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Occupational Fraud: Skimming

Not all organizational frauds are the same. There are certain types of fraudulent activities that can be perpetrated against a victim organization that are not easily detected by analyzing the books and records of the entity.

A type of fraud that fits this description is skimming. Skimming is defined by the Association of Certified Fraud Examiners (ACFE) as "a scheme in which an incoming payment is stolen from an organization before it is recorded on the organization's books and records". For example, Company ABC's employee sells a customer a product or service for cash, and then places the receipts in his pocket rather than giving the funds to the company for the proper recording in ABC's books and records. Because this money will never be recorded as a sale, it will not show up in the company's general ledger, and Company ABC may never know that this transaction occurred. Due to the nature of this type of scheme, skimming is often referred to as an off the books type of fraud.

While there are certain controls that a company can implement to reduce the threat of skimming, it is an issue that can plague businesses, especially those that deal primarily in cash and have poor controls.

Methods to detect skimming include the following:

- Analyzing the ratio of cash receipts to total receipts over a period of time to detect any variances;
- Analyzing revenue and cost of sales over a period of time to detect whether revenue has been flat or declining while cost of sales has been increasing;
- Analyzing the ratio of net sales to gross sales to determine if any refunds due to the company are being skimmed by an employee.

While skimming can be difficult to detect, a trained forensic accountant has the skills and tools necessary to conduct an analysis that may uncover that skimming has occurred. Circumstantial evidence and implementing certain forensic techniques may allow the trained forensic accountant to make an accurate estimate of the skimmed funds.

Armed with these assessments, an organization can implement certain safeguards that could prevent skimming. Perhaps the most common means of preventing skimming is to maintain a visible presence at all points where cash is likely to enter a business. Examples would be cameras set up around cash registers and in mailrooms. When an organization implements these safeguards, employees will take notice. With opportunity removed, the wayward employee may decide it best to apply his craft at another organization.