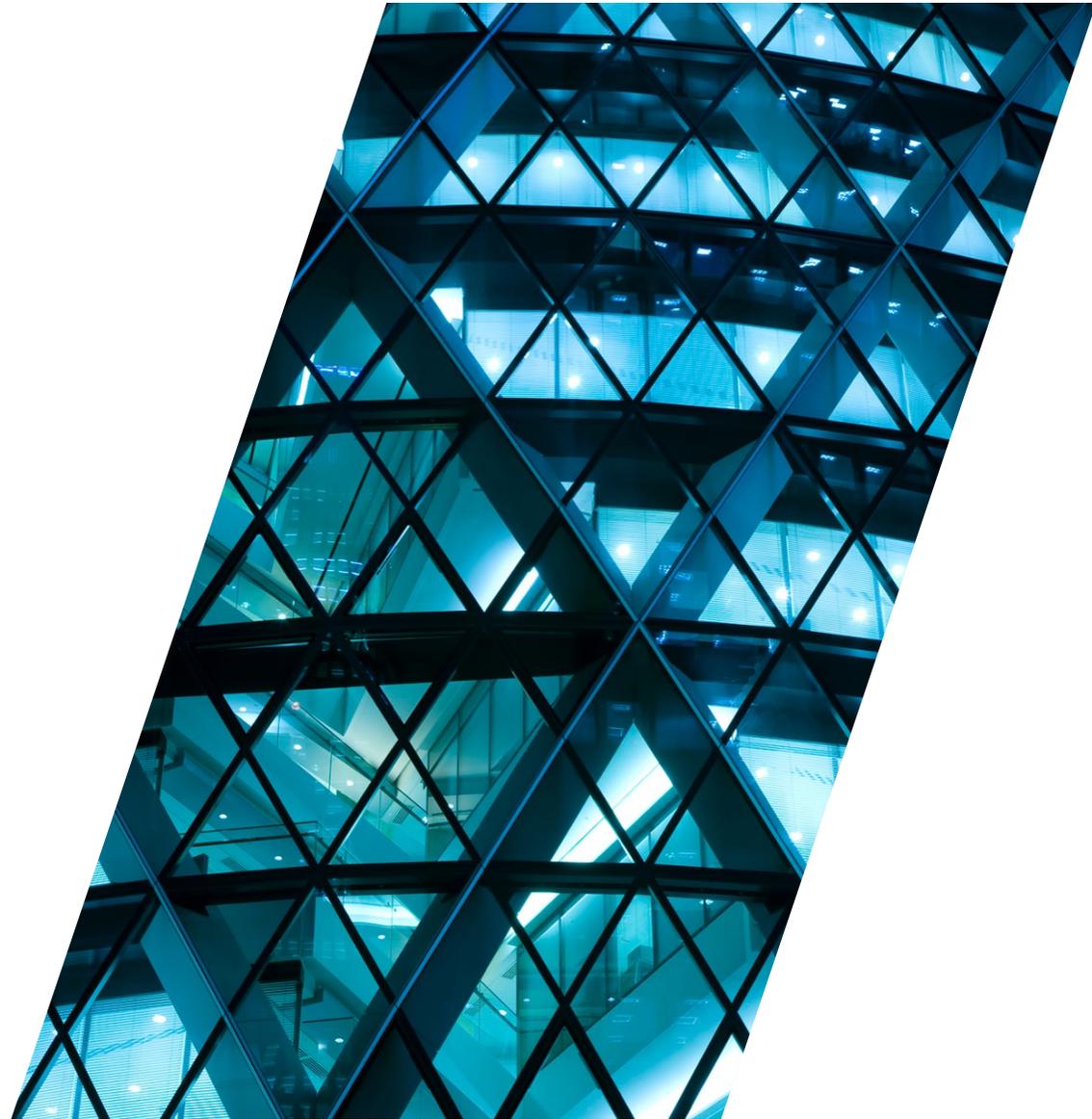
- Corruption (52%)
- Billing (24%)
- Payroll (18%)
- Noncash, Cash Larceny & Expense Reimbursement (each 15%)

FIG. 26 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN VARIOUS INDUSTRIES?

| Industry | Cases | Billing | Cash larceny | Cash on hand | Check and payment tampering | Corruption | Expense reimbursements | Financial statement fraud | Noncash | Payroll | Register disbursements | Skimming |
|---|-------|---------|--------------|--------------|-----------------------------|------------|------------------------|---------------------------|---------|---------|------------------------|----------|
| Banking and financial services | 305 | 12% | 12% | 18% | 14% | 44% | 6% | 5% | 16% | 4% | 4% | 8% |
| Manufacturing | 175 | 27% | 6% | 4% | 7% | 55% | 17% | 6% | 29% | 10% | 1% | 9% |
| Government and public administration | 170 | 24% | 15% | 8% | 14% | 52% | 15% | 4% | 15% | 18% | 4% | 11% |
| Health care | 117 | 38% | 9% | 8% | 12% | 47% | 21% | 1% | 22% | 16% | 2% | 9% |
| Energy | 78 | 19% | 8% | 9% | 8% | 60% | 13% | 4% | 29% | 10% | 3% | 6% |
| Retail | 78 | 17% | 10% | 13% | 5% | 40% | 6% | 0% | 32% | 3% | 9% | 14% |
| Construction | 73 | 38% | 12% | 7% | 19% | 52% | 25% | 10% | 25% | 23% | 4% | 23% |
| Education | 70 | 36% | 9% | 13% | 10% | 43% | 17% | 0% | 16% | 7% | 6% | 19% |
| Insurance | 69 | 19% | 6% | 6% | 20% | 49% | 12% | 9% | 16% | 10% | 6% | 9% |
| Technology | 65 | 28% | 9% | 2% | 9% | 65% | 11% | 3% | 32% | 14% | 0% | 5% |
| Transportation and warehousing | 60 | 18% | 10% | 18% | 7% | 52% | 12% | 2% | 33% | 10% | 3% | 7% |
| Religious, charitable, or social services | 58 | 36% | 17% | 24% | 17% | 45% | 29% | 3% | 10% | 7% | 2% | 16% |
| Information | 52 | 15% | 10% | 10% | 0% | 62% | 10% | 2% | 27% | 6% | 0% | 10% |

Corruption

Corruption is dishonest conduct by those in power.



Corruption and Categories

Corruption is an off-book fraud, so it can be difficult to detect

Categories of Corruption

- Bribery
- Kickbacks
- Illegal gratuities
- Economic extortion
- Undisclosed conflict of interest

Red Flags for Corruption

- Payments often do not go through the organization's accounting records
- Payments can be anything of value, not just cash
- Look for behavioral red flags in employees & vendors
- Look for internal control deficiencies in the procurement process
- Look for lack of transparency & documentation in the procurement process

Behavioral Flags for Corruption

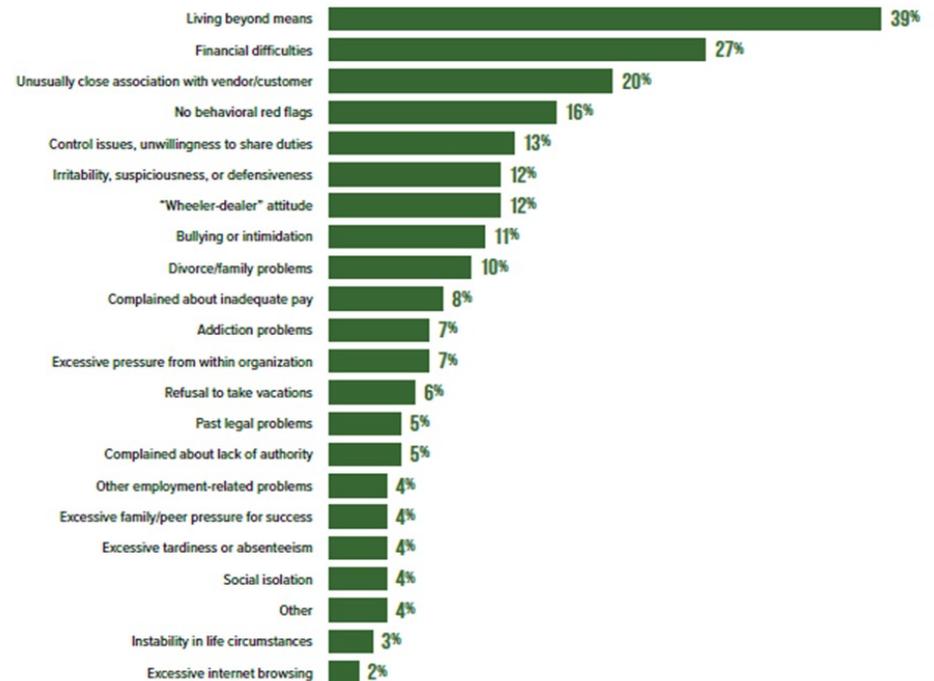
My experience

- Living beyond means
- Too close association with vendors/customers
- Control issues, unwillingness to share duties
- Wheeler-dealer attitude

Digital forensics

- Always check the browsing history on their work computer for evidence of online gaming or checking on casino loyalty/reward points

FIG. 54 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?



Data Analytics for Corruption

- Compare order quantity to optimal reorder quantity
- Compare purchase volumes/prices from like vendors
- Compare quantities ordered & received
- Check for inferior goods (# of returns by vendor)
- Text analytics (analyze the suspected fraudster's email ...)

Prevention & Detection Guidance

- Clearly written policies & procedures, particularly in the procurement area, that provide for appropriate competition
- Monitoring of compliance with policies & procedures
- Transparency
- Protest function
- Fraud or ethics hotline

Fraud Deterrence & Prevention



Initial Detection of Occupational Frauds

FIG. 13 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

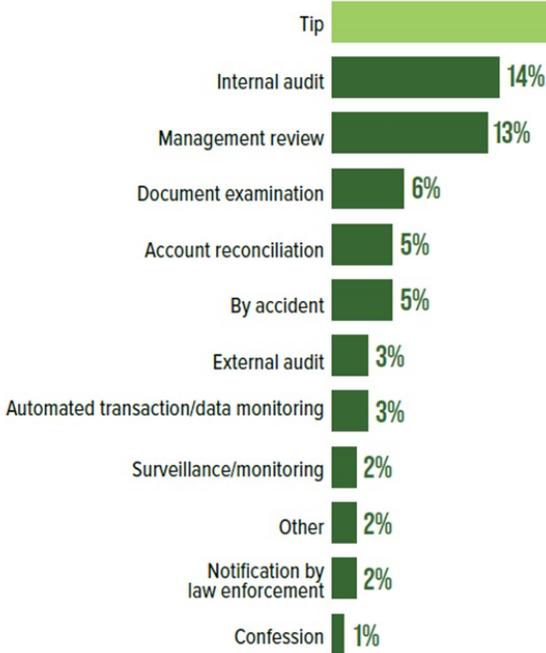


FIG. 14 WHO REPORTS OCCUPATIONAL FRAUD?



Fraud Prevention Check-Up

- **Environmental-Level Controls**

- Top-down ethical culture
- Code of conduct
- Training
- Communication & reporting concerns
- Formal investigative process by cross-functional team

- **Proactive Fraud Detection Methods**

- Proactive & Preventive > Reactive & Detective
- Leverage systems & exception reporting



Fraud Prevention Check-Up

- **Internal controls should provide an environment for**
 - Order & efficiency
 - Accuracy & completeness
 - Prevention of fraud, waste, & abuse
- **Internal controls do not ensure these objectives**
 - People within an organization following & enforcing internal controls do
- **Trust**
 - Trust is not an internal control

Contact

Forvis Mazars

Jamie Amos, PhD, PMP, CFE

Senior Managing Consultant

Internal Audit

P: 770.377.1887

Jamie.amos@us.forvismazars.com

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