

First Friday Fraud Facts+

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The Idaho State Controller's Office distributes this newsletter as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.



QUESTIONS OR COMMENTS:

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Inside this issue:

Welcome	1
Revenue Skimming	1
Red Flags	1
Best Practices	2
Fraud Case Overview	2
Fiscal Focus	2
Announcements	3

Welcome to First Friday Fraud Facts+ (F4+). This edition will cover a common type of accounts receivable fraud referred to as revenue skimming and the Cash Receipts accounting application.

REVENUE SKIMMING

Skimming typically involves an employee stealing from their employer before cash can be deposited and without a record being made of its receipt. This is most often accomplished by failing to ring up a sale on the cash register or by failing to write up a receipt. Some other examples of skimming include:

- Collecting cash, keeping a portion of the cash, and underreporting the sale amount
- Collecting a customer's payment, but not crediting the amount to the customer's account
- Collecting cash and holding it in a personal interest-bearing account before depositing it into the company account

Skimming differs from cash larceny (cash stolen after it has been recorded) and lapping (covering up stolen payments with other stolen payments).

RED FLAGS

Several potential red flags may exist when skimming is taking place. Some of these include:

- Infrequent bank deposits, allowing cash to accumulate
- Discrepancies between customer receipts and company receivable records
- Consistent shortages in cash on hand
- Irregular pattern in seasonal sales
- Inconsistent fluctuations in bank account balances
- Inverse relationship between sales and cost of sales
- Unexplained decrease in the ratio of cash to credit card sales or total sales



BEST PRACTICES

- Restrict physical access to the accounting system to only authorized persons
- Establish a review process for refunds
- Segregate duties between issuing receipts, preparing deposits, posting receivables, and handling customer complaints
- Use pre-numbered, multiple copy cash receipts for cash sales
- Require daily bank deposits
- Document and implement policies and procedures for turning over delinquent accounts for collection
- Review surveillance footage when available

FRAUD CASE OVERVIEW

This case involves the skimming of nearly \$1 million from charity bingo funds at an American Legion post by five people who were supposed to be volunteers. The post had a gaming license that allowed it to host charitable bingo events three nights a week.

Meeting weekly as the post's finance committee, two white envelopes were used to conceal \$1,000 in each envelope. Afterwards a sixth person, (who has not been charged), would then take the envelopes to a local restaurant where they would be delivered to two of the five perpetrators. Investigators witnessed one of the deliveries during a stakeout, and with a search warrant seized two white envelopes with \$1,000 in them that had the names of two of the perpetrators on the front of the envelopes.

Upon being questioned by police, one of the two perpetrators said she was paid "to run Bingo" and that receiving payments was not illegal; but rather, she was authorized by the post's finance officer (one of the five accused) to establish the system of weekly \$1,000 payments.

All five perpetrators pleaded guilty to unlawful charity gaming contracting and/or aiding corrupt business influence, and were sentenced to probation ranging from 18 months to four years. Suspended prison sentences ranged from one to four years, while required restitution ranged from zero to \$416,000.

FISCAL FOCUS-CASH RECEIPTS

The State Controller maintains a web-based Cash Receipts application, which is offered to agencies to provide an efficient processing option for cash deposits.

Information about the application is available at the State Controller's website: <http://www.sco.idaho.gov> under Accounting Applications

If your agency is interested in using the Cash Receipts application, please contact the Division of Statewide Accounting at dsahelp@scs.idaho.gov, or Patti Everill at peverill@scs.idaho.gov, (208) 332-8799

ANNOUNCEMENTS:

1) Mark your calendars to attend one of the following Idaho SCO's Annual Internal Control Training sessions:

a) Tuesday, April 16, 2013, from 8:00 a.m. — 10:00 a.m.

OR

b) Wednesday, April 17, 2013, from 8:00 a.m. — 10:00 a.m.

2) The 2012 Comprehensive Annual Financial Report (CAFR), Citizen-Centric Report, and the Legal Basis Financial Report are now available on the SCO's website at www.scs.idaho.gov. Under "What's New" click on "2013 Comprehensive Annual Financial Reports are Now Available" to access all three reports online.

