

Chapter 2

Why People Commit Fraud

MULTIPLE CHOICE

1. Which of the following is not a common rationalization of fraud perpetrators?
 - a. The organization owes me
 - b. I'm only borrowing the money
 - c. No one will get hurt
 - d. All of the above are common rationalizations for fraud.

ANS: D

D: All of the above answers are stated in the text as common rationalizations for committing fraud. In addition to those listed in the question and the text, countless other rationalizations exist for committing fraud.

2. Which of the following is not a control activity?
 - a. Dual custody
 - b. Systems of authorization
 - c. Internal audit department
 - d. Documents and records

ANS: C

A: Dual custody, or segregation of duties is a control activity.

B: System of authorization is a control activity.

C: Internal audit department is part of the control environment and is not a control activity

D: Documents and records are control activities-they produce an audit trail.

3. Each of the following is an example of an inadequate control environment EXCEPT:
 - a. The HR department failed to check an applicant's background and hired someone who had committed fraud in the past.
 - b. A manager instructs employees not to share passwords, and then shares her passwords with others.
 - c. A company does not establish codes of conduct and does not have training meetings to teach employees to distinguish between acceptable and unacceptable behavior.
 - d. The employees know who has responsibility for each business activity.

ANS: D

D: A clear organizational structure is an important fraud-detering element. It is easier to track missing assets and money when all employees know exactly who is responsible for each business activity.

4. Most fraud perpetrators:
 - a. Have little education
 - b. Have a criminal record.
 - c. Are new to the company
 - d. None of the above

ANS: D

D: Fraud perpetrators are educated, often have no criminal history, and have often been with the company for many years.

5. Work-related pressures that people use to justify their actions include:
 - a. Dissatisfaction with their job
 - b. Believing that they are underpaid

- c. Forced to work too many hours
- d. All of the above

ANS: D

D: Correct. A, B and C are all work-related pressures that people use to justify their actions.

6. Which of the following is not one of the key elements common to all frauds?
- a. Perceived pressure
 - b. Perceived inequality
 - c. Perceived opportunity
 - d. Rationalization

ANS: B

A: Incorrect. This is a key element common to all frauds.

B: Correct.

C: Incorrect. This is a key element common to all frauds.

D: Incorrect. This is a key element common to all frauds.

7. What is the most important element in a control environment?
- a. Management's communication
 - b. Management's role and example
 - c. The hiring process
 - d. The internal audit department

ANS: B

A: A is incorrect because although management communication is critical, it is not the most important element in the control environment. Management's role and example are the most important elements because employees will follow what management does more than what management communicates.

B: B is correct.

C: C is incorrect because the hiring process, although critical, cannot eliminate all fraud. Hiring only those with integrity can still lead to fraud if the example and role of management pushes employees into believing that fraud is okay. Also, the hiring process cannot screen out all dishonest employees.

D: D is incorrect because internal auditors only detect about 20% of employee fraud. The internal auditors do add a deterrent effect; however, the internal auditors are not the most critical element in the control environment.

8. Which of the following statements about accounting systems is incorrect?
- a. An effective accounting system provides an audit trail that allows frauds to be discovered.
 - b. An effective accounting system makes concealment difficult.
 - c. An effective accounting system can almost always effectively prevent "kickbacks."
 - d. Without a good accounting system, it is often difficult to distinguish between actual fraud and unintentional error

ANS: C

A: True statement

B: True statement

D: A good accounting system ensures that recorded transactions are valid, properly authorized, complete, properly classified, reported in the proper period, properly valued, and summarized correctly.

9. Which of the following is false?
- a. 95% of all frauds involve financial or vice related pressures
 - b. When the IRS required social security numbers for dependents, the number of dependents went down
 - c. Over half of all people are honest at all times

- d. Only about a third of all frauds are committed by employees with less than four years in a company

ANS: C

A: A is incorrect because it is true

B: B is incorrect. When documentation was required, claimed dependents went down by almost 10% in the United States.

C: C is correct because only 40% of people are honest at all times, 30% are situationally honest, and 30% are dishonest

D: D is incorrect because it is true, only 30% of those who commit fraud do it in their first three years of working for a company.

10. Greed, living beyond one's means and high bills all describe what type of fraud-related pressure?
- Financial
 - Peer
 - Vice
 - Barometric
 - Work Related

ANS: A

A: Correct. These are financial pressures.

11. An effective accounting system is designed to provide which of the following to help discover fraud?
- An audit trail
 - Matching of expenses to revenues
 - Set of controls
 - Set of accounting procedures

ANS: A

B: Accounting systems do match expenses with revenues, but this does not help discover fraud.

C: Controls are used to prevent fraud, not to discover fraud.

D: Accounting procedures help set up the accounting system; not vice versa.

12. When fraud occurs, the most common reaction to those affected by the fraud is:
- Anger
 - Acceptance
 - Denial
 - Nervousness
 - All of the above

ANS: C

A: Incorrect because anger typically occurs after denial.

B: Incorrect because acceptance of the fraud usually doesn't occur for some time.

C: Correct.

D: Incorrect because nervousness, although it may be a reaction of the perpetrator, it is not a common reaction to those affected by the fraud.

E: Denial is the correct answer.

13. Which of the following is not an element of a good control environment?
- Trust
 - Modeling
 - Appropriate hiring
 - Management's communication

ANS: A

- A: Correct, regrettably this is not a positive characteristic of the control environment.
B: Incorrect, examples of management strongly influence employees.
C: Incorrect, basic screening can help prevent hiring fraudsters
D: Incorrect, employees need to receive clear communication from management that fraud will be pro-actively looked for and punished when found.

14. Which of the following is not a possible control activity:
- Having separate authorization, bookkeeping, and custody functions.
 - Protecting access to important information with a password.
 - Requiring two individuals to work on the same task.
 - All are control activities.

ANS: D

A: Incorrect. By separating authorization, bookkeeping, and custody functions, key duties are segregated.

B: Incorrect. Protecting access to important information with a password is considered a system of authorization and is a possible control activity.

C: Incorrect. Requiring two individuals to work on the same task is similar to segregation of duties in that multiple people are doing one job.

D: Correct. All of the above are possible control activities.

15. The fraud triangle includes all of the following except for:
- Validation
 - Perceived opportunity
 - Rationalization
 - Perceived pressure

ANS: A

A: Correct.

B: Incorrect. This is part of the fraud triangle.

C: Incorrect. This is part of the fraud triangle.

D: Incorrect. This is part of the fraud triangle.

16. Modeling and labeling are sub-components of which control structure component:
- Control environment.
 - Accounting system.
 - Control procedures.

ANS: A

A: Correct. Modeling (being an example) and labeling (communication) are sub-components of the control environment.

B: Incorrect. The accounting system is chiefly concerned with the audit trail.

C: Incorrect. Control procedures are error-checking procedures performed by personnel.

17. In order to set a good "tone at the top," management must _____ proper behaviors.
- Label
 - Expect
 - Model
 - All of the above

ANS: D

A: True

B: True

C: True

D: Management must not only expect ethical behavior, but they must also communicate (label) that expectation and exhibit (model) those same behaviors themselves.

18. Poor credit could become a _____ that could lead to fraud.
- a. Financial pressure
 - b. Perceived opportunity
 - c. Rationalization

ANS: A

B: A perceived opportunity is when the potential perpetrator sees that he or she could steal money without being caught

C: Rationalization is when the potential perpetrator somehow feels that he or she deserves the money that is stolen.

19. A nurse was charged with embezzling money from patients' rooms at a hospital because of which noncontrol factor:
- a. Lack of an audit trail
 - b. Ignorance, apathy, and incapacity
 - c. Failure to discipline fraud perpetrators
 - d. Inability to judge the quality of performance

ANS: B

A: Incorrect, irrelevant statement

B: Correct

C: Incorrect, the story in the chapter did not mention that the perpetrator was a repeat fraud offender.

D: Incorrect, irrelevant statement

20. Financial statement fraud is typically committed by:
- a. Employees with access to company assets
 - b. Top management
 - c. Customers
 - d. Vendors

ANS: B

A: Employees usually commit fraud against the organization, not for the organization.

B: Top management is usually responsible for fraud committed on behalf of the organization.

C: Customers usually commit fraud against the organization.

D: Vendors usually commit fraud against the organization.

21. An employee who has the responsibilities of both writing checks and making bank deposits would have _____.
- a. Financial pressure
 - b. Perceived opportunity
 - c. Rationalization

ANS: B

A: A pressure is when a person feels a need for money that he does not have.

C: Rationalization occurs when perpetrators justify their fraudulent acts as acceptable.

22. Most fraud perpetrators have profiles that look like:
- a. Those of other honest people
 - b. Those with criminal records
 - c. Those who are uneducated
 - d. Those who use alcohol and drugs

ANS: A

A: Answer: 'A' is the correct answer. Answers 'b', 'c', and 'd' are incorrect because fraud perpetrators fit the profile of those who are educated and appear to have good traits that organizations look for when hiring employees.

23. What is the strongest factor in deterring future fraud activity?

- a. Legal prosecution.
- b. Sanctions.
- c. Termination.
- d. Counseling.

ANS: A

A: Correct - When fraud perpetrators are prosecuted others in the organization understand that fraud is a serious crime.

B: Incorrect - Sanctions carry no public scrutiny; hence, perpetrators can conceal their crimes from family and commit fraud again in the future.

C: Incorrect - This can actually help perpetrators build an impressive resume; it does not deter future fraud.

D: Incorrect - This is a "distracter" answer; counseling was not listed in the text as a possible factor in deterring future fraud.

24. Which of the following is not a true statement?

- a. Almost every fraud involves rationalization.
- b. All frauds involve financial or vice-related pressures.
- c. Perceived opportunity diminishes when fraud perpetrators are prosecuted.

ANS: B

A: This statement is true

B: This statement is false. Not every fraud involves financial or vice-related pressures. There may exist work-related pressures, or pressures from a spouse.

C: This statement is true. Perceived opportunity diminishes when fraud perpetrators are prosecuted. Prosecution also benefits the perpetrator in the long term.

25. A smart fraudster usually manipulates which financial record in order to better avoid an audit trail?

- a. Income statement.
- b. Balance sheet.
- c. Statement of cash flows.
- d. Both B and C are correct.

ANS: A

A: Correct - Income statements report on activity only for a certain period. At the end of that period accounts are closed to zero, thus erasing the audit trail.

B: Incorrect - Balance sheets carry over numbers from period to period, making it harder to conceal fraud.

C: Incorrect - The statement of cash flows also carries over financial data from period to period, making it hard to conceal the fraud over the long term.

D: Incorrect - Since both B and C are incorrect, D must also be incorrect.

26. Which of the following factors creates an opportunity for fraud?

- a. Greed
- b. Living beyond one's means
- c. Lack of an audit trail
- d. The organization owes it to me

ANS: C

C: Opportunity is the second factor of the fraud triangle, it consists of several items including the lack of an audit trail.

27. Control Factors are -
- An effective control environment
 - An ethical Accounting System
 - Internal control activities
 - Anything that prevents or detects fraud

ANS: D

A: A is incorrect it is only one aspect of the internal control structure and each can enact controls.

B: B is incorrect it is only one aspect of the internal control structure and each can enact controls.

C: C is incorrect it is only one aspect of the internal control structure and each can enact controls.

D: Correct

28. Which of the following is not a common financial pressure associated with fraud?
- Living beyond one's means
 - High bills or personal debt
 - Personal financial losses
 - All of the above are common financial pressures associated with fraud

ANS: D

A: This is a common financial pressure associated with fraud.

B: This is a common financial pressure associated with fraud.

C: This is a common financial pressure associated with fraud.

D: All of the above answers are pressures associated with fraud.

29. Generally, internal controls are implemented in a corporation to help prevent which element of the fraud triangle?
- Perceived opportunity
 - Perceived pressure
 - Rationalization
 - None of the above

ANS: A

A: Correct. Internal controls are generally implemented to help prevent perceived opportunity.

B: Incorrect.

C: Incorrect.

D: Incorrect.

30. Which of the following is an example of a non-control factor of fraud?
- An employee inflates an expense report
 - An auto shop uses sub-standard parts and charges for premium transmission parts
 - Internal controls are overridden so a manager can steal cash
 - An investment opportunity is run by someone previously convicted of fraud

ANS: B

A and C are types of control measures. D is a borderline control issue but can be controlled by background checks. B requires a knowledgeable person to pull apart the transmission to detect.

31. Which racial group is most likely to commit fraud?
- Caucasian
 - African American
 - Asian
 - Hispanic

e. People of every race commit fraud

ANS: E

E: Correct

32. Which of the following is not one of the components of a company's control structure?

- a. The control environment
- b. Control procedures or activities
- c. Management being in charge of control procedures
- d. The accounting system

ANS: C

A: This is part of the internal control structure

B: This is part of the internal control structure

D: This is part of the internal control structure

33. Which of the following is true about fraud perpetrators compared to property offenders:

- a. Fraud perpetrators are more likely to be caught
- b. Fraud perpetrators are more educated
- c. Fraud perpetrators are more likely to be convicted
- d. Fraud perpetrators are much younger

ANS: B

B: When compared to other property offenders, fraud perpetrators are much more educated.

34. Which of the following creates opportunities for fraud?

- a. An audit trail
- b. Inability to judge quality of performance
- c. Controls that prevent or detect fraud
- d. Disciplining fraud perpetrators

ANS: B

A: This is a deterrent to fraudulent behavior.

C: This is a deterrent to fraudulent behavior.

D: This is a deterrent to fraudulent behavior.

35. What is the most important element of the control environment?

- a. Management's communication
- b. Management's role and example
- c. The hiring process
- d. The internal audit department

ANS: B

A: Although management communication is critical, it is not the most important element in the control environment. Management's role and example is the most important element of the control environment because employees will follow what management does more than what management communicates.

C: The hiring process, although critical, cannot eliminate all fraud. Hiring only those with integrity can still lead to fraud if the example and role of management pushes employees into believing fraud is okay. Furthermore, the hiring process cannot screen out all dishonest employees.

D: Internal auditors only detect about 20% of employee fraud. While the internal auditors do add a deterrent effect, they are not the most critical element of the control environment.

36. Which of the following people is most likely to have opportunities to commit fraud?

- a. Rob is a convicted bank robber who has been out of jail for 7 years

- b. Jane is a recent high school graduate who loves going shopping.
- c. Steve was just hired by his company but he is always acting suspicious
- d. 62 year old Dave has loyally worked up his company's corporate ladder for the past 24 years

ANS: D

A: As a convicted felon, Rob's opportunity to commit fraud will be limited – especially if his employer is aware that he is a convicted felon.

B: Only 30% of fraud perpetrators are women. Furthermore, fraud perpetrators have usually worked for the company for several years.

C: More controls will be in place for Steve because he is not trusted

D: Dave will be given the most opportunities.

37. People who commit fraud are most similar to which of the following groups?
- a. Burglars
 - b. College students
 - c. Convicted murderers
 - d. Police officers

ANS: B

A: Incorrect, fraudsters are not generally property offenders.

B: Correct, fraudsters tend to differ only slightly from typical college students

C: Incorrect fraudsters don't generally have criminal records

D: Incorrect, the correct answer is B.

38. Which of the following is a Non-control Factor?
- a. Ability to judge the quality of performance
 - b. Ignorance, apathy, & Incapacity
 - c. Access to Information
 - d. None of the above

ANS: B

A: A is incorrect because to qualify as a noncontrol factor, the option would read: Inability to judge the quality of performance

B: Correct

C: C is incorrect because to qualify as a noncontrol factor, the option would read: Lack of Access to Information

D: B is the correct answer

39. Which of the following is not considered a control environment issue?
- a. Management philosophy and operating style
 - b. Effective hiring procedures
 - c. Clear organizational structure
 - d. High debt to equity ratio

ANS: D

D: Computing debt to equity ratio is a useful analytical tool for analyzing a company's leverage and may be used to identify companies that are at high risk for fraud. However, the debt to equity ratio is not considered a control environment issue.

40. Which of the following attributes is a fraud perpetrator most likely to possess?
- a. Criminal Record
 - b. Less Educated
 - c. Alcohol Abuser

d. Religious

ANS: D

A: Incorrect. A fraud perpetrator is not likely to possess a criminal record.

B: Incorrect. A fraud perpetrator is likely be well-educated..

C: Incorrect. A fraud perpetrator is not likely to be an alcohol abuser.

D: Correct. A fraud perpetrator is most likely to be religious.

41. Which of the following elements does not make up the fraud triangle?

- a. Perceived Pressure
- b. Greed
- c. Perceived Opportunity
- d. Rationalization

ANS: B

A: Incorrect. This element is part of the fraud triangle.

B: Correct.

C: Incorrect. This element is part of the fraud triangle.

D: Incorrect. This element is part of the fraud triangle.

42. Teaching and Training are examples of

- a. Modeling
- b. Labeling
- c. Physical Safeguards
- d. Independent Checks

ANS: B

B: Correct. They are examples of labeling.

43. Which of the following is not a component of the internal control structure?

- a. Control Environment
- b. Accounting System
- c. Management Operations
- d. Control Activities

ANS: C

A: Incorrect. This is a component of the internal control structure.

B: Incorrect. This is a component of the internal control structure.

C: Correct.

D: Incorrect. This is a component of the internal control structure.

44. Which of the following is not a component of control activities?

- a. Segregation of Duties
- b. Adequate Documents and Records
- c. Effective Hiring Procedures
- d. Independent Checks on Performance

ANS: C

A: Incorrect. This is a component of control activities.

B: Incorrect. This is a component of control activities.

C: Correct.

D: Incorrect. This is a component of control activities.

45. Which of the following most correctly represents how the fraud triangle elements are interrelated?

- a. The greater the pressure, the more opportunity and the less rationalization is needed for

- fraud to occur
- b. The greater the pressure, the less opportunity and the less rationalization is needed for fraud to occur
- c. The greater the opportunity, the more rationalization is needed for fraud to occur
- d. The greater the rationalization, the more pressure is needed for fraud to occur.

ANS: B. The elements of the fraud triangle are inversely-related.

46. Fraud perpetrators are closer to which of the following groups?
- a. College students
 - b. Property offenders
 - c. Politicians
 - d. Accountants

ANS: A

A: Correct. Fraud perpetrators are most similar to college students.

47. What are some of the vices closely related to financial pressures?
- a. Gambling
 - b. Drugs & alcohol
 - c. Expensive extramarital relationships
 - d. All of the above

ANS: D

D: Correct. These vices are all closely related to financial pressures.

48. Who do criminologists compare fraudsters to in relation to repeat offenses and why?
- a. Rapist. They repeat their crimes because they are not severely punished.
 - b. Shoplifters. They steal goods frequently and in small quantities until they are confronted.
 - c. Bank Robbers. They steal a lot of money from wealthy sources.
 - d. Bank Tellers. They have access to a large amount of resources and they are perceived to be trustworthy people.

ANS: A

A: Correct. Fraudsters repeat offenses because they are not severely punished.

B: Incorrect.

C: Incorrect.

D: Incorrect.

49. Studies show that in advanced countries, levels of honesty are:
- a. Generally stable
 - b. Increasing
 - c. Decreasing

ANS: C

A: Incorrect.

B: Incorrect.

C: Correct. Levels of honesty are decreasing.

50. According to COSO, the following are all elements of an organization's internal control framework *except*:
- a. =The control Environment
 - b. Management integrity
 - c. Risk assessment
 - d. Control activities

ANS: B

A: Incorrect. The control environment is an element of an organization's internal control framework.

B: Correct. This is not an element of an organization's internal control framework.

C: Incorrect. Risk assessment is an element of an organization's internal control framework.

D: Incorrect. Control activities are an element of an organization's internal control framework.

51. The ACFE estimates that employee fraud costs small companies an average of:

- a. \$60,000 per incident
- b. \$120,000 per incident
- c. \$240,000 per incident
- d. \$480,000 per incident

ANS: B

A: Incorrect. The ACFE estimates that employee fraud costs small companies an average of \$120,000 per incident.

B: Correct.

C: Incorrect.

D: Incorrect.

52. Every fraud is comprised of all the following elements *except*:

- a. The theft act
- b. Concealment
- c. Conversion
- d. All of the above are elements of fraud.

ANS: D

A: Incorrect.

B: Incorrect.

C: Incorrect.

D: Correct. All are elements that comprise fraud.

53. All of the following are primary control activities (procedures) *except*:

- a. Physical safeguards
- b. System of authorizations
- c. Audit Trail
- d. Documents and records
- e. All of the above are primary control activities

ANS: C

A: Incorrect. This is a primary control activity.

B: Incorrect. This is a primary control activity.

C: Correct. This is not a primary control activity.

D: Incorrect. This is a primary control activity.

E: Incorrect. C is not a primary control activity, and therefore all of the above listed answers are not primary control activities.

54. All of the following functions should be set up as segregated duties *except*:

- a. Writing checks
- b. Making bank deposits
- c. Reconciling bank statements
- d. All of the above should be set up as segregated duties

ANS: D

D: Correct. All of the above listed functions should be set up as segregated duties.

55. Failure to discipline a fraud perpetrator generally leads to all of the following *except*:
- a. Helping the perpetrator build a solid resume
 - b. An increase of “perceived opportunity” within an organization
 - c. Frauds of greater magnitude by the same perpetrator
 - d. All of the above

ANS: D

D: Correct. All of the listed answers can happen as a result of failure to discipline a fraud perpetrator.

56. The following are all types of power *except*:
- a. Persuasive power
 - b. Referent power
 - c. Legitimate power
 - d. Coercive power

ANS: A

A: Correct. This is not a type of power.

B: Incorrect. This is a type of power.

C: Incorrect. This is a type of power.

D: Incorrect. This is a type of power.

E: Incorrect. This is a type of power.