

## **Control your Cash and You Control your Business**

**By James Finlay**

Shirley Johnston runs a small non-profit, which provides health services to the local community. She attributes part of her success to her excellent office manager, Dave Dunlop, who she hired 5 years ago. She hired him from another non-profit, just after he had quit. He handles all the bookkeeping and supervises the other administration staff allowing Shirley to concentrate on strategic planning.

Dave is so responsible that he hasn't even taken a vacation for 3 years. He handles all the accounting, including running the complex accounting program. Shirley doesn't have to worry about a thing . . . . But lately, even though Shirley has had increased funding, it seemed as though she didn't have as much money left after expenses. One day, while having lunch with a friend who is a Certified Fraud Examiner, Anna Butler, she mentioned that her reports just didn't seem to add up. Anna asked a few questions. Did Dave take many vacations? Did he do all the bookkeeping? Did Shirley review carefully all invoices before signing cheques and did she have someone else besides Dave keep a separate cash receipts journal on money received? Shirley told her that Dave never took a vacation, she didn't really have time to check all the invoices before authorizing payments, and that Dave handled all the cheques from opening the mail to posting in the accounts receivable ledger. Shirley said Dave was her best employee and she trusted him completely. Anna said, "There's probably nothing wrong, but just to be sure, I'd like to come into the office this weekend, when Dave's not there and take a look at your books." You can guess the outcome. When Anna tried to reconcile the invoices with the cancelled cheques, she found discrepancies. Dave had been writing one or two cheques per month to himself, forging a signature, and cashing the cheques. It averaged \$500 per month for the past year. The non-profit is out quite a bit of money because Shirley couldn't get it back from Dave, and hadn't bonded him when he was hired.

### **Checking out new hires -- the first step**

If Shirley would have checked with Daves' previous employer, she might have found out that he had problems at work. If she would have run a pre-employment screening report, she would have found that he was delinquent on many of his personal payments. If she had obtained a fidelity bond, she could have recovered her lost money. If she had set up strict financial controls, it probably would have discouraged Dave from embezzling.

### **Pre-employment Screening – Complete BackCheck™**

The Complete BackCheck has long been a benchmark for pre-employment screening in Canada. In some industries, the Complete BackCheck reveals red flags on 60% of applicants. Because you never really know which background check service will reveal a red flag, it is best practice to choose multiple employment screening tools

### **Who has sticky fingers?**

You can't tell embezzlers from the way they look, act, or dress. Successful ones are often "ideal employees" like Dave Dunlop.

According to Dr. Donald Cressy, a sociologist and co-founder of the Association of Certified Fraud Examiners, who has studied embezzlers, most have a financial problem they can't share with anyone, and they convince them-selves that it's okay to take money. Often, when caught, they say, "I was only borrowing it. I planned to pay it back."

Few of us could say that we wouldn't be very tempted to "borrow" if we were stuck in a really bad financial situation.

### **First rule of internal controls**

The first, and primary, rule is to have more than one person handle financial procedures. In small non-profits, this is often very difficult. However, the Executive Director can review the bank statements and all cancelled cheques before any employee sees them, and can keep a manual cash log. Neither of these tasks takes much time. A forged signature on a check for supplies and deposits that doesn't match the cash log can be easily seen.

Every embezzlement starts with a breach of internal controls.

### **Control cash receipts**

Here are a few simple rules:

- Have someone other than the bookkeeper open the mail and list all cash receipts.
- Have all checks endorsed "for deposit only" with a company stamp at the time the mail is opened.
- Keep the cash handling and record keeping separate by segregating duties.
- After all cash receipts have been listed by someone else, have the bookkeeper immediately record them.
- Compare the listing of cash receipts with the cash receipts journal and deposit slips.
- Deposit cash receipts in the bank every day if possible.
- Post cash receipts to accounts receivable ledgers promptly.
- Insure that all donors are recorded in the receivable ledger.
- Send out Donation Receipts and thank you letters if Charity Registered.

### **Controlling cash disbursements**

- Make all disbursements by cheque (other than petty cash).
- Pre-number all cheques and account for them.
- Sign cheques only if adequate documentation is presented.
- Have only higher-level personnel sign cheques (*never* the bookkeeper!).
- Prohibit cheques payable to cash.
- Mail cheques independently of the accounts payable function.
- Never allow cheques to be delivered by hand.
- Prepare bank reconciliations.
- Keep petty cash in a safe place.

### **Do I really need fidelity bonds?**

Fidelity bonds on employees in positions of trust, such as bookkeepers, is an insurance policy. You have other business insurance, such as liability, fire, etc.

Relatively few businesses have fidelity bonds, even though the risk of employee theft is much higher than the risk of a fire loss.

Employers sometimes resist bonding because they think their employees will be offended. Presenting it as part of the company's overall business insurance cover-age can minimize adverse reactions.

*Blanket Position Bond may offer the best option for your non-profit.*

Under this type of bond, you specify coverage for a position rather than the individual. Each employee of a business is covered, and new employees are added automatically. Coverage is offered for each employee up to the maximum set out in the insurance policy. Blanket position bonds don't require proof of the individual responsible for the theft.

James Finlay is a Certified Fraud Examiner; he can be contacted on 905 870-1832 or at [www.finlay-associates.com](http://www.finlay-associates.com) or on [info@finlay-associates.com](mailto:info@finlay-associates.com)

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