



Washington State Auditor's Office

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Independence • Respect • Integrity

Cash Receipting and Revenues: Fraud Prevention and Detection

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Agenda

- Fraud trends
- Background information on internal controls
- Case study and lessons learned
- By the end of the session, I hope you will understand:
 - How to identify red flags
 - Why effective internal controls and monitoring are crucial
 - What to do if fraud happens at your entity

Fraud Program 2012 Highlights

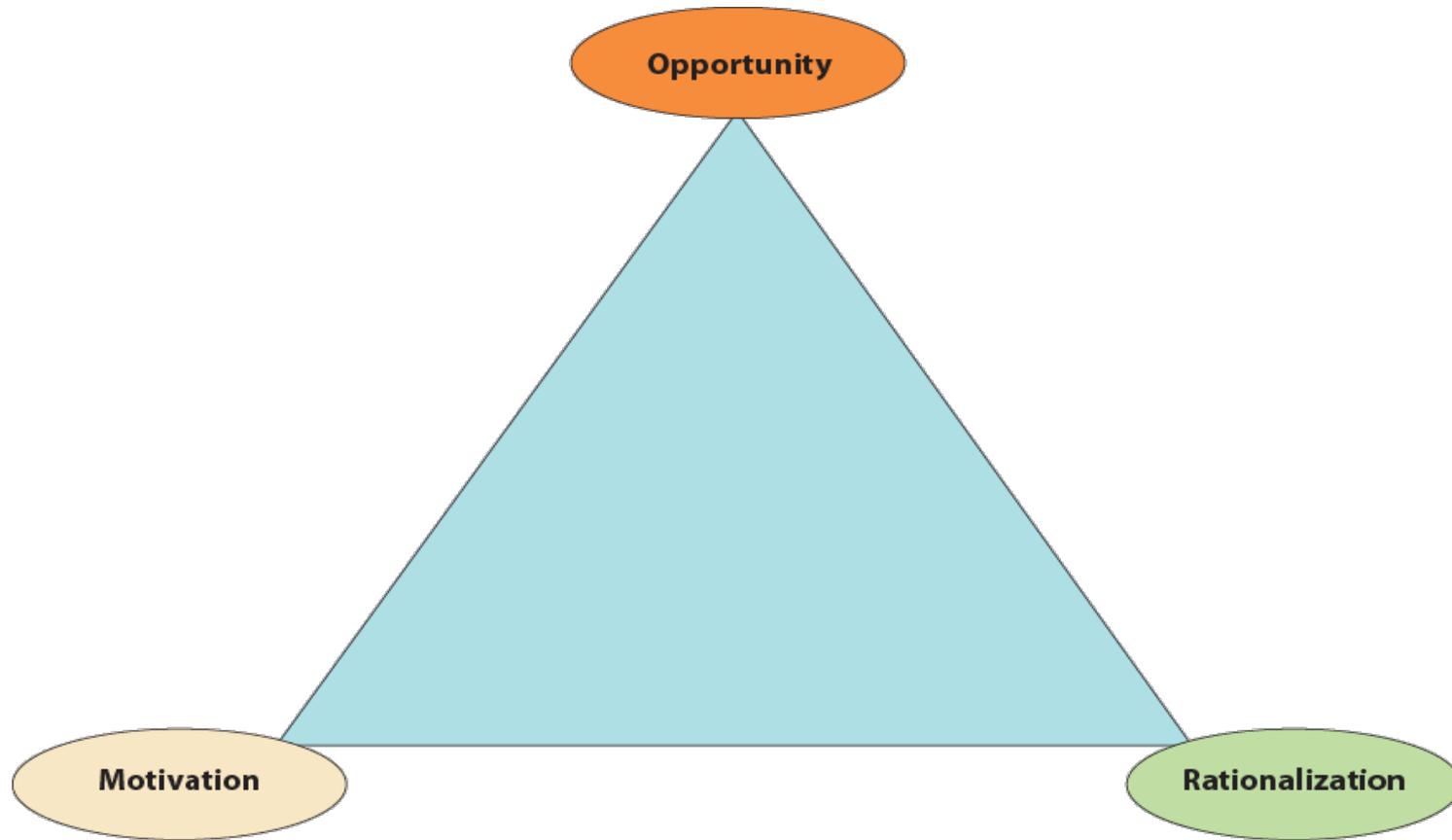
- During 2012, government reported 460 known or suspected losses to our Office.
- In 2012, we reported on 64 frauds totaling \$3,490,235.
- Some of the larger investigations are:
 - Bullerville Utility District, \$344,875
 - Northwest EMS, \$389,692
 - Franklin County, \$1,786,232

Fraud History

Year	Cases	Amounts
1987	32	\$388,936
1988	26	\$451,122
1989	31	\$358,654
1990	15	\$120,121
1991	15	\$264,027
1992	20	\$226,629
1993	18	\$642,439
1994	30	\$903,304
1995	37	\$689,080
1996	48	\$958,805
1997	33	\$1,540,368
1998	31	\$597,479
1999	42	\$1,047,113
2000	30	\$167,363

Year	Cases	Amounts
2001	68	\$484,060
2002	56	\$1,122,328
2003	62	\$2,253,394
2004	47	\$331,803
2005	57	\$258,960
2006	33	\$611,711
2007	24	\$1,722,207
2008	35	\$548,855
2009	53	\$2,055,775
2010	75	\$1,864,652
2011	50	1,352,396
2012	64	3,490,235
Totals	1032	\$24,451,816

The Association of Certified Fraud Examiners Fraud Triangle



Why are Internal Controls Important?

Effective internal controls

- Safeguard public resources
- Protect employees
- Assist in fraud prevention

Designing Internal Controls

- It is management's responsibility to design effective internal controls
- It is management's responsibility to ensure internal controls are operating as designed
- When designing/establishing internal controls break the system into segments and for each consider:
 - Will I be able to identify a loss? Will I identify the entire loss?
 - Will I be able to identify who is responsible?

Designing Internal Controls

- What makes auditors cringe?
 - Auditor question: “How do you ensure all of the funds make it to the bank?”
 - Response: “Joe takes the money to the bank. He has worked here for 32 years. *We trust him*”.
- Beware of “trusted employee syndrome”
- When designing internal controls, don’t forget the top of the organizational chart
 - Who typically has the easiest access to the most money?

Cash Receipting

Examples of Cash Receipting/revenue Frauds

- Check for cash substitution (unanticipated receipts)
- Lapping funds
- Skimming funds
- Voids/adjustments
- Short or missing deposits
- Two sets of receipts
- “Negative” cash receipts
- “Borrowing” funds
- Funds that disappear from safe or in transit between locations

Summary

- Cash receipting
- Our investigation covered January 1, 2005 to January 4, 2011
- Misappropriation totaled at least \$62,150

How was it detected?

- The County employee in charge of reconciling Probation Services cash receipts to bank deposits identified that the funds had not been deposited.

What did we find?

- Probation fees of at least \$51,816 paid between November 22, 2010 and January 4, 2011 were not deposited.
- An additional \$30,772 in voids and cash shortages were not supported by County records.
- Checks totaling \$10,334 were substituted for cash removed from the deposit.
- The County did not have records to support \$734,894 in adjustments to customer accounts.

How was the fraud concealed?

- One employee was responsible for collecting and reconciling daily cash receipts and making bank deposits.
- Bank deposits were not made within 24 hours as required by state law (RCW 43.09.240).

What happened to the employee?

- Found guilty by a jury verdict of nine counts of second-degree theft and one count of misappropriation of accounts by a public officer

Lessons learned

- The former employee had complete access to key systems, including cash-receipting, bank deposits and account adjustments.
- No one independently monitored cash/check composition or adjustments.
- No one reconciled the system transactions, manual receipts or collection agency payments with the bank deposits.

Cash-Receipting Internal Controls

- Compare bank deposits to cash receipt records and verify the mode of payment agrees
- Review voided transactions to ensure they are supported and legitimate
- Perform surprise cash counts
- Get a handle on unanticipated revenues
- Look for missing deposit slips
- Look for unusual void activity by employee or department

Cash-Receipting Internal Controls

- Create and review error reports.
- Look for unusual journal entries.
- Follow up on unusual over/short cash-receipting activity.
- Review for inventory discrepancies. Verify inventory records reconcile with use.
- Look for deposits not made daily or intact.
- Cash deposits differ from normal patterns.
- Know the universe of what you are reviewing.

Cash-Receipting Internal Controls

- Preliminary vs. final reports: know what you are reviewing.
- Call your software company and inquire about known system weaknesses (receipt posting dates, ability to reprint receipts, etc.).
- Look for negative cash receipts.
- Look for hidden rows/columns.
- Know who is receiving the billing complaint calls.

Cash-Receipting Internal Controls

- Safeguard and limit access to receipts awaiting deposit. How long has it been since the safe combination was changed?
- Perform a periodic “look back” of revenues. Do they make sense given your understanding of the operations?
- Review receipt sequence. Are receipts used in sequential order? Are all the receipt numbers accounted for?
- Review bank reconciliations. Are they timely? Do reconciling items make sense?

Cash-Receipting Internal Controls

- Spot check customer accounts, such as utilities. Are payments posted timely to the correct account in the correct amount?
- Customer billings should detail the prior balance, payments made, adjustments to the account and the current amount due.
- Review security deposit refunds.
- Review employee account activity.

Fraud Happens

What to do if it happens to you:

- Immediately notify State Auditor's Office on the Web at www.sao.wa.gov | Special Investigations | Fraud Program | Report a loss (RCW 43.09.185).
- Protect accounting records from loss or destruction.
- Don't enter a restitution agreement with an employee (Auditor/Attorney General approval required).
- Ensure personnel action taken for violating policies and procedures, not for misappropriating public funds.
- File a police report (consult our Office on timing).
- Change bank account access (credit cards, too).

Fraud Happens

What to do if it happens to you:

- Do not try to be the investigator. But do start a record: how it came to your attention, records of conversations, etc.
- Do not physically prevent an employee from leaving the room or leaving the building.
- Do not agree to let the employee repay money to “make it go away”.

Summary

- Remember the fraud triangle.
 - You control the opportunity.
- When designing internal controls, break down the system into segments and analyze:
 - If you could identify a loss.
 - If you could identify who is responsible.
- Beware of the “trusted employee” trap.
 - Who has the most access to funds?
 - Sometimes good people do bad things.
- Remember our Office doesn't review every transaction. Don't rely on auditors to find the fraud. That is your job!

Questions?



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