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Crime Loss Prevention Safeguards

Embezzlement of funds is a problem that has plagued many nonprofit organizations. Organizations rely on the good faith of their volunteers to work honestly on behalf of the organization. As a result, they may not implement simple, cost-effective financial management practices that can reduce exposure to a fidelity loss.

Best practices to mitigate crime loss

To reduce the likelihood of theft or misuse, implement the controls below and review them at least annually and at every officer transition.

- Use a dedicated all-in-one chapter management platform like LegFi for all transactions.
- Prohibit peer-to-peer or cash-like apps for chapter business.
- Establish a formal transition process that includes a written transition checklist; removal of outgoing officers from all accounts, platforms, and payment apps immediately; password changes; and transfer of all credentials to a chapter-owned (not personal) account. Require an outgoing officer sign-off confirming no personal access remains.
- Ensure each officer has a separate login username and password.
- Don't allow a single officer to have sole control over funds.
- Maintain a separate email address (not personal) for all financial accounts.
- Enable multi-factor authentication on all financial platforms.
- Enable alerts and notifications for all account activity.
- Review bank statements regularly as a board and use budgeting as a financial control.
- Separate monthly account reconciliation duties from the officer with spending authority and appoint another officer to be responsible for this function. Accounts should be reconciled monthly.
- Require dual signatures on checks and dual approvals for all transactions above a certain level and consider having a third-party review and approve invoices.
- Make sure payments are made directly to vendors. Review all vendor invoices to check for accuracy in payment and order fulfillment.
- Justify and document how the money is used through an expense report that requires submission of receipts and require receipts for all expense reimbursement.
- Have an account that prohibits debit card and ATM withdrawals and mandate controlled spend cards. A separate account, with a balance no greater than $1,000, can provide cash through ATM withdrawals.
- Conduct an independent audit by an outside firm or have an independent third-party conduct an annual audit of the chapters' and corporations' financials when a new officer is elected. An alumnus or alumna may do this at no charge.
- Alternatively, appoint an internal audit committee of 3–5 persons who would review the deposits and disbursements annually.
- Clearly communicate that anyone who commits this type of crime will be prosecuted to the fullest extent of the law.

Claim Examples

One Signatory on Account

Housing Corporation Officers have access to transferring money into and out of accounts whether that be from a platform into a personal account or from a chapter account to a personal account.

- Housing Corporation Officer over the span of 10 years, embezzled money from a LegFi housing corporation account to a personal account as there were no checks and balances. Over $200,000 was embezzled during this time with small personal purchases that were not caught. Use of LegFi provided the records to not only identify the issue but recount the length and detail of it.

Chapter Treasurers failing to take their names off an account and therefore having access to financial accounts post term or even graduation.

- Treasurer was able to have the bank issue a debit card directly in their name and therefore that individual engaged in over 100 transactions with the debit card and Zelle transactions for her own personal use.

Third Party Apps

It is difficult to recover lost or stolen funds from third-party, cash-like apps. These platforms were not designed for organizational banking and can result in legal and liability exposure. Using these platforms for organizational banking often violates their terms of service. Customer service for these apps is not helpful when a loss occurs.

- Two members who had access to the chapter account engaged in unauthorized transactions and used Cash App to deposit funds from their chapter's savings account and checking account for a loss of $70,000. The loss could have been avoided with dual-signature requirements and transaction limits and/or a dedicated financial management platform
- Chapter officer embezzled $40,840 was able to do so because they had cash app and PayPal accounts tied to their personal Wells Fargo account. The loss could have been avoided with dual signature requirements and transaction limits and/or a dedicated financial management platform.
- A chapter used Eventbrite Merchant Account to promote and collect money for an event. When the chapter could not access their account, they discovered their account had been removed and a new account had taken over their Eventbrite account. As a result, $10,000 was directly deposited into a fake bank account. Weak password hygiene and lack of two-factor authentication enabled the account takeover. An all-in-one financial management platform could provide a similar ticketing functionality.
- A philanthropy chair collected funds for tickets sales to a philanthropy event through cash donations and personal Venmo She collected $14,500 and never turned it over to the chapter. The loss could have been avoided if cash and Venmo transactions were prohibited.

Fraudulent Activity

Impersonators call treasurers or those with access to accounts to try and gain access to their monies. These fake phone calls seem to have all the bank information with the exception of a few pieces. It sounds legitimate, but the individual on the other end is trying to hack the account.

- A chapter treasurer received a call from the bank after making a large deposit for a formal event. The scammer used that as an opportunity to "confirm" the large transaction and had all the numbers for the account for except the last four digits. They also knew about the most recent transaction. Within minutes of hanging up all monies from their account went missing.

Crime Coverage exists to recoup lost funds in situations as those presented above, however, coverage is never guaranteed. Each claim is examined by the carrier and reviewed to determine if the cause of loss is covered. Further, organizations or chapters will never receive the full lost amount as each loss is subject to a deductible.