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CERTIFIED PUBLIC ACCOUNTANTS

No Internal Controls Turned a Nonprofit into a Worker's Windfall

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The background: In 2012, a nonprofit hired an accountant from a temporary staffing agency. Diane (not her real name) did so well that the nonprofit took her on permanently even after learning that the staffing firm did not perform any background checks. They later discovered she stole tens of thousands of dollars from them.

The inside scoop: Diane managed the nonprofit's payroll and credit cards, and reconciled journal entries. She also signed off on her own statements, with no one reviewing her work. This lack of internal controls let her charge personal expenses to the nonprofit's credit cards — including a snowblower, payroll for her own company, and family vacations — without being detected.

She hid about $45,000 in credit card charges by debiting the credit card clearing account and crediting cash. Credit card charges were supposed to be entered into the nonprofit's accounting program — so manual checks could be cut to pay for them — but Diane bypassed this by allocating them to different accounts within the system. She also entered the receipts under the wrong vendor name, so anyone trying to trace them would get lost in a maze of dead ends. Finally, she neglected to file payroll taxes for three years, putting the nonprofit about $20,000 in arrears for the tax liability alone.

How She Got Away With It: Besides giving one person control over the credit cards and the reconciliation, the nonprofit's auditors didn't review the credit card statements at year end. And they never tried to match the charges to the actual receipts.

How She Got Nabbed: The scheme unraveled when Diane went out on medical leave and others took over her job functions. They saw what was going on; Diane was soon fired, law enforcement was called in, and charges were filed against her.

What Can My Company Do? The biggest mistake was a lack of internal controls. The person responsible for receipts or disbursements shouldn't be the one reconciling the accounts. Also, internal and external auditors should closely examine significant transactions and random test for others. Staffing firms should be running background checks on all potential candidates. Finally, every employee should be required to take time off so someone else can review his work. Your accounting advisor can suggest specific ways to tighten controls and avoid these pitfalls.

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