


A blurred, high-speed photograph of a crowd of people walking through a modern, brightly lit hallway. The image is split diagonally, with the left side showing the blurred crowd and the right side being a solid light blue background.

Financial Safety & Control

The webinar will begin in a few moments

NOTE: Participants will receive an email within 48 hours with a link to the slide deck and recording.



A blurred, high-speed photograph of a crowd of people walking through a tunnel, likely a subway station. The image is split diagonally, with the left side showing the motion-blurred crowd and the right side being a solid light blue background.

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Today's Presenters



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Learning Objectives



- Discuss why employee fraud occurs
- Recognize the most common types of frauds
- Identify ways to prevent fraud in small nonprofits
- Review the top control measures nonprofits should have in place

Agenda

- + Why Does Fraud Happen?
 - The Fraud Triangle
 - Types of Fraud
 - Audits
- + Preventing Fraud
 - Tone from the Top: The Board
 - Top 10 Control Areas
 - Control Measures to Consider



Armanino Overview



PURPOSE

To be the **most innovative** and **entrepreneurial** firm that makes a **positive impact** on the lives of our **clients** and **people**.



SNAPSHOT

- 1000+ Employees
- 250 Nonprofit Experts
- Team Members in 22 States
- 22nd Largest CPA & Consulting Firm
- Largest Niche by Client Count: Nonprofit & Private Schools

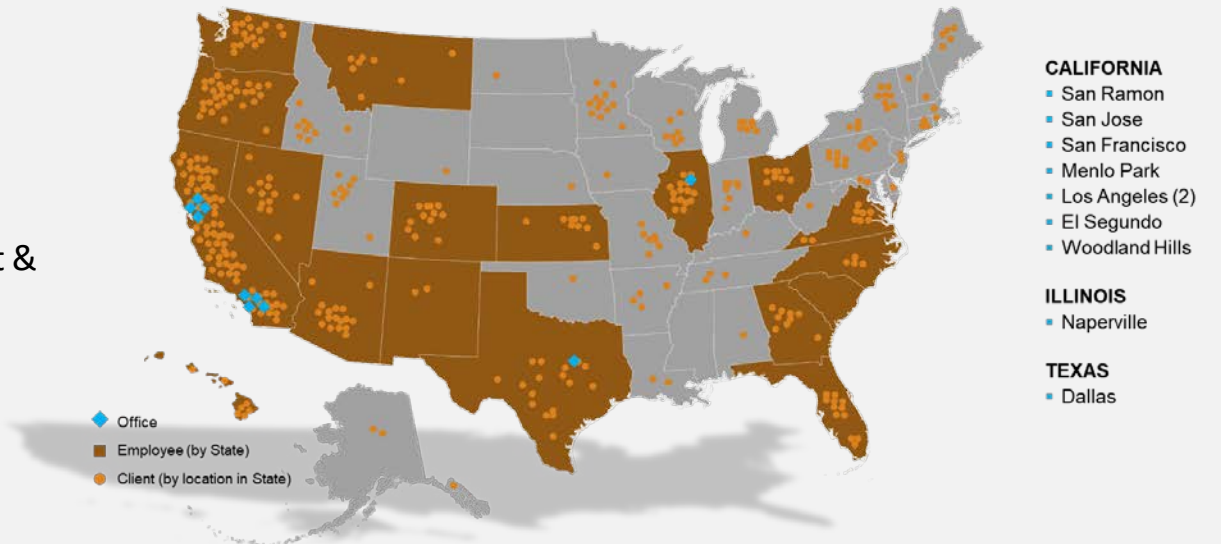
Affiliate Companies



INTERSECT



LOCATIONS



RECOGNITION & AWARDS



Armanino Nonprofit Capabilities



Selected Nonprofit Client List

Notable Nonprofits



- Home
- My Account
- Login
- News
- Community News
- Forum
- Sports
- Features
- Arts
- Business
- Obituaries
- Gallery
- Classifieds
- Open Houses
- Events Calendar
- Help/FAQ
- Print Edition
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Why Does Fraud Happen?

Why Does Employee Fraud Occur?

The Fraud Triangle

Rationalization

Justification of dishonest actions.

FRAUD

Opportunity

Ability to carry out misappropriation of cash or organizational assets.

Pressure

Motivation or incentive to commit fraud.

Types of Fraud

- **Fraudulent Financial Reporting**

- + Financial statement fraud
- + Employee intentionally causes a misstatement of material information in financial reports

- **Asset Misappropriation**

- + Employee misuses organization's resources (Embezzlement)

- **Corruption**

- + Employee misuses influence in a transaction that violates their duty



Asset Misappropriation

- Most common type of fraud
- Lowest median loss as compared to other types of fraud
- Broadest category and includes nine different subcategories

Skimming	Cash Larceny	Billing
Payroll	Expense Reimbursements	Check Tampering
Cash Register Disbursements	Cash on Hand	Non-cash Larceny

Why Are Nonprofits Frequently the Victims of Fraud?

- Management and board members are often more trusting
- Less stringent financial controls for nonprofits (e.g. single point of failure)
- A belief that audits will catch any fraud



Financial Statement Audits

- Standard audits are not designed and should not be relied upon to detect fraud
- External audits can help ensure financial controls and fraud prevention measures are in place
- Less than 10% of frauds are discovered as a result of an audit by an independent accounting firm
- Specific fraud investigations are available and are encouraged when there is a suspicion or allegation of fraud



Preventing Fraud

Tone from the Top: The Board

- Boards of Directors = Fiduciary Responsibility
 - + Financial decisions are made soundly and legally
 - + Individual directors and management always put the organization's financial and business interests ahead of personal financial and business interests
 - + The Board prudently manages the organization's assets in furtherance of the organization's stated purpose
- At least one board member should have relevant financial experience
- At least some board members should not be current or former associates of management
 - + Consider a lawyer as a board member, as well as members with nonprofit and sector expertise

Tone from the Top: The Board

- Best practice inquiries
 - + Expense variances
 - Budget to actual and actual to trend
- Income variances
- Liquidity
- Changes in management team
- Changes in internal control environment
- What are the major drivers of current operations?
- What could go wrong?



Top 10 Fraud Prevention Measures to Consider

1. Double Signatures & Authorizations
2. Backup Documentation
3. Don't Pre-Sign Checks
4. Segregation of Duties
5. Credit Cards
6. Contract Bidding Process
7. Employee Time Off
8. Payroll Processes
9. Reconcile and Track!
10. Encourage Whistleblowers



Control Measures to Consider

1. Double Signatures & Authorizations

- Multiple layers of approval will make it far more difficult for embezzlers to steal from your organization
- For expenditures over a pre-determined amount, require two signatures on every check and two authorizations on every cash disbursement
- Consider having an officer or director be the second signatory or provide authorization for smaller organizations

2. Backup Documentation

- All check and cash disbursements must be accompanied by an invoice showing that the payment is justified
- If possible, the invoices or disbursement request should be authorized by a manager who will not be signing the check
- Only pay from original invoices
- PERFORM BANK RECONCILIATIONS MONTHLY!!!!

Control Measures to Consider

3. Pre-Sign Checks (NO!)

- Many nonprofits do this if the executive director is going on vacation
- Keep blank checks and signature stamps locked up



4. Segregation of Duties

- **Money Coming In:** No single individual should be responsible for receiving, depositing, recording and reconciling the receipt of funds
- **Money Going Out:** No one person should be responsible for authorizing payments, disbursing funds, and reconciling bank statements
- If the organization does not have enough staff on hand to segregate these duties, a board director or officer should reconcile the bank and credit card statements

Control Measures to Consider

5. Credit Cards

- No Organization Credit Cards
- Reimbursements Only
- Require Original Receipt – No statements
- Reviewer – needs to be one level up
- Documentation of reason for expense should be required
- Ask questions!
- If you have a credit card – perform monthly reconciliation

6. Contract Bidding Process

- All contracts should be subject to at least three bids, and approved by a manager uninvolved in the transaction
- Large contracts should be reviewed and voted on by the board

Control Measures to Consider

7. Employee Time Off

- All employees, particularly those with fiduciary responsibilities, should take time off annually
- Another employee should perform financial duties while employee is out
- Question employees that are reluctant to take time off
- Employees with a pattern of not taking time off could be an indicator of fraud

8. Payroll Review

- Review Payroll File – any names you don't know. Quarterly review & signoff
- Do all YTDs make sense?
- Who has the ability to change the pay amounts?

Control Measures to Consider

9. Reconcile & Track Profitability

- Reconcile bank statement monthly
- Record a P&L for activities
- Record all revenue in one line
- Record all expenses in another
- Do results make sense?

10. Encourage Whistleblowers

- Provide a means of anonymous communication
- Employees may not report theft or mismanagement if they believe their job is in jeopardy
- Employees must have a manner in which to contact a board member in the event something needs to be reported, and they do not feel comfortable reporting to management
- Board members must be prepared to take these reports seriously, keep the reporting employee protected and contact legal counsel

Your Control Prioritization

- The 10 items we discussed are relevant to most small nonprofits
- Every organization has different needs
- Prioritize them for your organization and focus your efforts where you see the most risk and/or reward



Contact Us!

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