Billing Scheme

The Scenario

Accountants were performing a routine purging of inactive vendors from the accounting information systems when they noticed activity in three of the accounts. Since their agency had not conducted business with the vendors in the past 14 months, reasons as to why the billing activity occurred were in question. Auditors were called upon to examine the suspicious activity.

The auditor's examination of the accounting records discovered a manager from the warehouse had allowed $25,500 in checks to be issued to the vendors even though services were never provided. Upon further inspection, the auditor discovered that the checks were deposited into the manager's personal bank account. Also, after conducting interviews and walk-thrus with the warehouse supervisors and workers and accounting personnel, it was revealed that a supervisor regularly does not log off his system when he goes to lunch. This disregard for computer access controls allowed the manager to use the supervisor's computer to make fictitious entries.

General Comments / Lessons Learned. Billing schemes are made possible due to basic violations of computer security practices. Proper use of controls over computer access can prevent billing schemes from occurring. Auditors should remember that billing schemes are a popular form of employee fraud mainly because they offer the prospect of large rewards. Since the majority of most businesses' payments are made in the purchasing cycle, larger thefts can be hidden through false-billing schemes than through other kinds of fraudulent payments.

FRAUD INDICATORS

- **Activity in dormant vendors' accounts.**
- **Payments made to vendors even though they did not provide services.**
- **Weaknesses in the computer access controls - like not logging off system.**