

# Keys to Cash Handling: Internal Control Risks & Rewards

*Puget Sound Finance Officer Association  
May 11, 2022*

Deborah Pennick  
Assistant Director  
Center for Government Innovation

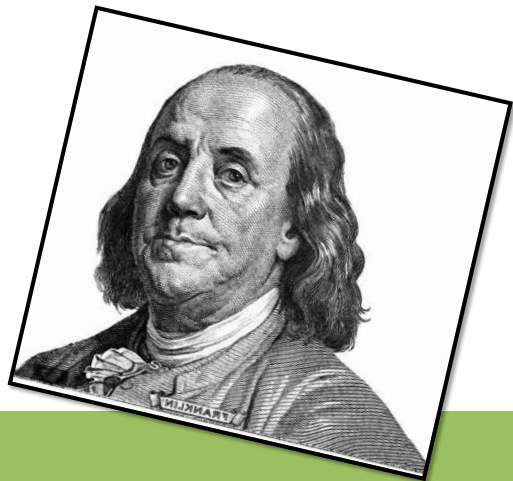
Center for  
Government  
Innovation



Office of the  
Washington  
State Auditor



“There is no kind of dishonesty  
into which otherwise good people  
more easily and frequently fall  
than that of defrauding  
government of its revenues...”



Center for  
Government  
Innovation

## What will you learn today?

- Importance of internal controls
- Internal control basics
- Designing cash handling internal controls
- Tips and best practices



## Technology Housekeeping

- Use the “raise hand” feature to share
- Turn off all other programs, especially Outlook
- Mute yourself if your aren’t sharing
- Participate in the “waterfall” chats



Survey says...

Center for  
Government  
Innovation

**What government or  
organization do you  
work for?**



Importance of internal controls

Center for  
Government  
Innovation



## Importance of internal controls

Center for  
Government  
Innovation



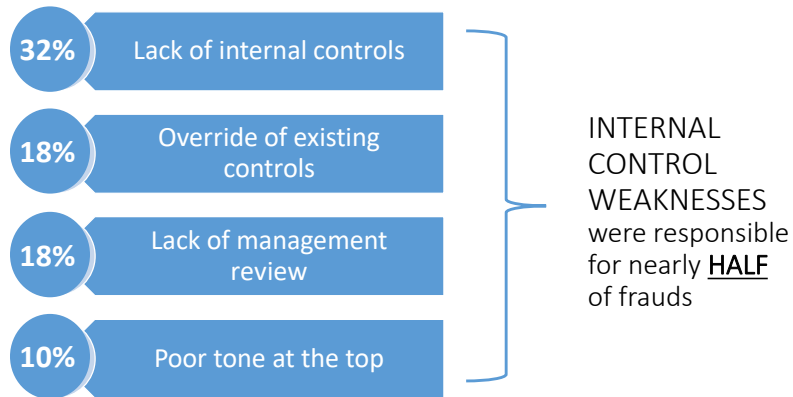
## ACFE report findings

Center for  
Government  
Innovation



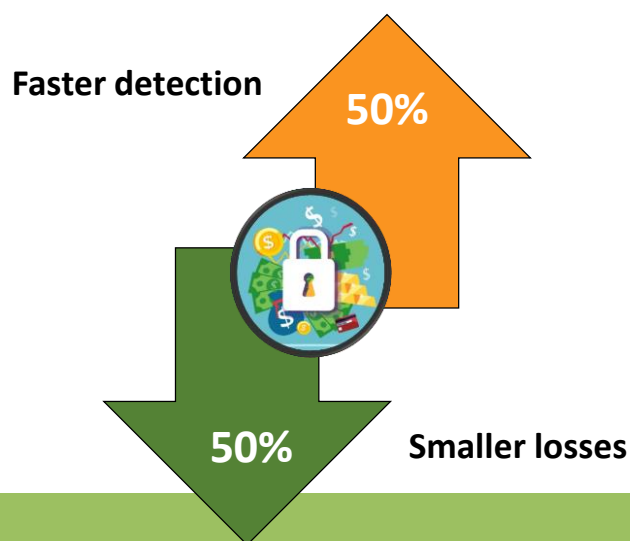
## Importance of internal controls

Center for  
Government  
Innovation



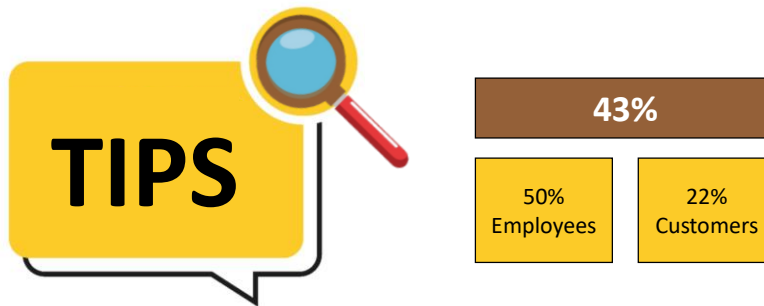
## Importance of internal controls

Center for  
Government  
Innovation



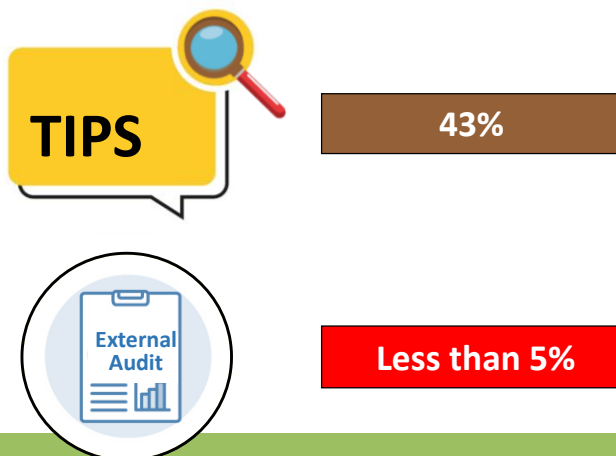
## Fraud detection methods

Center for  
Government  
Innovation



## Fraud detection methods

Center for  
Government  
Innovation



## A look at fraud in Washington

Center for  
Government  
Innovation

### 33 investigations in 2021:

- 17 reports of significant misuse/theft of public money
- \$428,635 misappropriated
- \$121,545 in questionable transactions



## Internal control basics

Center for  
Government  
Innovation



## What are internal controls?

Center for  
Government  
Innovation

An important factor in preventing and  
detecting fraud

The screenshot shows a web application with a top navigation bar containing tabs: 'Charts of Accounts', 'Budgeting', 'Accounting', 'Reporting', 'Table of Contents', and 'Alerts & Changes'. Below this is a sidebar menu under the heading 'ACCOUNTING PRINCIPLES AND INTERNAL CONTROL' with options: 'Fund Types and Accounting Principles', 'Bank Reconciliations', 'Beginning and Ending Cash and Investments Classifications', 'Internal Control' (highlighted in orange), 'Original Supporting Documentation', and 'ASSETS'. The main content area is titled 'Internal Control' and contains the following text:

- 3.1 Accounting Principles and Internal Control
- 3.1.3 Internal Control
- Purpose and Definition of Internal Controls
- 3.1.3.10 Internal control refers to the means by which management runs its organization to achieve organizational objectives.

## Internal controls: The big picture

Center for  
Government  
Innovation



**The fraud triangle**



Survey says...

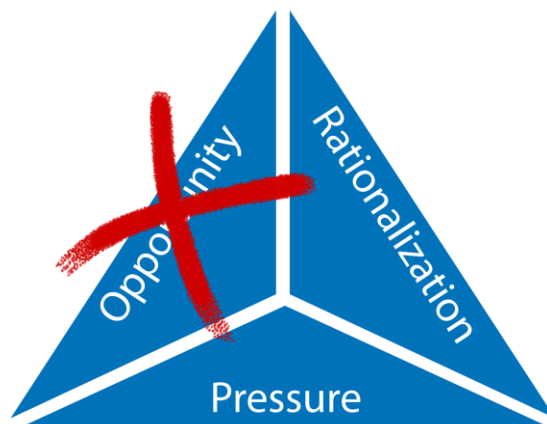
Center for  
Government  
Innovation

**Which component of the  
fraud triangle do you  
have the most control  
over?**



Internal controls: The big picture

Center for  
Government  
Innovation

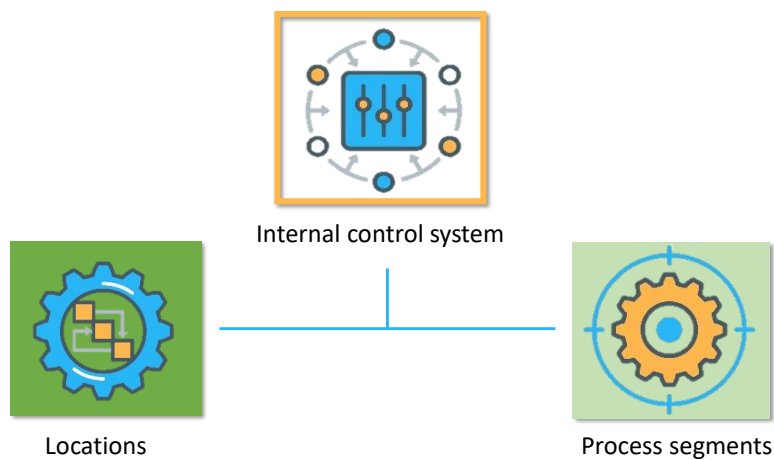


**Breaking the fraud triangle**

## Internal controls: The big picture



## Types of internal controls



## Which type of control will work best?



## Internal controls: The big picture



- Clearly define the cash-handling process
- Validate and support transactions



- Observe and monitor activities
- Review documents

## Effective internal controls

Center for  
Government  
Innovation



- **Protect employees**
- Safeguard resources
- Help prevent fraud
- Identify a loss promptly
- Determine the entire amount lost
- Identify responsibility for the loss

## Designing cash handling internal controls

Center for  
Government  
Innovation



## Resources

Center for  
Government  
Innovation



## Survey says...

Center for  
Government  
Innovation

**Auditors can be viewed as  
a substitute for your  
internal monitoring and  
review controls.**

**True or false?**



## Management's role

Center for  
Government  
Innovation



Management is  
responsible for  
internal controls

## Management's role

Center for  
Government  
Innovation



- Responsible
- Observant
- Communicative
- Active



# Preventative controls



- Written policies and procedures
- Required training
- Segregation of duties

# Preventative controls



Written policies & procedures



Required training

## Golden Rule #3:

*Document the controls you put in place . . . so expectations are clear to employees and management alike*



# Preventative controls: Segregate duties



# Preventative controls: Segregate duties

Duty (and related page)	Clerk 1	Oversight person
Cash receipt (p. 10)	Collect receipts from customers, prepare the deposit, and make the deposit with the bank	Ensure deposits were made intact by comparing paper receipt records (source records to support the deposit) to bank statement deposit information. This should include confirming that cash vs. check composition is correct for all deposits

Duty (and related page)	Clerk 1	Clerk 2	Oversight person
Cash receipt (p. 10)	Perform receipting, prepare the deposit, and deliver the deposit to the bank (if needed)	Backup cash receipt, but limit access as much as possible to all receipts and the deposit	No access. Might do a last look at the deposit periodically to ensure checks deposited are only that of customers.

Duty (and related page)	Clerk 1	Clerk 2	Clerk 3	Oversight person
Cash receipt (p. 10)	Receipt cash from customers and take the deposit to the bank	Backup cash receipt, but limit access as much as possible to all receipts and the deposit. Prepare the deposit.	Monitor to ensure the deposits are made by comparing validated bank receipt to source records	No duties or access to the deposit





## Preventative controls: Segregate duties



Two people open mailed payments and record them on a log.



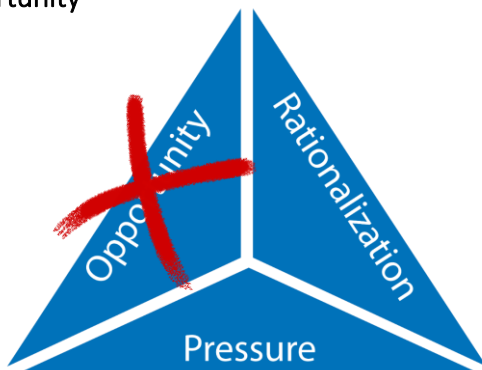
### The compensating controls you could put in place include

- Require the employee to open mail in a supervised area, and as soon as all mail has been opened, endorse checks with the government's banking information and prepare the deposit.
- Place surveillance cameras where mail is opened
- Put in place additional controls to monitor infrequent and unexpected revenue streams
- Contract out payment processing to a third party that has the desired controls
- Periodically compare bank-validated deposit receipts to cash-receipting system reports to confirm the deposit's cash/check composition agrees with what has been received and recorded in the system.



## Preventative controls: Segregate duties

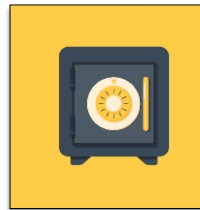
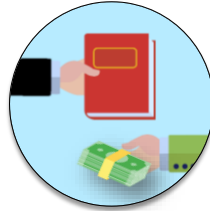
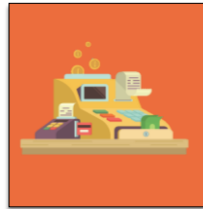
Proper segregation of duties minimizes opportunity



### Borrowing Schemes

*Fraudster holds deposits and uses cash for their personal needs and deposits the funds later.*

## Preventative controls: Limit access



## Preventative controls: Prompt deposits



### RCW [43.09.240](#)

Local government accounting—Public officers and employees—Duty to account and report—Removal from office—Deposit of collections.

### BARS Cash Manual

#### Cash Receipting

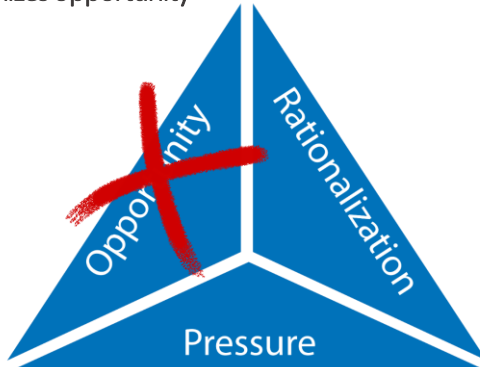
##### 3.6 Revenues

##### 3.6.1 Cash Receipting

2. Deposits must be made intact, meaning all payments received must be deposited without substitution . . . deposit slip matched to related receipt records.

## Preventative controls: Access & deposits

Limiting access and making timely deposits  
minimizes opportunity



### Check for Cash Substitution Schemes

*Fraudster substitutes a  
check from an unusual  
or infrequent revenue  
source for cash  
collected and recorded  
earlier.*

## Survey says...

**If your cash receipting system  
has strong preventative  
controls, detective controls  
aren't necessary.**

**True or false?**



## Both preventative and detective controls are important

Center for  
Government  
Innovation



## Detective controls

Center for  
Government  
Innovation



- Developing expectations
- Standard forms (accurate and complete)
- System report reviews
- Internal audits (monitoring and review)

## Expectations: Revenue patterns

Center for  
Government  
Innovation



## Expectations: Deposit composition

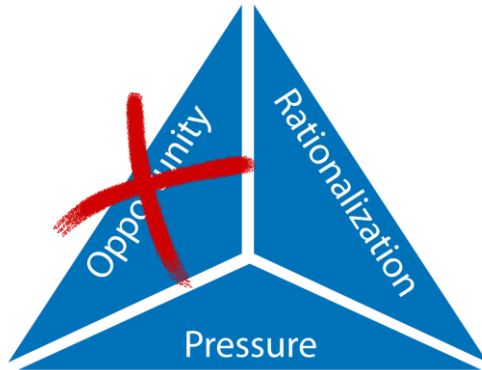
Center for  
Government  
Innovation



# Expectations

Center for  
Government  
Innovation

Developing expectations minimizes opportunity



## Skimming Schemes

*Fraudster takes cash receipts prior to recording them in the accounting system.*

# Detective controls: Standardized forms & reports

Center for  
Government  
Innovation



# Monitor/review non-cash transactions



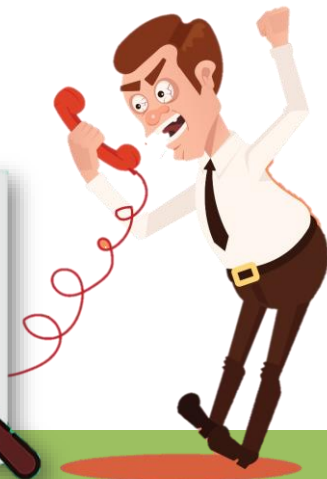
## The compensating controls you could put in place include

- Require cashiers to document all voids or refunds and account for them in the daily reconciliation. Periodically review void or refund activity for reasonableness.
- Excessive voided sales, as noted in voided transaction report, should be investigated
- Require management approval for voids or refunds above a certain dollar amount



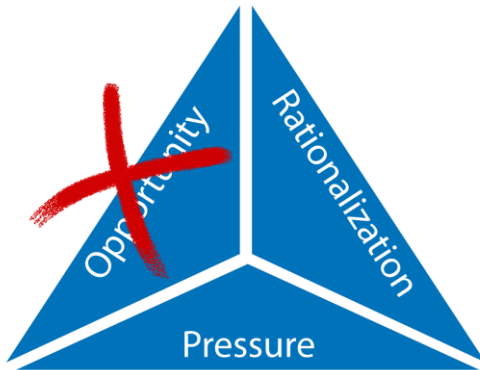
# Monitor customer account activity

Accounts Receivable Aging Schedule					
Patients	Days Past Due				Total
	Not Yet Due	1-60	61-120	More than 120	
Shirley Akin	\$ 12,000			\$ 4,000	\$ 12,000
Bruce Easley					4,000
Ben Greene		\$ 5,000			5,000
Ardis Hand			\$ 7,000		7,000
Ima Hertz	9,000				9,000
Noah Luck		8,000			8,000
Phil Skiley	6,000				6,000
Justin Payne				10,000	10,000
Others	9,973,000	5,987,000	2,993,000	986,000	19,939,000
Total Accounts Receivable	\$10,000,000	\$ 6,000,000	\$ 3,000,000	\$1,000,000	\$20,000,000
Estimated Percent Uncollectible	10%	30%	50%	70%	
Estimated Amount Uncollectible	\$ 1,000,000	\$1,800,000	\$1,500,000	\$ 700,000	\$5,000,000



## Monitoring and review minimizes opportunity

Center for  
Government  
Innovation



### Reversing Transaction/Write- Off Schemes

*Fraudster processes unsupported voids, cancellations or refunds, or customer account adjustments to reduce the amount owed.*

## What will you learn today?

Center for  
Government  
Innovation

- Importance of internal controls
- Internal control basics
- Designing cash handling internal controls
- Tips and best practices





## Tips & best practices

Center for  
Government  
Innovation



## Survey says...

Center for  
Government  
Innovation

**There is no such thing as  
too much documentation in  
a cash receipting system.**

**True or false?**



## Not a best practice

Center for  
Government  
Innovation



## Tips & best practices

Center for  
Government  
Innovation

➔ **Watch for behavioral red flags**



## Tips & best practices

→ **Require employees to take time off**



## Tips & best practices

→ **Have employees certify they have read and understand policies, and were provided training**



## Tips & best practices

- **Develop a monthly revenue/receipting calendar**



## Tips & best practices

- **Identify operation changes that impact revenues**



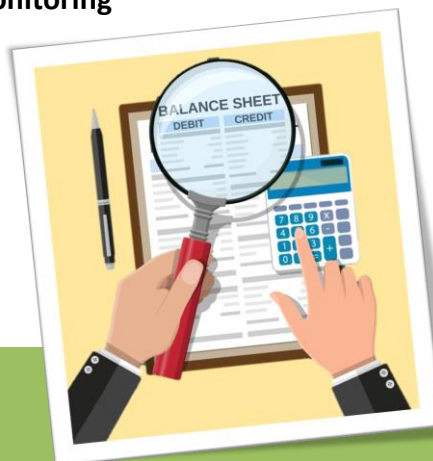
## Tips & best practices

- ➔ **Monitor deposits for infrequent/unanticipated revenue**



## Tips & best practices

- ➔ **Ensure system reports are generated by the person performing the review and monitoring**



## Tips & best practices

- ➔ **Occasionally spot check transactions, prepare bank deposits or perform bank reconciliations**



## More tips & best practices





## Common control weaknesses and warning signs

Center for  
Government  
Innovation

- **Trusted employee with limited oversight**
- No segregation of duties
- Inadequate monitoring and review
- Lack of supporting records
- Deposit patterns that vary from normal
- High volume of voids/adjustments
- High volume of system deletions/ modification
- Deposits not made daily or intact



## Closing check-in

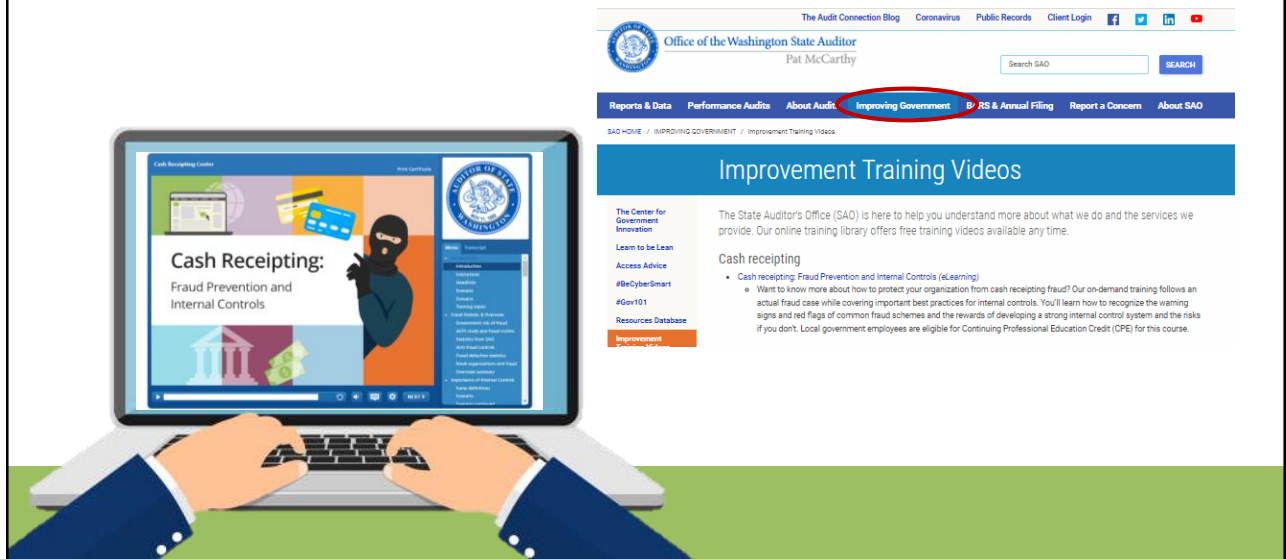
Center for  
Government  
Innovation

**Share something you  
learned today or found  
helpful.**



# Earn CPE with our new on-demand training

Center for  
Government  
Innovation



The screenshot shows the website of the Office of the Washington State Auditor, Pat McCarthy. The navigation bar includes links for 'The Audit Connection Blog', 'Coronavirus', 'Public Records', 'Client Login', and social media icons. The main menu highlights 'Improving Government'. The 'Improvement Training Videos' section is active, displaying a video titled 'Cash Receipting: Fraud Prevention and Internal Controls'. The video player shows a person in a suit typing on a laptop, with the video content displayed on the screen.

## Contact information

**Debbie Pennick, CPA**

Assistant Director  
Center for Government Innovation

Deborah.Pennick@sao.wa.gov

center@sao.wa.gov



Center for  
Government  
Innovation



Office of the  
Washington  
State Auditor