

# **Fraud Schemes**

---

3<sup>rd</sup> Edition

Steven M. Bragg

# Table of Contents

---

|                                                                |               |
|----------------------------------------------------------------|---------------|
| <b>Chapter 1 – Fraud Schemes by Employees.....</b>             | <b>1</b>      |
| Learning Objectives .....                                      | 1             |
| Introduction.....                                              | 1             |
| What is Fraud? .....                                           | 1             |
| Cash Schemes .....                                             | 2             |
| Skimming (No Recordation) .....                                | 2             |
| Discounted Sales (Partial Recordation).....                    | 2             |
| Modification of Receipts (Altered Recordation) .....           | 3             |
| Fake Refunds (Subsequent Recordation).....                     | 3             |
| Receivable Schemes .....                                       | 3             |
| Diversion of Collections on Old Receivables .....              | 3             |
| Lapping .....                                                  | 4             |
| Inventory Schemes .....                                        | 4             |
| Incorrect Receipt Fraud.....                                   | 4             |
| Product Replacement Fraud .....                                | 4             |
| Diversion of Scrap Payments .....                              | 4             |
| Procurement Schemes .....                                      | 5             |
| Fake Invoice Fraud .....                                       | 5             |
| Diverted Purchases Fraud .....                                 | 5             |
| Kickbacks .....                                                | 5             |
| Bid Rigging .....                                              | 6             |
| Payables Schemes .....                                         | 6             |
| Outbound Check Fraud.....                                      | 6             |
| Diverted Payment Fraud .....                                   | 7             |
| Petty Cash Fraud.....                                          | 7             |
| Expense Report Fraud.....                                      | 7             |
| Human Resources Schemes.....                                   | 8             |
| Job Application Fraud .....                                    | 8             |
| Compensation Fraud .....                                       | 8             |
| Dependent Fraud.....                                           | 9             |
| Workers' Compensation Fraud.....                               | 9             |
| Self-Insurance Fraud .....                                     | 9             |
| Time Fraud .....                                               | 10            |
| Executive-Level Fraud .....                                    | 10            |
| Abuse of a Position of Trust .....                             | 10            |
| Executive and Related Party Loan Fraud .....                   | 11            |
| Insider Trading Fraud.....                                     | 11            |
| Stock Option Backdating Fraud.....                             | 11            |
| General Employee Fraud Observations.....                       | 11            |
| Summary .....                                                  | 12            |
| Review Questions .....                                         | 13            |
| Review Answers .....                                           | 14            |
| <br><b>Chapter 2 – Financial Statement Fraud Schemes .....</b> | <br><b>15</b> |
| Learning Objectives .....                                      | 15            |
| Introduction.....                                              | 15            |
| Sales Inflation .....                                          | 16            |
| Expenses Falsification .....                                   | 18            |
| Marketable Securities Falsification .....                      | 18            |
| Prepaid Expenses Falsification .....                           | 19            |
| Receivables Falsification.....                                 | 19            |
| Loss Reserves Falsification.....                               | 19            |
| Inventory Falsification .....                                  | 20            |
| Fixed Asset Falsification .....                                | 21            |

## Table of Contents

|                                                    |           |
|----------------------------------------------------|-----------|
| Liability Falsification .....                      | 22        |
| Debt Falsification .....                           | 23        |
| Discontinued Operations Stuffing .....             | 23        |
| Cash Flow Reclassifications.....                   | 23        |
| Acquisition Falsification.....                     | 25        |
| Financial Statement Disclosure Fraud.....          | 25        |
| Summary .....                                      | 26        |
| Review Questions.....                              | 27        |
| Review Answers .....                               | 28        |
| <b>Chapter 3 – Fraud Schemes by Outsiders.....</b> | <b>29</b> |
| Learning Objectives .....                          | 29        |
| Introduction.....                                  | 29        |
| Imposter Schemes .....                             | 29        |
| Application Fraud.....                             | 29        |
| Bank Account Fraud .....                           | 29        |
| CEO Fraud .....                                    | 30        |
| Redirected Payments Fraud.....                     | 30        |
| Software Service Fraud.....                        | 30        |
| Triangulation Fraud.....                           | 30        |
| Bust-Out Fraud .....                               | 31        |
| Misrepresentation Schemes.....                     | 31        |
| Advance-Fee Loan Fraud .....                       | 31        |
| Investor Marketing Fraud .....                     | 32        |
| Business Directory Fraud.....                      | 32        |
| Substandard Goods Fraud.....                       | 32        |
| Counterfeit Schemes .....                          | 32        |
| Counterfeit Goods Fraud.....                       | 33        |
| Gift Certificate Fraud.....                        | 33        |
| Inbound Check Fraud .....                          | 33        |
| Money Laundering Schemes.....                      | 33        |
| Fraud Tools used by Outsiders .....                | 34        |
| Social Engineering Fraud.....                      | 34        |
| Temporary Business Address .....                   | 35        |
| Summary .....                                      | 35        |
| Review Questions.....                              | 36        |
| Review Answers .....                               | 37        |
| <b>Glossary.....</b>                               | <b>39</b> |
| <b>Index .....</b>                                 | <b>41</b> |