Dual Signatures

Dual signatures requiring two board members to sign a check may prevent the loss of funds. Although many managers and boards find dual signatures to be a burden and many banks honor checks even if they lack the second signature, it provides one more obstacle for an embezzler to overcome. A single signature makes embezzlement simple; dual signatures may reduce temptation.

Dual signatures are far from foolproof. Someone could forge the second signature. While it is nearly impossible to prevent forgeries, associations can detect them by checking invoices against payments. The board should also review copies of all cancelled checks.

Reviewing Financial Information

Audits by an independent, certified public accountant are extremely helpful in identifying falsified records. Every association should conduct an annual audit. The auditor examines invoices, verifies balance sheets, and analyzes accounts receivables. He or she determines whether the association's financial statements meet generally accepted accounting principles.

Board members should not rely solely on their accountants, however. At least two board members in addition to the treasurer should review all monthly financial statements. They should look for discrepancies between what the treasurer shows on the general ledger report and the numbers on the financial institution's monthly statement. If the association receives the statement directly from the financial institution, a potential embezzler may think twice about altering the statements included in the board package.

Boards also should consider checks and balances. Ask the finance committee to review the financial statements as well. Make no mistake; it will create an additional layer of bureaucracy. It could impede an association's ability to function efficiently. But for an association that wants to protect itself, it could be a small price to pay.

Boards cannot take a casual attitude toward association finances. If they do, a volunteer or employee could mismanage funds for years. Boards and association professionals must take time to question and verify each and every item of substance.



TIPS FOR PROTECTING FUNDS

- Keep only small amounts of money in the operating fund
- Don't let one person have too much control; have one person make out the check and another obtain the signatures
- Allow only bonded or insured individuals to handle funds
- ✓ Require co-signatures on all transactions
- ✓ Confirm expenses in board meetings
- Pay vendors and collect assessments through electronic fund transfers
- Constantly scrutinize checks and invoices and don't sign off without questioning
- Match invoices with outgoing checks to help detect forgeries and phony invoices
- ✓ Verify that work is performed; don't blindly approve invoices
- ✓ Conduct an annual audit
- Ask at least two board members to review monthly financial statements
- ✓ Consider checks and balances; ask the finance committee to review all financial statements
- Protect checks and passwords



COMMUNITY SERVICES

NEIGHBORHOOD COMMUNICATIONS

SAFEGUARDING YOUR TREASURY



Community Services Division
Department of Environmental Services
City of Carrollton
1945 E. Jackson Road
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Whether it is a neighborhood association, garden club, little league team, bike club or running club, internal theft rears its ugly head from time to time. It could happen to your organization. Undetected fraud occurs within nonprofit organizations every day across this country. How can your association protect itself from internal theft? The establishment of basic internal controls and solidifying board oversight responsibilities are your key defenses.

Here is a list of steps your organization can take to help guard against theft:

- Establish a detailed budget. The budget should be detailed enough to allow for the monitoring of expense guidelines. Periodically compare actual expenses and revenues to the current budget and to the prior year.
- Establish some basic accounting procedures so that expenses can be recorded in a manner consistent with the established budget.
- Require monthly treasurer reports at board meetings that include detailed comparative analysis of actual expenses to budgeted expenses. The reports should be thoroughly reviewed by board members who are independent of its production.
- ✓ Have someone other than the treasurer, or the one who records all transactions, pick up the mail and deposit receipts. Have different individuals order supplies, record transactions, sign checks and reconcile monthly bank statements. This can be tough if you are a small organization, but it is proven that if one individual has access to your checks and also

- records the transactions in your accounting system, there is a potential for fraud.
- ✓ Do not sign blank checks or use a signature stamp.
- √ Keep all organization transactions public.
- ✓ Take it seriously. There are many examples of non-profit organizations across the country that have been victim to internal fraud and theft. Make your board take it seriously. It is the complete board that is responsible for the health of your association. Don't just gloss over the treasurer's report at the board meeting. Ask questions and probe.
- Establish some basic policies and procedures such as who is authorized to sign checks, the process to be followed when developing the budget, cash receipts and disbursements policy, etc. It is a good idea to require two signatures on all checks drawn on neighborhood accounts.
- Appoint a Certified Public Accountant as the association treasurer when possible. CPAs are required to pass very difficult exams that include an ethics exam prior to being licensed. CPAs will not risk losing their license by mis-managing a small amount of money from a neighborhood organization.
- Remember that your treasurer is a volunteer and that the position can be very timeconsuming. Do not make unreasonable demands on their time. Balance your needs with your treasurer's availability.



Access to Funds



Limiting the possibility of mismanaged funds means limiting the number of people who control funds. Only the

president, treasurer, and the management company or on-site manager should handle association accounts or disbursements. Anyone who handles funds and more specifically, anyone who signs checks should be bonded or otherwise insured.

No manager or board member should have sole authority for writing checks. The key is to separate duties. When writing checks, each step should be handled by a different person. One person should make out the check, someone else should obtain the signatures, and a third person should do the monthly reconciliation. If one person is responsible for every step, mismanagement is more likely to occur.

One way to prevent easy access to funds is through electronic fund transfers. With electronic fund transfers, funds are moved by computer from one account to another. Since the money is transferred electronically from an association to its vendor, for example: a director or manager would not be able to write false checks.

Automation does not necessarily equal protection, however. Hackers can penetrate even the most sophisticated computer system. The greater threat, however, is association employees and volunteers with access to codes. Computer codes and access codes should be as secure as cash and as confidential as a vault combination.