



**FRD510**

**Principles of Fraud Examination - 30 hours**

**Outline and Objectives**

**CHAPTER 1 - INTRODUCTION**

**LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Define fraud examination and differentiate it from auditing
- Understand the fraud theory approach
- Define occupational fraud
- Define fraud
- Define abuse
- Know the difference between fraud and abuse
- Describe the criminological contributions of Edwin H. Sutherland
- Understand Donald Cressey's hypothesis
- Give examples of nonshareable problems that contribute to fraud
- Understand how perceived opportunity and rationalization contribute to fraud
- Explain W. Steve Albrecht's "fraud scale"
- Summarize the conclusions of the Hollinger-Clark study
- Summarize the findings of the *2011 Global Fraud Survey*

**CHAPTER 2 - SKIMMING**

**LEARNING OBJECTIVES:**

After studying this chapter, you should be able to:

- Define skimming

- List and understand the two principal categories of skimming schemes
- Understand how sales skimming is committed and concealed
- Understand schemes involving understated sales
- Understand how cash register manipulations are used to skim currency
- Be familiar with how sales are skimmed during nonbusiness hours
- Understand the techniques discussed for preventing and detecting sales skimming
- List and be able to explain the six methods typically used by fraudsters to conceal receivables skimming
- Understand what “lapping” is and how it is used to hide skimming schemes
- Be familiar with how fraudsters use fraudulent write-offs or discounts to conceal skimming
- Understand the techniques discussed for preventing and detecting receivables skimming
- Be familiar with proactive audit tests that can be used to detect skimming

## **CHAPTER 3 - CASH LARCENY**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Define cash larceny
- Understand how cash receipts schemes differ from fraudulent disbursements
- Recognize the difference between cash larceny and skimming
- Understand the relative frequency and cost of cash larceny schemes as opposed to other forms of cash misappropriations
- Identify weaknesses in internal controls as inducing factors to cash larceny schemes
- Understand how cash larceny is committed at the point of sale
- Discuss measures that can be used to prevent and detect cash larceny at the point of sale
- Understand and identify various methods used by fraudsters to conceal cash larceny of receivables
- Understand schemes involving cash larceny from deposits, including lapping and deposits in transit
- Understand controls and procedures that can be used to prevent and detect cash larceny from bank deposits
- Be familiar with proactive audit tests that can be used to detect cash larceny schemes

## **CHAPTER 4 - BILLING SCHEMES**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- List the five major categories of fraudulent disbursements
- Define billing schemes
- List the three categories of billing schemes
- Understand what a shell company is and how it is formed
- List and understand the four ways false invoices are approved for payment
- Understand why most shell company schemes involve the purchase of services rather than goods
- Understand how a pass-through scheme differs from the usual shell company schemes
- Be familiar with the methods identified in this chapter for preventing and detecting shell company schemes
- Understand how pay-and-return schemes work
- Understand how nonaccomplice vendor schemes work
- Be familiar with the methods identified in this chapter for preventing and detecting nonaccomplice vendor schemes
- Understand how personal purchases schemes work
- Be familiar with the methods identified in this chapter for preventing and detecting personal purchases schemes
- Be familiar with proactive audit tests that can be used to detect billing schemes

## **CHAPTER 5 - CHECK TAMPERING**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Define check tampering
- Understand the five principal categories of check tampering
- Detail the means by which employees fraudulently obtain company checks
- Understand how forged signatures are created on blank check stock
- Be familiar with the methods identified in this chapter for preventing and detecting forged maker schemes
- Differentiate between forged maker and forged endorsement schemes
- Detail the methods employees use to intercept outgoing checks before they

are delivered to the intended payee

- Be able to discuss methods that can be used to prevent and detect the theft and alteration of outgoing company checks
- Understand how authorized maker schemes work and why they are especially difficult to prevent
- Explain how check tampering is hidden in a company's accounting records
- Describe measures companies can take to prevent and detect fraudulent electronic payments
- Be familiar with proactive audit tests that can be used to detect check tampering

## **CHAPTER 6 - PAYROLL SCHEMES**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- List and understand the three main categories of payroll fraud
- Understand the relative cost and frequency of payroll frauds
- Define a ghost employee
- List and understand the four steps of making a ghost employee scheme work
- Understand how separation of duties in payroll and human resources functions can reduce the threat of payroll fraud
- Be familiar with methods identified in this chapter for preventing and detecting ghost employee schemes
- List and understand the four ways that employees can obtain authorization for a falsified time card in a manual system
- Understand the role that payroll controls play in preventing falsified hours and salary schemes
- Discuss the methods identified in this chapter for preventing and detecting falsified hours and salary schemes
- Understand how employees commit commission schemes
- Identify red flags that are typically associated with commission schemes
- Be familiar with proactive audit tests that can be used to detect various forms of payroll fraud

## **CHAPTER 7 - EXPENSE REIMBURSEMENT SCHEMES**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Explain what constitutes expense reimbursement fraud
- Discuss the data on expense reimbursement fraud from the *2011 Global Fraud Survey*
- Understand how mischaracterized expense reimbursement schemes are committed
- Be familiar with the controls identified in this chapter for preventing and detecting mischaracterized expense schemes
- Identify the methods employees use to overstate otherwise legitimate expenses on their expense reports
- Understand controls that can be used to prevent and detect overstated expense schemes
- Explain what a fictitious expense reimbursement scheme is and differentiate it from other forms of expense reimbursement fraud
- Identify red flags that are commonly associated with fictitious expense schemes
- Discuss what a multiple reimbursement scheme is and how this kind of fraud is committed
- Discuss the controls identified in this chapter for preventing and detecting multiple reimbursement schemes
- Be familiar with proactive audit tests that can be used to detect various forms of expense reimbursement fraud

## **CHAPTER 8 - REGISTER DISBURSEMENT SCHEMES**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Explain what constitutes a register disbursement scheme
- Differentiate register disbursements from skimming and cash larceny schemes
- List the two basic categories of register disbursements
- Explain how false refund schemes are committed
- Explain how false void schemes are committed
- Understand how register disbursement schemes cause shrinkage
- Discuss the methods by which fraudulent register disbursements are

- concealed
- Understand the methods identified in this chapter for preventing and detecting register disbursement schemes
- Be familiar with proactive audit tests that can be used to detect register disbursement schemes

## **CHAPTER 9 - NONCASH ASSETS**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- List the five categories of tangible noncash misappropriations discussed in this chapter
- Discuss the data on noncash misappropriations from the *2011 Global Fraud Survey*
- Explain how misuse of noncash assets can negatively affect organizations
- Understand how and why unconcealed larceny of noncash assets occurs
- Be familiar with internal controls and tests that can be used to prevent and detect noncash larceny
- Understand how weaknesses in internal asset requisition and transfer procedures can lead to the misappropriation of noncash assets
- Explain how purchasing and receiving schemes are used to misappropriate noncash assets
- Understand how the theft of noncash assets through the use of fraudulent shipments is accomplished
- Define shrinkage
- Describe how fraudsters conceal the theft of noncash assets on the victim organization's books
- Understand how employees can misappropriate intangible assets, as well as how companies can protect themselves from such schemes
- Be familiar with proactive audit tests that can be used to detect misappropriations of noncash assets

## **CHAPTER 10 - CORRUPTION**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to

- Define corruption
- Identify the four categories of corruption
- Define bribery
- Compare and contrast bribery, extortion, and illegal gratuities
- Identify the two categories of bribery schemes
- Understand kickback schemes and how they are committed
- Understand bid-rigging schemes and explain how they are categorized
- Describe the types of abuses that are committed at each stage of the competitive bidding process
- Be familiar with the controls and techniques that can be used to prevent and detect bribery
- Define conflicts of interest
- Differentiate conflicts of interest from bribery schemes and billing schemes
- List and understand the two major categories of conflicts of interest
- Understand the provisions of U.S. and U.K. anti-corruption legislation
- Be familiar with proactive audit tests that can be used to detect corruption schemes

## **CHAPTER 11 - ACCOUNTING PRINCIPLES AND FRAUD**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Define fraud as it relates to financial statements
- Identify the three main groups of people who commit financial statement fraud
- List the three primary reasons people commit financial statement fraud
- Describe the three general methods used to commit financial statement fraud
- Define overstatements
- Define understatements
- Describe the conceptual framework for financial reporting
- List examples of various types of financial statements

## **CHAPTER 12 - FINANCIAL STATEMENT FRAUD SCHEMES**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Define financial statement fraud and related schemes
- Understand and identify the five classifications of financial statement fraud
- Explain how fictitious revenues schemes are committed, as well as the motivation for, and result of, committing such fraud
- Explain how timing difference schemes are committed, as well as the motivation for, and result of, committing such fraud
- Describe the methods by which concealed liabilities and expenses are used to fraudulently improve a company's balance sheet
- Understand how improper disclosures may be used to mislead potential investors, creditors, or other users of the financial statements
- Recognize how improper asset valuation may inflate the current ratio
- Identify detection and deterrence procedures that may be instrumental in dealing with fraudulent financial statement schemes
- Understand financial statement analysis for detecting fraud
- Identify and characterize current professional and legislative actions that have sought to improve corporate governance, enhance the reliability and quality of financial reports, and foster credibility and effectiveness of audit functions

## **CHAPTER 13 - EXTERNAL FRAUD SCHEMES**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- List the three sources of external fraud threats
- Explain why organizations are vulnerable to external fraud
- Discuss the types of fraud threats posed by customers
- Identify two types of check fraud schemes
- Define the term "paperhanger"
- Be familiar with the methods identified in this chapter for preventing and detecting check fraud
- Define credit card fraud and identify two types of credit card fraud schemes
- Be familiar with the methods identified in this chapter for preventing and detecting credit card fraud

- Be able to discuss the various types of collusion that happen between contractors
- Be able to discuss the type of fraud that typically happens in the performance phase of a contract
- Define product substitution and list some common product substitution schemes
- Be familiar with the methods identified in this chapter for preventing and detecting vendor fraud
- Explain how unrelated third parties can commit fraud against a company
- Discuss why organizations are targeted by corporate spies
- Name some of the types of information and departments targeted by corporate spies
- Describe some of the methods by which a company can mitigate the risk of computer hacking
- Describe some of the precautions a company should take to protect its physical and intellectual property

## **CHAPTER 14 - FRAUD RISK ASSESSMENT**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Describe the factors that influence an organization's vulnerability to fraud
- Explain the difference between preventive and detective controls
- Define and explain the objective of a fraud risk assessment
- Discuss why organizations should conduct fraud risk assessments
- Understand the characteristics of a good fraud risk assessment
- Describe considerations for developing an effective fraud risk assessment
- List actions that should be taken to prepare a company for a fraud risk assessment
- Understand the steps involved in conducting a fraud risk assessment and how to apply a framework to it
- Describe approaches to responding to an organization's residual fraud risks
- Name important considerations when reporting the results of a fraud risk assessment
- List actions management should take using the results of a fraud risk assessment
- Explain how a fraud risk assessment can inform and influence the audit process

## **CHAPTER 15 - CONDUCTING INVESTIGATIONS AND WRITING REPORTS**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Understand the circumstances that may necessitate an internal investigation
- Identify who should be part of a fraud examination team
- Define evidence
- Be familiar with several evidence-gathering techniques
- Understand the considerations and concerns related to preserving documentary evidence
- Understand the importance of and methods for organizing documentary evidence
- Identify several sources of evidence and the types of information each can provide
- Be familiar with the standard format and requirements for a professional investigation report

## **CHAPTER 16 - INTERVIEWING WITNESSES**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- List the five types of interview questions
- Understand how to ask introductory questions
- Explain how to construct informational questions
- Understand the differences between open, closed, and leading questions
- Explain how to close an interview
- Define and explain the purpose of assessment questions
- List some nonverbal clues to deception
- List some verbal clues to deception
- Discuss the methodology of admission-seeking questions
- List the elements of a signed statement

## **CHAPTER 17 - OCCUPATIONAL FRAUD AND ABUSE: THE BIG PICTURE**

### **LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Understand and describe abusive conduct
- Determine why attempting to achieve perfection in the workplace is not desirable
- Explain the obstacles to accurately measuring the level of occupational fraud and abuse in organizations
- Determine why greed is an inadequate explanation for occupational fraud and abuse
- Explain the concept of "wages in kind"
- Compare and contrast fraud prevention and fraud deterrence
- Explain the significance of the "perception of detection"
- Identify some of the factors related to increasing the perception of detection
- Explain the relevance of adequate reporting programs to fraud deterrence
- Understand the implications of the Corporate Sentencing Guidelines
- Understand ethics and ethical theory