

Foundations of Fraud: Need, Opportunity, Rationalization

The current economic recession has intensified financial pressure on Americans nationwide, increasing the likelihood that employees may commit fraud in the workplace. According to a 2009 study by the Association of Certified Fraud Examiners, more than half of 500 certified fraud examiners surveyed reported the level of fraud committed has increased in the past year. Additionally, almost 90 percent said they expected fraud to continue to rise in 2010.

In order to address this increased risk, organizations should work to understand the root causes of fraud, so their fraud risk management program can be as effective and efficient as possible. Prevention and detection programs define three characteristics, commonly referred to as the Fraud Triangle, that influence an employee who chooses to commit fraud:

need, opportunity and rationalization.

Need

Need, also referred to as incentive or pressure, arises from personal circumstances, including lifestyle habits and personal debts. Most often, need stems from something an individual is currently experiencing, although it can extend out to problems of close family members or friends. In these cases, individuals commit fraud because they feel like they “have to” in order to ease the problem, whether it is real or perceived.

Examples include:

- Someone who is late on a payment, such as a mortgage or credit card bill.
- Those who feel they “need” a luxury car or a vacation home.

Opportunity

Opportunity refers to an employee having access and control over monetary funds without proper supervision. In these cases, individuals exploit a situation in which they have little oversight or the organization lacks a segregation of duties.

Examples include:

- Someone working for an organization with weak controls, such as only requiring one signature on a check.
- Those who use an organization’s credit card but also approve all credit card purchases.

Rationalization

Rationalization occurs when an individual does not have an innate desire to steal but is convinced that circumstances justify the crime. This ability to rationalize is directly influenced by an organization’s tone and by perceptions an employee has about the organization’s commitment to “the rules.”

Examples include:

- Those who convince themselves they will pay back the money at a future date.
- Employees who believe they are “owed” the money they are taking or that funds won’t be missed.