

## Fraud Detection & Prevention with ACL

*ACL has become a mission-critical software tool for detecting and preventing fraud for auditors around the world.*

**H**ow extensive is fraud? What is it costing your organization? How do you detect and discourage fraud? These are some of the questions facing audit departments today.

The data analysis capabilities of ACL offer a host of new opportunities to detect and deter fraud while supporting the requirement to review large volumes of transactions. ACL includes the ability to:

- Compare employee and vendor addresses to identify employees who are also posing as vendors;
- Identify vendors using PO Box addresses;
- Identify missing or fraudulent checks or invoices by analyzing the sequence of all transactions;
- Identify vendors with multiple vendor codes and/or mailing addresses, or multiple vendors sharing the same mailing address; and
- Sort payments by amount to identify transactions that fall below financial control or contract limits.

ACL offers a wide range of commands and functions specifically designed to help analyze and understand data when identifying and quantifying fraud.

The most useful techniques include:

- **Gaps.** The Gaps command checks data for breaks in a

series or sequence. The entire file can be examined to see if all items are accounted for and properly recorded. In reviewing health claims, for example, finding claim numbers out of sequence or missing can help focus the search.

If claims are submitted on pre-numbered forms, testing to see if the claim numbers correspond to the expected numbering sequence is one way to isolate potentially fraudulent claims.

- **Duplicates.** Often fields should contain only unique values, such as invoice numbers. The Duplicates command checks the file for duplicate values in key fields. For example, you can search for duplicate invoice numbers or duplicate travel claims for the same time period.
- **Classify.** The Classify command counts the number of records relating to each unique value of a character field and accumulates totals of specified numeric fields for each of those values. Your results can be output to the screen, a text file, or a data file. With a single command, you can determine the total revenue and expenditures, by account and for every branch, in the company.
- **Trend Analysis.** Trend analysis allows you to compare

information from several periods or locations, and helps to identify anomalies in the operations of a business unit. Audits conducted in the same operational area on a regular schedule are ideal candidates for trend analysis.

The current period's data can be combined with previous periods and trends used to examine and highlight areas for further attention. Comparisons of business operations in different locations, for example, can quickly identify areas of concern. Comparison of the rate of return due to defects, by vendor, may indicate acceptance of inferior goods in return for a kickback from the vendor.

- **Join.** The Join command combines information from two or more data files into a single file, and can pinpoint unusual transactions. Although the information may be stored in different files or databases, ACL allows you to physically join the files, or logically relate the information from many files, creating a single file with related information from the files used to create the Join. Join can highlight records that should match, but do not.

For example, all employees should have some deductions. Joining the personnel file and the payroll file can identify all employees with no payroll deductions. Alternatively, all payroll transactions recorded against "employees" not in the personnel file would show up.

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## Question of the Month

### Why is Fraud Committed?

Experience has shown that many frauds occur because the perpetrator believes the corporate climate of the company offers the opportunity to commit the crime. It is purported that many criminals believe apprehension and prosecution in the white-collar crime area is sporadic at best. There is also a perception that companies rarely prosecute.

Some of the reasons fraud is committed includes:

- *Settling Alleged Inequities*—obtaining monies believed due for past raises, bonuses, and uncompensated performed
- *Gaining Revenge*—“Getting even” for a perceived mistreatment
- *Securing Self-Enrichment*—Acquiring luxuries to enhance self-image and standard of living
- *Soliciting Psychological Excitement*—Thirsting to become a modern day “master thief”
- *Viewing the Crime as “Victimless”*—Believing the company will never miss the extracted funds that insurance will off-set any loss
- *Winning Peer Acceptance*—Seeking to belong to the sub-culture which depends on one another for protection

### How is Fraud Uncovered?

To identify and deal with the perpetrator of a fraud, the skills

of both auditing and investigative professionals are frequently required. Auditors/accountants and investigators are, by nature of their work, accustomed to looking behind the scenes and challenging things that are, or appear to be, irregular or out of character.

During a fraud investigation, both have distinct and different functions. The auditor labors on “how” fraud is perpetrated by analyzing the system in which the fraud was committed. Audit professionals often focus on the company’s internal controls to determine if there was a breakdown, or endeavors to determine how the controls were circumvented; The investigator labors on “who” committed the fraud by interviewing witnesses, interrogating suspects, conducting background verifications of possible suspects, reviewing security surveillance systems and networking with law enforcement as required.

In practice, a team investigation of missing inventory might proceed as follows:

1. How did the loss happen?  
The auditor’s involvement might include ascertaining:
  - Was the missing inventory actually received?
  - Was the inventory received at the proper point?
2. Was the inventory recorded as received?  
The Investigator’s involve-

ment might include ascertaining:

- Did security countersign invoices?
- Is physical security adequate?
- Is access control adequate?
- Are inventory control devices (seals, etc.) utilized?

### 3. When did the loss occur?

The Auditor’s involvement might include:

- Reviewing inventory records
- Ascertaining when the last inventory count was conducted
- Determining whether internal control breaks occurred?

The Investigator’s involvement might include:

- Ascertaining whether lapses in access control were noted
- Ascertaining whether suspicious activity was recorded on Closed Circuit Television tapes
- Ascertaining whether suspicious activity was noted in other security-related support systems including alarm and locking systems, security logs, etc.

### 4. Who Could Be Responsible For The Loss?

The Auditor’s involvement might include:

- Pinpointing a window of time when the loss might have occurred

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- Selecting witnesses to be interviewed
- Selecting possible suspects to be screened and interrogated

The Investigator's involvement might include:

- Reviewing the company's disgruntled employee files
- Querying the risk management department for abnormal insurance premium fluctuations
- Interviewing individuals who had access to the inventory or records, or who may shed light on the case

- Interviewing witness or possible suspects
- Interrogating suspects

One of the most important benefits derived from teaming audit and investigative professionals is the swiftness in which preventive measures can be put forward. An excellent method of keeping the door to criminal misbehavior closed is to develop procedures and systems to deepen and strengthen a company's global security.

Corporate fraud prevention initiatives might include:

- Conducting cross-training programs between audit and security personnel

- Teaming security and audit personnel during internal company audits

Ensuring that fraud prevention personnel attend appropriate training and seminar programs

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- **Relations.** Relations works much like Join, allowing you to simultaneously access data from up to 18 files. By doing so, expected relationships can be confirmed and unexpected relationships highlighted. For example, you would expect a relationship to exist between every name in the master employee file and the payroll transaction file.

However, you would not expect a relation to exist between the master employee file and the master vendor list. Relations would also confirm the existence, or absence, of a purchase order number for every invoice, or that purchases

by a particular employee are below the authorized limit.

By combining several of the above commands and functions you can perform:

- **Trend Analysis.** Trend analysis allows you to compare information from several periods or locations, and helps to identify anomalies in the operations of a business unit. Audits conducted in the same operational area on a regular schedule are ideal candidates for trend analysis. The current period's data can be combined with previous periods and trends used to examine and highlight areas for further attention. Comparisons of business operations

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