



CLIENT MEMO COMMON TYPES OF FRAUD SCHEMES

There are two types of fraud, occupational fraud and financial statement fraud. Of the two, occupational fraud is the most costly to small businesses. The common types of occupational fraud schemes include the following:

1. Asset misappropriation –

- Skimming. This is the most common form of cash misappropriation. Skimming is stealing incoming cash before it is received or recorded.
- Lapping. Also known as “robbing Peter to pay Paul”. The fraudster steals the payment intended for customer A’s account and applies the payment received from customer B to customer A’s account.
- Larceny. Theft of cash after it is received and recorded.
- Fraudulent disbursements. This represents three quarters of the total dollar losses due to asset misappropriation. Typical cases include false invoices, fraudulent billing, ghost vendors and phantom employees.
- Check fraud. This is the fastest growing type of fraud scheme. Check fraud includes forgery, counterfeiting and alteration, paperhanging (writing checks from closed bank accounts) and check kiting (inflated bank balances due to check deposit clearing time).
- Theft of office supplies or equipment.

2. Corruption – this involves an employee conspiring with someone outside of the company for bribery or kickbacks.

Given the high costs of fraud, organizations that are able to recognize fraud schemes early can help to prevent or reduce losses caused by fraud. To assist you and your business in the fight against fraud, we can provide on-site fraud detection and prevention training, internal control reviews, cash reviews and reconciliation as well as inventory observations and asset verifications. If you would like to discuss any of these services, please do not hesitate to contact us.

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