Financial Transactions and Fraud Schemes

Asset Misappropriation:
Cash Receipts
Fraud Tree
Two Types of Schemes

- Skimming
- Larceny
- Difference depends completely on when the cash is stolen
Skimming

- Removal of cash from a victim entity before it is recorded in the victim organization’s accounts
- Known as *off-book* frauds
Sales Skimming (Unrecorded Sale)

- Most basic skimming scheme:
  - An employee sells goods or services to a customer
  - Collects the customer’s payment
  - But makes no record of the sale and pockets the money
Understated Sales

- Understated sales work differently than off-book sales
  - The transaction in question is posted to the books
  - But for a lower amount than what the perpetrator actually collected
- False discounts is a common method
Skimming Receivables

- More difficult to hide skimmed receivables than skimmed sales
- When receivables are skimmed, the absence of the payment appears on the books as a delinquent account
- Forcing account balances or destroying transaction records
- Lapping
- Inventory padding
Detection of Skimming Schemes

- Receipt- or sales-level detection
  - Physical inventory counts

- Journal entry review
  - False credits to inventory to conceal unrecorded or understated sales
  - Write-offs of lost, stolen, or obsolete inventory
  - Write-offs of accounts receivable accounts
  - Irregular entries to cash accounts

- Detecting lapping
  - Comparing dates of customers’ payments with the dates the payments were posted
Prevention of Skimming Schemes

- All areas where employees handle cash should be monitored with visible video cameras.
- Reconciling the physical inventory count with the perpetual inventory records may reveal shrinkage.
Cash Larceny

- In the occupational fraud setting, *cash larceny* is defined as the intentional taking of an employer’s cash without the consent and against the will of the employer.
- Involves the theft of money that has already appeared on the victim company’s books.
Cash Larceny

- Theft of Cash from the Register
  - Usually the most common point of access to cash for employees
  - The most straightforward cash larceny scheme is to simply open the register and remove currency or checks

- Cash Larceny from the Deposit
Detection of Cash Larceny

- **Controls**
  - Cash register log totals should be reconciled to the amount of cash in the drawer.
  - Bank deposit should be made by someone other than the cashier or the accounts receivable clerk.
  - A person independent of the cash receipts and accounts receivable functions should compare entries to the cash receipts journal with:
    - Authenticated bank deposit slips
    - Deposit per the bank statements
  - All employees should have unique access codes to the cash registers.
Prevention

- Separation of Duties
  - Cash receipts
  - Bank deposits
  - Cash disbursements
- Assignment Rotation and Mandatory Vacations
- Surprise Cash Counts
Sample Prep Question

1. The removal of cash from a victim organization before the cash is entered in the organization’s accounting system is:

   A. Cash larceny
   B. A fraudulent disbursement
   C. Skimming
   D. An illegal gratuity
Correct Answer: C

- Skimming is the removal of cash from a victim entity prior to its entry in an accounting system. Employees who skim from their companies steal sales or receivables before they are recorded in the company books. Because of this aspect of their nature, skimming schemes are known as *off-book* frauds; they leave no direct audit trail.
2. Sterling collected $1000 in cash for a sale. However, Sterling rang up the sale as $700 on the cash register and pocketed the remaining $300. This is an example of which of the following schemes?

A. An unrecorded sales (skimming) scheme  
B. A cash larceny scheme  
C. A false billing scheme  
D. An understated sales (skimming) scheme
Correct Answer: D

- Understated sales work differently than unrecorded sales schemes. The transaction is posted to the books, but for a lower amount than the perpetrator collected from the customer. For instance, a company might be owed $1,000, but the sale is recorded as $800. When the customer makes a payment, the fraudster can skim $200 and post the $800.
Sample Prep Question

3. All of the following are measures that would be helpful in preventing cash larceny schemes EXCEPT:

A. Assigning an employee’s duties to another individual when that employee goes on vacation
B. Having all employees use the same cash register for their transactions
C. Sending out a company-wide communication informing employees of the company’s surprise cash count policy
D. Ensuring that the duties of making bank deposits and performing bank reconciliations are assigned to different individuals
Correct Answer: B

- Having all employees use the same cash register will not deter cash larceny. Surprise cash counts, however, are a useful fraud prevention method if properly used. It is important that employees know that cash will be counted on a periodic and unscheduled basis. Mandatory vacations are also an excellent method of detecting cash fraud if an employee’s normal workload is performed by another individual during the employee’s absence. In addition, separation of duties is the primary means of preventing cash fraud.
Financial Transactions and Fraud Schemes

Theft of Intellectual Property
Where Intelligence Professionals Get Info

- **Open-source** information is information in the public domain; it’s publicly available data that anyone can lawfully obtain by request, purchase, or observation.
- Scavenging and Dumpster Diving
- Human Intelligence
  - Employment interviews (real and fake)
  - False licensing negotiations
  - False acquisition or merger negotiations
  - Hiring an employee away from a target entity
  - Planting an agent in a target organization
  - Social engineering
Favorite Employee Targets

- Research and Development
- Marketing
- Manufacturing and Production
- Human Resources
How Information Is Lost or Stolen

**Accident**
- Publications
- Speeches
- Website

**Poor Information Security Procedures**
- Place sensitive documents in high-grade locked filing cabinets.
- Use a shredder for sensitive documentary waste.
- Receive and send mail at a secure site.
- Provide reasonable perimeter security for offices.
- Pay attention to securing auxiliary materials (calendars, telephone directories, notebooks).
How Information Is Lost or Stolen

- Physical Infiltration
  - Posing as an employee or contract laborer
  - Stealing or fabricating badges

- Social Engineering
  - Use of trickery, persuasion, threats, or cajolery
  - Can be person to person or through decoy websites

- Technical Surveillance
  - Usually used to gather nondocumentary evidence, or information that cannot be found through open sources
Program for Safeguarding Proprietary Information (SPI)

- Should develop an SPI program
- A task force can be assembled
- Should include managers and staff from all departments that deal with proprietary information, as well as security, HR, records management, data processing, and legal
- The first task should be to determine what information should be protected
Other Elements of an SPI Program

- Awareness Training
  - Employees must be educated about what information is proprietary

- Nondisclosure and Noncompetition Agreements
  - **Nondisclosure**—Information the employee learns must be kept confidential and must not be disclosed to anyone
    - Employees are often willing to abide by nondisclosure agreements, but do not understand that the information may be confidential
  - **Noncompetition**—Agreement whereby the employee agrees not to work for competing companies within a certain period of time after leaving his current employer
Other Elements of an SPI Program

- **Data Classification**
  - Involves organizing the entity’s data into different security levels based on its value and sensitivity

- **Monitoring of Visitor Access**
  - Visitors should wear badges and be escorted at all times
  - Regular changing/reprogramming of locks

- **Quiet Room**
Minimizing the Risk of Misappropriation Claims

- Organizations must prevent their employees from appropriating proprietary information belonging to others.
- New hires from a competitor might expose the company to liability by disclosing secrets.
- Thus, potential employees should be carefully screened.
Sample Prep Question

1. People in the research and development department are typically very secretive about new products, and it is difficult to find out information from them.

A. True  
B. False
Correct Answer: B

- One would think that R&D would be the most heavily guarded department in a company, but access to R&D information is surprisingly easy. R&D personnel are almost always in the flow of information. The open exchange of information is part of the nature of their job. They participate in conferences, attend trade shows, and work with academic institutions; however, at each of these functions, they leave themselves open for intelligence spies to listen, mingle, and ask questions.
Sample Prep Question

2. Which of the following is a common method used by fraudsters to physically infiltrate and spy on organizations?

A. Secure a position as an employee
B. Fabricate or steal an employee badge
C. Pose as a contractor
D. All of the above
Correct Answer: D

- One common physical infiltration technique is to steal or fabricate employee badges belonging to the target organization. Another common technique is to secure a position, or pose, as an employee or contract laborer of the target organization. For example, a spy might obtain work as a security officer or a member of the janitorial crew.
Sample Prep Question

3. When developing a program for safeguarding proprietary information, an organization should form a company task force to develop the program, and the task force should include representatives from relevant departments all across the company, such as research and development, corporate security, and records management.

A. True
B. False
Correct Answer: A

- Companies should develop a program for safeguarding proprietary information (SPI). To coordinate a company-wide SPI program, management should establish a task force and charge it with developing the program. The task force should include managers and staff from departments that deal with proprietary information, such as research and development and production. The task force should also include representatives from corporate security, human resources, records management, data processing, and legal.
Financial Transactions and Fraud Schemes

Consumer Fraud
Con Schemes

- Advance-Fee Swindles and Debt Consolidation Schemes
- Scavenger or Revenge Scheme
- Affinity Fraud
- Credit Repair Scams
- Real Estate
- Scholarship Services
- Prizes, Sweepstakes (“1 in 5” scam)
JOHN D. GILL,

Recently, you were entered into our INSTANT GOLD GIVEAWAY.

Congratulations!

You have WON one of the four guaranteed prizes: New His and Hers SMART CARS, a HYBRID TOYOTA or LEXUS SUV plus $5,000 in FREE GAS or $49,000 CASH; a $1,500 Shopping Spree at Saks Fifth Avenue, Nordstrom, Macy's, Sears or Wal-Mart; Exotic Island Adventure - $806 value or $500 Cash.

You will also receive your choice of FREE vacation for two - a four-day Royal Caribbean International, Carnival or Princess cruise or a Las Vegas, or Orlando getaway with airfare and two nights accommodations, retail value $795.

Your prize and gift total minimum value is $1,295! CONGRATULATIONS!

CALL TOLL FREE 1-888-450-4610 WITHIN 72 HOURS OF RECEIPT for details of participation and to arrange to claim your prize and gift - certain restrictions apply. Hours are Mon. through Fri., 8:00am until 8:00pm and Sat., 9:00am until 6:00pm Central Time.
July 9th, 2012

John Gill

NOTE: You must respond no later than July 18th, 2012.

Dear John,

I am pleased to inform you that you have qualified for an award of 2 roundtrip airline tickets. Congratulations. These tickets are valid for travel anywhere in the Continental U.S. from any major international airport. The retail value of this award is up to $1,398.00. Certain restrictions apply.

We have attempted contacting you several times without success. This is our last attempt. If we do not hear from you soon, we may need to issue the ticket vouchers to the alternate.

Please call me today at 1-866-568-6315.

Regards,

Meredith Loya

Vice President
Stuffing and Mailing Special Letters

>>> Application Form <<<

( Please Note: We send you all envelopes and letters that you'll be stuffing for us. No advertising to get envelopes.)

One Time Application Fee

- Income Group #1, ($590.00) Fee is $59 - We send you 59 letters, 59 envelopes, 59 customer mailing labels.
- Income Group #2, ($790.00) Fee is $79 - We send you 79 letters, 79 envelopes, 79 customer mailing labels.
- Income Group #3, ($990.00) Fee is $99 - We send you 99 letters, 99 envelopes, 99 customer mailing labels.
- Income Group #4, ($2,900.00) Fee is $290 - We send you 290 letters, 290 envelopes, 290 customer mailing labels.

Now only $149! If you respond within 10 days.

- Income Group #5 - This income group is only for home workers who started under income #4, and get promoted after receiving their first $2,900.00 in pay. Earning potential is $5,000.00 or more weekly.

SIGNATURE: ____________________________ Date: ______________

NAME( Please Print ): ____________________________ Email: ______________

ADDRESS: ____________________________

CITY: ____________________________ STATE: _______ ZIP: ______________

Home Phone: ____________________________ Please choose four numbers to be your code number. ______________

☐ I am ready to improve my financial situation. ☐ Please register me in your mail program immediately!

☐ I realize I have nothing to lose and everything to gain, since my application fee is completely refunded with my fifth paycheck.

Please sign me up under Income Group#  ☐1($59)  ☐2($79)  ☐3($99)  ☐4($149)

☐ I am enclosing my application fee plus $10 for shipping and handling. Total $ ______________

Please note: Orders by money order will be shipped within 7 business days. Group 4 orders will be shipped same day that payment is received if paid by money order. Orders by personal check are shipped after 21 days clearance time. Fees MUST be paid in US Dollars.

You must return this complete original letter (front/back) with your fee.

Send to: AMERICA'S INCOME SERVICE -PO BOX 26 GRANITE CITY IL 62040
Dear Victim,

We hereby officially notifying you about the present arrangement to pay you, your lost fund during your communication with Africa contract/inheritance fund of US$3.5M (US$3,500,000.00) which you could not complete the process of the released of your transfer pin code through the Digitalis Payment System. We have decided to pay your funds, but through (ATM Master Express Credit Card) This arrangement was initiated/constituted by the World Bank due to fraudulent activities going on within the African Region.

The World Bank introduced this payment arrangement as to enable our contractors/inheritance beneficiary to receive their fund without any interference. the ATM Master Express Credit Card was contracted and powered by GOLD CARD WORLD WIDE. Reconfirm the following information to us for Security reason.

A.) Your Full Name
B.) Your Receiving Address.
C.) Your Telephone Number
D.) Your Profession.
E.) Your ID.

Upon the receipt of this mail we are going to load your fund into the Master Express Credit Card and send a scan copy of the card to you before we will proceed to dispatch the card directly to your nominated home address so you absolutely have nothing to worry about all we need is your Prompt Response and Co-operation.

Best Regards,
Mr. Tony Keane.
Ponzi and Pyramid Schemes

Definition

- A *Ponzi scheme* is generally defined as an illegal business practice in which new investors’ money is used to make payments to earlier investors.

- Everyone involved pretends to mount a legitimate organization, but little or no commercial activity takes place.
Ponzi Red Flags

- Promises of Low Risk or High Rewards
- History of Consistent Returns
- High Pressure Sales Tactics
- Pressure to Reinvest
- Complex Trading Strategies
- Lack of a Segregation of Duties
Pyramid Schemes, Legal and Illegal

- Illegal pyramids generate revenue by continually recruiting new members. These operations may offer merchandise or services for sale, but the only significant revenues come from recruitment.

- Product fronts

- 70% Rule

- Where is the emphasis? Members or products?
Pyramid Scheme

The chart shows how pyramid schemes can become impossible to sustain:

Levels

1 1.6
2 3.36
3 6.72
4 12.96
5 25.92
6 51.84
7 103.68
8 207.36
9 414.72
10 829.44
11 1,658.88
12 3,317.76
13 6,635.52

Number of Participants

- More than the US Population
- More than the World Population
Identity Theft

- Common Ways of Obtaining Information
  - Trash
  - Shoulder surfing
  - Searching through desk drawers/purses
  - Stealing incoming or outgoing mail
  - Accomplice within organization
  - Pretexting
  - Rental or loan applications
  - Public records
  - Internet
Preventing Identity Theft

- Never write your credit card number or Social Security number on checks or outside of envelopes.
- Keep all financial documents in a secure place.
- Obtain a copy of credit report regularly.
- Shred pre-approved credit applications.
- Mail bills from the post office or your business location.
- Change passwords and PIN codes often.
Sample Prep Question

1. Which of the following is NOT a recommended protection measure to prevent identity theft?

A. Obtain a copy of your credit report on a regular basis.
B. Keep financial documents in your desk drawer.
C. Shred pre-approved credit applications.
D. Change passwords and PIN codes often.
Correct Answer: B

- There are a number of things people can do to help protect themselves from identity theft. These include:
  - Keep all financial documents in a secure place.
  - Obtain a copy of your credit report on a regular basis.
  - Shred pre-approved credit applications.
  - Change passwords and PIN codes often.
Sample Prep Question

2. All pyramid structures are illegal.

A. True
B. False
Correct Answer: B

- Some legitimate merchandising companies use a pyramid structure to rank their employee-owners and to determine those people’s compensation. But a pyramid structure becomes a pyramid scheme when the company makes its money by recruiting people. Instead of selling a product or service, the group deals primarily in new memberships. Joining the group allows the new member to profit by signing up new members. The process continues until the available pool of new members is drained, which happens sooner than one might think.
Sample Prep Question

3. Victoria, a Certified Fraud Examiner, was contacted by a client. The client told Victoria that he had paid a commission upfront to an individual to help him obtain some government grants. He later found out that the individual had taken his money and now cannot be located. This is a confidence scheme known as:

A. Bait and switch
B. Ponzi
C. Advance-fee swindle
D. None of the above
Correct Answer: C

- Advance-fee swindles are structured to obtain an illegal gain by falsely promising the delivery of a product or service. In some schemes, the product is marketed to a large number of customers and then the operation is shut down prior to the delivery stage.