

EXAMPLES OF COMMON FRAUDULENT SCHEMES

Examples of common fraudulent schemes include, but are not limited to the following:

PYRAMID SCHEMES

Pyramid schemes are marketing and investment frauds in which an individual is offered a distributorship or franchise to market a particular product. Because the goal in a pyramid scheme is to sell the distributorship or franchise, and not the actual product, it creates an unattainable business model where no sales efforts or strategies have been given to a product (if there ever was one). The end result is a glut of investors, and the scheme unfolds. Investors are told, however, that they can recoup their initial investment and generate additional revenue streams for themselves by bringing in new members. The pyramid scheme is simply not mathematically feasible for any viable business model.¹

PONZI SCHEMES

A Ponzi scheme is a fraudulent investment operation that pays returns to separate investors from their own money or money paid by subsequent investors, rather than from any actual profit earned. The Ponzi scheme usually entices new investors by offering returns other investments cannot guarantee in the form of short-term returns that are either abnormally high or unusually consistent. The perpetuation of the returns that a Ponzi scheme advertises and pays requires an ever-increasing flow of investors' money to keep the scheme going.² This type of scheme is named after Charles Ponzi, who operated an attractive investment ploy in which he guaranteed investors a significant return on their investment in postal coupons. The ruse dissolved when he was unable to pay investors who entered the scheme later.

LETTER OF CREDIT FRAUD

Letter of Credit frauds are often attempted against banks by providing false documentation to document the shipment of goods when, in fact, no goods or inferior goods were shipped. Additional Letter of Credit frauds occur when fraudsters offer a "letter of credit" or "bank guarantee" as an investment, whereby an investor is promised significant interest rates.³

HEALTH INSURANCE FRAUD

¹ <http://www.fbi.gov/maicases/fraud/fraudschemes.htm>

² <http://www.fbi.gov/maicases/fraud/fraudschemes.htm>

³ <http://www.fbi.gov/maicases/fraud/fraudschemes.htm>

The health insurance industry is a large, complex and ever-growing sector of any nation's economy. Fraud in this specific industry is rampant, with all participants ranging from primary care physicians to large medical insurance providers being affected. Common health insurance fraud schemes include, but are not limited to the following:

- Medicare and Medicaid billing fraud
- Healthcare prescription fraud
- Invoice and billing schemes, geared primarily toward small and medium healthcare practitioners
- Medical equipment fraud
- Personal healthcare identity fraud, such as fraudsters stealing and using individuals' healthcare information for personal gain
- Fictitious health insurance providers selling policies with no intent to ever pay

CREDIT CARD FRAUD

Credit card fraud is one of the fastest growing crimes today. Almost everyone, at some point in their lives, will become a victim of it. Credit card fraud involves a variety of schemes, ranging from stealing the actual card numbers from any number of sources (trash, computer databases, etc.) to opening fraudulent card accounts with somebody's information. Credit card fraud has recently made national news with breaches in large organizations that resulted in the theft of tens of millions of accounts.

The Payment Card Industry Security Standards Council is one of the many associations that helps secure cardholder data with a series of assessment requirements.

OCCUPATIONAL FRAUD

A serious fraud threat, occupational fraud involves using one's occupation for enrichment through the deliberate misuse or misapplication of a company's resources and/or assets. This type of fraud involves a number of common schemes such as skimming, cash larceny, bribery, conflicts of interest and fraudulent financial reporting. When most organizations speak of fraud, they are specifically referring to occupational fraud.⁴

INVOICE AND BILLING FRAUD

Another common fraudulent act that has victimized numerous businesses is invoice and billing fraud. In these schemes, a fraudster develops a fictitious entity, produces invoices for that

⁴ <http://www.fbi.gov/maicases/fraud/fraudschemes.htm>

entity, then sends out the invoices either electronically or by mail to individuals and/or organizations within a specified geographic area. The amount invoiced is trivial; thus the scheme depends on a high number of victims making the desired payments. These schemes can range from any number of products or services—such as office supplies, books and study aid material—to donations, and even to fictitious charities.

Many times, however, this type of fraudulent activity begins within an organization, as a dishonest employee may collude with another party or simply run the entire scheme by his or herself.

IDENTITY FRAUD

Identity fraud and theft, commonly known as identity theft, is defined as the unlawful change of identity. This form of fraud is characterized by the illicit use of another's identity—existing or not—as a target or principal tool, typically for personal or financial gain.

Unfortunately, this is one of the most common fraudulent acts being committed today. As we move toward a more transparent society that is increasingly dependent on technology and ease-of-use, one's personal identification can be exposed through many channels. It is almost impossible to fully protect your personal identity, due in large part to the wide variety of data rich sources available to fraudsters.

TELEMARKETING FRAUD

Telemarketing fraud is a fraudulent activity consisting of selling or promoting a pseudo-product over the telephone. Common examples of telemarketing fraud include, but are limited to the following:

- [Advance fee fraud](#) (claiming that the victim will receive some sort of prize)
- [Pyramid schemes](#) and other misrepresented investments or business opportunities
- [Overpayment fraud](#)
- [Charity fraud](#)⁵

FINANCIAL CORRESPONDENCE FRAUD (NIGERIA) AND ADVANCED FEE FRAUD (AFF)

Nigerian letter fraud is essentially an Advanced Fee Fraud (AFF) scheme whereby a fraudster will communicate from the country of Nigeria (via mail or email) to another overseas individual and will offer that individual an opportunity to participate in the sharing of a large sum of money. The individual in Nigeria will request personal data such as banking and other financial

⁵ <http://www.fbi.gov/majcases/fraud/fraudschemes.htm>

information along with sending actual money to the fraudster. It may seem like a farfetched scheme to many individuals, but surprisingly, it continues to be a growing problem. The ploy has been dubbed “419 Fraud,” named after Section 419 of the Nigerian Criminal Code.

Advanced Fee Fraud (AFF) is not just limited to Nigeria, as a number of other fraudsters around the world have also employed these schemes. As such, AFF can be best defined as the following: when a victim is persuaded to advance sums of money in the hope of realizing a significantly larger gain.⁶

BID RIGGING

Bid rigging is a form of fraud in which a [contract](#) is promised to one party even though numerous other parties have also presented a bid. There are also additional components to bid rigging, such as bid suppression and bid rotation. They all involve an element of collusion and are illegal in most countries.

PHISHING

Phishing is the process of acquiring or attempting to acquire sensitive information by masquerading as a trustworthy entity in an electronic communication in order to deceive Internet users into disclosing their bank and financial account information or other personal data such as usernames and passwords. The “phishers” then take that information and use it for criminal purposes such as identity theft and fraud.⁷

CASHIER’S CHECK FRAUD

There are many variations of cashier’s check fraud, ranging from falsified cashier’s checks to schemes from foreign entities requiring you to wire them money on the difference between the amount on a cashier’s check and the item sold. For more examples on cashier’s checks scams, [click here](#).

DEBT ELIMINATION FRAUD

There are scores of companies promoting debt elimination and consolidation services to consumers and businesses alike. The problem is that they are using techniques that do not work, are illegal, or cause your credit and financial situation to deteriorate. Many consumers

⁶ <http://www.fbi.gov/maicases/fraud/fraudschemes.htm>

⁷ <http://en.wikipedia.org/wiki/Phishing>

have been victims of the bogus schemes, losing thousands of dollars and gaining nothing in return.⁸

WORK-AT-HOME EMPLOYMENT SCHEMES

From envelope stuffing to multi-level marketing, the work-at-home scams are plentiful indeed. What is ironic about many of them is that they are simply an extension of the scammers themselves. That is, you may potentially be colluding with one of them. Most work-at-home schemes try to sell you “starter” packages to begin a business, ask you to call a 900-number to request more information, or engage in some other type of questionable activity. Learn more about these scams [here](#).

TAX FRAUD

An all-too-common fraud scheme is tax fraud, which comes in the form of tax avoidance, tax evasion and falsifying tax filings, just to name a few. Tax fraud is a growing problem that can be difficult to detect and prevent, and unfortunately, the burden is divided amongst those who do *not* commit this serious crime. Common fraudulent tax schemes include the following:

- Claiming false deductions
- Concealing income and not reporting (underreporting) it on one’s tax returns
- Over-reporting the amount of one’s deductions
- Engaging in foreign and/or offshore tax schemes

SECURITIES FRAUD

Securities fraud, also known as stock fraud and investment fraud, is a practice that induces investors to make purchase or sale decisions on the basis of false information. This form of fraud is in violation of the securities laws, and it frequently results in financial losses.

Securities fraud consists of deceptive practices in the stock and commodity markets, and it occurs when investors are enticed to part with their money based on untrue statements.⁹

Securities fraud includes outright theft from investors and misstatements on a public company's financial reports. The term also encompasses a wide range of other actions such as [insider trading](#) and other illegal acts of a stock or commodity exchange.^{10 11}

⁸ <http://www.occ.treas.gov/ftp/alert/2007-55.html>

⁹ sanfrancisco.fbi.gov

¹⁰ <http://www.sec.gov/news/testimony/2006/ts092606lct.htm>

¹¹ http://www.nytimes.com/2005/04/14/business/14place.html?_r=1

According to the [FBI](#), securities fraud includes entering false information on a company's financial statement and Securities and Exchange Commission (SEC) filings, lying to corporate auditors, [insider trading](#), various stock schemes and embezzlement.¹²

The examples above are some of the most common fraudulent schemes that employees of [company name] should be aware of. Unfortunately, this is just a small sample of a larger and ever-growing problem facing businesses today. Hence, [company name] will continue to update the Fraud Policy and Procedure Manual as necessary for keeping all employees abreast of all elements of fraud.¹³

¹² sanfrancisco.fbi.gov

¹³ <http://www.justice.gov/atr/public/guidelines/211578.htm>