## Chapter 2

**Review Questions**

2-1 (Learning objective 2-1) How is "skimming" defined?

*Answer: Skimming is the theft of cash from a victim organization prior to its entry in the organization's accounting system.*

2-2 (Learning objective 2-2) What are the two principal categories of skimming?

*Answer: Skimming schemes can be subdivided based on whether they target sales or receivables. The character of the incoming funds has an effect on how the frauds are concealed, and concealment is the crucial element of most occupational fraud schemes.*

2-3 (Learning objective 2-3) How do sales skimming schemes leave a victim organization's books in balance, despite the theft of funds?

*Answer: When an employee skims money by making off-book sales of merchandise, neither the sales transaction nor the incoming cash is ever recorded. For example, suppose a cash register clerk skims $500 in receipts from one sale of goods. At the end of the day, his cash drawer will be short by $500—the amount of money that was stolen. But because the sale was never recorded, the sales records will be understated by $500. Therefore, the books will remain in balance.*

2-4 (Learning objective 2-3) Under what circumstances are incoming checks received through the mail typically stolen?

*Answer: Checks are normally stolen when a single employee is in charge of opening the mail and preparing the deposit. The employee simply removes the check from theincoming mail and forges the endorsement of the employer, then endorses it with his or her own name and cashes or -deposits it.*

2-5 (Learning objective 2-4) How do "understated sales" schemes differ from "unrecorded sales"?

*Answer: Unrecorded sales schemes are purely off-book transactions. Understated sales, on the other hand, are posted to the victim organization's books, but for a lower amount than what the perpetrator collected from the customer. Typically, the perpetrator will understate a sale by recording a lower sales price for a particular item, or by recording the sale of fewer items of merchandise than the customer actually purchased.*

2-6 (Learning objective 2-5) How is the cash register manipulated to conceal skimming?

*Answer: There are two common methods. The first is to ring "no sale" on the register and omit giving the customer a receipt for the purchase. The second and less common method is for the cashier to alter the tape itself so that it does not show the sale. This is impossible to accomplish with cash registers that also record the transaction electronically.*

2-7 (Learning objective 2-6) Give examples of skimming during nonbusiness hours and skimming of off-site sales.

*Answer: Certain categories of employees usually commit these schemes. Managers of department stores or employees opening or closing the store have been known to open early or close late and skim all or part of the sales during those periods. Apartment rental employees, parking lot attendants, and independent salespeople are at a higher risk ofskimming funds from off-site sales.*

2-8 (Learning objective 2-8) What are the six principal methods used to conceal receivables skimming?

*Answer: The six concealment techniques identified in this chapter are: lapping, force balancing, stealing customer statements, recording fraudulent write-offs or discounts, debiting the wrong account, and document destruction.*

2-9 (Learning objective 2-9) What is "lapping" and how is it used to conceal receivables skimming?

*Answer: Lapping is the crediting of one account through the abstraction of money from another account. Lapping customer payments is one of the most common methods of concealing receivables skimming. Suppose a company has three customers, A, B, and C. When A's payment is received, the fraudster takes it for himself instead of posting it to A's account. When B's check arrives, the fraudster posts it as a payment to A's account. Likewise, when C's payment is received, the perpetrator applies it to B's account. This process continues indefinitely until one of three things happens: (1) someone discovers the scheme, (2) restitution is made to the accounts, or (3) some concealing entry is made to adjust the accounts receivable balances.*

2-10 (Learning objective 2-10) List four types of false entries a fraudster can make in the victim organization's books to conceal receivables skimming.

*Answer: The fraudster can lap the payments, as discussed in the previous question. He can also engage in force balancing by posting a payment to a customer's account even though the payment was stolen. A third false entry that can be madeis to fraudulently write off a customer's account as uncollectible. A fourth technique is to credit the targeted account with a fraudulent*

*"discount" in the amount of the stolen funds. Also, some fraudsters conceal receivables skimming by debiting existing or fictitious accounts receivable.*

**Discussion Issues**

2-1 (Learning objective 2-3) Sales skimming is called an "off-book" fraud. Why?

*Answer: Simply because the fraud occurs outside the books and records. There is no direct audit trail to uncover; the proof of the fraud must be determined by indirect methods, such as ratio analysis or other comparisons.*

2-2 (Learning objective 2-3) In the case study of Brian Lee, the plastic surgeon, what kind of skimming scheme did he commit?

*Answer: Dr. Lee committed a sales (revenue) skimming scheme. In this fraud, Dr. Lee's clinic was a partnership with several other doctors, and all of the revenue derived from his services was supposed to go to the partnership. Because of a lack of controls and periodic reconciliations by the clinic, Dr. Lee simply instructed his patients to pay him directly. His scheme was uncovered by accident, as are many frauds.*

2-3 (Learning objectives 2-5 and 2-12) If you suspected skimming of sales at the cash register, what is one of the first things you would check?

*Answer: The cash register tape is one of the first things you should check. In a typical cash register skimming scheme, the crooked employee will ring up "no sale" on the register when a sale is made and pocket the money. The customer is not given a receipt. If you notice an excessive amount of "no sales" entered on the cash register, it could mean that the drawer is being opened and no money is being put in.*

2-4 (Learning objective 2-3) Assume a client who owns a small apartment complex in a different city than where he lives has discovered that the apartment manager has been skimming rental receipts, which are usually paid by check. The manager endorsed the checks with the apartment rental stamp, then endorsed her own name and deposited the proceeds into her own checking account. Because of the size of the operation, hiring a separate employee to keep the books is not practical. How could a scheme like this be prevented in the future?

*Answer: Two simple, separate control measures might help prevent such future occurrences. Although it might not be practical for the owner to reconcile the rental receipts himself since he lives in a different city, he could obtain a restrictive endorsement stamps that states "for deposit only." Second, the owner could have rental payments directed to a bank lockbox, where they would be less likely to be stolen.*

2-5 (Learning objectives 2-8 and 2-11) What is the most effective control to prevent receivables skimming?

Answer: *In almost all cases of receivables skimming, the person handling the cash and the person keeping the books areone and the same. An employee who opens incoming mail or handles cash should not be permitted to post the transactions.*

2-6 (Learning objectives 2-3 and 2-7) In many cases involving skimming, employees steal checks from the incoming mail. What are some of the controls that can prevent such occurrences?

Answer: *Here are some of the basic controls over incoming checks:*

- *The person opening the mail should be independent of the cashier, accounts receivable clerk, or employees who are authorized to initiate or post journal entries.*
- *Unopened mail should not be delivered to employees having access to accounting records.*
- *The employee who opens the mail should (1) place restrictive endorsements on the incoming checks; (2) prepare a list of checks received; (3) forward all remittances to the person responsible for preparing and making the bank deposit; and (4) forward the list of checks to a person who can check tosee if it agrees with the bank deposit.*

2-7 (Learning objectives 2-7 and 2-11) In the case study of Stefan Winkler, who was the chief financial officer for a beverage company in Florida, how did he conceal his skimming scheme? How could the scheme have been prevented or discovered?

Answer: *Winkler's scheme is a classic example of too much trust placed in one employee. The beverage company received money from two different sources: route deposits (cash sales) and office deposits (accounts receivable). The route salespeople prepared their own deposit slips showing the cash and currency collected. The office personnel listed and accounted for the checks received through the mail. Winkler removed currency from the route deposits and replaced it with a check for the same amount from office deposits. Although office personnel listed the checks, they did not prepare the deposit slips—Winkler did that. As a result, he would ensure that the bank deposits agreed with the amount of money going into the bank.*

*To cover his tracks with the credit customers, Winkler would lap payments made by one customer to cover thefts from another customer. He would also give unauthorized discounts to credit customers. When Winkler was fired for other reasons, he made a general ledger adjustment of over $300,000 in a vain attempt to cover the shortages.*

*There were many clues: The internal control deficiencies were glaring. All of the cash made a stop at Winkler's desk on its way to the bank. Had there been adequate division of -*

*responsibilities, Winkler's scheme would have been much more difficult to accomplish. There were excessive false discounts to customers. The cost of sales would have been out of line with sales. And, like so many other fraudsters, Winkler lived beyond his means. Had his fellow employees been properly educated about fraud, they would have easily seen the factthat Winklerwas driving a $75,000 car as a red flag. Also, had they been to his home, they would have noticed that their chief financial officer lived in an excessively expensive residence.*