



The American anti-Corruption institute

SKIMMING (THEFT OF CASH) IN NONPROFITS

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Technical Staff

This document is a part of The AACI series of anti-corruption resources¹. The contents of this document constitute an integral part of the CACM Review textbook that would be available in countries where the CACM will only be offered by exam.

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¹ This document and its contents do not constitute a legal or professional advice. For professional advice, one should seek appropriate professionals or expert houses. The AACI provides professional services worldwide. The primary objective of this document is providing helpful guidelines to those charged with governance (decision makers) to address specific issues directly related to corruption prevention policy that they may have implemented in their organization. An organization could be a for-profit, not-for-profit, or governmental entity.

Significant Fraud Schemes in Nonprofits

1. Skimming

When an entity receives cash, it must record (recognize) it in its accounting system. Skimming occurs when an employee steals cash or checks BEFORE recording it in the entity's accounting system. Skimming schemes are usually called "off-books" schemes. Because cash theft happens before cash is recorded in the accounting records, it is tough to detect such a scheme: there is no audit trail.

For example, when a cashier of a supermarket receives cash from a customer, does not issue a cash sales invoice, and pocket the money into his wallet, we call this skimming. When a nonprofit volunteer collects a donation from a donor where she did not issue him a cash receipt and pocketed the donated money for personal use, we call this skimming.

"A recent case illustrates the ease with which funds can be skimmed when both of these characteristics are present. The president of an organization personally solicited and collected contributions from donors. He skimmed more than \$4 million of contribution income over a 15-year period before being detected. He was only detected once his successor solicited one of the donors who had contributed, under the impression that the individual had never made a contribution to the organization. When the donor indicated he had been a significant supporter of the organization for several years, the fraud was then uncovered."²

Who may commit skimming schemes? Any employee who receives cash or checks from donors may skim funds. Therefore, cashiers, employees receiving payments/donations through the mail, or volunteers who collect funds from remote locations are a great skimming risk.

Therefore, nonprofit management should focus on preventing and deterring skimming schemes as detection is difficult. A proper design and implementation of specific internal control processes for cash receipts would significantly help lower skimming schemes risks. For example, a deficiency in any of the following controls would constitute a "red flag" that management should handle in a special care and professional skepticism.

- a. The employee who opens the mail should be independent of the cashier and accounts receivable staff.
- b. Unopened business mail should be kept away from employees having access to accounting records.
- c. The employee who receives mail should
 - i. Stamp ("For Deposit Only") on all checks received?
 - ii. Prepare a list of the money, checks, and other receipts?
 - iii. Forward all remittances to the person responsible for preparing and making the daily bank deposit?



- iv. Forward the total of all remittances to the person responsible for comparing it to the authenticated deposit ticket and amount recorded?
- d. Cash receipts should be prenumbered and independently be checked daily and reconciled with cash collections.
- e. Nonprofit should bond employees or volunteers handing cash.

The following schemes and topics are discussed thoroughly in Part 2: Corruption Prevention, Deterrence, and Detection - Nonprofit Organizations.

- 2. Check Tampering
- 3. Expense³ Reimbursements
- 4. Payroll Schemes

Fraud and Corruption Risk Assessment

The Minimum a Nonprofit Can Do to Prevent and Deter Fraud and Corruption

###END###

² GERRY ZACK and DE ARMOND LAURIE, “Nonprofit Fraud: It’s a People Problem, So Combat It with Governance,” *Nonprofit Quarterly*, *Non Profit News For Nonprofit Organizations | Nonprofit Quarterly*, June 24, 2015, <https://nonprofitquarterly.org/2015/06/24/nonprofit-fraud-its-a-people-problem-so-combat-it-with-governance/>.

³ Expense, payment, and expenditure are used interchangeably in the context of addressing expense reimbursement.

