

It Pays to Manage Receipt Risk, Too!
by William Harper, CA
President, William Harper Associates

Some people pay a compliment as if they expected a receipt.
~ Kin Hubbard

Last month, we reviewed some of the risks and remedies around making payments. This month, we turn to the decidedly more pleasant task of receiving payments! But, much like paying the bills, the joys of receiving payment can be greatly diminished by negligence, error or even fraud. And, the risk of it taking place is, once again, much greater than you might think.

Receiving money sounds about as difficult as falling over. But, things can go wrong. The list of wrongs is pretty short, and mostly relates to your organization's money ending up in someone else's hands. There are lots of different ways this can happen, however, and it is important to put into place some procedures to guard against these things.

And, let's be clear, the risk of fraud or misappropriation of funds is real. It can happen in your small (or large) organization, and it can be at the hands of people you would never suspect. The key is not to try and guess who might be tempted, but to simply make (as much as possible) such temptation not actionable.

So, how can we ensure that all payments to the organization are completely and accurately deposited and recorded, to the organization's credit? Here are a number of practical steps.

A bank is a place that will lend you money if you can prove you don't need it.
~Bob Hope

Let's start by considering funds that are received by cheque, usually in the mail. In some organizations, this is an occasional occurrence, while in others, it represents a daily flood of transactional activity. Either way, the place to start practicing good controls is at the earliest possible moment.

1. Mail should be opened by someone other than the bookkeeper. The bookkeeper, or accounting staff, have the opportunity to make entries into the organization's accounting system and/or issue receipts for payments. As such, they are in a position to cover up a misappropriation of funds. (Remember, we're not saying they *would*, simply that they *could*, and we want to be in a position of not having to suspect people!) Mail, which could contain payments, should therefore be opened by someone who does not have that recording ability. Depending on the organization, it could be a receptionist, the executive director's assistant, a volunteer, or the ED herself.

2. Cheques should immediately be "restrictively endorsed". This simply means that cheques should be stamped on the back "*For deposit only, to the account of [organization], account # xxxx xxx*". When you opened your bank account, you may have received a rubber stamp like this, or if not, you can find out from your bank where to order one. Doing so immediately makes it more difficult (though by no means impossible) for someone to deposit the cheque into their own account.

3. Cheques should be deposited in the bank frequently, generally daily. Depending on the size of your organization, the size and number of cheques received, the security of your premises, and so on, you may wish to make deposits more or less frequently, but you can never go wrong making deposits daily. In addition to the obvious and important safety of not having cheques laying around your office overnight or on weekends, this step will also allow for more timely processing of receipts (a good donor/member/customer service goal) and accounting records (for good reporting).

Bank failures are caused by depositors who don't deposit enough money to cover losses due to mismanagement.

~ Dan Quayle

Handling cash (currency and coin) is something that many nonprofits have to contend with, for example at fundraising events. There are several important additional safeguards that need to be put into place, since cash has a particular tendency to wander off! So, if you find your organization ever handling more than trivial amounts of cash, you need to pay particular attention to the procedures for handling and depositing this cash. And, the particular procedures will likely have to be tailored to the specific event or function that is generating the cash.

1. Wherever possible, two people should handle cash. Leaving one individual alone with a significant amount of cash is a great temptation. (And, as above, we're not suggesting that someone would succumb to this temptation, merely that it's better not to *have to* suspect someone of doing so!) Having two people handling cash lets each person keep the other honest.

2. Give receipts (and set the expectation for receipts), and have systems that generate the receipts and record the cash simultaneously. This can be difficult to arrange in many fundraisers, but if possible, set the expectation (through signage, announcements, etc.) that attendees should get a receipt for their cash payment. Then, use a system (such as point-of-sale, or even just duplicate, pre-numbered receipt books) that records the cash at the time, for later accountability. Later, ensure that the cash handed in equals the amount of the cash recorded.

3. Centralize cash handling wherever possible. Instead of accepting cash at various event locations (e.g. at several cash bars around the venue), have a central location for selling tickets, which are then used at the other locations. There are several advantages: it is easier to have several people running that location; it can be in a secure, well-lit location; and, through the use of pre-numbered tickets or similar means, you can track how much cash should have been collected. Yes, this may reduce impulse purchases, but you could consider including some of those purchases in the event admission price and giving the tickets along with the event admission.

4. Deposit cash into the bank promptly. Needless to say, if keeping cheques on-hand is a risk, keeping cash on-hand is doubly so. Try to make a point of depositing the entire proceeds into the bank as a good record of that total, rather than being tempted to "dip into" the cash to pay suppliers on the night. This may sound convenient, but it complicates the record-keeping considerably and invites mistakes and worse!

5. Don't forget about security. It may sound dramatic, but high-profile events with significant amounts of cash make great targets for criminals. Don't forget about, or underplay the importance of,

having proper - and visible - security at such events. One option might be to discuss your event with the local police and ask what they recommend as an appropriate security response.

6. Use credit cards where possible. There is sometimes a temptation to "save" the 1 - 3% credit card commissions by accepting only cash at events. However, that commission is an inexpensive measure to protect your proceeds. Have a stack of credit card chits (already processed online and onsite is even better) represents a far more secure "take" from an event than a big pile of cash. It is also worth noting that impulse buying may also be facilitated by the use of a credit card if the attendee's cash runs out, and this could quickly offset the commission paid.

Money is a poor man's credit card.
~Marshall McLuhan

Each of these steps is fairly simple, straightforward and, mostly, inexpensive to implement. As noted above, if staff resources are stretched thin (and who isn't?), or if you simply don't have enough staff to properly segregate some of these key duties from one another, there may be a very simple and well-defined role for a volunteer to play, so long as they can do so on a timely basis.

What is important is that enough of these steps are introduced into the regular, ongoing and recurring processes and procedures of the organization. Worrying about losing your hard-earned revenues to error or fraud is only one tiny thing on a very long to-do list for most nonprofit organizations, and that's why building routines (kind of like good habits) is so important.

Which steps will be right for your organization? Every organization is unique, and so there is no universally right answer. One source of advice may be your auditor -- you can ask their advice as to steps that they believe would strengthen the internal control environment in your organization. But, however you do so, finding out how to make your receipts process more robust and resistant to fraud and error is a task that will pay you handsomely, both in money and in peace of mind!

You pile up enough tomorrows, and you'll find you've collected a lot of empty yesterdays.
~ Harrold Hill

Note: This post is provided as information only. Readers are cautioned not to act on information provided without seeking specific legal advice with respect to their unique circumstances