

What's the Best Way to Avoid Financial Misuse?

How can a nonprofit minimize the chance of fraud?

Q Can you please provide insight on how all-volunteer organizations should best manage their finances to avoid any potential problems with misuse of funds? Are there good guidelines for organizations to follow? How much of an issue is this nationwide? Does it pose possible funding problems? Thanks for your help and insights.

A When it comes to handling money, every volunteer organization should follow the “separation of duties” practice. This practice consists of not having the same person collect the money, deposit the money, and write checks or pay bills. If this system isn’t followed, the opportunity to embezzle or commit fraud is very high. All nonprofits are encouraged to follow this approach. It’s also a good idea to have an oversight committee, made up of individuals who don’t have direct contact with billing, receivables, deposits, and bill payment.

I wouldn’t say that fraud and misuse of funds are huge problems in volunteer organizations, but they do occur. Such fraudulent activities often go unreported to protect the organization’s reputation in the community. But separation of duties is a simple practice to put in place and has been proven to prevent the temptation of embezzlement, as well as its actual occurrence.

It’s important to note, and to emphasize, that among the thousands and thousands of volunteer-run organizations, misuse of funds is very small. When it does happen and

is reported publicly, it unfortunately taints the public impression of the broad spectrum of nonprofit organizations, and that certainly can create funding problems, even for those organizations that scrupulously follow separation-of-duty rules.

Because this matter is so crucial, *Nonprofit World* provides regular insights on the subject from experts. You can find these and other resources at NonprofitWorld.org:

Want to Avoid Fraud? Look to Your Board (Vol. 28, No. 5)

New Internal Control Guidance: What You Need to Know (Vol. 28, No. 1)

Protect your Organization against Financial Misuse (Vol. 17, No. 4)

Can Your Organization Afford to Lose \$100,000? Safeguards Every Nonprofit Needs to Implement (Vol. 30, No. 3)

Protecting against Fraud (Vol. 31, No. 5)

Setting Up a Control System for Your Organization (Vol. 16, No. 3)

Common-Sense Approaches to Fraud Awareness, Prevention, and Detection (Vol. 15, No. 4) 

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May Board Members Be Present by Telephone?

Must you be physically present at board meetings?

Q Can a director be “present” during a board meeting when participating by telephone? I was recently out of town when we had our monthly board meeting. The board president gave me permission to call in for this important meeting. Another board member argued that our bylaws say you need to be “present,” so the president went with his recommendation not to let me participate. The bylaws read “present,” *not* “physically present.” I understand boards are now allowing board members to vote via teleconferencing. Could you please comment?

A This is a question of state law, but the person who prevented you from participating by phone was probably wrong. Most state nonprofit laws specifically allow directors to participate in a meeting by any means of communication

by which all participants can hear each other at the same time. Sometimes, as in Pennsylvania, the statutes allow the organization to specify otherwise and prohibit such participation in the bylaws or corporate charter. Some statutes say that the bylaws or charter must take affirmative action to permit such participation. Therefore, if your bylaws are silent, you need to check your state statute to see if you have the authority to participate by phone. The statutes usually say that such participants will be considered “present in person” at such meetings.

Although it’s harder to participate by phone, it does provide the opportunity to obtain more points of view for board consideration and decision-making. One doesn’t need to be physically present to make a compelling argument. 

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