Fraud Triangle & Forensic Internal Controls Cheat Sheet

Cressey Fraud Triangle, Red Flags, Occupational Theft Schemes & Preventive vs. Detective Controls

1. THE CRESSEY FRAUD TRIANGLE CORE ELEMENTS

Triangle Vertex	Psychological & Environmental Driver	Key Forensic Red Flags & Indicators
1. Pressure / Incentive	Unshareable financial need or aggressive executive earnings targets (e.g., debt, gambling, bonus milestones).	Living beyond financial means; sudden unexplained wealth; management pressure to meet analysts' forecasts.
2. Opportunity	Weak internal controls, lack of segregation of duties, or management override enabling fraud execution and concealment.	Single employee handles billing, check deposit, and bank reconciliation; complex transactions without review.
3. Rationalization	Internal ethical justification convincing perpetrator that fraudulent act is acceptable ('I'm only borrowing the money').	Disgruntled attitude toward employer; belief that company is underpaying them; 'everyone fudges numbers'.

2. OCCUPATIONAL FRAUD SCHEMES & CONTROL MITIGATIONS

Fraud Scheme	Perpetration Mechanism	Mandatory Internal Control Defense
Skimming & Lapping	Stealing incoming customer cash receipts before recording. Concealed by applying later customer payments to prior accounts.	Mandate **Lockbox Banking**; segregate cash receipt custody from general ledger accounts receivable posting.
Shell Company Vendor Fraud	Employee creates fictitious vendor shell, submits fake invoices, approves them, and intercepts payment checks.	Require independent approved vendor list authorization; enforce strict three-way match and PO matching.
Payroll Ghost Employees	Fictitious person or terminated employee remains on payroll; perpetrator collects direct deposit paychecks.	Segregate HR hiring authority from payroll processing; conduct periodic physical paycheck distributions.