

ASSURANCE FORUM

# Cross-referencing is key to fraud examinations

by Ralph Summerford

You may have heard the saying, "Knowledge is power." However, to obtain knowledge in the area of fraud, one must first be able to access information, as well as organize and interpret it in meaningful ways.

Investigating the area of fraud is no exception. Fraud most often occurs when its perpetrators think that the organization does not have the time or the resources to explore possible links in seemingly unrelated data.

Therefore, examinations should not consist of merely collecting and analyzing volumes of information and data; we need to cross-reference data in order to demonstrate possible relationships. Cross-referencing, and automation of this process, enables fraud examiners to take a proactive approach when obtaining the knowledge about possible anomalies within the company's business processes and practices.

### Auditing accounts payable

When doing an accounts payable audit or examination, you can perform a series of cross-references. They will usually occur in this manner:

1. Cross-reference purchase orders with receiving dockets to ensure that all ordered materials have been received. If they are not received into inventory, but have been ordered and will be invoiced, the inventory system will not be short inventory, but the fraudster will have gotten away with the materials.

2. Cross-reference invoices with receiving dockets to ensure that everything that is invoiced has been received.

3. Cross-reference invoices with purchase orders to ensure that proper authorization has been given to purchase.

4. Cross-reference checks with invoices to make sure that someone is not paying themselves without a proper invoice and that the dollar values match.

5. Cross-reference the vendor master or the approved vendor list with the check mail address (use the Zip code) to make sure that checks only go to approved vendors.

6. Cross-reference the check value with the purchase order

value and with the invoice value.

7. Cross-reference the vendor master with the employee master (on Zip code, phone number, EIN-SSN) to find phantom vendors that have been set up by employees.

8. Do duplicates tests on the following items to find phantom vendors and employees, and duplicate invoices:

- ◆ Invoice numbers combined

with vendor number;

- ◆ Invoice numbers combined with vendor zip code;

- ◆ Dollar value of invoice with vendor Zip code;

- ◆ Employee Social Security numbers;

- ◆ Vendor EIN numbers;

- ◆ Invoice numbers in the check register; and,

- ◆ Dollar values and dates in the check register, and in the invoice file.

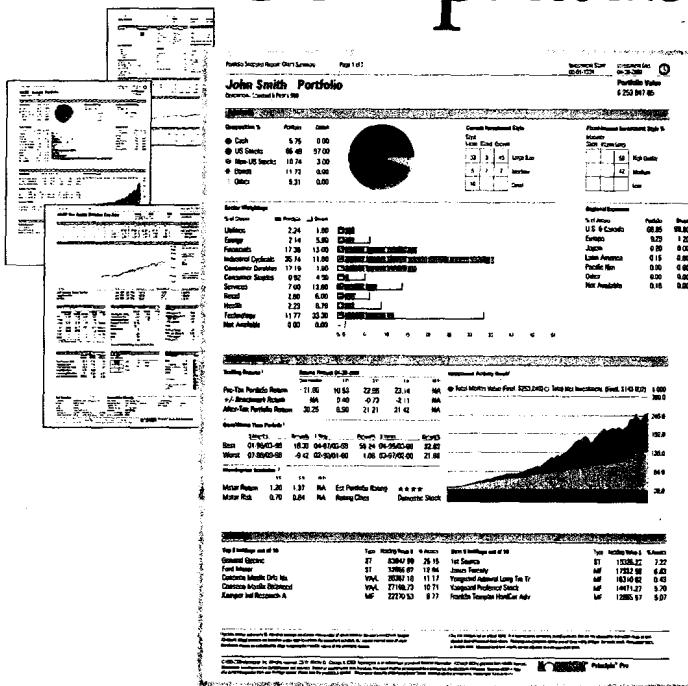
### A proactive approach through automation

Setting up a cohesive, automated system enables a fraud examiner to take a proactive approach to fraud examinations. Automation enables a fraud examiner to catch the frauds when they are small or when problems are mere "mistakes" and have not risen to the level of "intent to defraud."

This approach reduces bottom line losses, as well as cost and implications of terminating otherwise good employees who would not defraud, given that the proper measures were in place.

An automated environment enables you to simply set up an application that would perform all of the above tests in a computer-based data analysis solution. (See FRAUD page 48)

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## FRAUD

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tion such as ACL software. Immediate access to the data is essential, and using such software can speed up the audit process to give you immediate cross-referencing results.

If your data resides in an ODBC-compliant database (such as Oracle, or any other accounting system based on an ODBC-compliant database, such as PeopleSoft), you can use ACL to automatically access data. Automated access to non-ODBC systems, such as

mainframes, can be achieved via ACL for MVS to access DB2 and other common OS/390 formats. If data is stored in neither of the above environments, you can achieve automation in partnership with your information systems department. A programmer can create automated extractions that download the files that are needed for each testing period, and automatically put them on the network (or uploads to the OS/390 system) for testing.

A computer-based data analysis tool, such as ACL, can then include the definition of

the data files in its automation.

Once the data becomes available, each of the above cross-references or duplicates tests can be done with a sequence of commands in an ACL batch. In a Fortune 500 company, the entire batch (all tests run simultaneously) runs on a quarterly basis, and might take anywhere from a few minutes to an hour or so to execute. Of course, run time depends on the number of transactions to be tested, and the speed of the computer on which the test is performed.

The end result would be a list of flagged transactions or mas-

ter file entries that require cross-referencing with third-party evidence to prove the intent to defraud.

Cross-referencing provides the missing links between seemingly unrelated information, and sets the stage to examine possible cases of fraud. Furthermore, when automated using computer-based data analysis solutions, cross-referencing enables examiners to take a proactive approach. Fraud examiners can then easily and quickly obtain the real knowledge — and power — to minimize future threats of fraud.

## 8-K

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ates to Miller and McCollum.  
**Globalnetcare Inc.** (Montreal), from Buchanan & Mitchell to KPMG.  
**Hispanic Television Network Inc.** (Fort Worth, Texas), from Jack F. Burke Jr. to Ernst & Young.  
**Household Direct.com Inc.** (Southbury, Conn.), to King Griffin & Adamson.

**Ilive Inc.** (Beverly Hills, Calif.), from Haskell & White.

**Isata Group Inc.** (San Diego), from Conte Co. to Nation Smith Hermes Diamond.

**Kana Communications Inc.** (Redwood City, Calif.), from KPMG.

**Knickerbocker Capital Corp. Co.** (Coachella, Calif.) from Julius Otto to David M. Winnings.

**KS Bancorp Inc.** (Kenley, N.C.), from McGladrey & Pullen to Dixon Odom.

**Merlin Software Technologies International Inc.** (Burnaby, B.C.), from Barry Friedman to BDO Dunwoody.

**MyWeb Inc.com** (Selangor, Malaysia), from Wlosek & Braverman to Arthur Andersen.

**National Manufacturing Technologies Inc.** (Carlsbad, Calif.), from BDO Seidman to Levitz, Zacks and Ciceric.

**Ovvio Better Life Inc.** (Coachella, Calif.) from Cordovano and Harvey to David M. Winnings.

**Park Place Entertainment Corp.** (Las Vegas), from Arthur Andersen to Deloitte & Touche.

**Phymed Inc.** (Dallas), from Grant Thornton to King, Griffin & Adamson.

**Quadamed Corp.** (San Rafael, Calif.), from Arthur Andersen to Pisenti & Brinker.

**Resource Bancshares Mortgage Group Inc.** (Columbia, S.C.), from PricewaterhouseCoopers to Ernst & Young.

**Saratoga Resources Inc.** (Austin, Texas), from Hein + Associates to Ernst & Young.

**Snelling Travel Inc.** (Atlanta) from Kish Leake & Associates to Ed Horton and Co.

**Teletrak Environmental Systems Inc.** (Webster, Mass.), from Richard A. Elsner & Co. to Carlin, Charron & Rosen.

**Uitcomp Inc.** (Marietta, Ga.), from Arthur Andersen to BDO Seidman.

**URT Industries Inc.** (Hallandale, Fla.), from KPMG to Rachlin Cohen & Holtz.

**Vitria Technology Inc.** (Sunnyvale, Calif.), from PricewaterhouseCoopers to Ernst & Young.

**Zandria Entertainment Network Inc.** (San Diego), from Smith & Co. to Jones, Jensen & Co.

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## TECH COSTS

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ductivity. But, if you really want to maximize your efficiency, always be cognizant of these costs. Avoid the obvious time wasters that most auditors don't avoid.

And don't be enamored with every new advancement that comes along. Many are great, but some are a waste of time. In short, be open minded — but also be skeptical.