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**Could Your Organization Fall Victim to Embezzlement?**

Embezzlement by employees can take many forms -- from the simple use of a company credit card to buy inexpensive personal items to complex check forging schemes that result in massive losses. Take a look at these court cases, which illustrate some of the ways not-for-profit organizations can be defrauded:

- A former Chief Financial Officer of the Capital Area United Way in Michigan pleaded guilty to embezzling nearly \$2 million by writing checks to herself and forging the co-signatures of superiors. The financial executive's fraudulent activity was only discovered after she resigned her position and the new CFO discovered the trail of missing checks.
- A former employee of a West Virginia not-for-profit, chartered to assist senior citizens and the mentally ill, pleaded guilty to a theft scheme in which she embezzled nearly \$800,000. Responsible for the organization's finances, she charged more than \$200,000 to an American Express Account as well as made direct deposits into her personal bank accounts.
- A former program administrator of a Washington, DC, organization that supports science education pleaded guilty to embezzling more than \$200,000 that was earmarked for public schools.

These are just a few of the countless cases that wind up in courtrooms nationwide. When a not-for-profit falls victim to embezzlement, the perpetrator is often an unlikely suspect. Fortunately, there are warning signs and ways to detect and prevent internal theft. Here are some steps your organization can take to help avoid becoming another embezzlement statistic:

**Pay Attention Because Where There's Smoke, There May Be Fire**

According to the Association of Certified Fraud Examiners, workplace fraud typically takes a year and a half to discover. One of the most important tools management has in uncovering potential embezzlement early is critical observation. Behavioral warning signs may suggest employee wrongdoing.

Some traits sometimes exhibited by those convicted of embezzlement include:

- Abrupt shifts in work schedules.
- Declining to take vacations.
- Sudden changes in lifestyle such as buying a larger home and driving a more expensive car.
- Problems with drug abuse, alcoholism or gambling.

On their own, these behavioral changes may be explainable. But take note if

✓	<b>Embezzlement Prevention: More Steps to Consider</b>
	Require two signatures on checks. Don't use payroll signature stamps.
	If cash deposits are made, send only trusted, long-term employees to the bank.
	Check bank account statements and make sure accounts payable and accounts receivable match up. Don't allow the employee who writes or deposits

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they arise in conjunction with financial abnormalities.

**Listen to Employees. They May Know About Colleagues' Fraudulent Behavior**

Embezzlement usually occurs when motive combines with opportunity. In the workplace, if an employee is disgruntled or has financial problems, fellow staff members are often the first to hear about it. Having a system in place for colleagues to report suspicious behavior often makes the difference between embezzlement going undetected and having the information reach the desks of upper management.

One of the most useful and cost-effective internal controls is a hotline where employees can immediately report concerns or suspicious activity with a degree of anonymity. The Association of Certified Fraud Examiners found that workplaces with an employee hotline were able to detect fraud an average of nine months earlier than those that did not have a reporting system in place.

	checks to balance bank statements.
	Establish transaction controls for electronic fund transfers from company bank accounts.
	Review credit card statements for personal charges.
	Do credit and criminal background checks on employees prior to hiring them, especially those handling payroll, checks or cash. Conduct an Internet search on applicants.
	Have more than one employee handle duties when it comes to payroll and handling cash and checks.
	Set a good example and make workplace ethics clear.
	If records are disorganized or important financial documents can't be located, call in a forensic accountant to follow the paper trail.

When a hotline is part of a system of internal controls, concerns can be investigated quietly and without necessarily confronting employees who may be innocent of wrongdoing. If circumstances are thoroughly investigated and suspicions found to be unwarranted, the employees involved may not have to know about them. Keep in mind that false accusations can lead to discrimination charges and other legal actions.

**Consider Consulting a Forensic Accountant**

When it comes to embezzlement, it is best to err on the side of caution because detecting crimes early can save your organization considerable further losses. Many times, a convoluted paper trail makes it difficult to determine whether embezzlement has occurred.

A forensic accountant can efficiently ascertain whether fraudulent activity is underfoot at your not-for-profit organization. Like the old saying goes, an ounce of prevention is worth a pound of cure.

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