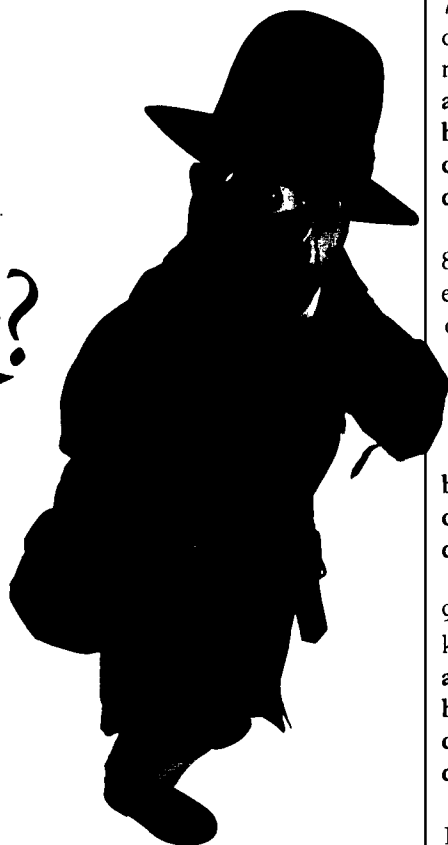


What Is Your Fraud IQ?

Think you can spot corruption in any of its many forms? Take this (deceptively) simple test to find out just how much you know.

by Joseph T. Wells



1. Which of the following assets are most often pilfered?

- a. Cash
- b. Accounts receivable
- c. Inventory
- d. Intellectual property

2. Which of the following techniques are used to detect cash frauds?

- a. Bank reconciliations
- b. Review of cost trends
- c. Investigation of customer complaints
- d. All of the above

3. Corruption payments usually begin with cash and currency because they are less obvious. However, eventually, the payments will be made with gifts and favors.

- a. True
- b. False

4. The type of companies LEAST susceptible to financial statement fraud are:

- a. Startup companies

b. Companies transitioning from fast growth to slower growth

- c. Companies dealing with a period of constant growth
- d. Companies struggling to maintain their market position

5. Which of the following audit steps would be used in searching for a ghost employee?

- a. Compare a listing of current and former employees to the payroll
- b. Determine if all employees have executed tax withholding forms
- c. Verify the existence of the reported Social Security number
- d. All of the above

6. In a bribery case, it is enough to prove that a thing of value was given. It is not necessary to prove that it was given with the intent to influence the receiver.

- a. True
- b. False

7. _____ is the crediting of one account through the abstraction of money from another account.

- a. Skimming
- b. Lapping
- c. Rigging
- d. Padding

8. Jones is a buyer for Smith & Co. He buys exclusively from Brown despite the fact that other suppliers are better and cheaper. Jones has an undisclosed interest in Brown's business. This situation would be classified as _____.

- a. Embezzlement
- b. Larceny
- c. Conflict of interest
- d. Bribery

9. The criminologist responsible for the well-known hypothesis of the "fraud triangle" is:

- a. Immanuel Kant
- b. Marshall B. Clinard
- c. Donald R. Cressey
- d. Jeremy Bentham

10. If you wanted to compare the amount spent on various expenses relative to the total expense amount, which of the following techniques would you be most likely to employ?

- a. Horizontal analysis
- b. Vertical analysis
- c. Reasonableness tests
- d. None of the above

ANSWERS

1. (a) Cash defalcations are the most common of all employee embezzlement schemes. However, since most companies keep relatively good control over cash, the schemes are frequent but rarely result in large losses.

2. (d) There are several basic accounting techniques that are used to detect cash frauds. They include bank reconciliations, cut-off bank statements, surprise cash counts, investigation of customer complaints, journal entry review, and review of historical sales and cost trends.

3. (b) Gifts given with corrupt intent have included everything from a box of expensive cigars to a 50-acre horse farm. Gifts or other favors provide an easy and safe way to initiate a corrupt relationship: The parties can test each other without being too obvious. However, gifts are an impractical medium of exchange if the relationship flourishes. The parties then usually turn to currency.

4. (c) Companies dealing with a period of constant growth are often more stable and under less pressure to achieve uncommon results; therefore, they are least susceptible to financial statement fraud. However, no company is totally immune from fraud.

5. (d) There are several common methods for detecting payroll fraud. Some of these methods include independent payroll distribution, analysis of payee addresses or accounts, duplicate Social Security numbers, overtime authorization

and analysis of withholding taxes.

6. (b) In a bribery case, it is not enough to prove that a thing of value was given and received. One also has to prove that it was intended to influence the receiver.

7. (b) Lapping customer payments is one of the most common methods of concealing skimming, and may be particularly useful to employees who skim receivables. Lapping is the crediting of one account through the abstraction of money from another account.

8. (c) The elements of conflict of interest include (1) an agent taking an interest in a transaction, (2) that is actually or potentially adverse to the principal, (3) without full and timely disclosure to the principal.

9. (c) The "fraud triangle" is the most widely known and accepted theory explaining why employees defraud their employers. Developed in the 1950s by criminologist

Donald R. Cressey, the hypothesis states that three factors must be present in order for a person to commit fraud: (1) a non-sharable financial need or pressure, (2) a perceived opportunity and (3) a rationalization to justify the crime.

10. (b) Vertical analysis is a technique for analyzing the relationships between the items on an income statement, balance sheet or statement of cash flow by expressing components as percentages. This analysis can be used to display the percentage of a specific account to a more generally related account (i.e., miscellaneous expenses to total expenses or cost of goods sold to net sales) within one period.

Joseph T. Wells, CPA, CFE, is founder and chair of the Association of Certified Fraud Examiners and a contributing editor to the Journal of Accountancy. His e-mail address is jwells@acfe.com. The 2006 Report to the Nation on Occupational Fraud and Abuse is available at www.acfe.com/fraud/report.asp.



I keep a bicycle in the hotel storage room.
 I wear my sheepskin slippers whenever possible.
 I always have grapefruit juice in the fridge.
 I make myself at home.

Sure, you'll enjoy our spacious suites with complimentary high-speed internet access, hot breakfast on the house each morning, and beverages and a light meal on us, Monday-Thursday evenings. But it's the little ways we understand our guests that make a Homewood Suites by Hilton® hotel a place where you actually live, not just stay. Visit homewoodsuites.com and share stories about how you Make Yourself at Home® on the road.

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