

HOLMES MURPHY

SERVICES FOR FRATERNAL ORGANIZATIONS

Our team at Holmes Murphy is dedicated to serving fraternal organizations and their members.

PREVENTION EDUCATION ADVISORY | CRIME LOSS PREVENTION SAFEGUARDS

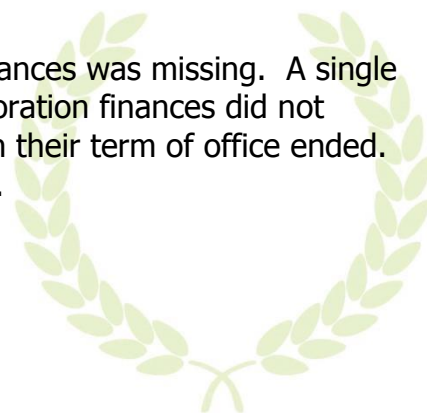
Embezzlement of monies is a problem that has plagued many non-profit organizations. Many organizations rely on the good faith of their volunteers to work honestly on behalf of the organization. As a result, many do not implement simple and cost-effective best practices for financial management that greatly mitigate the organization's exposure to a fidelity loss.

In one case, money was collected via dues and fundraisers, and given to the Chapter Treasurer. Months later, planning for formal was in high gear, and the deposit checks started bouncing. The Treasurer had used nearly \$10,000 in chapter funds to pay his personal bills, and the theft wasn't discovered until he had completed his term as Treasurer.

In another case, a local House Corporation had the same Treasurer for over 25 years. The Corporation did not have Crime Coverage, and when it tried to apply to be a 501 (c) 3 corporation for tax purposes, it was discovered that the Treasurer had stolen \$175,000 over the course of his service as Treasurer. There was no insurance coverage for the house corporation.

A third case involved an alumna who was tasked with furnishing the new university-owned sorority house. By submitting invoices for furniture and equipment without ever actually providing the goods to the house, she defrauded the sorority for nearly \$400,000. She was arrested and charged with wire fraud, bank fraud and money laundering.

These cases share some similarities. A good system of checks and balances was missing. A single person was able to hide his/her activities. Audits of chapter and corporation finances did not happen regularly. Previously authorized users were not removed when their term of office ended. There was no approval process in place to double-check expenditures.



CRIME LOSS PREVENTION SAFEGUARDS

It is our recommendation that your Chapter/House Corporation utilize financial management best practices listed below:

- Require dual signatures on checks.
- Separate duties of monthly account reconciliation from the officer with check writing authority and appoint another officer to be responsible for this function. Liquid asset accounts should be reconciled on a monthly basis.
- Have an account that prohibits debit card and ATM withdrawals. You may, however, open a separate account, with a balance no greater than \$1,000, whose sole purpose is to provide cash through ATM withdrawals. Justify/document how the money is used through an expense report that requires submission of receipts.
- Have an independent third party conduct an annual audit of the chapters'/corporations' financials when a new officer is elected. Perhaps there is an alumnus that will do this at no charge. Due to the financial constraints, we are not recommending an independent audit by an outside accounting firm. The decision to go through an independent audit will likely be dictated by the extent of the assets of each respective organization. Instead of an independent audit by an outside accounting firm, your organization might elect to appoint an internal "audit committee" of 3-5 persons who would review the deposits and disbursements annually.
- Make sure that checks are made out directly to vendors.
- Have an approval process in place to approve expenses prior to writing checks, and consider having a 3rd party review/approve invoices.
- Clearly communicate that anyone who commits this type of crime will be prosecuted to the fullest extent of the law. Such activity is contrary to the values of our organization.

Holmes Murphy offers this educational information to provoke thought and discussion and it should not be viewed as a mandate or requirement.

We view part of our role as an insurance and risk management professional to anticipate your needs and educate you in an effort to complement the organization's loss prevention and control efforts, not replace the decision making autonomy of our client organizations. We hope you find this educational piece to be of value and stand ready to discuss it further with you or any of your constituents.

