Protecting Your Organization from Sticky-fingers Charlie

by Terrie Temkin, Ph.D.

In charities small and large, local and global, embezzlement occurs all too often. Consider:

> *You are committed to a small charity where everyone knows one another and has been involved from the start. You all worked hard over the holidays, giftwrapping at the local mall, trying to raise enough funds to start a new program that has generated a lot of excitement. Your take seemed far too low for all the traffic at your booth. Then you heard one of your fellow volunteers say that she saw Mary dipping into the till. You can't believe it! Mary was one of the first to join the organization and is one of the hardest workers. But it does explain the dismal cash tally.*
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> *You are on the board of a major university. You auditors alert you that over three million dollars are missing from the finance office. It appears that the CFO, a 20-year employee of the school, has been keeping two sets of books for at least the last seven years. Apparently, he had devised a complex system where he wrote checks to a dummy corporation that he set up for the sole purpose of skimming university funds. Each check corresponded to a fraudulent invoice for work that was never done.*
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> *You have been a loyal donor to an international organization with a sterling reputation. You have always trusted the charismatic founder who, on talk shows, through books, and via newsletters, regularly shared with you and other donors the significant impact the organization has been having. However, you read an article this morning in the* New York Times *that not only questioned the validity of these results, but claimed the founder was spending the organization's money—your money—on a wedding for his mistress' daughter, a new swimming pool, and hair plugs!*

At a glance

Embezzlement is one of those nasty risks that can damage an organization's hard-won reputation and its finances. Wise nonprofits prepare for the risk. Steps include:

- Learn how embezzlement happens
- Understand risk factors
- Reduce and mitigate risks
- Avoid common mistakes

Embezzlement is often perpetrated by long-involved, trusted souls—people who appear to be super-committed to the cause and who are generally well-liked. According to a 2010 study by the Association of Certified Fraud Examiners, 93 percent of the time these are people with no criminal record. Typically they are men between the ages of 31 and 45, in respected positions within the organization. A disconcerting statistic: the older the individual and the more highly placed, the more likely the funds lost will be truly significant.

How can this happen in an organization dedicated to doing good? What might you look for to catch such behaviors in the bud? What should you do—and not do—if you discover embezzlement in your organization? The following actions can help you prepare for and mitigate the risks associated with embezzlement.

Learn how embezzlement happens

Few people set out to steal, especially from a charitable organization to which they are devoted. It usually occurs as four factors converge: trust, opportunity, pressures, and rationalization. I knew a long-tenured, popular executive director whose child was dying. The medical bills were skyrocketing. Clearly there were both financial and emotional pressures. As executive director, he had access to the organization's funds. It was a small organization with rather loose controls. Initially, he told himself that he'd be able to pay the money back when insurance checks came through. But the pressures only intensified and he required more money. Pretty soon there was no way to pay back what was owed.

Understand risk factors

Though you should never assume someone is embezzling simply because they share some of the characteristics below, you do need to understand that the concentration of many of these factors should be avoided. Reduce the factors that you can control.

- People who fit the age and gender profile, are in positions with access to funds (for example, people in accounting, operations, or upper management) and who are experiencing stresses of some sort, especially financial
- People who are living beyond their means
- People who seem to spend a lot of their time gambling
- People who never take vacations (they are often afraid someone will spot financial inconsistencies and the game will be up)
- Long-time employees or volunteers who suddenly quit
- Loose financial controls in the organization
- Infrequent or late financial reports
- Financial trends that appear out of sync with previous reporting periods where there is no apparent explanation for the deviation
- Inadequate responses to direct questions about financial matters
- Unusual transactions
- Missing blank checks
- Complaints from members or donors about irregularities in their accounts

Reduce and mitigate risks

- Prepare a crisis management plan in advance, taking into consideration the potential impacts of fraud on your organization, including:
    - Financial loss
    - Cost of the investigation and possible litigation
    - Negative publicity
    - Loss of donors
    - Damaged morale
    - Loss of employees looking to jump ship before their reputations are tarnished with a broad brush
- Regularly cycle people in and out of sensitive positions
- Call your insurance company and the police as soon as you think there might be a problem
- Take the person you suspect off the bank signature card
- Identify the situation as an “irregularity” until it has been formally determined to be more to protect yourself and your organization from claims of libel
- Request a forensic audit (if you suspect the monies missing are significant)

Avoid common mistakes

- Don’t ignore the situation because it’s small potatoes in the grand scheme of things. For example, embezzlement of only $300 is a felony in my state of Florida.
- Don’t take the person aside and offer to keep things quiet as long as they pay the money back.

I know this last point seems counterintuitive. We’re in a caring field. We can appreciate that someone got in over his or her head and wants to do the right thing by paying the money back. However, keeping things quiet makes you complicit. Worse, the person could claim blackmail—you were going to tell if he or she didn’t pay the money back—and you could get in trouble. Most important, while each state differs, most have a statute of limitations for filing a case. The clock could run out on you if you wait for someone to make good. Besides, if the person steals more and you didn’t report the first instance to the authorities your insurance company likely will not pay.

None of us wants to believe that someone we have worked with would betray us and those for whom we toil, but it does happen. Keeping our eyes open for the behaviors noted above and following the recommended steps may keep the organization from the front page of the local newspaper.

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