

15 Ways to Minimize Employee Fraud

Financial Controls to Minimize Employee Fraud

1. Perform a background check on all new hires. The Board should have a policy of performing a criminal background check (called “Limited Criminal History Check”) on all new hires. Require the candidate to provide references and CALL the references (and listen “between the lines” to what is said) Don’t get pressured by the need to fill a vacancy or by the candidate’s self-disclosed “other options.” Check before you hire.
 - a. Are Credit-checks legal? Do they work? A new trend in employee background checks is to also conduct a credit check. This can verify whether a candidate pays bills on time, and can be helpful in verifying previous addresses and employment. This information can provide clues about a candidate’s level of responsibility. You must obtain the candidate’s permission before on a separate consent form prior to running the check.
 - b. If you decide to NOT hire a candidate based upon credit check results, you MUST inform the candidate of the reason and provide a copy of the adverse credit report, including the contact information for the credit reporting agency that provided the report. You must also keep the results of the credit check confidential (regardless of the results).
2. Require two signatures on checks. Depending on your corporate structure, you can limit the two-signature requirement to checks above a certain threshold (for example, \$250 or \$500), or require two signatures on ALL checks.
3. NEVER pre-sign checks. This is not only a “bad idea,” but compromises the nonprofit’s financial integrity. What would the public say if they knew that you allowed pre-signed checks?
4. Do not allow one person control over all accounting functions. This is also called “separation of duties,” and provides both an actual and psychological barrier to fraud. Examples:
 - a. The person that writes the checks does not sign the checks.
 - b. The person that makes the deposits does not count the cash.
 - c. The person that opens the mail does not count the deposits
 - d. Two people count cash receipts (particularly for events that generate a lot of cash)
 - e. The person that reconciles the check book with the bank does not handle the money
 - f. Cross-train employees to cover for vacations and illnesses
5. Consolidate Checking Accounts. Talk to your banker about consolidating checking accounts. Usually, computer programs are very good about segregating project funds, so if you don’t have a need (or supervising agency requirement) for separate bank accounts, consider consolidating the accounts. If you must have more than one account, use the same bank and make sure the banking staff knows you and your organization. This will discourage “phantom accounts,” which can be used by employees for skimming.

6. Eliminate petty cash. These days, there is very little requirement for cash, and petty cash can often be overlooked and easily “skimmed,” since it fosters a more lax accounting.
7. Have an outside auditor review the books. At least annually for most nonprofits, and more often for larger nonprofits or nonprofits that have a significant amount of government money (either tax dollars or grant funds), an outside party should take a look at the books.
8. Use a computer program to enter all financial activity. Even very small nonprofits can afford some of the “consumer-based” accounting packages that are both inexpensive and easy to use. Computer data that is regularly reconciled with company documents and bank statements can quickly show discrepancies and omissions that may lead to discovery of fraud.
9. Use Budgets. Consistent use of budgets and comparison of cash flow to budget expectations can reveal unexpected expenses or discrepancies in expected income.
10. Look for Ways to Improve. Encourage employees to suggest improvements to the financial system.

Corporate and Procedural Controls to Minimize Employee Fraud

11. Watch Employee Hours and Overtime. Verify employee hours, particularly overtime hours, to be sure that there is not “padding.” This is also true for compensatory time (Comp Time) – inflated Comp Time is the same as padding paid hours.
12. Watch Corporate Stock and Inventory, Including Supplies. In today’s economy, employers are recording an increase in theft of office supplies and corporate inventory. Even larger items, such as computers and cameras have been reported stolen by employees. Note if office supplies seem to be depleting more rapidly than expected, or if sales revenue does not match inventory sold.
13. Watch Expense Accounts. Require receipts for all reimbursements (including board reimbursements) and do not allow anyone to approve his or her own expense reports. Verify requests for reimbursement (Does mileage match approved destinations? Were purchases approved? Is there a “cap” for reimbursement of meals?)
14. Verify Credit Card Charges. It can be “too easy” for employees to purchase items using the company credit card. Over the past several years, there have been several stories of executive staff using nonprofit credit cards for personal purchases, particularly when the credit card statements are not closely reviewed and receipts matched with charges, and when the executive is the one that processes the credit card statements.
15. Routinely Review Bank Statements. Appoint someone outside of the financial routine to review bank statements. Many banks include check images and deposit slip images with the bank statements, which can be a quick way to review and verify checks and catch patterns of improper payments, overpayments and duplicate payments (whether deliberate or mistaken).

BONUS TIP: Set the tone at the top: promote high ethics and create a code of conduct and conflict of interest policies that reflect your culture and encourage ethical behavior at all levels.