Cheque This Out

In our last article we looked at how cash could be stolen, this article continues that discussion with a real case and is adapted from "Occupational Fraud and Abuse," Chapter 5, by Joseph T. Wells, CFE, CPA ©1997 Obsidian Publishing Company Inc., Austin, Texas. Several names have been changed to preserve anonymity.

Case in Point

The executive secretary of a local charity was beloved for her hard work and generous nature. Unfortunately, she was working hard to tamper with the organization's checks so she could be generous to herself.

Melissa Robinson was a devoted wife with two adorable children. She volunteered her time and money to many community organizations and was the executive secretary of the Nashville chapter of an international charitable organization. However, perceptions can deceive. For five years, Robinson had been stealing from the chapter by tampering with its cheques. "Even if somebody had told (the board of directors) that this lady was stealing," said David Mensel, CFE, CPA, a member of the organization, "they would have said, "Impossible, she'd never do it.'"

As executive secretary, Robinson was one of two people in the chapter who was allowed to sign cheques on its bank accounts. As a result, she bilked at least $60,800 before chapter board members ended Robinson's scam.

Mensel suspects that Robinson stole far more than that because the amount of currency that flowed through her office was undocumented. "It is just a supposition, given her behavior with the chequing accounts," Mensel explains. "As well, we saw a basic decline in collections from some activities that the organization had been involved in for many years."

Robinson was able to commit fraud because of the relaxed operations of the Nashville chapter's board of directors. The organization's charter mandated that an independent audit be performed annually. However, during Robinson's tenure as executive secretary, not one yearly audit was completed. Mensel describes the board of directors during that time as "lackadaisical."

Once Robinson earned the executive secretary position, apparently she began pilfering from the organization's three bank accounts a little at a time. Although the accounts required two signatures per cheque, Robinson wrote cheques to herself and others by signing her name and forging second signatures. Mensel says she would usually write a cheque to herself or to cash and record the transaction in the organization's books as a cheque to a legitimate source. If anyone glanced at the books, they would see the names of familiar hotels and office supply stores.

"The club meetings were regularly held in a hotel in town or at one of these executive meeting clubs," Mensel recalls, "and those bills would run from two to three thousand dollars a month. The executive secretary would ... post in the cheque book that she had paid the hotel, but the actual cheque would be made out to someone else."

Mensel also remembers that Robinson repeatedly refused to convert her manual chequing system into the elaborate computer system the organization wanted her to use. "Now we know why," says Mensel.

Whenever Mensel asked Robinson for financial information, she would make excuses for not cooperating. He told the chapter's board of directors that he couldn't get much financial data from

Robinson but the board sided with her. "The officers of the board essentially jumped down my throat, told me I was wrong and that I was being unreasonable." Mensel says. "And since I had no substantiation, just a bad feeling ... I let it pass."

Mensel felt that that the chapter's treasurer was offended by his inquiry and felt he was suggesting that she wasn't doing her job properly. Unfortunately, she didn't check into Robinson's financial dealings.

The chapter began to feel some financial strain. Robinson then convinced the board of directors to close her rented office space - ostensibly to save money - and allow her to run the chapter from her home. The board members agreed.

During chapter meetings, board members ask to look at her books but she would always say that she had forgotten them.

However, during the last year of the embezzlement, a new group of officers was elected. Robinson repeatedly denied the new treasurer's request for the books. Finally the new chapter president went to Robinson's house and demanded them. "(The president) stood on her doorstep until she gave the books to him. He said he wouldn't leave until she gave them to him," Mensel recalls. "Once (the board) go their hands on the books ... they could see that something was very definitely wrong."

She had altered or forged some cheques but many were simply missing. The chapter's board of directors asked Mensel and two other chapter members, one who also a CPA, to investigate Robinson's alleged wrongdoings. They discovered that Robinson seldom attempted to cover up her scams. "She did physically erase some checks and sometimes even used white-out to rewrite the name of the payee that was in the cheque book after the cheque had cleared," Mensel said. "But of course, on the back of the cheque was her name, as the depositor of the cheque."

The peculiar thing was the varying nature of Robinson's cheque writing. Although Mensel says several of the cheques were written to casinos such as the Trump Taj Mahal and weekend getaway spots like the Mountain View Chalet, most of the cheques were written to other charities and the Robinsons' children's schools. She apparently didn't use the embezzled money to substantially improve her lifestyle, which Mensel describes as "a very standard middle-class life here in Nashville. She and her husband were not wealthy people by any means."

The chapter's board of directors excused Robinson from her executive secretary position, a grand jury indicted her, and she was tried and found guilty. The court ordered her to pay restitution to the chapter and its insurance company.

Robinson appeared to be one of the most dedicated workers in a charitable organization but she fooled her colleagues. Previous board members had constructed internal audit functions but were too lazy to enforce them. Subsequent board members learned from their mistakes.

The story of Melissa Robinson is an example of one of the most common forms of asset misappropriation, the cheque tampering scheme. Cheque tampering is a type of fraudulent scheme in which an employee either 1) prepares a fraudulent cheque for his own benefit, or 2) intercepts a cheque intended for a third party and converts the cheque to his own benefit.

Cheque tampering is unique among the disbursement frauds because it's the one group of schemes in which the perpetrator physically prepares the fraudulent cheque. In most fraudulent disbursement schemes, the culprit generates a payment to himself by submitting some false document to the victim company such as an invoice or a timecard. The false document represents a claim for payment and causes the victim company to issue a cheque, which the perpetrator then converts. These frauds essentially amount to trickery; the perpetrator fools the company into handing over its money.

Cheque tampering schemes are fundamentally different. As in the case of Melissa Robinson, the fraudster takes physical control of a cheque and makes it payable to himself through one of several methods. Cheque tampering frauds depend upon such factors as access to the company cheque book, access to bank statements, and the ability to forge signatures or alter other information on the face of the cheque.

Because of their apparent simplicity, there is a tendency to think of forgeries and other cheque tampering schemes as inexpensive crimes. The fact is that these schemes can be very damaging to a company's bottom line.

Cheque-tampering Red Flags
The following irregularities may indicate fraud:

- Voided cheques may indicate employees have embezzled cash and charged the embezzlement to expense accounts. When the expense is paid (from accounts payable), fraudulent cheques are marked and entered as void and removed from distribution points. An account-balancing journal entry is then made. The list of voided cheques should be verified against physical copies of the cheques. Bank statements should be reviewed to insure that voided cheques haven't been processed.
- Missing cheques may indicate lax control over the physical safekeeping of cheques. Stop payments should be issued for all missing cheques.
- Cheques payable to employees, with the exception of regular payroll cheques, should be closely scrutinized. Such an examination may indicate other schemes such as conflicts of interest, fictitious vendors, or duplicate expense reimbursements.
- Altered endorsements or dual endorsements of returned cheques may indicate possible tampering.
- Returned cheques with obviously forged or questionable signature endorsements should be verified with original payee.
- Altered payees on returned cheques should be verified with intended payee.
- Duplicate or counterfeit cheques indicate fraud. These cheques may be traceable to depositor through bank cheque coding.
- Questionable deposit dates should be matched to the corresponding customer accounts.
- An examination of all cash advances may reveal that not all advances are properly documented and, therefore, inappropriate payments have been made to employees.
- Customer complaints regarding payments not being applied to their accounts should be investigated.
- A questionable payee or payee address on a cheque should trigger review of the corresponding cheque and support documentation.

Cheque Disbursement Controls
These activities will help tighten controls and possibly deter employees from giving in to the temptation to commit cheque fraud.

- Cheque cutting and preparation isn't done by a signatory on the account.
- Cheques are mailed immediately after signing.
- Theft control procedures are adhered to.
- Accounts payable records and addresses are secured from possible tampering. Changes in vendor information should be verified.
- Bank statements should be reviewed diligently insuring that amounts and signatures haven't been altered.

- Bank reconciliations should be completed immediately after monthly statements are received.
- Bank reconciliations aren't made by signatories on the account.
- Bank statements should be reconciled and reviewed by more than one person.
- Appropriate separation of duties should be documented and adhered to.
- Detailed comparisons are routinely made between cheque payees and the payees listed in the cash disbursement journal.
- Personnel responsible for handling and coding cheques are periodically rotated, keeping total personnel involved to a minimum.

As you can see non profits are open to fraud just the same as a for profit business with a greater emphasis being placed on trust because non profits are in business of doing good for the community that they serve. In the next article with will look at the issue of transparency and Tone at the Top.

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