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The Seven Deadly Sins: Controls Over Cash Collections

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The cash collections of several California governments have been embezzled in the last few years. In each case, the defrauded government committed one or more of the "seven deadly sins" of cash handling.

Failure to immediately prepare the initial accounting record. The first person to touch collected cash, either through the mail or over the counter, should prepare the initial accounting record. For cash collected over the counter, the initial accounting record is usually a receipt. These must be pre-numbered because otherwise, employees can still issue a receipt to the customer and later remove it, along with the cash. For cash collected through the mail, a simple log of date, payee, and amount is acceptable. The initial accounting record should be separated from the cash at the earliest opportunity, with the cash being deposited to the bank and the initial accounting record sent to the accounting department. This minimizes the risk that cash will be stolen and the accounting records manipulated to hide the theft. The cash should not go with the initial accounting record to the accounting department because accountants are no less likely than operations employees to have sticky fingers.

Failure to perform complete and timely bank reconciliations. Comparing cash collected per accounting records to the amount actually deposited in the bank is critical. This reconciliation will identify any amounts that were not deposited (assuming the initial accounting record was properly prepared and recorded). Simply identifying the reconciling items is not sufficient; they must be researched and cleared.

Lack of accountability for cash drawers. If only one employee is responsible for a cash drawer, it is clear who is responsible for the cash. When two or more employees place cash into the same drawer, that commingling corrupts the internal controls. At most retail stores, when an employee ends his shift, he takes the drawer with him and the new employee brings her own drawer.

Failure to make deposits intact. Cash collections should not be commingled before they are deposited. No cash should be removed to pay for purchases. Cash collected each day should not be commingled with cash collected on another day. Leaving the collections intact allows easy reconciliation of accounting records to cash deposited. Employees should never be allowed to "make up" a shortage out of their own pockets. This blurs the line between public cash and personal cash, and increases the likelihood that an employee can rationalize taking an overage.

Lack of responsible environment. Most embezzlers who are discovered are reported by other employees or customers who suspect unusual activity. Train all employees regarding management's expectations of them about reporting unusual or fraudulent activity. Also, make sure that there is a mechanism for employees or customers to anonymously report suspicions of fraud.

No immediate restrictive endorsement of checks. In a recent embezzlement case, an employee stole checks addressed to the government by simply writing or typing a three-letter acronym representing a non-profit organization she was involved with just before or after the government's name on the payee line of the checks. The bank allowed deposit to her nor-profit account, which she accessed for personal use. All locations receiving cash for the government should have restrictive endorsement stamps, and every check should be immediately endorsed to make it non-transferable.

No segregation of billing duties. It is critical that the same employee not be able to both prepare or revise bills for revenues (e.g., rents and leases, fees, dues) and handle the related cash or checks collected. The employees who negotiate and bill for revenues frequently have significant authority to make concessions to keep tenants, customers, and members happy. This authority can easily be abused. Multiple recent embezzlements were a result of a government employee taking cash receipts and hiding the theft by manipulating the bills (the initial accounting record, in this case). It is important that invoices be prepared centrally and that the invoices clearly state that payment should be mailed only to a central location. It is also important for accounting to verify that billings and collections are in expected amounts and frequencies.

These seven deadly sins of cash collections continue to get governments into trouble when they are not followed. The good news is that putting controls in place to prevent these sins is easy. The key is fear of the consequences.

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