

## Why are we issuing this alert?

From 2013 through 2022, we issued 15 reports identifying forgery frauds associated with almost \$3.4 million of Arizona public money losses. As shown in these reports, forgery is often used to facilitate or conceal broader schemes such as theft, misuse of public monies, or conflict of interest. This alert outlines how certain forgery frauds occurred and what actions management can take to deter and detect them.

## What is forgery?

According to Arizona law, a person commits forgery if, with the intent to defraud, the person falsely makes, completes, or alters a written instrument (i.e., document); knowingly possesses a forged instrument; or offers or presents a forged instrument.<sup>1</sup> This definition includes the classic “Hollywood” depiction of a person stealthily tracing a victim’s signature or, as in the cases described below, illicitly using a signature stamp, creating fake audit reports, falsifying information on deposit forms, or creating false price quotes.

**Forged checks and audit reports**—For over 7 years, a fire district administrative manager embezzled nearly \$1.8 million by unlawfully issuing 474 district checks, signed without review or approval, using governing board members’ signature stamps. To conceal the unauthorized nature of the payments, she also included false purposes in most of the check memo sections, falsified computer data, and forged audit reports.<sup>2</sup>

**To conceal her theft**, the administrative manager submitted fake district audit reports to district officials for 7 fiscal years and provided the last 4 of these to a bank at which the county held a \$1 million line of credit. None of the audits were, in fact, performed.

**Forged deposit forms**—For 6 months, a joint technical education district account services manager failed to deposit in district accounts \$12,321 of cash he received. Although many deposit records were missing, district officials found in his desk 1 genuine deposit form and 1 forged deposit form, as illustrated below. This forged deposit form, along with manipulated data in the district accounting software, made it falsely appear the cash had not been received and helped to conceal his scheme, which was revealed when he took an unscheduled leave of absence and another employee discovered discrepancies in deposit records.<sup>3</sup>

**Excerpt of genuine deposit form**

Currency	Quantity	Amount
\$100	1	\$ 100.00 -
\$50	1	\$ 50.00
\$20	21	\$ 420.00
\$10		\$ -
\$5	2	\$ 10.00
\$1	67	\$ 67.00 -
Change/Coins		
	CASH	\$ 577.00 -
	CHECKS	280.20
	<b>TOTAL</b>	<b>\$857.20 -</b>

**Excerpt of forged deposit form**

Currency	Quantity	Amount
\$100		\$ -
\$50		\$ -
\$20		\$ -
\$10		\$ -
\$5		\$ -
\$1		\$ -
Change/Coins		
	CASH	\$ -
	CHECKS	280.20
	<b>TOTAL</b>	<b>\$ -</b>

**Forged price quotes**—For 2 construction projects, a school district director of operations created 2 false price quotes and included them with procurement records submitted to the district, recommending the contract awards go to other vendors. Using information from a vendor’s previous bid, the director of operations created these documents to appear as if they were on that vendor’s letterhead but, in fact, had different formatting styles and omitted that vendor’s

<sup>1</sup> A.R.S. §13-2002 Forgery, a class 4 felony.

<sup>2</sup> See Office of the Auditor General, *Show Low Fire District—Theft and Misuse of Public Monies*, May 2016, Report 16-402.

<sup>3</sup> See Arizona Auditor General, *Pima County Joint Technical Education District—Misuse of Public Monies*, March 2019, Report 19-402. Excerpts from district records.

registrar of contractor's license number. In this instance, the district was able to stop work on both projects and begin an internal review after receiving a complaint that district records contained a fake bid.<sup>4</sup>

## Recommendations

Public officials should exercise their fiduciary responsibilities to protect public monies by establishing and enforcing sound internal controls to detect and deter occupational fraud, including forgery schemes. The recommendations below pertain to cases presented herein but may also be used to prevent forgery and other frauds related to billing, payroll, expense reimbursements, and the like.

### Anti-forgery controls, check disbursements and audit reports:

- Separate accounting procedures so that authorization, recording, and custody functions are performed by different employees. Separate check preparing, check signing, and check-reconciliation responsibilities.
- Independently control check stock issuance and ensure signature stamps are accessed only by the authorized signer.
- Protect electronic signatures with passwords and encryption methods.
- Perform monthly reconciliation reviews comparing recorded transactions to supporting documentation to ensure the transactions' accuracy and appropriateness.
- Examine canceled checks for alterations, (un)authorized signatures, and irregular endorsements.
- Prohibit authorized signers from signing blank checks.
- Conduct unannounced reviews of existing internal control procedures to enforce and verify that check disbursements are appropriately issued and recorded.
- Post financial audit reports on the entity's website and request that auditors present their findings during public meetings.

### Anti-forgery controls, deposits:

- 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.
- 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.
- Require mandatory vacation or job rotations during which time another employee performs key functions to deter and detect hidden and potentially fraudulent activities by the primary position holder.
- Conduct unannounced audits to verify cash receipts are appropriately recorded and deposited.

### Anti-forgery controls, procurement:

- Separate procurement procedures so that bid solicitation, submission evaluation, purchase order issuance, and vendor work and invoice payment approvals are performed by different employees.
- Date and time stamp bid submissions upon receipt and restrict access after receipt. For electronic submissions, ensure that protocols exist to maintain the security of bid submissions within the system.
- Proactively manage a process in which employees and outside parties can report fraud-related concerns.

<sup>4</sup> See Arizona Auditor General, *Wickenburg Unified School District—Criminal Indictment—Conflict of Interest, Fraudulent Schemes, and Forgery*, Report 21-404.