# CONTENTS

## CHAPTER 1 INTRODUCTION 3

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud Examination Methodology</td>
<td>5</td>
</tr>
<tr>
<td>Predication</td>
<td>5</td>
</tr>
<tr>
<td>Fraud Theory Approach</td>
<td>5</td>
</tr>
<tr>
<td>Tools Used in Fraud Examinations</td>
<td>6</td>
</tr>
<tr>
<td>Defining Occupational Fraud and Abuse</td>
<td>8</td>
</tr>
<tr>
<td>Defining Fraud</td>
<td>8</td>
</tr>
<tr>
<td>Defining Abuse</td>
<td>10</td>
</tr>
<tr>
<td>Research in Occupational Fraud and Abuse</td>
<td>12</td>
</tr>
<tr>
<td>Edwin H. Sutherland</td>
<td>12</td>
</tr>
<tr>
<td>Donald R. Cressey</td>
<td>13</td>
</tr>
<tr>
<td>Dr. W. Steve Albrecht</td>
<td>21</td>
</tr>
<tr>
<td>Richard C. Hollinger</td>
<td>24</td>
</tr>
<tr>
<td>The 2012 Report to the Nations on Occupational Fraud and Abuse</td>
<td>30</td>
</tr>
<tr>
<td>Summary</td>
<td>45</td>
</tr>
<tr>
<td>Essential Terms</td>
<td>46</td>
</tr>
<tr>
<td>Review Questions</td>
<td>46</td>
</tr>
<tr>
<td>Discussion Issues</td>
<td>47</td>
</tr>
<tr>
<td>Endnotes</td>
<td>47</td>
</tr>
</tbody>
</table>

## CHAPTER 2 SKIMMING 51

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case Study: Shy Doc Gave Good Face</td>
<td>51</td>
</tr>
<tr>
<td>Overview</td>
<td>53</td>
</tr>
<tr>
<td>Skimming Data from the ACFE 2011 Global Fraud Survey</td>
<td>54</td>
</tr>
<tr>
<td>Skimming Schemes</td>
<td>55</td>
</tr>
<tr>
<td>Sales Skimming</td>
<td>55</td>
</tr>
<tr>
<td>Receivables Skimming</td>
<td>63</td>
</tr>
<tr>
<td>Case Study: Beverage Man Takes the Plunge</td>
<td>63</td>
</tr>
<tr>
<td>Proactive Computer Audit Tests Detecting Skimming</td>
<td>69</td>
</tr>
<tr>
<td>Summary</td>
<td>72</td>
</tr>
<tr>
<td>Essential Terms</td>
<td>72</td>
</tr>
<tr>
<td>Review Questions</td>
<td>72</td>
</tr>
<tr>
<td>Discussion Issues</td>
<td>73</td>
</tr>
<tr>
<td>Endnotes</td>
<td>73</td>
</tr>
</tbody>
</table>

## CHAPTER 3 CASH LARCENY 75

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case Study: Bank Teller Gets Nabbed for Theft</td>
<td>75</td>
</tr>
<tr>
<td>Overview</td>
<td>77</td>
</tr>
<tr>
<td>Cash Larceny Data from the ACFE 2011 Global Fraud Survey</td>
<td>78</td>
</tr>
<tr>
<td>Cash Larceny Schemes</td>
<td>78</td>
</tr>
<tr>
<td>Larceny at the Point of Sale</td>
<td>78</td>
</tr>
<tr>
<td>Larceny of Receivables</td>
<td>81</td>
</tr>
<tr>
<td>Cash Larceny from the Deposit</td>
<td>82</td>
</tr>
<tr>
<td>Case Study: The Ol’ Fake Surprise Audit Gets ’Em Every Time</td>
<td>86</td>
</tr>
<tr>
<td>Proactive Computer Audit Tests for Detecting Cash Larceny</td>
<td>87</td>
</tr>
<tr>
<td>Summary</td>
<td>88</td>
</tr>
<tr>
<td>Essential Terms</td>
<td>89</td>
</tr>
<tr>
<td>Review Questions</td>
<td>89</td>
</tr>
<tr>
<td>Discussion Issues</td>
<td>90</td>
</tr>
<tr>
<td>Endnotes</td>
<td>90</td>
</tr>
</tbody>
</table>

## CHAPTER 4 BILLING SCHEMES 93

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case Study: Medical School Treats Fraud and Abuse</td>
<td>93</td>
</tr>
<tr>
<td>Overview</td>
<td>95</td>
</tr>
<tr>
<td>Billing Scheme Data from the ACFE 2011 Global Fraud Survey</td>
<td>96</td>
</tr>
<tr>
<td>Billing Schemes</td>
<td>97</td>
</tr>
<tr>
<td>Shell Company Schemes</td>
<td>97</td>
</tr>
<tr>
<td>Billing Schemes Involving Nonaccomplice Vendors</td>
<td>104</td>
</tr>
<tr>
<td>Pay-and-Return Schemes</td>
<td>104</td>
</tr>
<tr>
<td>Overbilling with a Nonaccomplice Vendor’s Invoices</td>
<td>105</td>
</tr>
<tr>
<td>Case Study: Cover Story: Internal Fraud</td>
<td>106</td>
</tr>
<tr>
<td>Preventing and Detecting Fraudulent Invoices from a Nonaccomplice Vendor</td>
<td>108</td>
</tr>
<tr>
<td>Personal Purchases with Company Funds</td>
<td>108</td>
</tr>
<tr>
<td>Personal Purchases through False Invoicing</td>
<td>109</td>
</tr>
<tr>
<td>Personal Purchases on Credit Cards or Other Company Accounts</td>
<td>112</td>
</tr>
<tr>
<td>Preventing and Detecting Personal Purchases on Company Credit Cards and Purchasing Cards</td>
<td>114</td>
</tr>
<tr>
<td>Proactive Computer Audit Tests for Detecting Billing Schemes</td>
<td>114</td>
</tr>
<tr>
<td>Summary</td>
<td>117</td>
</tr>
<tr>
<td>Essential Terms</td>
<td>117</td>
</tr>
<tr>
<td>Review Questions</td>
<td>117</td>
</tr>
<tr>
<td>Discussion Issues</td>
<td>118</td>
</tr>
<tr>
<td>Endnotes</td>
<td>118</td>
</tr>
</tbody>
</table>

## CHAPTER 5 CHECK TAMPERING 121

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case Study: A Wolf in Sheep’s Clothing</td>
<td>121</td>
</tr>
</tbody>
</table>
Overview 123
Check Tampering Data from the ACFE 2011 Global Fraud Survey 123
Check Tampering Schemes 123
  Forged Maker Schemes 125
  Forged Endorsement Schemes 130
  Altered Payee Schemes 134
  Concealed Check Schemes 138
  Authorized Maker Schemes 139
Concealing Check Tampering 142
  The Fraudster Reconciling the Bank Statement 143
Case Study: What are Friends For? 144
  Re-Altering Checks 145
  Falsifying the Disbursements Journal 146
  Reissuing Intercepted Checks 146
  Bogus Supporting Documents 147
Electronic Payment Tampering 148
  Prevention and Detection 148
Proactive Computer Audit Tests for Detecting Check Tampering Schemes 149
Summary 151
Essential Terms 152
Review Questions 152
Discussion Issues 153
Endnotes 153

CHAPTER 6 PAYROLL SCHEMES 155
Case Study: Say Cheese! 155
  Payroll Scheme Data from the ACFE 2011 Global Fraud Survey 157
Payroll Schemes 157
  Ghost Employees 157
  Falsified Hours and Salary 163
  Commission Schemes 167
Case Study: The All-American Girl 169
  Proactive Computer Audit Tests for Detecting Payroll Fraud 171
Summary 175
Essential Terms 176
Review Questions 176
Discussion Issues 176
Endnotes 176

CHAPTER 7 EXPENSE REIMBURSEMENT SCHEMES 179
Case Study: Frequent Flier's Fraud Crashes 179
  Expense Reimbursement Data from the ACFE 2011 Global Fraud Survey 181
Expense Reimbursement Schemes 181
  Mischaracterized Expense Reimbursements 182
Preventing and Detecting Mischaracterized Expense Reimbursements 184
Overstated Expense Reimbursements 185
Fictitious Expense Reimbursement Schemes 187
Multiple Reimbursement Schemes 189
Case Study: The Extravagant Salesman 190
  Proactive Computer Audit Tests for Detecting Expense Reimbursement Schemes 192
Summary 193
Essential Terms 193
Review Questions 193
Discussion Issues 193
Endnotes 194

CHAPTER 8 REGISTER DISBURSEMENT SCHEMES 197
Case Study: Demotion Sets Fraud in Motion 197
  Register Disbursement Data from the ACFE 2011 Global Fraud Survey 199
Register Disbursement Schemes 199
  False Refunds 200
  Case Study: A Silent Crime 202
  False Voids 204
  Concealing Register Disbursements 205
    Small Disbursements 206
    Destroying Records 206
Preventing and Detecting Register Disbursement Schemes 207
  Proactive Computer Audit Tests for Detecting Register Disbursement Schemes 207
Summary 209
Essential Terms 209
Review Questions 209
Discussion Issues 209
Endnotes 210

CHAPTER 9 NONCASH ASSETS 213
Case Study: Chipping Away at High-Tech Theft 213
  Noncash Misappropriation Data from the ACFE 2011 Global Fraud Survey 215
Noncash Misappropriation Schemes 217
  Misuse of Noncash Assets 217
  Unconcealed Larceny Schemes 218
  Asset Requisitions and Transfers 222
  Purchasing and Receiving Schemes 223
  False Shipments of Inventory and Other Assets 224
Case Study: Hard Drives and Bad Luck 225
  Other Schemes 228
  Concealing Inventory Shrinkage 228
  Altered Inventory Records 229
Long-Term Contracts 314
Channel Stuffing 314
Recording Expenses in the Wrong Period 315
Red Flags Associated with Timing Differences 315
Case Study: The Importance of Timing 316
Concealed Liabilities and Expenses 316
Liability/Expense Omissions 317
Capitalized Expenses 318
Expensing Capital Expenditures 319
Returns and Allowances and Warranties 320
Red Flags Associated with Concealed Liabilities and Expenses 320
Improper Disclosures 320
Liability Omissions 321
Subsequent Events 321
Management Fraud 321
Related-Party Transactions 321
Accounting Changes 322
Red Flags Associated with Improper Disclosures 323
Improper Asset Valuation 323
Inventory Valuation 324
Accounts Receivable 325
Business Combinations 325
Fixed Assets 326
Red Flags Associated with Improper Asset Valuation 328
Detection of Fraudulent Financial Statement Schemes 329
AU 240—Consideration of Fraud in a Financial Statement Audit 329
Financial Statement Analysis 337
Deterrence of Financial Statement Fraud 342
Reduce Pressures to Commit Financial Statement Fraud 343
Reduce the Opportunity to Commit Financial Statement Fraud 343
Reduce Rationalization of Financial Statement Fraud 343
Case Study: All on the Surface 344
Summary 346
Essential Terms 346
Review Questions 347
Discussion Issues 347
Contract Performance Schemes 356
Preventing and Detecting Vendor Fraud 357
Threats from Unrelated Third Parties 357
Computer Fraud 368
Corporate Espionage 361
Why Do Companies Resort to Corporate Espionage? 361
Favorite Targets of Corporate Espionage 361
How Spies Obtain Information 362
Preventing and Detecting Corporate Espionage 363
Summary 364
Essential Terms 364
Review Questions 365
Discussion Issues 365
Endnotes 366
CHAPTER 14 FRAUD RISK ASSESSMENT 367
Overview 367
What Is Fraud Risk? 367
Why Should an Organization Be Concerned about Fraud Risk? 368
Factors That Influence Fraud Risk 368
What Is a Fraud Risk Assessment? 369
What Is the Objective of a Fraud Risk Assessment? 369
Why Should Organizations Conduct Fraud Risk Assessments? 369
Improve Communication and Awareness about Fraud 370
Identify What Activities Are the Most Vulnerable to Fraud 370
Know Who Puts the Organization at the Greatest Risk 370
Develop Plans to Mitigate Fraud Risk 370
Develop Techniques to Determine Whether Fraud Has Occurred in High-Risk Areas 370
Assess Internal Controls 370
Comply with Regulations and Professional Standards 371
What Makes a Good Fraud Risk Assessment? 371
Collaborative Effort of Management and Auditors 371
The Right Sponsor 372
Independence and Objectivity of the People Leading and Conducting the Work 372
A Good Working Knowledge of the Business 372
Access to People at All Levels of the Organization 373
Engendered Trust 373
The Ability to Think the Unthinkable 373
A Plan to Keep It Alive and Relevant 373
Considerations for Developing an Effective Fraud Risk Assessment 374
Packaging It Right 374
One Size Does Not Fit All 374
Keeping It Simple 374
CHAPTER 13 EXTERNAL FRAUD SCHEMES 349
Case Study: A Computer Hacker Turned Informant... Turned Hacker 349
Overview 351
Threats from Customers 352
Check Fraud 352
Credit Card Fraud 353
Threats from Vendors 354
How Prevalent Is Vendor Fraud? 355
Collusion among Contractors 355

Endnotes
Preparing the Company for the Fraud Risk Assessment 374
Assembling the Right Team to Lead and Conduct the Fraud Risk Assessment 375
Determining the Best Techniques to Use in Conducting the Fraud Risk Assessment 375
Obtaining the Sponsor’s Agreement on the Work to Be Performed 376
Educating the Organization and Openly Promoting the Process 376
Executing the Fraud Risk Assessment 377
Identifying Potential Inherent Fraud Risks 377
Assessing the Likelihood of Occurrence of the Identified Fraud Risks 380
Assessing the Significance to the Organization of the Fraud Risks 380
Evaluating Which People and Departments Are Most Likely to Commit Fraud, and Identifying the Methods They Are Likely to Use 381
Identifying and Mapping Existing Preventive and Detective Controls to the Relevant Fraud Risks 381
Evaluating Whether the Identified Controls Are Operating Effectively and Efficiently 382
Identifying and Evaluating Residual Fraud Risks Resulting from Ineffective or Nonexistent Controls 382
Addressing the Identified Fraud Risks 382
Establishing an Acceptable Level of Risk 382
Ranking and Prioritizing Risks 382
Responding to Residual Fraud Risks 384
Reporting the Results of the Fraud Risk Assessment 385
Considerations When Reporting the Assessment Results 385
Making an Impact with the Fraud Risk Assessment 386
Beginning a Dialogue across the Company 386
Looking for Fraud in High-Risk Areas 386
Holding Responsible Parties Accountable for Progress 386
Keeping the Assessment Alive and Relevant 386
Monitor Key Controls 387
The Fraud Risk Assessment and the Audit Process 387
FRAUD RISK ASSESSMENT TOOL 387
Summary 388
Essential Terms 388
Review Questions 388
Discussion Issues 389
Endnotes 389

CHAPTER 15  CONDUCTING INVESTIGATIONS AND WRITING REPORTS 391

When is an Investigation Necessary? 391
Planning the Investigation 392
Selecting the Investigation Team 392
Developing Evidence 394
Covert Operations 395
Surveillance 396
Informants 396
"Dumpster-Diving" 396
Subpoenas 396
Search Warrants 397
Voluntary Consent 397
Preserving Documentary Evidence 397
Chain of Custody 398
Preserving the Document 398
Organizing Documentary Evidence 398
Chronologies 399
To-Do Lists 399
Using Computer Software to Organize Documents and Other Data 399
Sources of Information 399
In-House Sources 400
Public Information 400
Report Writing 408
Purpose of the Report 408
Know the Reader 408
Format 409
Opinions or Conclusions in Report 414
Summary 414
Essential Terms 414
Review Questions 415
Discussion Issues 415

CHAPTER 16  INTERVIEWING WITNESSES 417
Overview 417
Introductory Questions 418
General Rules for the Introductory Phase of the Interview 418
Informational Questions 420
Closing Questions 423
Assessment Questions 424
Verbal Clues to Deception 425
Nonverbal Clues 426
Typical Attitudes Displayed by Respondents 427
Admission-Seeking Questions 430
Steps in the Admission-Seeking Interview 431
Summary 441
Essential Terms 441
Review Questions 442
Discussion Issues 442

CHAPTER 17  OCCUPATIONAL FRAUD AND ABUSE: THE BIG PICTURE 443
Defining Abusive Conduct 443
Measuring the Level of Occupational Fraud and Abuse 445
The Human Factor 445
Understanding Fraud Deterrence 447
The Impact of Controls 447
The Perception of Detection 447
The Corporate Sentencing Guidelines 450
  Definition of Corporate Sentencing 450
  Vicarious or Imputed Liability 451
  Requirements 451
  The Ethical Connection 452
  Concluding Thoughts 453
  Summary 454
  Essential Terms 454
  Review Questions 455
  Discussion Issues 455
  Endnotes 455

APPENDIX A ONLINE SOURCES
  OF INFORMATION 457

APPENDIX B SAMPLE CODE OF BUSINESS ETHICS
  AND CONDUCT 467

APPENDIX C RISK ASSESSMENT TOOL 481

BIBLIOGRAPHY 511

INDEX 513