

## Assessing and Preventing Fraud Within a Nonprofit Organization

On June 17, 2010, a woman named Sharon Rice pled guilty to wire fraud in connection with a scheme to steal money from the Medical Association of Atlanta (MAA), the nonprofit organization where she worked as the Executive Director from 2000 until 2008. Starting in February 2004, Ms. Rice was put in charge of MAA's finances, and between that time and May 2008, she wrote almost \$300,000 worth of checks to herself and wrote additional checks to her MMA Visa card account to make payments for personal expenses. All of these checks were drawn on MAA's bank accounts. Ms. Rice was accountable to the Board of Directors, but she was able to conceal her entire scheme from them and from other employees, the banks, and MAA's outside accountants. She falsified the organization's bookkeeping by showing the payments that went to her as going to vendors or other legitimate business related purposes. Ms. Rice also forged co-signatures on some of the checks. See the full article at the following Federal Bureau of Investigation website: <http://www.fbi.gov/atlanta/press-releases/2010/at061710a.htm>.

On the same day that Ms. Rice pled guilty to wire fraud, the Board of Directors for MAA adopted updated bylaws, which, among other issues, addressed ways to prevent a future fraud scheme from happening again. One of the changes made to the bylaws included additional responsibilities of fiduciary oversight for the Treasurer. MAA's current bylaws include the following responsibility of the Treasurer: "The Treasurer shall receive statements of all accounts of the association directly from the financial institutions and will review balances against balances presented on the association's balance sheet." Article 6 Section 3 of MAA's bylaws. I have not seen the bylaws as they existed prior to the June 17, 2010 version, so I am not positive that this quote was added following the incident with Ms. Price. However, it seems to strike exactly at the problem of a lack of oversight and review of the Executive Director's broad power within the organization. It is a really good idea to have more than one person examining the organization's records and accounts to prevent one person from being able to abuse her power and the Board's trust.

Another change put into effect at the same time was additional language clarifying the annual financial review requirements. Currently, the MAA's bylaws state the following with respect to annual financial review requirements:

The Executive Committee shall review the accounts of the Association not less than annually. This review will include verification of account balances, review of deposits and disbursements of funds, and financial controls. A report on this review will be provided to the Board of Directors. The Executive Committee may engage a Certified Public Accountant to provide an Audit or Agreed upon procedures engagement.

Article 12 Section 3 of MAA's bylaws. Again, since I have not seen MAA's bylaws before the current version, I do not know how much of this language was added to the current version. However, the second sentence of this section particularly seems to address what

happened with Ms. Rice. If Board members are actually reviewing account balances, deposits, and disbursements on an annual basis, it seems unlikely that a scheme of the length and cost of Ms. Rice's will happen again. See a full copy of MAA's current bylaws on MAA's website:

[http://www.maaassn.org/index.php?option=com\\_content&view=article&id=321:by-laws&catid=44:about-maa&Itemid=110](http://www.maaassn.org/index.php?option=com_content&view=article&id=321:by-laws&catid=44:about-maa&Itemid=110).

Nonprofit organizations should have strong policies in place to protect themselves from fraud and other misuse of organization funds. A branch of the U.S. Department of Health and Human Services (Head Start, an office of Administration for Children and Families Early Childhood Learning & Knowledge Center) put together information about the most common financial and management risks facing nonprofits. The website offers advice to nonprofits on how to assess the risk of financial and management issues and how to protect the organization against them. The website encourages putting in place policies that control who can access the organization's funds and where they are being distributed. It also encourages having an independent, outside firm, whenever financially possible, perform a financial audit. The website also encourages accounting controls that focus on authority and approval, proper documentation, physical security, and early detection. See the Head Start website here: <http://eclkc.ohs.acf.hhs.gov/hslc/tta-system/operations/fiscal/prog-mgmt/risk-mgmt/TheMostCommonF.htm>.

There are many more suggestions on this website and others on ways to assess financial risk and how to protect against it. Every nonprofit organization should have strong policies and procedures in place to routinely review and investigate its financial records and accounts. Many nonprofit organizations run on a "shoe string" budget and would not survive a theft in the amount that Ms. Rice took from MAA. A diligent Board of Directors that follows a strict set of financial policies will be well protected against fraud.

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