Protecting Your Organization against Financial Misuse

Could it happen to you? You bet.

BY DEL GOEHNER

I remember the confused look on the faces of everyone at the nonprofit organization when we—my accounting team and I—told them the bad news.

"How could it happen to us?" they all asked. "Misuse of funds? Impossible," they said.

And they had good reason to say that. Their organization seemed to be the model of stability. They had been in business for 75 years. Their board of directors was stocked with astute and prominent businesspeople. Their offices were small, so everyone knew what the other was doing. They were like a family.

"And how could it happen to Peter [not his real name]?" they wondered.

He was the model nonprofit employee. He had a long history with the organization. His association began early in his adult life and continued, in one capacity or another, until he left a prestigious position in a successful company to join the organization full time. He put in long hours. In fact, he was so committed to the cause that many remarked that he seemed to treat the organization like it was his own.

And that, it turns out, was precisely the problem.

Over time, Peter's feelings of ownership grew. Until one day the corporate checkbook became Peter's checkbook. The organization's assets became Peter's assets. Finally the irregularities became too big to ignore, and we were called in.

After many thousands of dollars of work, we determined the extent of the damage. Peter had been paying personal bills and expenses with corporate funds for several years. The organization had suffered a tremendous financial loss, not to mention the damage to their reputation.

Is this an extreme example of misuse? Probably. Should every nonprofit be concerned that the same thing could happen to them? You bet.

My experience (as an accountant and consultant for numerous nonprofit organizations and for-profit businesses) is that misuse is nearly as prevalent in small nonprofits as in large corporations.

The reason is simple. While most companies take careful steps to guard against misuse, many nonprofits are unwilling to admit the possibility that it could ever happen to them. And since no one expects it to happen at their nonprofit, very little is done to prevent it. The controls and oversight normally found in large, for-profit companies don't exist at many nonprofits. In effect, the lid often is left off the cookie jar, offering even the most dedicated employee a tantalizing opportunity to stretch the bounds of fiscal propriety.

This is not surprising to those of us who work with nonprofits. We often find there exists a great sense of security at these organizations and that a singleness of purpose runs throughout them. When we mention the subject of misuse, managers often tell us: "We trust our employees. They are dedicated and value-driven. After all, they are working here because they believe in what we're doing."

And in most cases this seems to be true. But misuse continues to occur. Still not convinced? I've seen other examples.

Some involve more elaborate fraud. One executive director was issuing checks to another nonprofit organization and then depositing them into his own personal savings account.

Some examples are less deliberate, but misuse nonetheless. In one case, for instance, an organization's funds were being used for purposes other than those stated in its literature and mandate.

"Sure," you might say, "but these organizations are run poorly."

Maybe. But I have seen this sort of thing happen in efficient nonprofits as well as sloppy ones. There's one common trait in organizations where misuse occurs: an unwillingness to admit the possibility that it could happen to them.

What Can You Do?

So what can you do to protect yourself?

1. Admit that misuse could happen in your organization. Take the subject seriously. By doing so, you're not saying that your organization is wrought with problems. In fact, by opening yourself to the possibility, you lessen the chances that it will ever happen to you.

2. Let your employees know that you take it seriously—and that you value, above all else, their integrity and commitment. If they're true to the cause—and most are—they'll think of themselves as part of the solution, not part of the problem.

3. Be willing to ask the tough questions:

- Do we have the proper controls in place?
- Is oversight of our books spread out, or does it rest with just one or two people?
- Who are those people, and is their work sound?

Take a long, sober look at your answers to these questions. If they are not to your complete satisfaction, then you might want to make some changes.

4. Spread the oversight of your finances. Let several employees share the load and act as a system of checks and balances. In one case we encountered, an executive director was using the organization's credit cards for personal charges. A simple review of the account could have raised enough questions to put a stop to the misuse before it became a larger problem.

5. Get professional help. Find someone who can look at your controls and tell you if they are adequate. Sadly, we weren't working in this capacity in the cases I describe above. We were brought in after the fact, to figure out why the books no longer added up. If we, or someone else, had been brought in preemptively, the organizations would likely have saved hundreds of thousands of dollars.

Are You Sending the Right Signal?

"But won't taking these steps send the signal to my employees that I don't trust them?" you may ask.

Some may see it that way. But my experience is that most employees appreciate knowing that management is conscientious about their organization's finances. And a properly designed system of checks and balances can actually empower employees, offering them the chance to take an active role in keeping their organization on the straight and narrow.

The fact is that, according to my experience, most nonprofits are run well. And most employees and volunteers are incredibly dedicated people who would never think of compromising their organization or its mission. But there are exceptions, and to turn a blind eye to them is irresponsible.

In today's world of scandal-ridden headlines and the public's lust for fallen heroes, integrity is more important than ever. Typically, a nonprofit has only one chance to prove itself. A solid reputation can be lost at the first sign of a slip-up. So protecting yourself, your employees, your donors, and beneficiaries is paramount. Take a good, hard look at your organization. Chances are you will be better for it in the long run. ■

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