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Upfront

The Problem With Trust: The most trusted employees cash in on lax internal controls to fleece nonprofits

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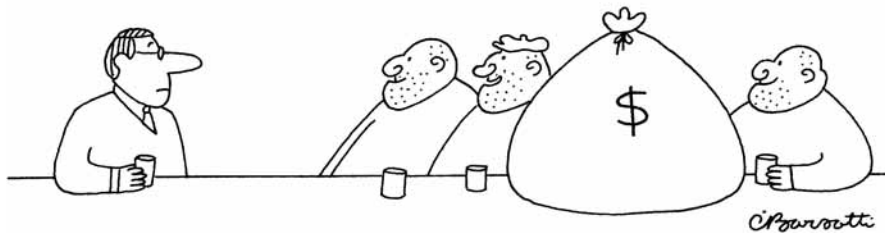


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The Problem With Trust

The most trusted employees cash in on lax internal controls to fleece nonprofits



"It's O.K., we're faith-based."

In the early 1990s, Janet Greenlee was working as a program director at a family service agency in Denver when the organization's bookkeeper came to her with a dark confession: She was stealing from the nonprofit. The bookkeeper's misdeeds started out small. Her car was in the shop, she was short on cash, and so she "borrowed" \$10 for a cab. No one noticed.

And so the bookkeeper decided to let the organization pay for the car's repairs as well. Soon enough, she was regularly looting the till, rationalizing that the nonprofit didn't pay her enough anyway. External auditors failed to find anything amiss.

When the bookkeeper finally copped to her crimes, the organization's executive director didn't fire her. She was a well-liked, longtime employee, he said. Frustrated, Greenlee resigned.

Some 15 years later, Greenlee is a professor at the University of Dayton in Dayton, Ohio, where she studies nonprofit accounting. In the December 2007 issue of the *Nonprofit & Voluntary Sector Quarterly*, she and her

co-authors report research showing that the pilfering bookkeeper was a typical nonprofit fraudster: a female with no criminal record who makes less than \$50,000 per year, steals less than \$50,000 from the nonprofit, and has logged at least three years with the organization. Their median age is 41 years.

"It's the last people you would suspect," says Greenlee.

But the most common embezzlers are not the most costly, the authors find. Instead, male executives earning more than \$100,000 tend to pinch larger chunks of change – an average of more than \$100,000.

"White male managers get more because they are in a position to do so," notes Greenlee. "They are older, have the longest tenure in the organization, and have the highest-ranking roles. They are the people in whom you have the most trust." Overall, she says, the biggest losses come from people who have been with the organization the longest.

Fraud costs the nonprofit sector roughly \$40 billion a year, the authors estimate. To understand the

characteristics of fraudsters and defrauded organizations, they worked with the Association of Certified Fraud Examiners (ACFE), which randomly selects its members to report on recent, resolved investigations of fraud across nonprofits, businesses, and government agencies. Of the 508 cases the ACFE members described via questionnaire, 58 occurred in nonprofits.

The majority of these cases were misappropriations of assets – usually cash. And so the authors recommend that the nonprofits work hardest to monitor their cash flows. "The people who write the checks shouldn't sign the checks and shouldn't do the bank reconciliation," Greenlee says, noting that the bookkeeper at her former employer performed all these duties.

Greenlee also suggests that nonprofits conduct criminal background checks on all employees with access to cash. "Most fraudsters in our sample had no prior record, but those who did took the most money," she says. Organizations should also take care to train volunteers in the proper handling of cash transactions.

The authors further note that relying on external audits is not enough. In their study, auditors detected only 12 percent of the reported nonprofit frauds. Instead, "you need to have systems in place that make it difficult to steal in the first place," Greenlee says. "I hate to quote [Ronald] Reagan, but he was right: 'Trust, but verify.'"

When nonprofits do find a thief in their midst, "they should prosecute," she concludes. "Everyone knows about it by then, anyway. And if one person gets away with it, that sends a message that *everyone* can get away with it." —Alana Conner