

The background of the slide is a light gray gradient with several realistic water droplets of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance. The text is centered on the slide.

# FRAUD/THEFT PREVENTION

## FOR UTILITY OFFICES



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# Excellent Resource

**POCKETED PAYMENTS: Preventing the theft of incoming funds.**

**This was a special report published on November 15, 2017 by Dave Yost, Ohio Auditor of State.**

**<https://ohioauditor.gov/publications/clerk%20thefts%20report%20FINAL.pdf>**

# Common fraud issues in small cities and towns

- Taking money from revenues (such as utility payments)
- Taking money from change funds or from daily bank deposits
- Purchasing items for personal use
- Manipulation of payroll records

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# Opportunity

- Opportunity always comes first
- Don't tempt employees beyond their ability to handle the situation

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# Motivation

- Financial need – real or perceived
- Challenge – sees breaking the internal controls as a game
- Revenge – seeks to financially destroy the organization in retaliation for real or perceived poor treatment in the past

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# Rationalization

- The final piece of the puzzle
  - Entitlement
  - No remorse

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# Who Commits Fraud

It is often a trusted employee. After committing fraud, there may be subtle changes in the way they perform their job (unwilling to take vacation or share job duties, suddenly secretive, etc.) Most of the time the employee committing fraud is acting alone.



# The Dishonest Employee

Are you doing thorough background checks on potential employees? This is necessary to uncover terminations or criminal convictions for misappropriating funds. The best defense is to not hire a dishonest employee but without background checks, you don't really know who you are hiring.

# The 'At Risk' Employee

- Comes to work early and leaves late
- Works nights and weekends
- Is seldom missing from the office
- Reports to the office during brief absences
- Asks others to hold their work until they return
- Spouse or significant other has lost their job

# The 'At Risk' Employee (continued)

- Employees living beyond their means
- Employees who have high debt
- Employees who brag about recent gambling winnings
- Employees who act out of character
- Cashiers who always balance and are never over or short
- Cashiers who do not follow the standard cash handling policies
- Employees who are secretive on the job

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# More Danger Signs of Embezzlement

- Borrowing from co-workers
- Placing personal checks or IOUs in change funds
- Creditors calling or appearing at work
- Inclination to cover up inefficiencies
- Pronounced criticism of others
- Getting annoyed at reasonable questioning

## More Danger Signs (continued)

- Refusing to leave custody of records during the day
- Works overtime regularly
- Refusing to take vacations and shunning promotions for fear of detection
- Rewriting records under the guise of neatness in presentation.

# The Adjustments Scheme

- There are valid reasons to adjust a customer's bill balance such as inaccurate meter readings or erroneous late fees. Typically these adjustments are non-cash adjustments to increase or decrease the account balance.
- With this scheme, the employee receives the customer's payment but does not record the payment transaction in the billing system. Instead the employee pockets the cash and makes a non-cash adjustment to the customer's account balance to offset the amount stolen.

# Preventing the Adjustment Scheme

- Someone other than the person making the adjustments should routinely review the adjustments journal/list
- Require supervisor approval and supporting documentation for all adjustments
- Require employees to provide customers with receipts and post signs that encourage customers to obtain and save receipts for all payment transactions

# The Void Scheme

- There are valid reasons to void or cancel a payment transaction
- With this scheme, after the customer makes a payment, the employee voids the transaction and pockets the cash
- This scheme is risky because customers may receive delinquent notices since their payment was not posted to their account but they have a receipt for their payment



# Preventing the Void Scheme

- Have someone other than the person accepting the payment authorize and document voids
- Routine review of the voided receipt journal/list
- Post signs that encourage customers to obtain and save receipts for all payment transactions

# Check Schemes

- Employees who have access to the mail will also have access to a large number of checks
- The employee may steal a check and then change the payee and/or amount via computer software
- The employee may retain a check then remove cash from the bank deposit, pocket the cash and replace it with the check

# Preventing the Check Schemes

- Immediately investigate any circumstances surrounding customers reporting that their check was cashed but there is no payment posted to their account. Obtain a copy of the cashed check (front and back) ASAP
- Have a second employee verify the breakdown of all bank deposits (cash versus checks) to verify that no cash has been removed
- Funds should be deposited daily if at all possible

# Best Practices – Issue Duplicate Receipt to Customer

- After verifying the sum of cash or check payment, the employee should issue a duplicate receipt to the customer and maintain a copy for the entity
- The receipt should note the tender type – cash, check, etc.
- There should be unannounced cash counts as a part of your internal system controls
- Manual receipts are discouraged but if used, they must be pre-numbered
- Post signs in areas where payments are collected that encourage customers to obtain receipts

# Best Practices – Secure the Funds

- Cash should never be left unattended. It should always be in a locked cash register, cash box or safe
- Require a surety bond for cashiers and anyone else involved in the process of handling cash

# Best Practices – Post the Payments to Billing/Accounting Systems

- Payments should promptly be applied to the customer's utility account and the revenue should be recognized in the accounting system
- All non-cash adjustments should be approved by a supervisor and/or the adjustments journal/list should be reviewed routinely
- The payments posted on the utility system should match the total collections (bank deposit + payments from other sources) for that day

# Best Practices – Reconcile the Money on Hand with the Documented Amount

- A collection report should be prepared every day documenting the amounts received from customers
- Employees should maintain documentation of all daily reconciliations to the entity's financial records

## Best Practices – Reconcile the Money on Hand with the Documented Amount

- The bank deposit should match the collection report and the amount of cash and checks should be verified by an employee other than the cashier
- Bank deposits should be documented by a bank deposit slip stamped by the bank and retained for the entity's records



# I Suspect a Theft – What should I do?

- Act prudently – false allegations can lead to a lawsuit
- Get legal advice as quickly as possible
- Acquire as much competent information as early as possible.
- Remember, your actions may be scrutinized by a jury at some point in the future!

# Trust but Verify!

- Don't exhibit blind trust
- Monitor work randomly
- Require that vacations be taken and have someone else do the work when they are gone
- Trust others, but still keep your eyes open