

Financial Controls for Small Nonprofit Organizations

Charity & Nonprofit Education Symposium
March 10, 2015

Presented by: Andrew Prather CPA

Agenda

- What are controls?
- Why care about controls?
- What can you do?

For Further Reading...

“Controls” for Small Nonprofit Organizations

A Guide for Board Members

Bad Things Happen to Good Organizations...

Former Va. Girls Scouts Leader Admits to Embezzlement

The former chief executive of the Girl Scouts of the Commonwealth of Virginia faces up to 20 years in prison after pleading guilty Monday to using organizational funds for travel, spa treatments, baseball tickets, and other personal expenses, reports the *Richmond Times-Dispatch*.

Linda Carne, 62, of Crozier, Va., was indicted in January after audits showed she rang up nearly \$23,000 in personal purchases on her Girl Scouts-issued credit card. Sentencing is scheduled for July 7.

Ms. Carne led the state Scouts organization from April 2010 to December 2011, when she was terminated. Officials with the group said the losses would be covered by insurance, and the organization has tightened procedures for the use of company credit cards.

Bad Things Happen to Good Organizations.

- City of Dixon, Illinois



Bad Things Happen to Good Organizations.

Board Surprised by Lack of Revenues

Background:

- Nonprofit organization closes its doors due to lack of funds raised by the Executive Director. Board members not aware of lack of revenues until it's too late.

Timeline:

- *January* – Board hires Executive Director
- *February* – Audit report from CPA indicating the past calendar year's financials are in good shape.
- *March through December* – Board meets 3 times; no financial reports but E.D. says fundraising is going well
- *December* – Executive Director resigns via letter to Board
- *January* – Board connects with bookkeeper; finds out there has been virtually no revenues and all cash balances have been drained

What are “Controls”?

- Policies and procedures; written and informal
- Prevent “bad things” from happening
- Ensure the “right things” happen
- Examples of financial controls –
 - Two signatures on checks over a certain threshold
 - Two people involved with handling cash collections
 - Bank account reconciled monthly

Why Care About “Controls”?

- Designed to ensure achievement of objectives
- Objectives might include:
 - Prevent fraud, waste, and abuse
 - Ensure accurate bookkeeping of the financial affairs of the organization
 - Ensure compliance with laws and regulations, including any required filings with taxing authorities
- Keeping (bad) news about the organization off the front page

What Can You Do?

11 things even the smallest nonprofits can do to guard against damage to financial health or reputation

1. Tone at the Top

- Commitment to operating with integrity and ethical values
- Board provides adequate oversight
- Clear assignment of authority and responsibilities
- Commitment to competence
- Accountability enforced

2. Review Banking Activity

- Bank activity reviewed by someone who understands the organization's work but has no role in financial operations.
 - AND credit card, loan, and investment activity, if applicable
 - Bank statements or online access, viewing canceled checks critical
 - Board member or staff person
 - Routine monthly process
 - Clear mandate to:
 - Raise questions about any payment that appears out of the ordinary in any way
 - Bring the matter to the attention of the full board of directors

3. Conduct Internal "Mini-Audits"

- Regularly scheduled
- Target one revenue or expense line from the financial reports for examination
- Performed by someone not involved in financial operations
- Option to outsource to CPA in lieu of full annual audits

CPA Services

- Annual financial statements –
 - Audit
 - Review
 - Compilation
- Agreed-upon procedures
- Consultation

4. Verify Property

- Insist on an annual inventory of all of the organization's property with a year-to-year comparison, and an explanation of unexpected changes.
 - Laptops, cell phones, equipment, etc.
 - Policy assigning custody to specific staff or volunteer position

5. Don't Have Company Credit Cards

- One of the most common methods of fraud, waste, and abuse.
- Use expense reimbursements and cash advances instead
- But.... If must have one, then have tight controls:
 - Issued to a specific person
 - No personal charges allowed
 - Monthly statement with receipts; expenses documented for business purpose if needed; reviewed by second party

6. Board Education

- Schedule a board discussion about the duty of care, loyalty, and obedience every year.
 - Ask different board member to research and present each year
 - Duties of loyalty, good faith, and care
 - WA State RCW 24.03.127 Duties of a director of a nonprofit corporation

Board Training Resources

- Independent Sector's *Principles of Good Governance and Ethical Practice*
 - 33 principles of sound practice related to legal compliance and public disclosure, effective governance, financial oversight, and responsible fundraising
- Clark Nuber's "micro-videos" on each principle
 - <https://clarknuber.com/resources/>

7. Read the (Draft) Reports

- Annual Report
- Form 990
- Annual corporate renewal with WA State
- Etc.

8. Whistleblower Program

- Implement a credible whistleblower program.
- Policy + “hotline”
- Policy:
 - Communicates that good-faith reports will be respected and whistleblower will be protected from retaliation
- Hotline:
 - Allows individuals to report when something doesn’t look right
 - Options - Commercial services, Board member, former Board member, etc.
- Clark Nuber’s Fraud Reporting Center
 - <https://clarknuber.com/what-we-do/fraud-reporting-center/>

9. Risk Management

- Institute an annual survey of risks, most often referred to as Enterprise Risk Management (or ERM).
- Key questions:
 - “What are our major risks?”
 - “How do we know we have identified all risks?”
 - “What is our mitigation plan to reduce identified risks?”
- First year, assembly; thereafter, “tweaking”
- Common topics:
 - volunteers, population served, revenue sources, data, reputation, physical assets, financial assets, key employees
- <https://clarknuber.com/resource/principle-6-risk-management/>

10. Evaluate Effectiveness

- Ongoing responsibility of the Board
- 5 key questions:
 1. What do we aim to accomplish?
 2. What strategies do we use to do that?
 3. What capability do we have for the tasks?
 4. How do we know we're making progress?
 5. What has been, and what hasn't been, accomplished so far?
- Focus on 4. and 5. every year.

11. Regularly Scheduled Reviews

- Several of these suggestions include the idea of regularly scheduled reviews –
 - Annual work plan for board of directors
 - Put it in writing
 - Review, revise, update at the start of each fiscal year

Next Steps

- Distribute the **guide** to your Board
- Perform a **check-up** to see how you are doing on the 11 controls
- Make it a **process** and not an event

QUESTIONS?

Andrew Prather CPA
Shareholder, Clark Nuber P.S.
425.635.4571
aprather@clarknuber.com
www.clarknuber.com



APPENDIX

Nonprofits in the News

Ex-Leader of L.A. College's Foundation Admits Embezzlement

The former executive director of a Los Angeles community college's nonprofit fundraising arm pleaded guilty Friday to embezzling from the organization via bonuses, expense reimbursements, and car allowance payments, reports the *Los Angeles Times*. Jiah "Rhea" Chung was sentenced to three years' probation and ordered to repay \$50,500 to the Los Angeles Trade-Technical College Foundation.

Ms. Chung, 44, was arrested in February on charges of embezzling nearly \$140,000 from the foundation, which raises money for scholarships for low-income students. She led the organization from 2009 to 2011. Dana Aratani, a deputy district attorney for Los Angeles County, said lax oversight by the foundation's board made the theft possible. A spokesman for the board said it has tightened its policies on expense approval and financial reporting.

Former University Place PTA treasurer charged with theft

The former treasurer of a University Place elementary school PTA is charged with eight felonies, including first-degree theft and forgery, for allegedly stealing more than \$17,000 from the organization, court records show.

Allison Jo Woods, 45, has been summoned to Pierce County Superior Court for arraignment next month. Detectives believe Woods wrote 21 checks to herself from the Sunset Elementary School PTA accounts when she was treasurer from September 2012 to September 2013. The checks ranged from \$100 to \$2,178, court records show.

"Police found that the defendant was cashing the PTA checks she wrote to herself into her bank accounts," deputy prosecutor Scott Peters wrote in a declaration for probable cause. "She would then funnel the money from her account into her husband's account, and the money would be used on family expenses."

When questioned by a detective this summer, Woods allegedly said she'd kept the PTA computer at her home where other people in her family might have accessed it, court records show. "The deputy then asked who would print checks in the defendant's name, deposit them into her account, transfer them to her husband's account and then spend them," court records show. "The defendant said anyone could have done that."

PTA officials realized something was amiss in July when a new board president was elected and noticed problems with the accounts, the court records show. "She talked with the defendant on Aug. 22, 2013 about the PTA account," Peters wrote in his declaration. "The defendant told her that a group of checks had been lost."

Investigation later revealed Woods allegedly had forged the names of PTA officials on some checks and arranged for her mother-in-law to give the organization a \$5,000 loan "to keep the PTA afloat," the record show. "The defendant had claimed a student had stolen the PTA fundraising money, but no one called police," Peters wrote in his declaration. PTA officials later discovered the group's account was overdrawn, and an insurance policy the PTA carried had lapsed for lack of payment, the records show.

Woods resigned as treasurer that September.

N.J. Man Admits Six-Figure Theft From Youth Football Fund

A Jackson, N.J., man admitted in court Monday to siphoning hundreds of thousands of dollars from a scholarship fund affiliated with the Pop Warner youth football organization, the *Asbury Park Press* writes.

David Marshall, 57, pleaded guilty to wire fraud and faces up to 20 years in prison when he is sentenced in June. He served on a voluntary basis as director of Pop Warner's Eastern Region, which encompasses New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia, from 2006 to 2011.

Authorities said the exact amount Mr. Marshall stole from Pop Warner's Little Scholars program is in dispute and will be determined at his sentencing. According to court documents, he transferred funds from organizational bank accounts he controlled to pay off credit-card bills and other debts and to purchase personal items. Suspicions on the part of other Pop Warner officials led to an audit in 2012.

Onetime Aide to Ex-Chicago Mayor Admits Charity Theft

A top staffer in former Chicago Mayor Richard Daley's administration pleaded guilty Tuesday to stealing tens of thousands of dollars from two charities in the city's Chinatown district, the *Chicago Tribune* reports.

Prosecutors said Gene Lee, 65, misappropriated about \$92,000 from the Chicago Chinatown Summer Fair and the Chicago Dragons Athletic Association while heading both groups from 2007 to 2010. He admitted to federal theft and tax-evasion charges and faces up to two years in prison.

A longtime community leader in Chinatown, Mr. Lee worked at City Hall from 1998 to 2011, rising to serve as Mr. Daley's deputy chief of staff. According to prosecutors, he manipulated invoices and cashed donation checks to divert funds to personal use. A defense attorney said Mr. Lee believed he was spending the money on legitimate charity purposes, such as buying gas to drive to events and new suits to wear to meetings with donors.

Fake Charity Scam

Two teenagers and one 12-year-old are facing criminal charges for operating a charity fraud in Dunwoody, Georgia. The three created flyers highlighting fake fundraising efforts for their fake basketball team, the Panthers, and handed them out in a local shopping center. The flyers displayed that the young players were seeking donations for new uniforms and equipment, as well as the costs of traveling to Florida for upcoming championship playoffs. There was even a fake email address if donors wanted to contact the fake team mom.

Local police say they encounter this sort of scheme—run by children—about once a month. The shopping center is a popular target because it is busy during lunchtime with shoppers and diners who often give before they question the validity of the charity or fundraiser. And whether they know it or not, children can often elicit more sympathy from their adult targets, resulting in a more profitable scheme.

Conn. Woman Suspected of \$830,000 Theft From Veterans Group

A Darien, Conn., woman was arrested Monday on charges of embezzling some \$186,000 last year from a veterans' charity where she worked as a bookkeeper, and authorities believe the true theft amount could be more than four times higher, according to the *Darien News*.

Cynthia Tanner, 52, was jailed on a \$500,000 bond after being arraigned on a charge of first-degree larceny. She did not enter a plea. Police say she wrote more than 135 checks from the National Veteran Services Fund to herself or family members last year, entering them in financial ledgers as payments to veterans or clients of the charity.

Investigators allege that Ms. Tanner, who joined the fund in 2008, began embezzling five years ago and that once the inquiry is complete the charity's losses could exceed \$830,000. The organization notified police last month after an accounting firm found irregularities in its books.

Former Head of Bronx Charity Admits to \$900,000 Theft

The former executive director of a South Bronx housing and social-service nonprofit pleaded guilty Thursday to diverting nearly \$900,000 from the organization, reports *The New York Times*. Yolanda Gonzalez is slated to be sentenced in January for grand larceny and tax fraud and faces up to four and a half years in prison, according to her attorney.

Ms. Gonzalez headed Nos Quedamos (We Stay) from 2005 to 2011, inheriting the leadership from her late mother, Yolanda Garcia, who founded the charity in the early 1990s. Ms. Gonzalez was removed from her post by the Nos Quedamos board in 2011 and arrested in October 2013. The New York attorney general's office said she stole money via organizational checks and bank and credit cards and funneled it into personal expenses.



Conn. Nonprofit Leader Admits \$205,000 Theft

The former president of a Hartford, Conn., community organization has pleaded guilty to embezzling more than \$200,000 from the group, the Associated Press reports, citing the *Journal Inquirer* of north-central Connecticut. Karen Lewis, 57, of Windsor, Conn., received a suspended sentence and probation after admitting to first-degree larceny.

Ms. Lewis led the now-defunct South Arsenal Neighborhood Development Corp. She was ordered to make restitution of more than \$205,000, most of which she withdrew from ATMs at casinos using an organizational debit card. She is barred from gambling as a condition of probation.



Couple Admits Looting \$1.4-Million From Ky. Charity

The former chairman of a Louisville, Ky., education foundation and his wife pleaded guilty Thursday to stealing \$1.4-million from the charity, virtually wiping out its assets, *The Courier-Journal* reports.

Charles Muir, 61, and Diana Muir, 60, admitted to money laundering and fraud-related charges. Under a plea bargain, they agreed to prison terms of 46 and six months, respectively, and to pay \$1.14-million in restitution to the Woodcock Foundation, which gave college scholarships to needy students. The will remain free until sentencing, which is set for Oct. 23.

The Muirs were charged in December 2012 with draining the 142-year-old, Episcopal Church-affiliated foundation's accounts, largely by transferring funds to a business owned by Ms. Muir in the guise of loans. The charity, which once had assets of \$1.5 million and in recent years paid for \$500,000 in scholarships annually, listed assets of \$5,696 on its most recent tax return.

Ex-Official at Medical Charity Accused of \$1.8-Million Theft

A former financial officer at a New York-based nonprofit that supports research into genetic illnesses was arrested Monday night on suspicion of embezzling more than \$1.8-million from the organization, reports *The New York Times*. Karen Alameddine served for more than eight years as controller of the Hereditary Disease Foundation, exercising primary responsibility for paying the charity's bills and delivering grant funds for medical studies.

A federal criminal complaint unsealed Tuesday alleges Ms. Alameddine, 57, disguised transfers to bank accounts she controlled as grant payments in the foundation's accounting software. Prosecutors said that the charity uncovered the phony transactions after Ms. Alameddine, who in recent years had worked from her home in Perris, Calif., resigned in January. She was charged with one count of wire fraud and five counts of tax evasion.

Theft by Assistant City Manager

The assistant city manager in Lee's Summit is on paid leave after being charged with stealing. The accusations involve his former employer.

According to court documents, Lee's Summit Assistant City Manager Daren Fristoe is charged with stealing more than \$120,000 from a company he worked for from 2008 to 2013. Fristoe is charged with stealing money from CCAR, Coordinating Committee for Automotive Repair, which he served as the company's executive director and chief operating officer. CCAR is a safety, pollution prevention and hazardous material training company for the motor vehicle industry. According to the court documents, Fristoe made unauthorized payments from CCAR to pay for his personal credit card, a bank loan and phone account.

Lee's Summit City Manager Stephen Arbo says Fristoe is on paid administrative leave, pending the outcome of the criminal case. He's specifically charged with theft/stealing property valued at greater than \$25,000. The charge was filed last Friday, November 14 in Jackson County. "I was surprised to get that news. Daren is a very well-respected individual in this community," Arbo told FOX 4's Monica Evans. "He has done a lot of good work for our organizations, such as the chamber of commerce."

CCAR says it discovered the theft when an auditor reviewed financial records in February of 2013. According to the investigation, Fristoe told the auditor the money was inadvertently paid through a CCAR operating account. Court documents show Fristoe wrote a memo to CCAR two years ago entitled "Incorrect credit card payment" in which he intended to document the misuse of company funds.

Court records say the \$120,000 theft also includes \$25,000 in company funds Fristoe is accused of using to pay for a personal loan. He's also charged with using a former CCAR employee's credit card. If convicted of the felony stealing charge, Fristoe could face five to 15 years in prison. Court records show that he filed a percentage of his bond of Monday, which was posted at \$50,000. He needed to supply 10 percent to be freed.

Heads of Foster-Care Charity Accused of Embezzling \$460,000

The husband-and-wife operators of a Southern California nonprofit serving abused and neglected foster children will be arraigned Monday after being charged with stealing more than \$460,000 from the taxpayer-funded charity, reports the *Los Angeles Times*. CSJ and Hitaji Kidogo, respectively the executive director and assistant executive director of Little People's World, face 22 counts of embezzlement and misappropriation of public funds.

The agency receives about \$2.5-million a year from Los Angeles and Riverside counties to run group homes for foster children with behavioral and mental-health problems. Los Angeles County prosecutors say an audit of Little People's World showed the Kidogos channeled the charity's money into property purchases, vacations, and loans to themselves that were not repaid. The couple was arrested Thursday at their home in Banning, Calif.

Catholic Group Secures \$869,000 Award From Alleged Embezzler

A former official with a Catholic missionary organization has agreed to pay the charity \$869,000 to settle a civil claim over suspected theft, the *Los Angeles Times* and the Associated Press write. The Lay Mission-Helpers Association sued ex-development director Charles T. Sebesta and his assistant, Christine Lynn Rowe, earlier this year, alleging fraud and embezzlement.

According to the suit, Mr. Sebesta and Ms. Rowe diverted nearly \$180,000 in charity funds to themselves, using fake email accounts and invoices and a bank account set up in the name of Mr. Sebesta's son. The pair were arrested in May on charges of grand theft. They have pleaded not guilty and are awaiting trial. The association provides educational, health, and other services to people in Africa, Asia, Latin America, and the South Pacific.

Ex-Execs at Homelessness Charity Charged With \$350,000 Theft

Two former leaders at a Philadelphia nonprofit serving the city's homeless were charged Thursday with bilking more than \$350,000 from the charity to fund travel, shopping sprees, and other personal luxuries, reports *The Philadelphia Inquirer*.

Erica N. Brown, 38, and Nathaniel E. Robinson, 62, were the chief operating officer and chief program officer, respectively, at SELF Inc., which operates nine homeless shelters. Both were fired in 2010, according to the charity's chairman, former Philadelphia Mayor W. Wilson Goode.

SELF receives millions of dollars annually in city, state, and federal funding. Federal prosecutors said Ms. Brown and Mr. Robinson charged personal expenses to a corporate credit card. Both have maintained that they reimbursed the charity, but authorities said they have given back far less than they spent.

Fla. Nonprofit Head Charged With \$460,000 Grant Diversion

The leader of a Homestead, Fla., nonprofit formed to help small businesses has been arrested on allegations that she stole \$460,000 in taxpayer money from the group, including grants to help the blind, *South Florida Business Journal* reports.

Hilda Hall-Denis faces charges of grand theft and organized scheme to defraud in connection with her work at the Business Technology Development Corp. from 2006 to 2012. The organization's programs for businesses were fully funded by Miami-Dade County and state government agencies, among them the Florida Division of Blind Services.

Authorities allege Ms. Hall-Denis submitted phony and forged documents to obtain grants and justify expenditures, overbilled public agencies for employee salaries, and deposited funds earmarked to the charity in personal bank accounts.

Maine Woman Admits to Embezzling \$300,000 from Charity

A Brunswick, Maine, woman faces up to 13 years in prison after pleading guilty to fraud and tax charges in connection with the theft of more than \$300,000 from her nonprofit employer, the *Bangor Daily News* writes.

Stacey Backman, 41, worked as a fund accountant for Coastal Enterprises, Inc., a nonprofit community-development group in Wiscasset, Maine, that relies in part on federal grant money.

Prosecutors said Monday that Ms. Backman embezzled the money between 2010 and 2014, using corporate credit cards for personal expenses, and failed to report the income on federal tax returns. She was fired by Coastal Enterprises in January after the misappropriation came to light.

N.J. Man Jailed for Cheating Charities on Fundraiser Prizes

A man from Woodland Park, N.J., was sentenced Monday to three years in prison and ordered to pay nearly \$770,000 to nonprofit groups to which he promised but failed deliver prizes to be auctioned at fundraisers, *The Record* of northern New Jersey reports.

Gregory Ciccone, 37, pleaded guilty in January to wire fraud and filing a false tax return. Federal prosecutors said Mr. Ciccone's company, GAC Consulting Group, collected up-front retainers and commissions from charities to provide auction items such as a walk-on role on the TV show "Desperate Housewives" and a round of golf at August National, but the high bidders never received most of the prizes.

Authorities said Mr. Ciccone defrauded at least 17 groups, including a New Jersey school for autistic children, a Florida nonprofit that serves cancer victims, and organizations in New York that fund research on leukemia, lymphoma, and diabetes.

Ex-Chief of Calif. Nonprofit Admits to \$700,000 Embezzlement

The former executive director of a Carson, Calif., charity that aided domestic-violence victims under a local government contract pleaded guilty Wednesday in connection with the theft of more than \$700,000 in taxpayer funds, reports City News Service, a news agency covering Southern California.

Wilma Wilson, 62, admitted to grand theft, embezzlement, and other charges in Los Angeles Superior Court. Prosecutors said Ms. Wilson she directed employees at the Peace and Joy Care Center to gather personal information on Los Angeles County welfare recipients, which was used to bill the county for services for people who were not clients.

The thefts occurred from 2003 to 2008 and also included overbilling for services the charity did provide, authorities said. Ms. Wilson was ordered to pay \$2.6-million in restitution and faces up to four years in prison when she is sentenced in July. Two other people who worked at the center also pleaded guilty in connection with the theft scheme, as has Ms. Wilson's husband.

Calif. Symphony's Ex-Director Charged With Embezzlement

The former executive director of the Peninsula Symphony has been arrested on suspicion of siphoning hundreds of thousands of dollars from the Los Altos, Calif., ensemble's coffers, reports the *San Jose Mercury News*.

Stephen Jay Carlton, 45, of Novato, Calif., was taken into custody in late February on charges of embezzlement, grand theft, forgery, identity theft, and tax evasion. He abruptly resigned from the organization in September after board members discovered that all its accounts had been drained, including a \$500,000 endowment.

Prosecutors said Mr. Carlton had written numerous checks to himself, sometimes forging the signature of board members, since taking the Peninsula post in mid-2010. As of last week he remained jailed with bail set at \$350,000. His attorney declined to comment.



Ex-Disability Charity Executive Gets 2½ Years for \$450,000 Fraud

The former vice president of a Wisconsin nonprofit serving people with mental disabilities was sentenced to 30 months in prison Tuesday for diverting nearly half a million dollars from the charity's coffers, *The Journal Times* of Racine writes.

Prosecutors said Michael W. Lowstetter stole the money from Shepherds Ministries from 2009 to 2012 while serving as its vice president for finance. The Union Grove, Wisc.-based Christian organization provides housing and educational services for the intellectually disabled.

Mr. Lowstetter pleaded guilty to mail fraud in November. Authorities said he funneled some \$453,000 in Shepherds Ministries funds, including donations and insurance reimbursements, into a secret bank account he established in the charity's name and used the money to pay a variety of personal expenses and bills.