



51A Middle Street, Newburyport, MA 01950

Phone: 800-588-7039

[contact@bhfe.com](mailto:contact@bhfe.com)

[www.bhfe.com](http://www.bhfe.com)

## Course Information

---

**Course Title:** Fraud Schemes #368523

**Number of continuing education credit hours recommended for this course:**

In accordance with the standards of the National Registry of CPE Sponsors CPE credits have been granted based on a 50-minute hour.

**CPA: 3** (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration

Florida Division of Certified Public Accountancy: 0004761 (Ethics #0011467)

Hawaii Board of Accountancy: 14003

New York State Board of Accountancy (for ethics): 002146

Ohio State Board of Accountancy: CPE .51

Pennsylvania Board of Accountancy: PX178025

Texas State Board of Accountancy: 009349

### Course Description

Fraud schemes can threaten the financial stability of an organization. By understanding as much as possible about the nature of fraud, an organization can take steps to prevent it from occurring. *Fraud Schemes* serves as this necessary guidebook, describing the different types of fraud schemes that may be perpetrated against a business. The schemes are broken down into schemes by employees, financial statement fraud, and schemes by outsiders. Accompanying the descriptions of fraud schemes are discussions about how to minimize the effects of fraud on a business.

### Course Content

Publication/Revision date: 5/1/2023.

Author: Steven M. Bragg, CPA.

Final exam (online): Fifteen questions (multiple-choice).

**Program Delivery Method:** NASBA QAS Self-Study (interactive)

## Subject Codes/Field of Study

NASBA (CPA): Accounting

## Course Level, Prerequisites, and Advance Preparation Requirements

Program level: Overview

Prerequisites: None

Advance Preparation: None

## Instructions for Taking This Course

- Log in to your secure account at [www.bhfe.com](http://www.bhfe.com). Go to "My Account."
- You must complete this course within one year of purchase (If the course is "Expired," contact us and we will add the latest edition of the course to your account (no charge).
- **To retain the course-PDF after completion (for future reference) and to enable enhanced navigation:** From "My Account," Download and save the course-PDF to your computer. This will enable the search function (Menu: Edit>Find) and bookmarks (icon on left side of document window).
- Complete the course by following the learning objectives listed for the course, studying the text, and, if included, studying the review questions at the end of each major section (or at the end of the course).
- Once you have completed studying the course and you are confident that the learning objectives have been met, answer the final exam questions (online).

## Instructions for Taking the Online Exam

- Log in to your secure account at [www.bhfe.com](http://www.bhfe.com). Go to "My Account."
- A passing grade of at least **70%** is required on the exam for this course.
- You will have three attempts to pass the exam (call or email us after three unsuccessful attempts for instructions).
- The exam is not timed, and it does not need to be completed in one session.
- For a printed copy of the exam questions, open the exam and press "Print Exam."
- Once you pass the exam, the results (correct/incorrect answers) and certificate of completion appear in "My Account." A confirmation email is also sent.
- CFP Board and IRS credit hours, if applicable, are reported on Tuesdays and at the end of the month.

**Have a question?** Call us at 800-588-7039 or email us at [contact@bhfe.com](mailto:contact@bhfe.com).

# Learning Objectives

---

- Identify the characteristics of each type of employee fraud scheme.
- Recognize the methods used by employees to falsify their expense reports.
- Recognize the techniques used to artificially assist suppliers in winning bids.
- Specify how a payables clerk can obtain a valid signature on a check intended for personal use.
- Describe how stock option backdating can benefit employees.
- Identify the tools available to a management team that wants to inflate sales.
- Specify how the reported asset balances in the balance sheet can be artificially altered.
- Point out the circumstances in which a management team is more tempted to set up a large loss reserve.
- Recognize the methods available for using fixed assets to alter reported expense levels.
- Identify the methods available for falsely reducing reported liability levels.
- Describe the reasons why cash flows may be mis-reported.
- Specify the possible indicators of application fraud.
- Describe the controls that can be used to mitigate the effects of outsider fraud schemes.
- Cite the underlying mechanics of a bust-out scam.
- Point out the indicators of a possible money laundering scheme.

## About the Author

---

**Steven Bragg, CPA**, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been a two-time president of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written more than 250 books and courses, including *New Controller Guidebook*, *GAAP Guidebook*, and *Payroll Management*.

Copyright © 2023 by AccountingTools, Inc. All rights reserved.

Published by AccountingTools, Inc., Centennial, Colorado.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to Steven M. Bragg, 6727 E. Fremont Place, Centennial, CO 80112.

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

# Table of Contents

<b>Chapter 1 - Fraud Schemes by Employees .....</b>	<b>1</b>
What is Fraud? .....	1
Cash Schemes.....	2
Skimming (No Recordation).....	2
Discounted Sales (Partial Recordation) .....	3
Modification of Receipts (Altered Recordation).....	3
Fake Refunds (Subsequent Recordation).....	3
Receivable Schemes.....	3
Diversion of Collections on Old Receivables .....	4
Lapping.....	4
Inventory Schemes .....	4
Incorrect Receipt Fraud.....	4
Product Replacement Fraud .....	5
Diversion of Scrap Payments.....	5
Procurement Schemes .....	5
Fake Invoice Fraud .....	5
Diverted Purchases Fraud .....	6
Kickbacks .....	6
Bid Rigging.....	6
Payables Schemes .....	7
Outbound Check Fraud.....	7
Diverted Payment Fraud .....	7
Petty Cash Fraud.....	8
Expense Report Fraud.....	8
Human Resources Schemes.....	9
Job Application Fraud.....	9
Compensation Fraud.....	9
Dependent Fraud.....	10
Workers' Compensation Fraud.....	10
Self-Insurance Fraud.....	10
Time Fraud.....	10
Executive-Level Fraud .....	11
Abuse of a Position of Trust .....	11
Executive and Related Party Loan Fraud.....	11
Insider Trading Fraud .....	11
Stock Option Backdating Fraud.....	12
General Employee Fraud Observations.....	12
<b>Chapter 2 - Financial Statement Fraud Schemes .....</b>	<b>15</b>
Sales Inflation.....	16
Expenses Falsification .....	18
Marketable Securities Falsification .....	19
Prepaid Expenses Falsification.....	19
Receivables Falsification.....	19
Loss Reserves Falsification .....	20
Inventory Falsification .....	20
Fixed Asset Falsification.....	21
Liability Falsification .....	22
Debt Falsification .....	23
Discontinued Operations Stuffing.....	24
Cash Flow Reclassifications.....	24
Acquisition Falsification .....	25
Financial Statement Disclosure Fraud.....	26

<b>Chapter 3 - Fraud Schemes by Outsiders .....</b>	<b>29</b>
Imposter Schemes .....	29
Application Fraud .....	29
Bank Account Fraud .....	29
CEO Fraud .....	30
Redirected Payments Fraud .....	30
Software Service Fraud.....	30
Triangulation Fraud .....	31
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 .....	33
Counterfeit Goods Fraud.....	33
Gift Certificate Fraud.....	33
Inbound Check Fraud .....	33
Money Laundering Schemes .....	34
Fraud Tools used by Outsiders .....	35
Social Engineering Fraud.....	35
Temporary Business Address.....	35
<b>Answers to Chapter Questions .....</b>	<b>38</b>
<b>Glossary .....</b>	<b>42</b>
<b>Index .....</b>	<b>44</b>

# Preface

---

Every organization is potentially subject to fraud by its employees and outsiders. This fraud can take many forms, ranging from the deliberate falsification of records by an accounting clerk to a phishing attack by someone in another country. The outcome of these situations can be catastrophic, potentially resulting in the collapse of a business. The *Fraud Schemes* course is intended to show a broad range of schemes that can be used to damage or destroy a business. The course covers fraud schemes that can be perpetrated by employees, financial statement fraud that is usually engineered by the management team, and fraud schemes employed by outsiders. The course also notes how these schemes can be prevented or their effects mitigated. The reader can find the answers to many questions about fraud schemes in this course, including:

- How is fraud defined?
- What are the different types of cash-related fraud schemes?
- How is lapping used to hide the theft of cash?
- What techniques are used by employees to overstate their expense reports?
- What incentives do managers have to falsify financial statements?
- What methods can be used to alter the reported results on an income statement?
- What are the negative effects of social engineering fraud?

This course is updated regularly to reflect changes in the latest fraud schemes.

Centennial, Colorado  
April 2023