

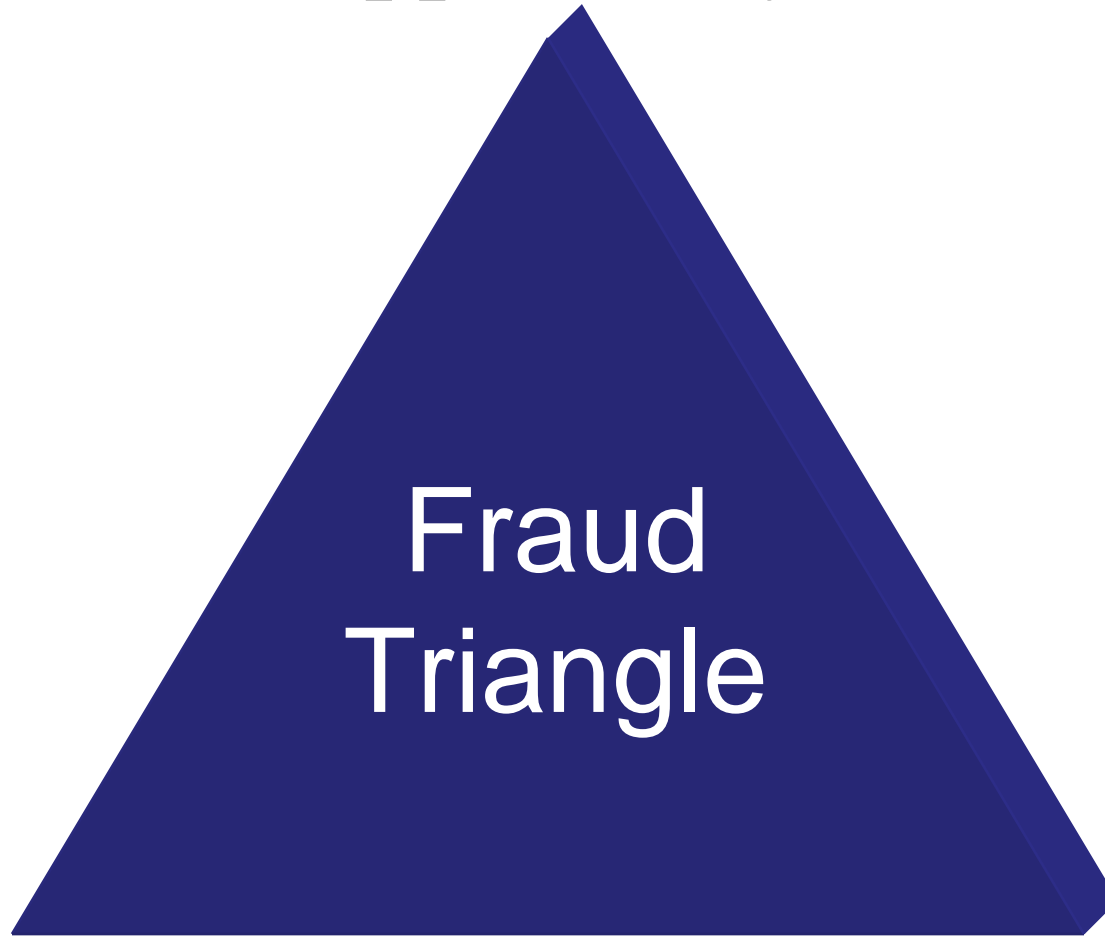


IAAPA Seminar on Cash Handling-Business Fraud Atlanta 2006

Neva Richardson-Larson

Bjorn Haavars Solli

Opportunity

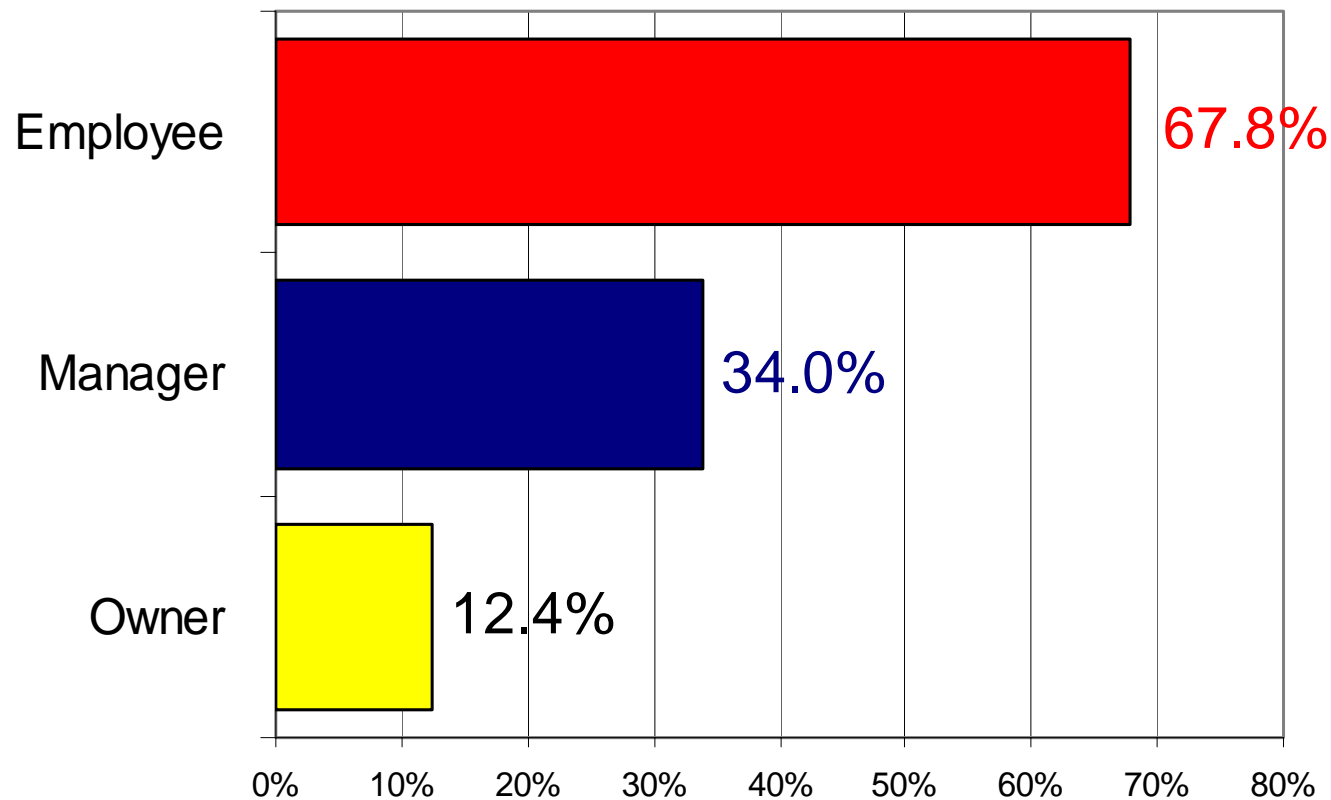


**Fraud
Triangle**

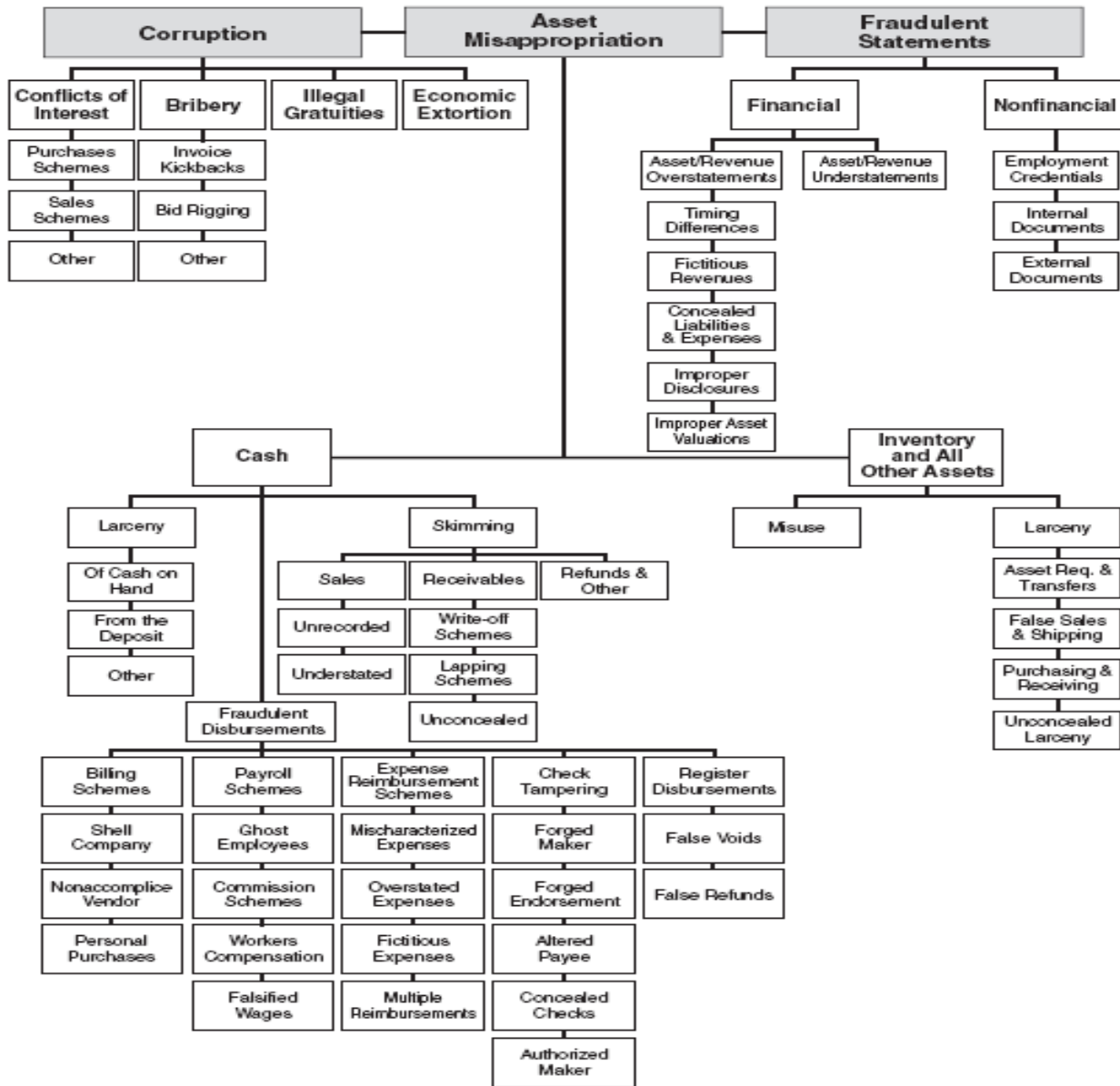
Pressure

Rationalization

Position of Perpetrator



Occupational Fraud and Abuse



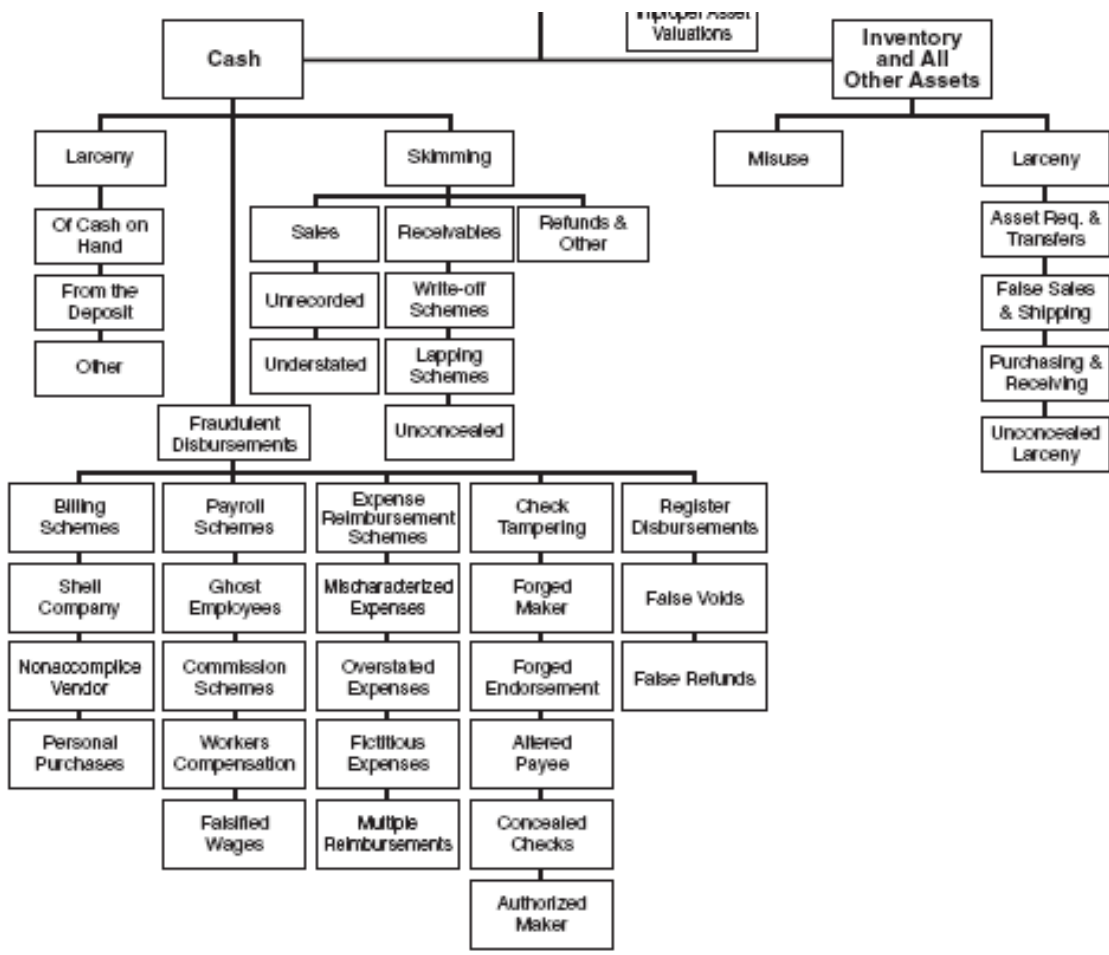
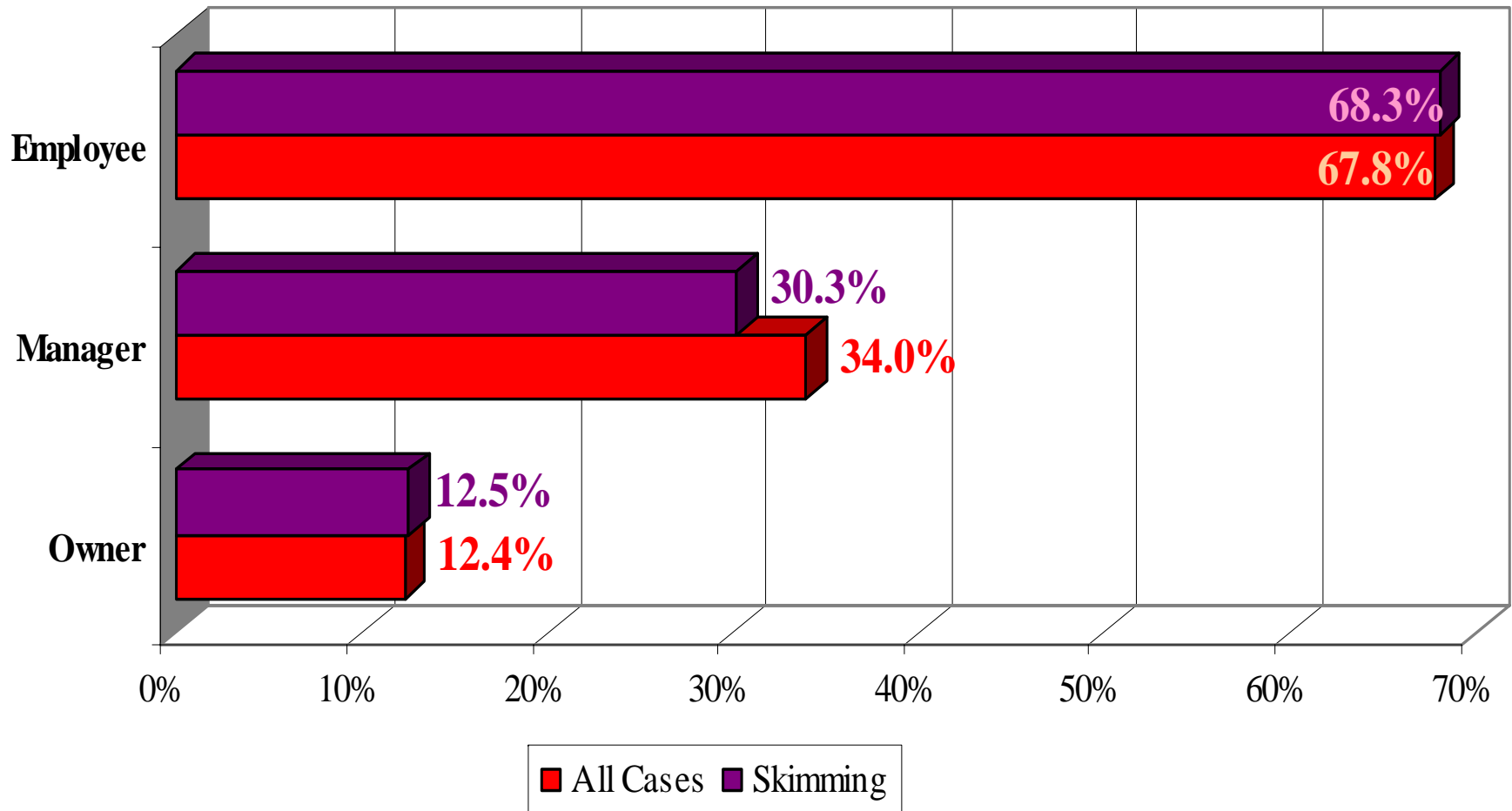


EXHIBIT 1-1

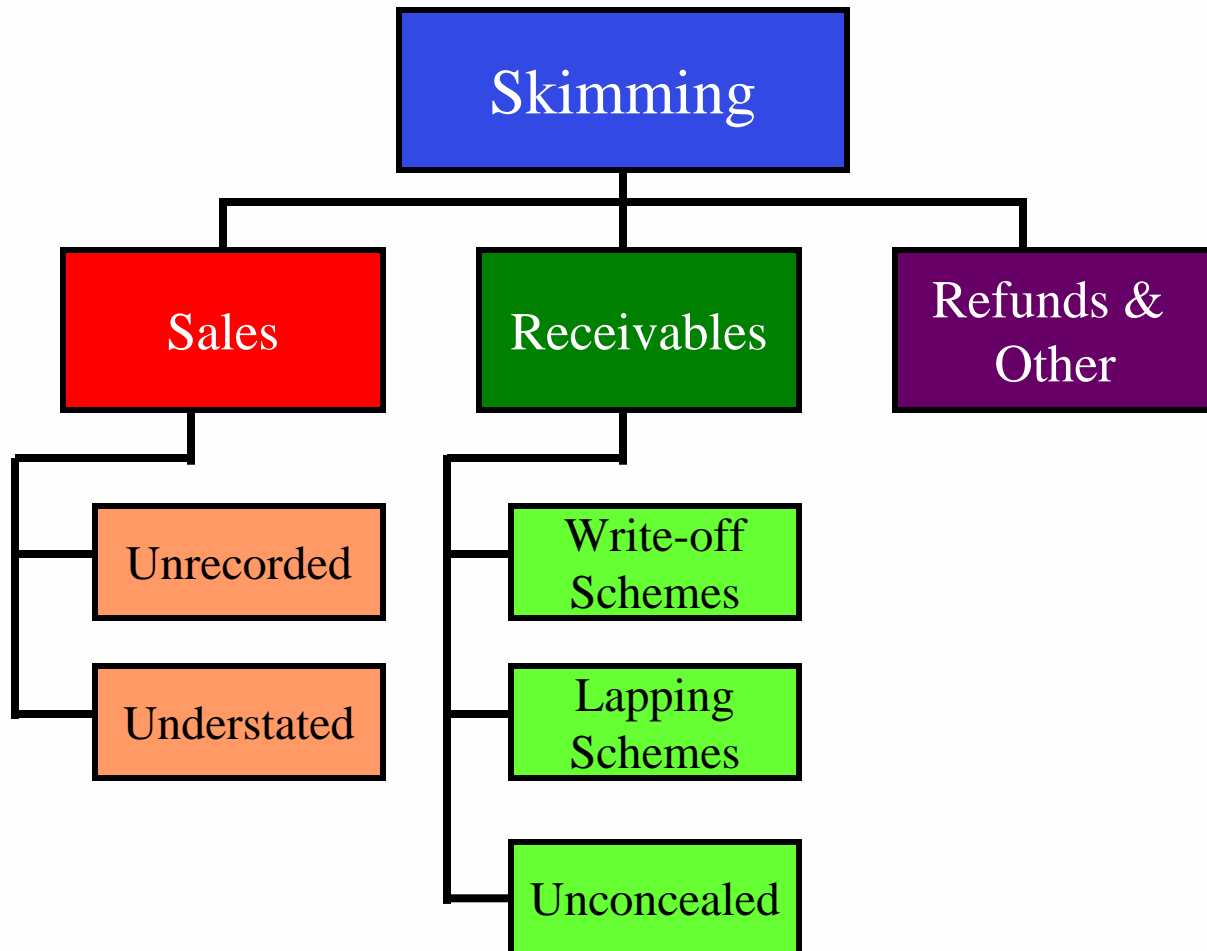
Types of Fraud

- Skimming
- Cash Larceny
- Bill Schemes
- Check Tampering
- Payroll Schemes
- Expense Reimbursement Schemes
- Register Disbursement Schemes

Perpetrators of Skimming Schemes



Skimming Schemes





Skimming

- Theft of cash from a victim entity prior to its entry in an accounting system – “off-book”
- No direct audit trail
- Its principal advantage is its difficulty to detect





Sales Skimming

- Employee makes a sale of goods or services, collects the payment, and makes no record of the transaction
- Pockets the proceeds of the sale
- Without a record of the sale, there is no audit trail





Sales Skimming

- **Cash register manipulation**
 - “No Sale” or other non-cash transaction is recorded
 - Cash registers are rigged so that sales are not recorded on the register tapes
 - No receipt is issued
- **After hours sales**
 - Sales are conducted during non-business hours without the knowledge of the owners
- **Skimming by off-site employees**
 - Independent salespeople
 - Employees at remote locations – branches or satellite offices away from the primary business site



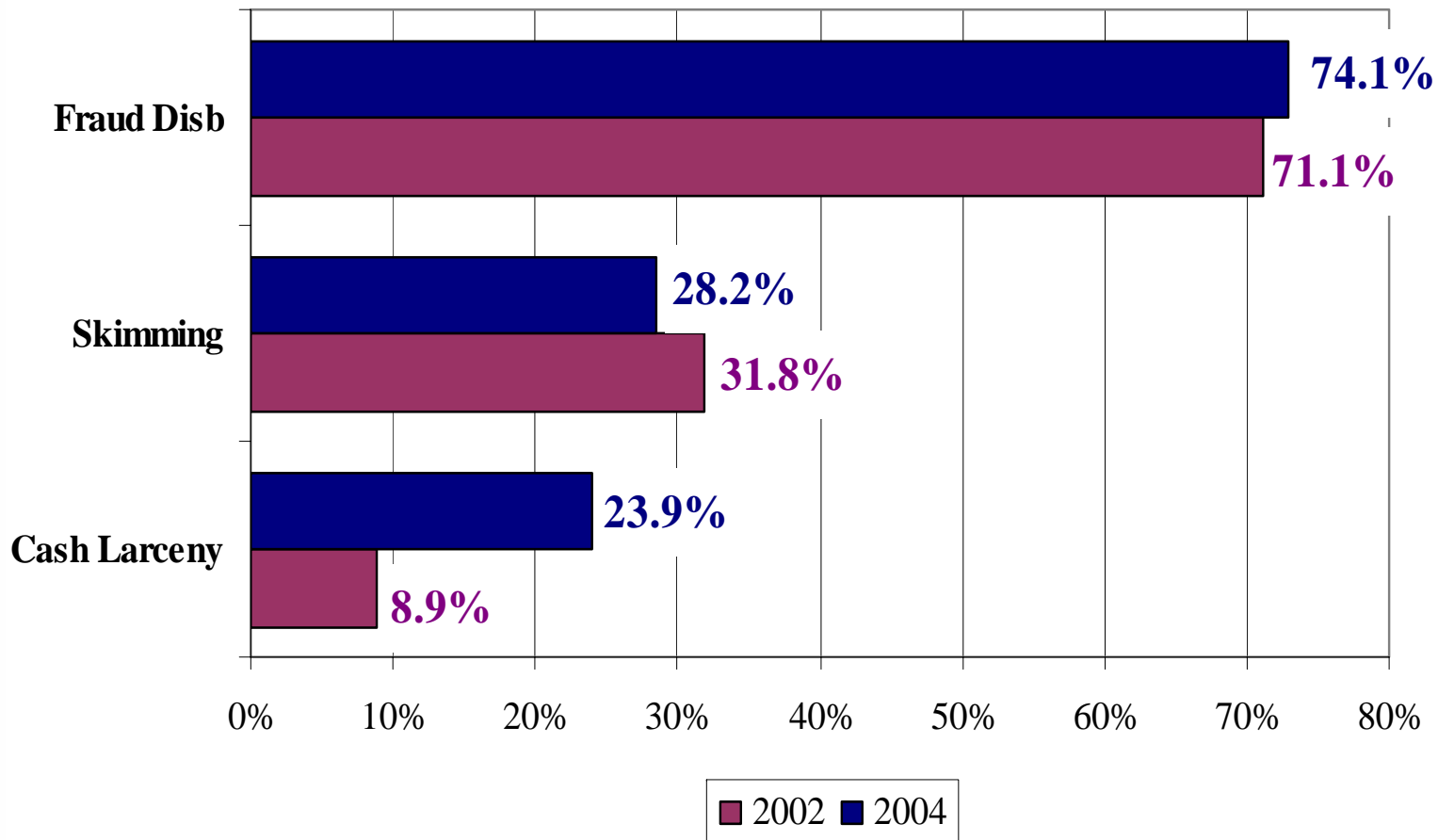


Sales Skimming

- **Poor collection procedures**
- **Understated sales**
 - Sales is recorded for a lower amount than was collected
 - Sales item is reduced in price or the number of units sold
- **Theft in the mail room – incoming checks**
 - Incoming checks are stolen and cashed
 - Customer's account is not posted



Frequency – Cash Misappropriations





Cash Larceny

- Intentional taking away of an employer's cash without the consent and against the will of the employer
- Fraudulent disbursements
- Cash receipt schemes





Cash Larceny Schemes

- Can occur under any circumstance where an employee has access to cash
- At the point of sale
- From incoming receivables
- From the victim organization's bank deposits





Larceny At The Point of Sale

- It's where the money is
- Most common point of access to ready cash
- Results in an imbalance between the register tape and cash drawer





Larceny Schemes

- Theft from other registers
 - Using another cashier's register or access code
- Death by a thousand cuts
 - Stealing in small amounts over an extended period of time
- Reversing transactions
 - Using false voids or refunds
 - Causes the cash register tape to balance to the cash drawer
- Altering cash counts or cash register tapes
- Destroying register tapes





Preventing and Detecting Cash Larceny at the Point of Sale

- Enforce separation of duties
- Independent checks over the receipting and recording of incoming cash
- Upon reconciliation of cash and register tape, cash should go directly to the cashier's office
- Discrepancies should be checked especially if a pattern is identified
- Periodically run reports showing discounts, returns, adjustments, and write-offs by employee, department, and location to identify unusual patterns





Larceny of Receivables

- Theft occurs after the payment has been recorded
- Force balancing
 - Having total control of the accounting system can overcome the problem of out-of-balance accounts
 - Can make unsupported entries in the books to produce a fictitious balance between receipts and ledgers
- Reversing entries
 - Post the payment and then reverse the entry through “discounts”
- Destruction of records
 - Destroying the records can conceal the identity of the perpetrator even though the fraud has been discovered





Cash Larceny From The Deposit

- Whoever takes the deposit to the bank has an opportunity to steal a portion of it.
- Having controls such as matching the receipted deposit slip to the originally prepared slip does not always prevent theft
- Failure to reconcile the slips can foster an environment leading to theft
- Lack of security over the deposit before it goes to the bank can also lead to theft





Cash Larceny From The Deposit

- Deposit lapping
 - Day one's deposit is stolen and is replaced by day two's deposit . . .
 - ..
- Deposits in transit
 - Carrying the missing money as a deposit in transit but never clears the bank statement



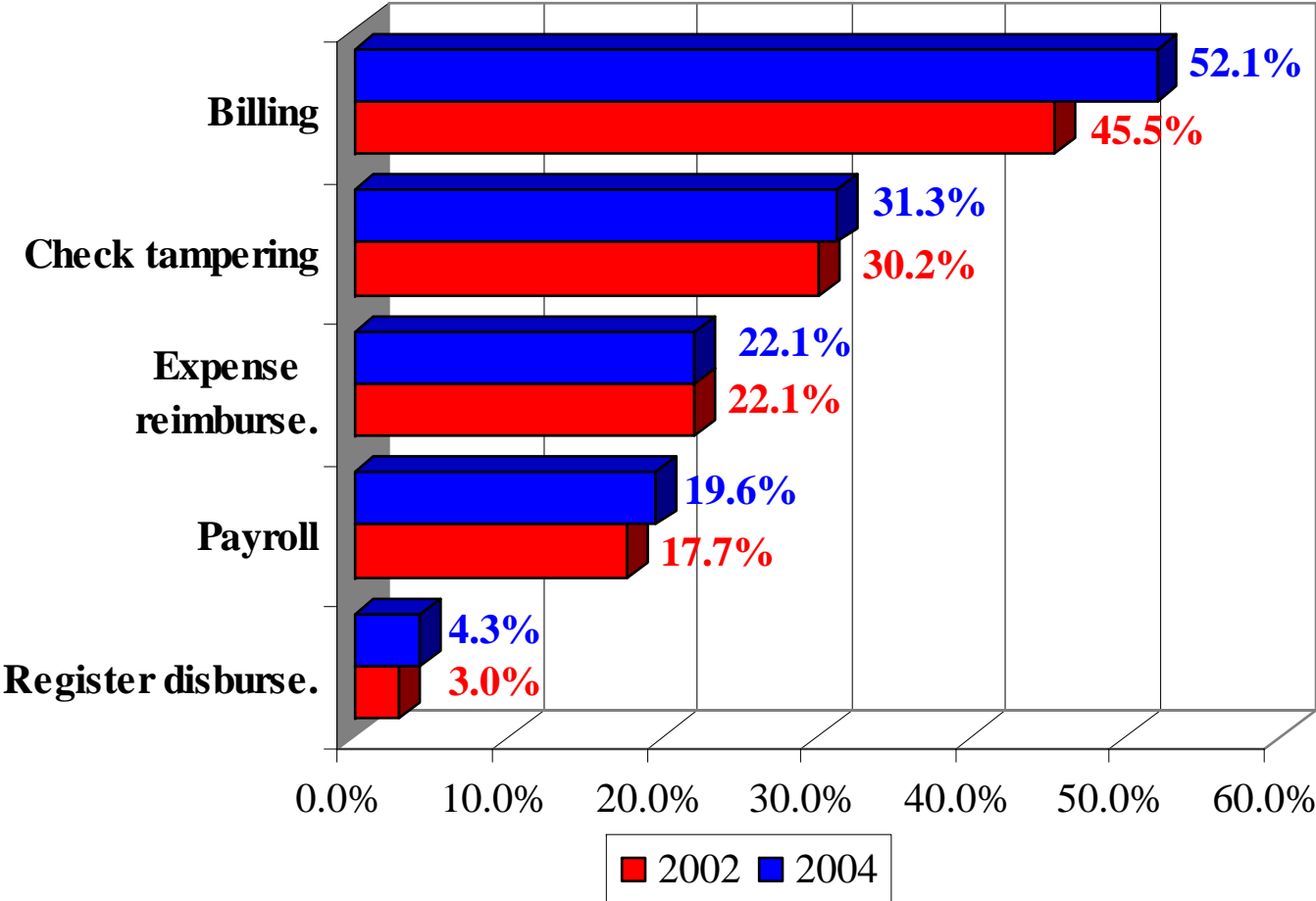


Preventing and Detecting – Cash Larceny From The Deposit

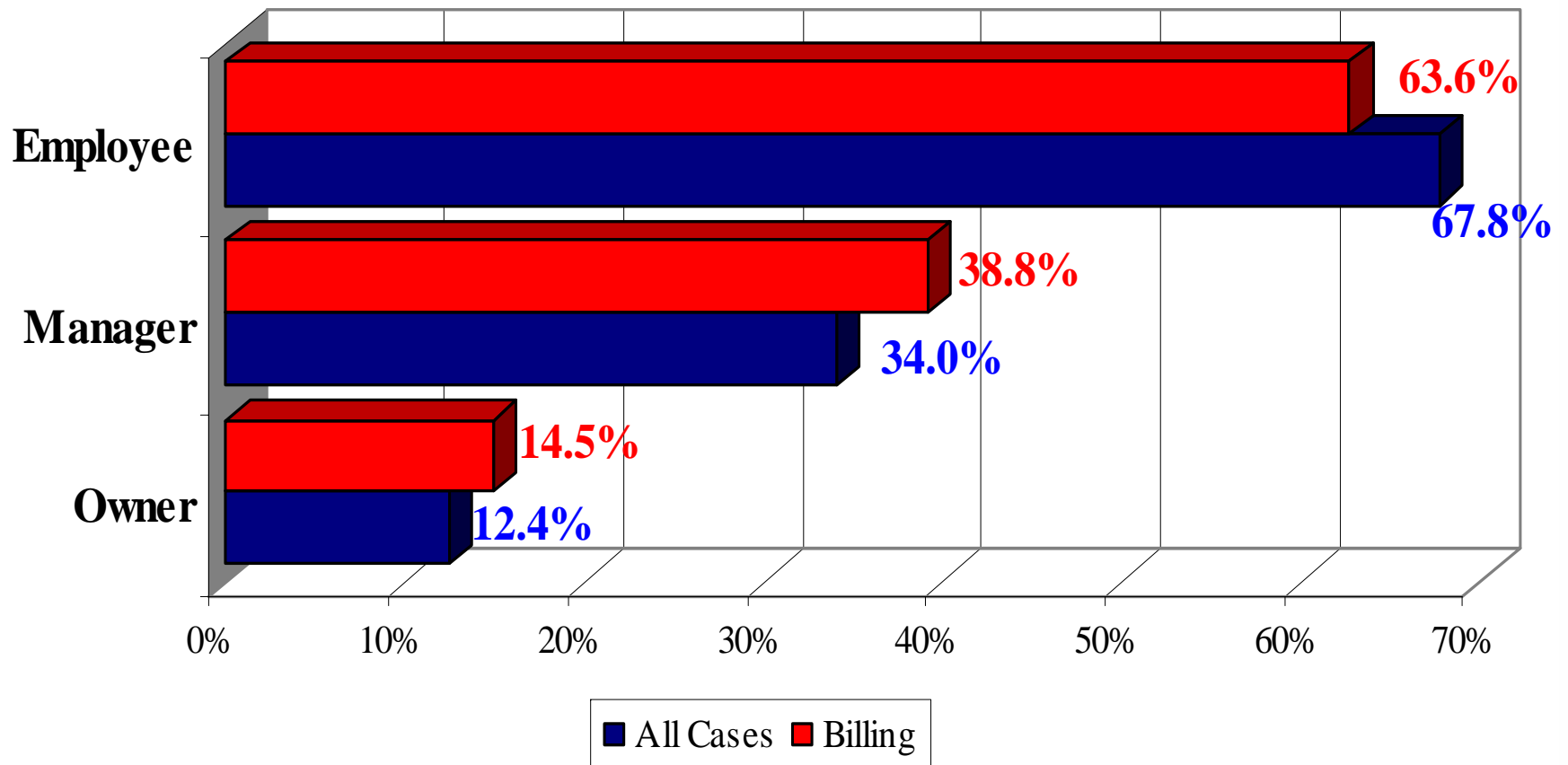
- Separation of duties is the most important factor
- All incoming revenues should be delivered to a centralized department
- Compare the authenticated deposit slip with the company's copy of the deposit slip, the remittance list, and the general ledger posting of the day's receipts
- Two copies of the bank statement should be delivered to different persons in the organization
- Require that deposits be made at a night drop at the bank



Frequency of Fraudulent Disbursements



Perpetrators of Billing Schemes





Billing Schemes

- The perpetrator uses false documentation to cause a payment to be issued for a fraudulent purpose
- Actual disbursement is issued as would a legitimate disbursement
- Schemes
 - Shell company schemes
 - Non-accomplice vendor schemes
 - Personal purchases schemes





Shell Company

- **Submitting false invoices**
 - Invoice is manufactured by using a professional printer, personal computer, or a typewriter
- **Self-approval of fraudulent invoices**
 - Most fraudsters are in a position to approve payment
 - Approvals may be forged
- **“Rubber stamp” supervisors**
 - Supervisors don’t check the documentation and approve whatever is submitted
- **Reliance on false documents**
 - Without approval authority, fraudster relies on the false documents submitted – purchase order, invoice, and receiving reports





Shell Company

- **Collusion**
 - Two or more employees conspire to steal
 - More difficult to detect
 - Circumvents controls that implemented to prevent fraud
- **Purchases of services rather than goods**
 - Purchases of service are preferable over purchases of goods
 - Services are intangible and fraud is more difficult to detect
- **Pass-through schemes**
 - Goods or services are purchased by the employee and resold to the victim company at an inflated price





Billing Schemes – Non-Accomplice Vendors

- **Vendor is not a part of the scheme**
- **Pay-and-return schemes**
 - Payments owed to legitimate vendors intentionally mishandled
 - Double pay an invoice
 - Pay the wrong the vendor
 - Overpay the invoice amount
 - Purchase excess merchandise
- **Overbilling with a non-accomplice vendor's invoices**
 - Fake invoice is created for a vendor that regularly does business with victim organization
 - Reruns an invoice already paid





Preventing and Detecting Non-Accomplice Vendor Fraud

- Incoming checks should be photocopied and attached to the remittance advice
- Regarding overpayments, banks should be instructed not to cash checks payable to an organization
- Spot check past accounts payable files when a pay-and-return scheme is suspected





Personal Purchases With Company Funds

- Employee makes personal purchases for themselves, their businesses, their family or friends using company money
- Perpetrator causes the victim company to order and pay for an unneeded asset





Personal Purchases Through False Invoices

- **The fraudster as authorizer of invoices**
- **Falsifying documents such as purchase orders to obtain authorization**
- **Altering existing purchase orders**
- **False purchase requisitions**
 - Misrepresent the nature of the purchase
 - Change the delivery address of the purchase





Personal Purchases on Credit Cards or Other Company Accounts

- **Employees make purchases using their company credit cards or have running accounts with vendors**
- **Company cards may be stolen or “borrowed” from authorized users**
- **Charge accounts**
 - Employees order items using an existing account with the vendor
- **Returning merchandise for credit**
 - Employee purchases a good or service, receives reimbursement, and then returns the item for a credit





Check Tampering Schemes

- **Perpetrator physically prepares the fraudulent check**
- **Must have:**
 - Access to checks
 - Access to bank statements
 - Ability to forge signatures or alter other information on the check





Concealing Check Tampering

- Forged endorsement schemes and altered payee schemes creates a problem for the fraudster because the checks are intended for a legitimate recipient who will complain if a payment isn't received
- An investigation could be triggered and the fraud discovered





Concealing Check Tampering

- **Fraudster reconciling the bank statement**
 - Fraudulent check can be removed
 - Doctor the bank statement
 - Code it as “void” or not include it in the disbursements journal
- **Re-alteration of checks**
 - Check is changed back to the rightful payee when returned from the bank
 - Re-altered checks will match the names of the legitimate payees listed in the disbursements journal





Concealing Check Tampering

- **Falsifying the disbursements journal**
 - Check made payable to the perpetrator but a different person is listed as the payee in the books
 - Amount of the check can also be falsified in the disbursements journal
 - Existing accounts that are rarely reviewed or are very active are preferred





Concealing Check Tampering

- **Reissuing intercepted checks**
 - New checks are issued to replace the ones that the vendor did not received
 - The original invoice is changed in a manner that avoids a duplicate check for new check
 - New check issued and a stop payment is supposed to have been made
- **Bogus supporting documents**
 - Fake support is needed to support the check
 - False payment vouchers, invoices, purchase orders, receiving reports are submitted





Payroll Schemes

- Occupational frauds in which a person who works for an organization causes that organization to issue a payment by making false claims for compensation
- Ghost employee schemes
- Falsified hours and salary schemes
- Commission schemes





Ghost Employees

- Someone on the payroll who does not actually work for the victim company
 - Fictitious person
 - Friend or relative
 - Accomplice
 - Other





Falsified Hours and Salary

- Overpayment of wages is the most common form of misappropriating payroll funds
- Increase number of hours or hourly rate of pay
- Time clocks
- Computer tracking of employee time
- Manually prepared timecards





Manually Prepared Timecards

- Forging a supervisor's signature
- Collusion with a supervisor
- Rubber stamp supervisors
- Poor custody procedures





Other Schemes

- Time clocks and other automated timekeeping systems
 - Employee has someone else clock in for him when absent
- Rates of pay





Tests for Fraudulent Payroll Activity

- Review employees who have significantly more overtime than similar employees
- Trend analysis of budgeted vs. actual expenses
- Exception reports for employees who have had disproportionately large increases in wages
- Verify payroll taxes equal federal return tax forms
- Compare net payroll-to-payroll checks issued





Commission Schemes

- Pay is based on an employee's output rather than hours worked or a set salary
- Falsify the amount of sales made
 - Creation of fraudulent sales orders, purchase orders, credit authorizations, packing slips, invoices, etc.
 - Ring up a false sale on the cash register
 - Overstate legitimate sales
- Fraudulently increase the rate of commission





Expense Reimbursement Schemes

- Employees are reimbursed for expenses paid on behalf of the employer
- Airfare, hotel bills, business meals, mileage, ground transportation and so on
- Business purpose explained and receipts attached per the organization's guidelines





Expense Reimbursement Schemes

Mischaracterized Expenses

Overstated Expenses

Fictitious Expenses

Multiple Reimbursements





Register Disbursement Schemes

- False refunds
- False voids





Auditing vs. Fraud Examination

<u><i>Issue</i></u>	<u>Auditing</u>	<u>Fraud Examination</u>
<i>Timing</i>	Recurring	Nonrecurring
<i>Scope</i>	General	Specific
<i>Objective</i>	Opinion	Affix blame
<i>Relationship</i>	Nonadversarial	Adversarial
<i>Methodology</i>	Audit techniques	Fraud examination techniques
<i>Presumption</i>	Professional skepticism	Proof



Tools Used in Fraud



Atlanta, 2006

WHAT ARE THE MAIN CHALLENGES:

Pickpocketing

Shoplifting

Rides storing boxes

Sneaking into park/fence jumping

Car breakins/theft

Cash & prizes

.....etc.



Tusenfryd

Dagen er din!

WHAT DO WE LOOK FOR?



"The majority of our guests are not common criminals. Illegal behaviour is often an impulsive act caused by factors like temptation, thrill and accessibility".

Main focus:

- Focus on how to prevent illegal actions by guests
- "Organized crime"



Tusenfryd

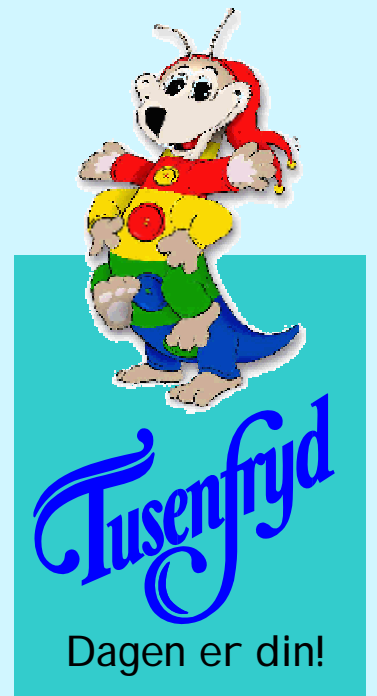
Dagen er din!

HOW DO WE COPE WITH THE CHALLENGE?

Hardware

- Camera surveillance
- Alarm systems
- Fencing
- Securing of prizes
- Cash boxes

"How much money are you willing to spend? Will you ever be able to get to 100% level on security?"



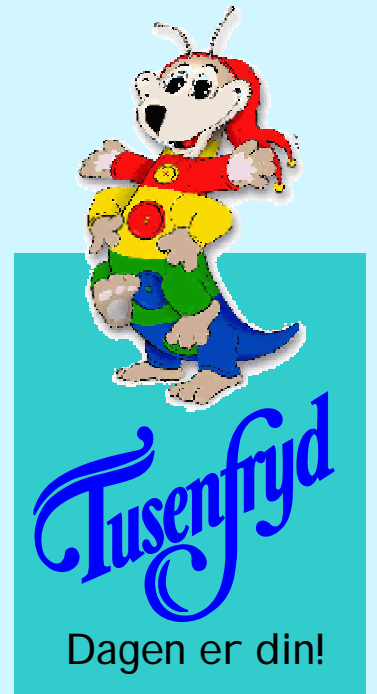
HOW DO WE COPE WITH THE CHALLENGE?

Park Policy

- Setting the standard, what do we accept?
- Training your personell
- Visualize your level of security
- Reaction (according to the policy)
- Cooperation with local police/sheriff dep.

Security personell

- Defining their job as more than just internal "police".
- "Show them to our guests"
- Cooperation between departments



TusenFryd

Bjørn Håvard Solli Technical Manager E-mail: bhs@tusenfryd.no Web: <http://www.tusenfryd.no>



Tusenfryd

Dagen er din!



Information Sources

Speakers:

Neva Richardson – Larson, Sims Group &
Department Chair & Professor of Business
for FMU an affiliate of Corinthians College.

Bojrn Haavard Solli, TusenFryd Norway

Book:

Principles of Fraud Examination; Wiley

