

## September 2020 – Topic of the Month – Internal Controls Over Cash Receipts

### INTRODUCTION

We implemented the issuance of the Topic of the Month last fiscal year to provide agencies and employees a resource to better understand the requirements, responsibilities, and expectations that come with certain processes, positions, and functions. Each month, GAO will address a new topic that includes specific information such as applicable policies, procedures, forms, best practices, and where this information can be located.

The goal is to ensure that agencies have the knowledge to consistently comply with State and Federal laws, regulations and guidelines, while reducing the risk of fraud, waste and abuse. This month's topic is *Internal Controls Over Cash Receipts* and was chosen due to the current risk identified with many State employees working remotely. If there are any topics that your agency is struggling with and/or would like additional information on, please contact your GAO Liaison. GAO is here to help!

### ASSOCIATION OF CERTIFIED FRAUD EXAMINERS (ACFE) REPORT TO THE NATIONS

The 2020 Global Study on Occupational Fraud and Abuse states that:

- A lack of internal controls contributed to nearly 1/3 of frauds
- Governments were the third most frequent organizational victim of fraud
- The median loss for state/provincial government entities was \$91,000
- The most common industries reported to the ACFE were banking and financial services, government and public administration, and manufacturing.

### CASH RECEIPTS

State agencies must establish strong internal controls over cash receipts (currency, checks, and other negotiable instruments). The State of Arizona Accounting Manual (SAAM) 0510- *Internal Controls by Process* requires state agencies to maintain written procedures on all cashing and related activities. In addition, due to the high risk of misappropriation associated with cash, proper segregation of cash handling and cash recording functions must be maintained.

#### What can happen when segregation of duties is not maintained?

Tolleson Union High School District –

According to the Office of the Arizona Auditor General, a former bookstore manager at Tolleson Union High School violated state laws related to theft, misuse of public monies, and fraudulent schemes when she embezzled \$120,708 of bookstore receipts. Specifically, she took customer cash payments that should have benefited the students and manipulated computer data in the District's receipt-processing system 374 times to help conceal her actions. She spent the money on cash withdrawals, including withdraws at casinos, retail purchases, and other personal expenses. She misused public monies by both abusing her authority as the bookstore manager and taking advantage of inadequate controls over collecting and depositing district monies.

Pima County Joint Technical Education District (District)-

The District reported suspected fraud to the Pima County Sheriff's Office, which then requested that the Office of the Arizona Auditor General investigate allegations of financial misconduct by a former District account services manager. The Auditor General found that from March through August 2016, the employee failed to deposit in District accounts \$12,321 of cash he received that was collected from District students, parents, and other individuals. He also manipulated District records and may have forged a District deposit form to conceal his actions.

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State 90/10 Board-

As part of its responsibility to prevent and detect fraud, an Arizona State Board took appropriate action by reporting a fraud allegation to the Office of the Arizona Auditor General. A former administrative services officer embezzled \$1,008 of cash payments Board customers made for their licensure and license renewal fees. The employee failed to deposit these payments and manipulated deposit-related information on the Board's accounting software to conceal his actions. Specifically, the employee issued the licenses and license renewals to the customers but then voided the transactions in the computer software system and pocketed the monies.

### CASH RECEIPTS BY MAIL

There is a relatively high risk associated with handling cash or, for these purposes, its equivalents (checks, money orders, warrants, electronic funds transfers, payment cards, etc.) SAAM 2010 *Current Assets – Cash and Cash Receipts* requires that appropriate segregation of duties must be the first priority of an agency when handling cash receipts and related record keeping functions. Specifically SAAM states that mail receipts should be received by employees who are not responsible for maintaining accounting records. Two State employees should be present when mail is opened. If an agency does not have sufficient staff to accomplish this or if COVID situational arrangements have caused this, the agency should consider:

- Entering into a labor sharing arrangement with another agency, whereby an employee from the first agency works with an employee from a second agency to jointly open and log each agency's receipts.
- Entering into a contract with the CSB or SBO to provide appropriate support.
- Reevaluate the arrangements after employees return to work to determine what changes may be needed to maintain good internal controls.

Another compensating control is for State agencies to reconcile its cash receipt to its revenue collections. For example, for a State agency that issues licenses this would be a reconciliation of licenses issued or renewed against cash receipts recorded. Any discrepancy between the two should be investigated and resolved. In addition, any software subsystem that an agency is using to record revenue, e.g. G/L Solutions, should be reconciled with revenue recorded in AFIS at least on a monthly basis.

Where can I find additional information on internal controls over cash receipts?

State of Arizona Accounting Manual

<https://gao.az.gov/publications/saam>

Association of Certified Fraud Examiners – Report to the Nations

<https://www.acfe.com/report-to-the-nations/2020/>

Association of Government Accountants – Internal Controls <https://www.agacgfm.org/Intergov/Internal-Controls/Contributors.aspx>

GAO Quick Reference Guides – Monthly Financial Review

<https://gao.az.gov/sites/default/files/Monthly%20Financial%20Review%20-%20General%20Ledger%20and%20Budget.pdf>