

# Accounting Controls for Nonprofits' Cash

02.15.18 | Linda J. Rosenthal, JD



“According to a recent study by the Association of Certified Fraud Examiners,” we wrote in *[Charity Fraud: Embezzlement, But Much More](#)*, “the typical nonprofit organization loses an estimated 5 percent of its annual revenue to fraud.”

There is a false notion in the philanthropic world that theft is rare or, at least, less prevalent than in the for-profit sector. But “...charitable organizations – for a variety of reasons – are ‘tempting targets’ and present certain unique opportunities for wrongdoing.”

“Large amounts of cash and checks coming in from various sources” present opportunity for fraud by insiders. While a prudent organization may have systems in place generally to minimize theft or embezzlement, often the weak link in protection is a lack of adequate controls for handling cash. In *[Common Accounting Errors of Small Nonprofits](#)*, we explained that “even a new, small organization must create and maintain a basic accounting” sufficient to generate required tax or regulatory filings and to safeguards assets. Directors should also watch out for and avert opportunities for pilfering. Even “small expenditures like picking up a few office supplies or buying a pizza for volunteers is much easier to do with a petty cash fund.” The best practice: “Handle the cash with care: Lock it up, authorize only a few people to make disbursements and require receipts for all expenditures.”

## Cash-Controls Systems

In *[Ideas for Cash Controls](#)*, Sheila Shanker, CPA, MBA, observes that “[c]ash is the riskiest asset of an organization. Why? Because it can be easily stolen or lost.” Among her useful suggestions, especially for smaller nonprofits, are:

- Have at least two people count cash before depositing it in organization account.
- Install a bolted-down office safe with a code known only to limited people, and change the code from time to time. Keep cash and checks there; safeguard credit card slips that way, too.

- In area where money is collected, restrict access to as few people as possible.
- Whenever possible, collect money via the website instead of a person-to-person receipt situation.
- Establish a policy limiting the amount of cash accepted in a single transaction.
- Perform bank (cash) reconciliations each month.
- Have someone outside the accounting department deal with calls or emails regarding complaints about money not being received or credited.

### *Deterrent Controls*

“Just knowing that an organization has controls in place to prevent cash theft or losses may be a deterrent to some people with bad intent. The key here is for the tasks to be done all the time, not just once in awhile to avoid problems down the road.”

Consider, for example, a sad case we highlighted in *Charities and Embezzlement*. Early in 2014, a “drama played out in Clinton Township outside of Detroit.” It was the Clinton Valley Little League that was robbed – of \$300,000.” And “the embezzler was an unlikely criminal; the elementary school’s library clerk who was active in her church. She was ‘like everyone’s grandma in town.’” Like volunteers in many other small organizations, “she handled the cash” for more than six years. Over that time, she succeeded in regularly stealing small amounts. This library clerk pleaded guilty and was sentenced to five years’ probation and restitution, ‘but the incident has left the town traumatized and divided.’

More specifically she accomplished this large theft by keeping no books at all for the little league’s finances. On top of that, she commingled the league’s money with her personal funds. But this case “... is hardly rare in the increasingly prosperous world of American youth sports, from which millions of dollars have been stolen in what public officials and nonprofit watchdogs say is a mounting swarm of corruption cases.”

### *Conclusion*

Theft “in nonprofit organizations is often easier than in for-profit businesses because people in charities are more trusting and ascribe good intentions to their fellow trustees and executives. ‘...[T]he person committing fraud is often described as the last one anyone would suspect...’”