



## Fraud Alert— Billing Schemes

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## Billing Schemes Are Common

In 2010, the Association of Certified Fraud Examiners completed a global study of occupational fraud and abuse and determined that nearly 90 percent of frauds involve some type of asset misappropriation— theft or misuse of assets. Most misappropriation schemes involve a theft of cash receipts or fraudulent disbursements of cash. Billing schemes are the most common type of misappropriation fraud and account for approximately 26 percent of all thefts. The schemes generally last about 2 years before being detected and have a median loss of nearly \$130,000.

Billing schemes occur when employees cause their employer to issue a payment for an illegitimate or overstated charge. The schemes are especially difficult to detect because the payments get recorded as if they were a legitimate business expense. Two examples of common schemes are:

- An employee creates a fictitious company and bills the organization for goods or services never received or rendered.
- An employee purchases personal items and submits the invoices to the organization for payment.

Some signs that a billing scheme may be occurring in your organization are:

- One or more expense categories that are above budgeted amounts;
- Abnormally high levels of purchases from a particular supplier;
- Vendor invoices that lack detail, are sequentially numbered for purchases on multiple dates, or include questionable prices or quantities;
- Items purchased that are not typically used by the organization; and/or
- Purchases that have inadequate or no supporting documentation.

## Controls to Prevent and Detect Billing Schemes

Some of the more common controls that can help prevent and detect billing schemes include:

- Segregation of duties between purchase requests, purchase authorization, purchasing goods and services, merchandise receipt, payment authorization, and vendor payment processing.
- Ensuring that employees responsible for purchasing goods and services are not authorized to set up new vendors in the accounts payable system.
- Evaluating new vendors to ensure they are bona fide businesses by checking sources such as telephone directories or the Arizona Corporation Commission Web site.
- Requiring appropriate documentation for all transactions.
- Promptly logging in goods received.
- Requiring appropriate supervisory approval for all payments.
- Scrutinizing budget reports for unusual expenditure variances in excess of budgeted amounts.
- Ensuring that employees are aware of signs that a billing scheme may be occurring.