Preventing Fraud

Fraud in nonprofits makes for sensational headlines and rattles public confidence in the organization. It is easy to forget that in each of these headlines nonprofits themselves were the victims of scams by for-profit vendors, employee theft, or outside investment advisers. The nonprofits, if they can be said to have made a mistake, are usually guilty of having too much trust and not enough safeguards.

The best way to keep your organization out of the headlines is having policies and procedures in place that make it difficult – hopefully impossible – for anyone to steal or defraud you.

Policy & Procedure

A fiscal procedure manual is a sound starting point.

In the manual identify:

- Ways in which tasks will be divided so that the same person is not responsible for receiving, depositing, and recording checks. Having more than one person in this process can be a huge deterrent on its own.
- Who will be responsible for reviewing/reconciling the bank statements? It is also preferable to have two different people assigned to do this task.
- Who are authorized check signers? At what threshold are two signatures needed?
- Who has access to the checks, credit cards and login information for financial data? How are these things secured?
- Expense reimbursement policies including requiring receipts

Keep an up-to-date equipment inventory. Keep records of when employees are assigned use of the organization's property such as cell phones, laptops, etc. When employees leave, be sure that all equipment is returned.

Conduct a yearly financial audit or review which includes a review of the procedures that you follow and can provide recommendations to strengthen those procedures when needed.

Fraud Policy:

Organizations should create comprehensive and forceful policies that go beyond the words on paper. The policies should:

- Incorporate reporting mechanisms and real consequences for violations.
- Be tailored to the specific nonprofit
- Explained in detail to all employees when training
- Be revisited yearly for effectiveness.

Additionally, the board of directors must ensure that fraud reports are taken seriously, and that outside legal counsel is brought in when appropriate.

Code of Conduct:

In addition to an anti-fraud policy, organizations should prepare a code of conduct that incorporates a zero tolerance for unethical behavior by volunteers, employees, officers, and directors. This code should be trained, exhibited, and reinforced within every aspect of the organization, especially at the top in order to set the example.

People

- Conduct background checks on new employees and volunteers – especially if they will be a part of the financial procedures in any way.
- Have a Whistleblower Policy. More than 80% of fraud is exposed through a tip from another employee. The Whistleblower policy provides guidance to those employees about how to report fraud without fear of repercussions.