

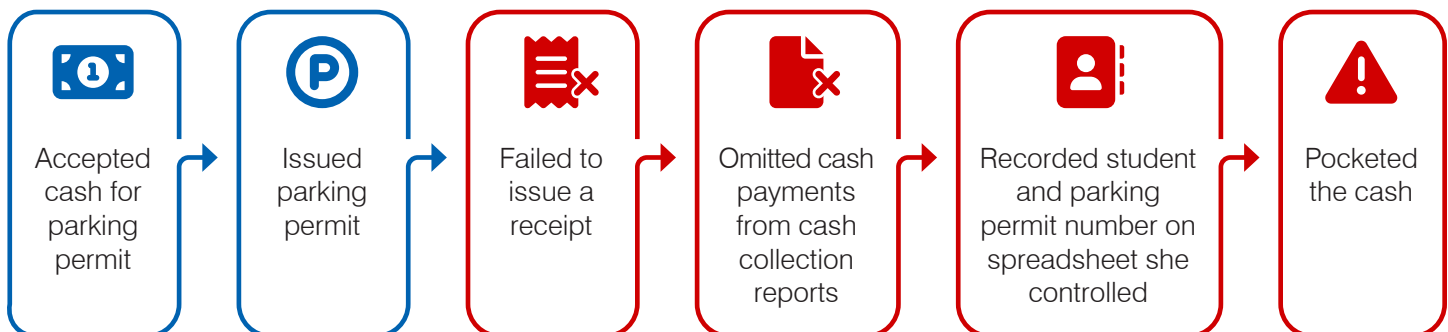
Why are we issuing this alert?

Cash receipt frauds are related to skimming and embezzlement schemes generally involving employees stealing incoming monies from an entity either before (skimming) or after (embezzlement) they have been recorded on the entity's books.¹ Cash receipt frauds account for 23 percent of all occupational fraud in the United States and Canada and average about 15 months in duration before detection.² Over the last 11 years, we have identified public money losses in Arizona governments totaling \$3.2 million due to cash receipt-related fraud schemes. This alert outlines how some of those cash receipt frauds occurred and what actions management can take to deter and detect them.

Skimming schemes are difficult to prevent and detect because the theft occurs before the cash receipt is recorded in a receipt book or an accounting system and, therefore, leaves little audit trail or evidence of a crime. However, as illustrated below, entity records not related to a receipting system can help reveal anomalies that may indicate a skimming scheme.

For over 2 years, a high school attendance secretary embezzled \$3,455 by skimming cash receipts for student parking permit decals that she failed to remit to the bookstore and failed to include on cash collection reports she prepared. This scheme was revealed when bookstore staff determined the secretary was able to collect parking permit payments without issuing receipts and still distribute parking decals to students because no one, to that point, had compared either the parking decals she distributed or the receipts she issued to her cash collection reports. Because the secretary was solely responsible for issuing both parking permit decals and receipts and for recording student and associated parking permit numbers on a spreadsheet she controlled, she was able to keep cash payments and avoid detection until other employees reviewed those parking permit records.³

Secretary's skimming scheme



Embezzlement schemes involve employees stealing cash receipts after they have been recorded in a receipt book or accounting system. As illustrated below, if these receipt records are appropriately maintained and reviewed, they can help reveal embezzlements in a timely manner.

For 6 months, a joint technical education district account services manager failed to deposit in district accounts \$12,321 of cash he received that was collected and recorded in prenumbered receipt books by other district

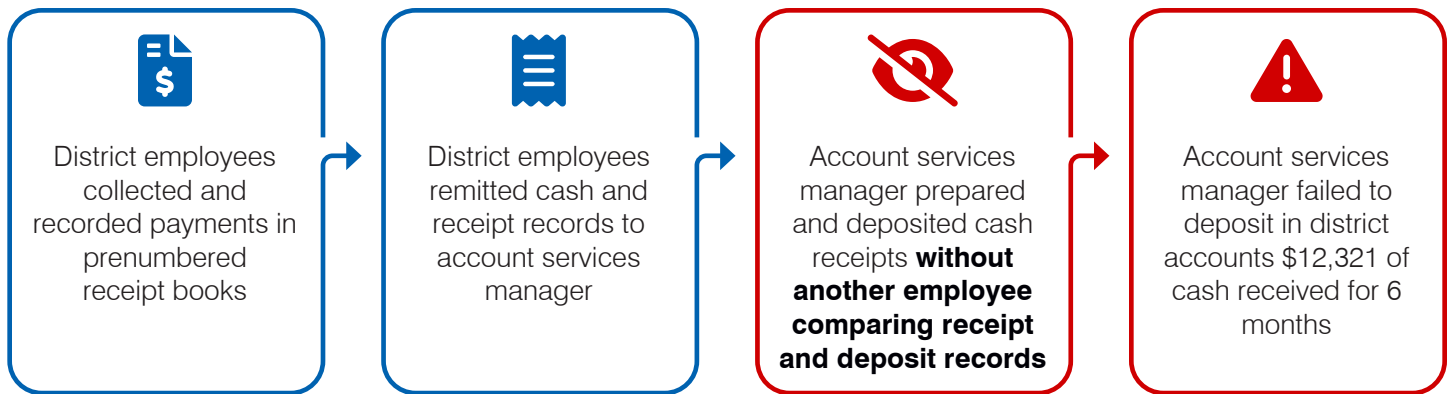
¹ The term "cash receipts" used throughout this alert includes coins and dollars, checks, and money orders.

² See Association of Certified Fraud Examiners, Inc. *Report to the Nations on Occupational Fraud and Abuse*, 2022.

³ See Office of the Auditor General, *Glendale Union High School District—Criminal Indictment—Theft and Misuse of Public Monies*, Report 18-404.

employees.⁴ This scheme was revealed when the account services manager took an unscheduled leave of absence, during which time another employee reviewed his work and discovered discrepancies in deposit records. To that point, no one had compared the prenumbered receipts maintained by other district employees to district deposit records.⁵

Manager's embezzlement scheme



Recommendations

Public officials should exercise their fiduciary responsibilities to protect public monies by establishing and enforcing sound cash receipt fraud deterrence and detection measures, such as:

- **Policies and procedures**—Create and implement written cash-handling policies and procedures that effectively separate duties as described below. Regularly train employees on these policies and procedures and require employees to document their understanding in writing.
- **Separation of duties**—Separate cash receipts responsibilities to ensure the same person is not responsible for collecting, recording, depositing, and reconciling cash receipts. Require 2 employees to open the mail and record cash receipts, noting the date, amount, and purpose. Immediately endorse checks for deposit.
- **Automate cash receipts system**—Utilize an automated cash receipts system or cash register that records individual transactions and issues a sequentially numbered receipt for each transaction. If an automated receipts system or cash register is not used, issue prenumbered and numerically controlled cash receipt forms for all cash receipts.
- **Timely deposits**—Deposit cash receipts intact daily, when significant, or at least weekly.
- **Reconciliation**—Reconcile validated bank deposit receipts to both cash receipt forms and amounts recorded in the accounting system. Investigate and resolve any discrepancies such as receipts missing from deposits. Investigate no sale or voided transactions to ensure reasonableness and proper documentation.
- **Independent verification**—Conduct unannounced reviews of existing internal control procedures to enforce and verify that cash receipts are appropriately recorded and deposited. Where applicable, compare deposit records to records not related to a receipting system in order to verify all monies received are appropriately deposited. For example, as described on page 1, the high school's comparison of issued parking permit decals to cash collection reports revealed a skimming scheme.
- **Require vacation time**—Require employees who process financial transactions to take vacation time and have another employee perform their responsibilities.

⁴ Joint technical education districts are now referred to as career and technical education districts, or CTEDs.

⁵ See Office of the Auditor General, *Pima County Joint Technical Education District—Misuse of Public Monies*, Report 19-402.