Detecting and Preventing Fraud and Embezzlement in Your Nonprofit Organization

December 6, 2011

12:00 – 2:00 pm EST

Venable LLP

575 7th Street, NW

Washington, DC 20004

Moderator:

Jeffrey S. Tenenbaum, Esq.

Panelists:

William H. Devaney, Esq.

Monica Modi Dalwadi, CPA, CIA, CFE

Maria Christofi Georges

Presentation

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What do you think the likelihood is that your company will be a target of fraud in the next 12 months?

1. 0% - Not a chance!
2. Very low
3. Moderate
4. Extremely high

Recent Examples of Nonprofit Embezzlement

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Discovery Counseling Center of the San Ramon Valley

DISCOVERY COUNSELING CENTER OF THE SAN RAMON VALLEY

- On March 11, 2011, the president and executive director of Discovery Counseling Center, a nonprofit that provides counseling and other mental health services, was charged with four felony counts of grant theft embezzlement for stealing more than $150,000 in funds.
- The director used a company credit/debit card linked to the center's checking account for his own daily expenses.
- The Board hired an accounting company to do an audit after receiving concerns of alleged misconduct.

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Caribbean Woman's Health Association ("CWHA")

CWHA Caribbean Women's Health Association, Inc.

- On July 19, 2010, the former executive director of CWHA, a non-profit that provides services to low-income women and immigrants related to HIV/AIDS prevention and maternal and child healthcare, pled guilty in Manhattan Federal Court to one count of embezzling federal funds and one count of conspiring to commit wire and bank fraud.
- The former director raised her salary without receiving CWHA Board approval.
- She embezzled $17,500 from a 2006 grant CWHA received from NY State Department of Health NYS Aids Institute.
- She attempted to defraud FDIC-insured banks in order to procure home mortgage loans.

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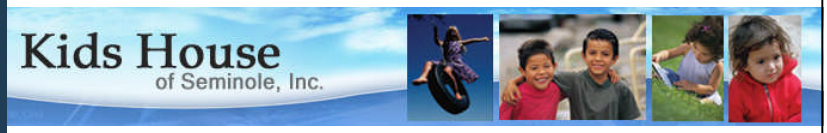
Kids House of Seminole



- On June 19, 2010, the former finance director of Kids House of Seminole, a nonprofit that supports children who are victims of abuse and neglect, was accused of stealing $48,000 from the organization by writing checks from the organization to himself, then depositing the money into his personal bank account.
- The check amounts ranged from a few hundred dollars to two or three thousand dollars.
- The finance director allegedly admitted to the embezzlement and told investigators that he did it because he was a "compulsive spender."
- The agency is reviewing its accounting system and reported that it will make any adjustments necessary.

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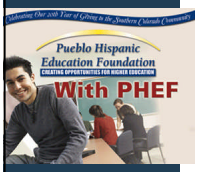
Pueblo Hispanic Education Foundation (PHEF)



- On June 5, 2010, the director of the Pueblo Hispanic Education Foundation (PHEF), a nonprofit that helps local graduates attend college, was arrested for embezzling more than $57,000 from the nonprofit organization.
- He was charged with two counts of theft, two counts of identity theft and 232 counts of forgery. The executive director used the foundation funds to pay for a Las Vegas trip, patio furniture and $7,500 worth of jewelry, among other personal purchases.
- The director forged the board president's name on checks totaling $30,143 in purchases; funneled checks destined for colleges, some that didn't even exist, into his own personal bank account; and without the 12-member foundation board knowing, he obtained a debit card and spent $27,531 in PHEF funds for personal use.

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Pueblo Hispanic Education Foundation (PHEF) – Con't.

- After the arrest, the board of directors learned that the director had pled guilty to theft in 2006 and was on probation for stealing from a Denver nonprofit, the Latin American Educational Foundation. PHEF's founder stated that the board of directors should have scrutinized the director's background much closer before hiring him.

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Case Study: Assistants with Access

- Evelyn Reynolds worked for Children's Education First, Inc. (CEF)*, a prestigious nonprofit organization in Chicago. CEF's mission was to provide funds for underprivileged children's education expenses.
- As assistant to the Chief Operating Officer (COO), Evelyn had direct and indirect access to many facets of the business. In addition to administrative responsibilities, Evelyn had access to a variety of functions from credit card purchases to purchase order requests.
- Evelyn perpetrated a multi-faceted fraud totaling more than $100,000 in less than ten months.

The Spoils

- Nose Job
- Recreational Vehicle
- Laptop
- Utility Bills
- Smart Phone
- Camcorder
- Vacation Packages
- Cash

**All the names of businesses and individuals are fictitious to protect the privacy of the victimized organization.*

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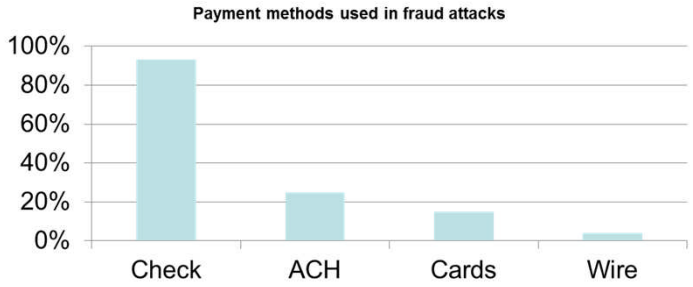
Fraud Facts

- Fraud accounts for more than $200 billion in losses each year in the U.S.[1]
- 71% of organizations experienced fraud or attempted fraud in 2010.[2]



1. First Data Fraud Trends 2010 2. 2011 AFP Payments Fraud and Control Study

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Fraud Facts – Con't.

From the 2010 Global Fraud Study - ACFE

- Small organizations are disproportionally victimized by occupational fraud because they typically lack anti-fraud controls.
- Anti-fraud controls appear to help reduce the cost and duration of fraud schemes.
- High-level perpetrators cause the greatest damage to their organizations.
- Fraud perpetrators often display warning signs (living beyond their means, experiencing financial difficulties).

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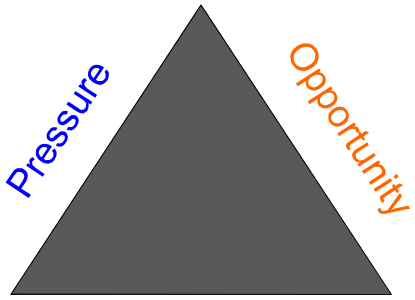
Why Does Employee Fraud Occur?

The Fraud Triangle



Rationalization

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Why Does Employee Fraud Occur?

- **Pressure**
  - Economic factors such as personal financial distress, substance abuse, gambling, overspending or other similar addictive behaviors may provide motivation.
  - The current national economic recession may serve to increase the incidence of such financial motivations.
- **Opportunity**
  - The employee has sufficient access to assets and information that allows him or her to believe the fraud can be committed and also successfully concealed.
- **Rationalization**
  - The employee finds a way to rationalize the fraud.
  - Such rationalizations can include perceived injustice in compensation as compared to their colleagues at for-profit enterprises, unhappiness over promotions, the idea that they are simply "borrowing" from the organization and fully intend to return the assets at a future date, or a belief that the organization doesn't really "need" the assets and won't even realize they are missing.

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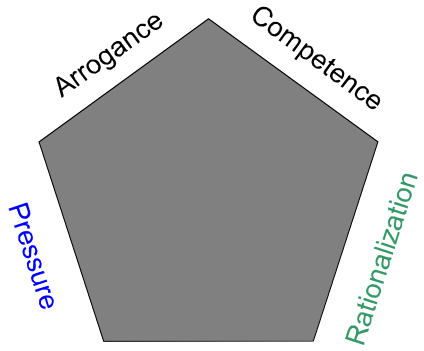
Why Does Employee Fraud Occur?

The Fraud Pentagon



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Why Are Nonprofits Frequently the Victims of Embezzlement?

Management and board members are often more trusting

A belief that audits will catch any fraud

Cost restrictions may result in:
- Limited or no segregation of duties due to understaffing;
- Limited resources to develop and maintain anti-fraud programs and controls; and
- Inability to maintain internal audit and/or anti-fraud departments in-house.

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There is No "Silver Bullet"

You must employ a layered approach focused on:

- **PROTECTION – Lowering the likelihood of fraud.**
- **DETECTION – Ensuring fraud attempts can be reliably and rapidly detected.**
- **RESPONSE – Knowing what to do when you have been compromised.**

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External Audits

- **External audits can be helpful in ensuring that financial controls and fraud prevention measures are being followed and are effective.**
- **The standard audit, however, is not designed and should not be relied upon to detect fraud.**
- **The Association of Certified Fraud Examiners reports that less than 10% of frauds are discovered as a result of an audit by an independent accounting firm.**
- **Auditors generally only have a responsibility to give "reasonable" assurance that no material misstatements in financial statements have been made.**
- **While auditors are required to approach the audit with a skeptical attitude and must not overly rely on client representations (SAS 99), auditors do not have an absolute responsibility for the detection of fraud.**

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External Audits – Con't.

- Specific fraud audits are available and are encouraged when there is any suspicion of fraud. When fraud audits are conducted, the auditors give greater scrutiny to certain items and another auditor within the firm will often take a second look at the audit to decrease the chance that anything was missed.
- It is also a good idea to have auditors review and test your financial controls to ensure that appropriate controls are in place and working.

Fraud Risk Assessments

- The purpose of a fraud risk assessment is to identify where fraud may occur within an organization and how it may be perpetrated.
- The Assessment Process:
  1. Define fraud as it pertains to the organization's industry, culture and tolerance for risk;
  2. Determine scope (e.g., entity-wide, process-level);
  3. In collaboration with management, identify relevant fraud risks and scenarios ;
  4. Conduct facilitated brainstorming sessions to identify additional fraud risks, that include employee participation at additional levels (e.g., process owners, staff);

Fraud Risk Assessments – Con't.

5. Map fraud risks with their mitigating controls and identify control gaps;
6. Measure each fraud risk based on its inherent risk (without controls) and residual risk (with controls); and
7. Prioritize fraud risks and scenarios based on the organization's tolerance for risk.

- Conduct fraud risk assessment on a recurring basis (e.g., annual) as risks and controls can change based upon organizational changes, industry changes, the economy, technological advances, etc.

Strong Compliance Program

- The best way to prevent embezzlement and to protect an organization is a comprehensive and vigorous compliance program that must be more than a "mere paper program."
- Any effective compliance program will:
  - Be tailored to the specific organization, such that the controls mitigate the risks inherent in that organization's business and address any applicable government regulations and industry standards.
  - Include a corporate code of ethics. The organization's commitment to ethical behavior should be clearly and concisely communicated to the board, management and employees. This commitment to the code should be affirmed by all employees on a periodic and ongoing basis.

Strong Compliance Program – Con't.

- Be owned by senior management. Management must be proactive. The Board must have ultimate oversight and control of the program.
- Provide for regular education and training for directors, management, employees, volunteers and staff.
- Be regularly monitored and audited to ensure that it is working.
- Contain effective means to report violations and concerns, such as whistleblower hotlines or other anonymous reporting mechanisms.
- Provide for meaningful discipline for violation of the policy. A reputation for aggressively investigating fraud can have a strong deterrent effect while a reputation for ignoring possible fraud is an invitation to commit fraud.
- Require that appropriate steps are taken if a crime occurs.
- Address any control weaknesses uncovered.

Preventing Embezzlement

Set the Tone at the Top

Role of the Board

- Boards of Directors have a fiduciary duty to ensure:
  - Financial decisions are made soundly and legally.
  - Individual directors and management always put the organization's financial and business interests ahead of personal financial and business interests.
  - The Board prudently manages the organization's assets in furtherance of the organization's stated purpose.
- Business Judgment Rule protects actions taken by board members, however those actions must be taken in good-faith with that degree of diligence, care and skill which ordinary prudent people would exercise under similar circumstances.

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Role of the Board – Con't.

- Satisfying these obligations requires hands-on oversight of management.
  - Review financial and other business records
  - Question management
  - Ensure the organization's policies, procedures and mission are followed
- At least one board member should have relevant financial experience.
- At least some board members should not be current or former associates of management. Consider a seasoned lawyer as a board member, as well as members with nonprofit and sector expertise.

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Control Measures to Consider

1. Dual Signatures & Authorizations

- Multiple layers of approval will make it far more difficult for embezzlers to steal from your organization.
- For expenditures over a pre-determined amount, require two signatures on every check and two authorizations on every cash disbursement.
- Consider having an officer or director be the second signatory or provide authorization for smaller organizations.
- With credit cards, require prior written approval for costs estimated to exceed a certain amount.
- The person using the credit card cannot be the same person approving its use.
- Have a board member or officer review the credit card statements and expense reports of the Executive Director, CFO, CEO, etc.
- Consider having a duplicate bank statement sent to an officer at his or her home address.

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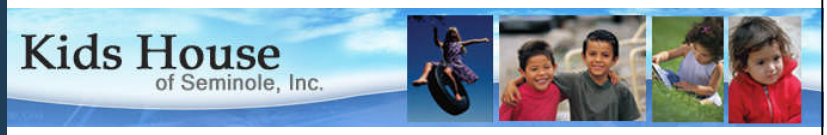
Case Example



The Financial Director of Kids House of Seminole would not have been able to steal $48,000 if the organization had implemented a control requiring that two signatures were necessary.

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Control Measures to Consider

2. Require Backup Documentation

- **All check and cash disbursements must be accompanied by an invoice showing that the payment is justified.**
- **If possible, the invoices or disbursement requests should be authorized by a manager who will not be signing the check.**
- **Only pay from original invoices.**

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Control Measures to Consider

3. Never Pre-sign Checks

- **Many nonprofits do this if the executive director is going on vacation.**
- **Keep blank checks and signature stamps locked up.**

CASE EXAMPLE

An assistant to an executive director of a nursing home had the directors signature stamp locked in her drawer. She stole millions of dollars from the organization by writing checks to herself and using the director's signature stamp. The director never looked at the checks.

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Control Measures to Consider

4. Segregation of Duties

- One individual should not be responsible for an entire financial transaction.
- ***Money Coming In:*** No single individual should be responsible for receiving, depositing, recording and reconciling the receipt of funds.
- ***Money Going Out:*** No one person should be responsible for authorizing payments, disbursing funds and reconciling bank statements.
- If the organization does not have enough staff on hand to segregate these duties, a board director or officer should reconcile the bank and credit card statements.
- Require employees who hold financial positions to take an uninterrupted vacation for two weeks. Do not let them work from vacation. This permits transactions to clear properly in their absence. If you have an employee who refuses to go on vacation, that could signal a problem.

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Control Measures – Case Example

- Former vice president for finance at large national nonprofit.
  - Worked there for 20 years
  - Embezzled $11.9 million
- Wrote checks to herself, forging the signatures of the required co-signers.
  - Destroyed the canceled checks when the bank mailed them back to her.
- No one noticed because she also kept the organization's books.
- She was able to cover up for the losses by inflating the reported amount of unfulfilled pledges.
- Had someone else reconciled the bank statements, she would not have been able to destroy the checks that she had written to herself.
- Or, if someone else were responsible for unfulfilled pledges, she would not have been able to cover up the losses.

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Control Measures to Consider

5. Conduct Background Checks

- **Background checks and credit checks on new employees and volunteers are important. Many organizations skip this basic step.**
- **The Association of Certified Fraud Examiners reports that 7% of embezzlers have been convicted of a previous crime.**
- **Background checks can reveal undisclosed criminal records and prior instances of fraud, allowing you to avoid a bad hire in the first place.**
- **They are also fairly inexpensive and should be made a part of your hiring process.**

CASE EXAMPLE
A thorough background investigation by the Pueblo Hispanic Education Foundation would have likely revealed that the candidate had pled guilty to embezzling money from another Nonprofit.

Control Measures to Consider

6. Fair Bidding Process

- **All contracts above a predetermined amount should be subject to at least three bids, and approved by a manager uninvolved in the transaction.**
- **Large contracts should be reviewed and voted on by the board.**

7. Fixed Asset Inventories

- **Conduct a fixed asset inventory review at least once per year to ensure that no equipment (computers, printers, etc.) is missing.**
- **Record the serial numbers of the equipment and consider engraving an identifying mark on each item in case of theft.**

Control Measures to Consider

8. Encourage Whistleblowers

- Provide a means of anonymous communication.
- Employees may not report theft or mismanagement if they believe their job is in jeopardy.
- Employees must have a manner in which to contact a board member in the event something needs to be reported, and they do not feel comfortable reporting to management.
- Board members must be prepared to take these reports seriously, keep the reporting employee protected and contact legal counsel.

Control Measures to Consider

9. Automated Controls

- Fraud detection using system generated reports.
- Ongoing monitoring and feedback mechanisms (e.g., system-generated email sent to management if individual is altering data.)
- Physical access control by security codes and badges.
- System (computer) access control by usernames, passwords, security tokens and encryption.
- Segregation of duties by setting rights and permissions to execute various electronic tasks (e.g., entering, approving and printing checks).
- Data mining and analysis by testing electronic data for red flags.
  - Fictitious vendors
  - Duplicate payments
- Restricting corporate credit card use by Merchant Category Code (MCC).

Control Measures to Consider

9. Automated Controls – Con't.
   - **Use notification/alert services**
     - **Sign up to receive text or email notifications alerting you of electronic debits to your accounts.**
       - **Positive pay exceptions notifications**
       - **Wire notifications – incoming/outgoing**
       - **ACH Fraud Filter notifications**
       - **Balance threshold notifications**

Control Measures to Consider

10. Discuss Fraud Risk and Internal Controls by Educating Employees
    - **Regular (e.g., annual, quarterly) discussion of:**
      - **What are the threats**
      - **Internal control principles**
      - **Organizational policies and procedures**
      - **Incident response- what could go wrong and how to handle it in accordance with professional and legal standards – especially in "gray" areas.**
    - **Identify key fraud risks and mitigating internal controls.**
      - **Develop fraud risk matrix or framework**
      - **Map risks and controls to identify any potential gaps**
      - **Update annually as part of fraud risk assessment process.**
    - **What to do if they perceive a fraud threat.**
      - **Whom to contact**

Control Measures to Consider

11. Institute Dual Control

- One person initiates, another approves from a different computer.
  - Online payment transactions
    - ACH
    - Wire transfer
  - Self administration changes
    - Password reset
    - User enablement
  - Online payment transactions
- Be aware of collusion risks.
  - Select approvers that are less likely to collude
  - Example: in different offices
- Option exists to require multiple approvals.

Control Measures to Consider

11. Institute Dual Control – Con't.

- Dual control is:
  - Free
  - Easy to implement
  - Proven to significantly reduce losses from online fraud

Control Measures to Consider

12. Use a Dedicated Computer for Online Banking

- **Execute all online banking activities from a dedicated computer where email and web browsing are not possible.**
- **Significantly reduce your exposure to malware pharming of your banking credentials.**

13. Use Multi-factor Authentication to Access Your Banking Portal

- **A username and password do not constitute multi-factor authentication.**
- **Add a physical security token, something in the user's possession, to provide additional protection from online threats.**

Control Measures to Consider

14. Update Antivirus Programs

- **Install and regularly update anti-virus and anti-spyware software.**
- **Apply all vendor-recommended patches to:**
  - **Company firewalls**
  - **Servers**
  - **Client applications or systems**

15. Protect Your Network

- **Identify trusted Web sites for your business.**
- **Block access to any Web address not relevant to your employees' business needs:**
  - **Social media sites**
  - **Auction sites**
  - **Personal email accounts**
  - **Online chat rooms**
  - **Music and videos**
  - **Shopping**
  - **Avoid opening unknown or unsolicited emails**

Control Measures to Consider

16. Institute Transaction and Daily Limits

- **Set online wire and ACH initiation limits for each employee.**
  - **Dollar amount**
  - **Account number**
  - **Wire type**
- **Review company and account limits regularly.**
- **Evaluate averages and lower limits that are higher than necessary.**

Control Measures to Consider

17. Diligent User Management

- **Audit users on a regular basis, especially those with transaction privileges.**
- **Review user privileges often to ensure no one has unauthorized or unnecessary access.**
- **Limit transaction privileges to an absolute minimum – needs only basis.**
- **Apply separation of duties for key money movement activities.**

Control Measures to Consider

18. Monitor and Reconcile Accounts Regularly (daily, weekly or monthly)

- **One of most effective ways to catch suspicious activity as soon as possible, limiting further or substantial damage.**
- **Establish internal processes to review key operating accounts and accounts on which you issue checks.**
- **Automate reconcilement function using account reconciliation and positive pay services.**

Immediately call your financial institution if you notice anything out of the ordinary.

Control Measures to Consider

19. Appoint an Internal Audit Resource

- **The Institute of Internal Auditors (IIA) defines internal auditing as:**
  - ***An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.***
- **Roles of the Internal Auditor:**
  - **Evaluate and offer recommendations on governance, risk management and control processes, especially regarding prevention and detection of fraud.**

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Control Measures to Consider

19. Appoint an Internal Audit Resource – Con't.

- **Assist the organization in managing fraud risk by:**
  - **Conducting an initial or full investigation of suspected fraud.**
  - **Assessing fraud risks and mitigating controls on an annual basis.**
  - **Performing data analysis to identify red flags and potential indicators of fraud.**
  - **Guiding implementation of anti-fraud programs and controls.**

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Online Fraud – The Threat is Real

- **Malware attacks explode.**
  - **Incidence of malware infections grew tenfold in 2009.**

    Bankinfosecurity.com, "Top 8 Security Threats of 2010," March 2010
  - **Number of malware-infected websites doubled from 2009 to 2010, topping 1.2 million in the third quarter.**

    spamfighter.com
- **Phishing attacks soar.**
  - **67,677 attacks in last half of 2010, up from 48,244 in first half.**

    Global Phishing Survey 2H2010
    Anti Phishing Working Group
- **Online fraud hits 3 out of 4 companies.**
  - **73% of small and midsize companies experienced some form of cyber attack in 2010.**

    Symantec State of Enterprise Security Report 2011

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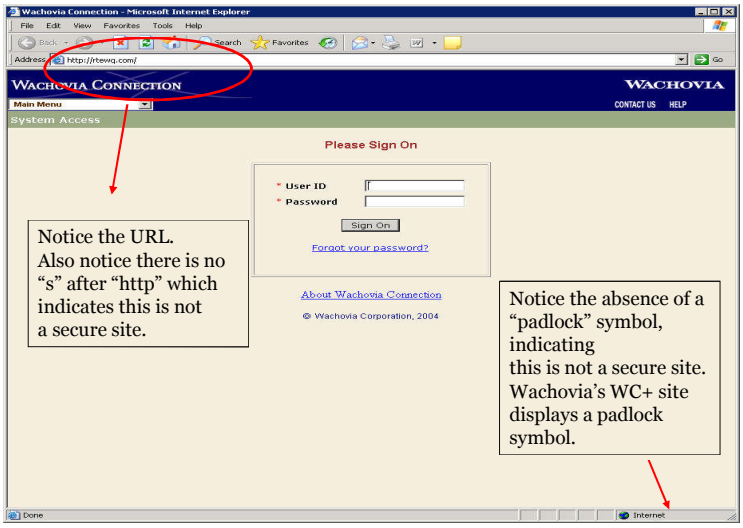
Online Fraud Basics

- The online fraudster's goal is simple.
  - Steal online banking credentials
  - Set up online transactions
  - Transfer money undetected
- Attacks are sophisticated, pervasive, ever-changing.
  - Increasingly rendering traditional prevention tactics and tools ineffective
  - Can defeat most anti-virus and anti-malware solutions
- Money is transferred to bank accounts of willing or un-witting individuals, known as "mules", who immediately withdraw the funds and send them overseas.
- Most financial institutions will never ask for confidential information through email.

How can you identify a bogus site?



Laws and Regulations Governing Online Fraud

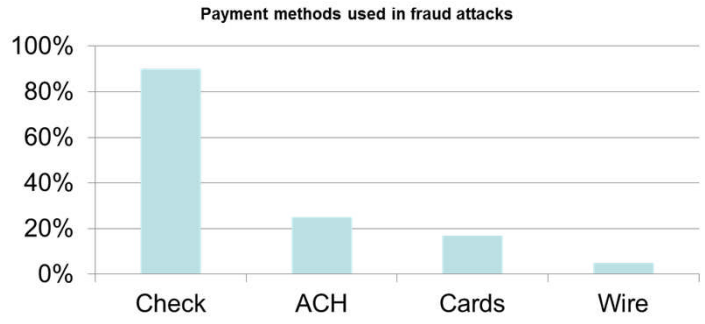
- Regulation E
  - Federal law protects consumers from unauthorized electronic funds transfers (EFT).
  - Protections do not apply to wire transfers or EFTs from business accounts.
- Uniform Commercial Code Article 4A
  - Governs funds transfers from a business account (ACH and wire) and wire transfers from a business or consumer account.
  - Defines "ordinary care" and "commercially reasonable standards."
  - Requires notifying bank of unauthorized transactions within a "reasonable time."

Commercial Account Agreements

- Your Bank's Commercial Account Agreement requires its customers to report unauthorized transactions within XX days of the date the Bank mails the statement that describes the unauthorized transaction.

No. 1 Form of Payment Fraud: Checks

- We still write a lot of checks.
- Checks are touched/seen more than any other payment form – easy target.



Source: 2010 *AFP Payments Fraud and Control Survey*

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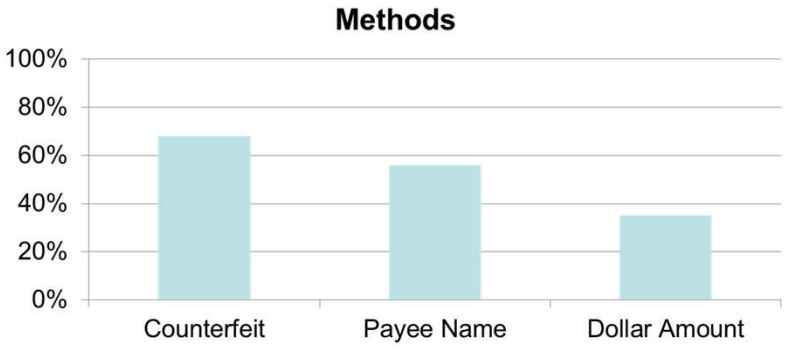
Most Common Check Fraud Methods



Source: 2011 *AFP Payments Fraud and Control Survey*

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How to Reduce the Risk of Check Fraud

- Minimize check writing.
  - Switch to electronic payments wherever possible
  - ACH, wire, commercial card
- Implement bank anti-fraud services.
  - Positive Pay, Reverse Positive Pay, Payee Validation, Teller Positive Pay
  - Payment authorization limits
  - Dual control
- Safeguard check stock.
- Consider outsourcing check printing.

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ACH is Not Immune to Fraud

- Fraudulent ACH debits often originate from – a compromised check!
- Ways ACH fraud can impact your business:
  - As a passive receiver of unauthorized ACH debits against your account.
  - As an active originator of e-check transactions – consumers providing fraudulent information to make purchases.
  - Redirect vendor payments to fraudulent accounts.

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Services to Protect Against ACH Fraud

- ACH Fraud Filter:
  - Review-service option – You review unauthorized transactions and make pay/return decisions.
  - Stop-service option – All ACH transactions, except those you preauthorize, are automatically stopped and returned to originators.
  - Available on most online banking systems.
  - Event messaging eligible.
- Electronic Receivables Option:
  - Provides proxy account numbers to vendors who pay by ACH and wire.
  - Keeps bank account numbers anonymous.

Questions and Discussion

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To View Venable's (Searchable) Index of Articles and PowerPoint Presentations on Nonprofit Legal Topics, see www.venable.com/nonprofits/publications.

Speaker Biographies

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Jeffrey S. Tenenbaum

Partner

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Jeffrey Tenenbaum chairs Venable's Nonprofit Organizations Practice Group. He is one of the nation's leading nonprofit attorneys, and also is an accomplished author, lecturer and commentator on nonprofit legal matters. Based in the firm's Washington, D.C. office, Mr. Tenenbaum counsels his clients on the broad array of legal issues affecting trade and professional associations, charities, foundations, think tanks, credit and housing counseling agencies, advocacy groups, and other nonprofit organizations, and regularly represents clients before Congress, federal and state regulatory agencies, and in connection with governmental investigations, enforcement actions, litigation, and in dealing with the media.

Mr. Tenenbaum was the 2006 recipient of the American Bar Association's Outstanding Nonprofit Lawyer of the Year Award, the inaugural (2004) recipient of the *Washington Business Journal*'s Top Washington Lawyers Award, the 2004 recipient of The Center for Association Leadership's Chairman's Award, and the 1997 recipient of the Greater Washington Society of Association Executives' Chairman's Award. He also was a 2008-09 Fellow of the Bar Association of the District of Columbia and is AV Peer-Review Rated by *Martindale-Hubbell*. He started his career in the nonprofit community by serving as Legal Section manager at the American Society of Association Executives, following several years working on Capitol Hill.

AREAS OF PRACTICE

Tax and Wealth Planning

Antitrust

Political Law

Business Transactions Tax

Tax Controversies

Tax Policy

Tax-Exempt Organizations

Wealth Planning

Regulatory

INDUSTRIES

Nonprofit Organizations and Associations

Credit Counseling and Debt Services

Financial Services

Consumer Financial Protection Bureau Task Force

GOVERNMENT EXPERIENCE

Legislative Assistant, United States House of Representatives

BAR ADMISSIONS

District of Columbia

HONORS

Listed in *The Best Lawyers in America* for Nonprofit Law (Woodward/White, Inc.)

Fellow, Bar Association of the District of Columbia, 2008-09

Recipient, American Bar Association Outstanding Nonprofit Lawyer of the Year Award, 2006

Recipient, *Washington Business Journal* Top Washington Lawyers Award, 2004

Recipient, The Center for Association Leadership Chairman's Award, 2004

Recipient, Greater Washington Society of Association Executives Chairman's Award, 1997

Legal Section Manager / Government Affairs Issues Analyst, American Society of Association Executives, 1993-95

AV® Peer-Review Rated by *Martindale-Hubbell*

Listed in *Who's Who in American Law* and *Who's Who in America*, 2005-present editions

EDUCATION

J.D., Catholic University of America, Columbus School of Law, 1996

B.A., Political Science, University of Pennsylvania, 1990

MEMBERSHIPS

American Society of Association Executives

California Society of Association Executives

New York Society of Association Executives

ACTIVITIES

Mr. Tenenbaum is an active participant in the nonprofit community who currently serves on the Editorial Advisory Board of the American Society of Association Executives' *Association Law & Policy* legal journal, the Advisory Panel of Wiley/Jossey-Bass' *Nonprofit Business Advisor* newsletter, and the ASAE Public Policy Committee. He previously served as Chairman of the *AL&P* Editorial Advisory Board and has served on the ASAE Legal Section Council, the ASAE Association Management Company Accreditation Commission, the GWSAE Foundation Board of Trustees, the GWSAE Government and Public Affairs Advisory Council, the Federal City Club Foundation Board of Directors, and the Editorial Advisory Board of Aspen's *Nonprofit Tax & Financial Strategies* newsletter.

PUBLICATIONS

Mr. Tenenbaum is the author of the book, *Association Tax Compliance Guide*, published by the American Society of Association Executives, and is a contributor to numerous ASAE books, including *Professional Practices in Association Management*, *Association Law Compendium*, *The Power of Partnership*, *Essentials of the Profession Learning System*, *Generating and Managing Nondues Revenue in Associations*, and several Information Background Kits. He also is a contributor to *Exposed: A Legal Field Guide for Nonprofit Executives*, published by the Nonprofit Risk Management Center. In addition, he is a frequent author for ASAE and many of the other principal nonprofit industry organizations and publications, having written more than 400 articles on nonprofit legal topics.

SPEAKING ENGAGEMENTS

Mr. Tenenbaum is a frequent lecturer for ASAE and many of the major nonprofit industry organizations, conducting over 40 speaking presentations each year, including many with top Internal Revenue Service, Federal Trade Commission, U.S. Department of Justice, Federal Communications Commission, and other federal and government officials. He served on the faculty of the ASAE Virtual Law School, and is a regular commentator on nonprofit legal issues for *The New York Times*, *The Washington Post*, *Los Angeles Times*, *The Washington Times*, *The Baltimore Sun*, *Washington Business Journal*, *Legal Times*, *Association Trends*, *CEO Update*, *Forbes Magazine, The Chronicle of Philanthropy, The NonProfit Times* and other periodicals. He also has been interviewed on nonprofit legal issues on Voice of America Business Radio and Nonprofit Spark Radio.

VENABLE® LLP

our people

William H. Devaney

Partner — New York, NY Office

T 212.307.5500 F 212.307.5598 whdevaney@Venable.com

William (Widge) Devaney is co-chair of Venable's Foreign Corrupt Practices Act (FCPA) and Anti-Corruption Group.

Mr. Devaney's practice includes white-collar criminal defense in federal and state proceedings, SEC enforcement investigations and actions, complex civil litigation, civil RICO, defending individuals and corporations in multi-national investigations, including FCPA and export control, as well as conducting national and international internal investigations on behalf of corporate management, audit committees and special committees of boards of directors.

Mr. Devaney has significant jury trial and appellate experience, as well as significant experience leading investigations.

Mr. Devaney was an Assistant United States Attorney in the District of New Jersey, where he was most recently a member of the Securities Fraud Unit. As a federal prosecutor, Mr. Devaney investigated and prosecuted numerous cases involving securities fraud, bank fraud, mail and wire fraud, tax evasion, money laundering, terrorism, government program fraud, computer trespass, and export violations. Prior to joining the Department of Justice, Mr. Devaney practiced white-collar criminal defense and complex civil litigation, representing clients in federal and state criminal investigations, SEC and CFTC investigations, as well as attorney disciplinary proceedings.

AREAS OF PRACTICE

Foreign Corrupt Practices Act and Anti-Corruption

SEC and White Collar Defense

Commercial Litigation

Congressional Investigations

Class Action Defense

Litigation

Securities Enforcement and Litigation

White Collar Criminal Defense

INDUSTRIES

Credit Counseling and Debt Services

Green Businesses

GOVERNMENT EXPERIENCE

Assistant United States Attorney, United States Department of Justice, District of New Jersey

BAR ADMISSIONS

New York

COURT ADMISSIONS

U.S. District Court for the Eastern District of New York

SIGNIFICANT MATTERS

Mr. Devaney's recent matters have included the defense of corporations and individuals in areas such as the FCPA, export control and economic sanctions, antitrust, tax evasion, insider trading, accounting fraud, Medicare/Medicaid fraud, visa fraud, and mail and wire fraud, civil RICO, securities litigation and consumer fraud actions by state attorneys general. Mr. Devaney has also recently conducted several national and multi-national internal investigations for companies in the insurance, chemical, software, retail, and logistics industries.

HONORS

Selected for inclusion in *New York Metro Super Lawyers 2011* in the Criminal Defense: White Collar category

ACTIVITIES

Mr. Devaney is co-chair of the American Bar Association White Collar Crime Section Sub-Committee on Transnational Crimes. He is a member of the Association of the Bar of the City of New York, (where he sits on the Criminal Advocacy Committee and previously sat on the Council for Criminal Justice), the Federal Bar Council and the

U.S. District Court for the Southern District of New York

U.S. Court of Appeals for the Second Circuit

EDUCATION

LL.M., Cambridge University, 1995

J.D., Georgetown University Law Center, 1991

A.B., *cum laude*, Georgetown University, 1988

JUDICIAL CLERKSHIPS

Honorable Oliver Gasch, U.S. District Court for the District of Columbia

National Association of Criminal Defense Lawyers. Mr. Devaney is also a member of the Criminal Justice Act panel for the U.S. District Court for the Southern District of New York.

PUBLICATIONS

Mr. Devaney has been the author of publications involving such topics as the FCPA and corporate compliance programs. Mr. Devaney also appears often in the print media commenting on current criminal matters.

- August 9, 2011, Preventing Embezzlement and Fraud at Nonprofits: What You Can Do To Protect Your Organization
- June 2011, Anti-Corruption Enforcement: The New Global Reality, *Financier Worldwide*
- May 4, 2011, Preventing Embezzlement and Fraud in Nonprofit Organizations
- April 2011, Could the Hospitality Industry be the Latest to Fall Under the FCPA Microscope?, FCPA and Anti-Corruption News E-lert
- March 2011, Indictment of Former GSK Lawyer Dismissed, Client Alerts
- March 2011, Frequently Asked Questions & Answers about the Foreign Corrupt Practices Act (FCPA)
- January 2011, Financial Services Industry - Latest FCPA Target?, FCPA and Anti-Corruption News E-lert
- December 2010, Amnesty Under the FCPA?: A Senate Spotlight Focuses Attention on Rising Concerns Regarding the FCPA's Explosive Growth, FCPA and Anti-Corruption News E-lert
- October 6, 2010, Protecting Your Nonprofit from Embezzlement & Fraud
- August 2010, A Lesson in Successor Liability: GE Settles Oil for Food FCPA Allegations, FCPA and Anti-Corruption News E-lert
- July 2010, Implementation of U.K. Bribery Act Postponed for Six Months, FCPA and Anti-Corruption News E-lert
- July 2010, FCPA News and Trends, FCPA and Anti-Corruption News E-lert
- May 19, 2010, Protecting Your Nonprofit's Money in the Post-Madoff Era
- 2010 Edition, The Rise of Cross-Border Corporate Criminal Enforcement, *Inside the Minds - International White Collar Enforcement*
- February 23, 2010, Protecting Your Nonprofit's Money in the Post-Madoff Era
- January 25, 2010, DOJ Uses Undercover Sting Operation to Bring Foreign Bribery Case, FCPA and Anti-Corruption News E-lert
- January 2010, DOJ Targets Pharmaceutical & Life Sciences Companies for FCPA Enforcement, Client Alerts
- September 8, 2009, Preventing Embezzlement in Your Nonprofit Organization
- August 13, 2009, Recent Crackdown on U.S. Export Compliance for Logistics Providers, International Trade Alert
- December 2006, Department of Justice Alters its Procedures For Criminally Charging Corporations, SEC Update
- September 2006, Changes to the Federal Rules of Evidence May Have a Negative Impact on Corporate America, SEC Update
- May 1, 2006, SEC Update, May 2006, SEC Update
- July 21, 2004, Corporate Compliance Programs and the Sentencing Guidelines, *New York Law Journal*

SPEAKING ENGAGEMENTS

Mr. Devaney has recently lectured on reverse mergers, trends in SEC and Department of Justice enforcement and responding to attorney general civil investigations.

While with the Department of Justice, Mr. Devaney lectured extensively on the Patriot Act. He has also lectured on corporate criminal liability and served as a faculty member at the National Advocacy Center.

- December 6, 2011, Detecting and Preventing Fraud and Embezzlement in Your Nonprofit Organization
- October 21, 2011, "Opportunities and Challenges in Implementing an International Business Strategy"
- October 11, 2011, "International Collaborations: Negotiations and Compliance" for NCURA TV
- August 9, 2011, Legal Quick Hit: "Embezzlement and Fraud at Nonprofits: What You Can Do to Protect Your Organization" for the Association of Corporate Counsel's Nonprofit Organizations Committee
- July 14, 2011, Impact of the U.K. Bribery Act on U.S.-Based Businesses
- May 4, 2011, "Preventing Embezzlement and Fraud in Nonprofit Organizations" for the NYS Society of CPAs
- April 13, 2011, "Foreign Corrupt Practices Act (FCPA): Impact on Entertainment and Sports Industries" for Association of Corporate Counsel
- January 6, 2011, "Director and Officer Civil and Criminal Liability in Failed Banks and Thrifts," webinar hosted by Venable LLP
- October 14, 2010, "Nuts & Bolts of the Foreign Corrupt Practices Act [FCPA]: What Companies Conducting Foreign Business Should Know" at Rutgers School of Law - Newark
- October 14, 2010, "Preventing Embezzlement in Your Organization," Nonprofit Spark Radio Show
- October 6, 2010, "Preventing Embezzlement in Your Nonprofit Organization" webcast for the Association of Corporate Counsel Nonprofit Organizations Committee
- June 29, 2010, Honest Services Fraud: What Government Contractors, Government Attorneys, and the Private Bar Need to Know
- June 25, 2010, "Corruption - The New Global Landscape" Breakfast Seminar at Venable LLP
- June 10, 2010, "Corruption - The New Global Landscape" Breakfast Seminar at Field Fisher Waterhouse LLP
- May 19, 2010, Protecting Your Nonprofit's Money in the Post-Madoff Era
- April 9, 2010, Foreign Corrupt Practices Act (FCPA) Assessing Risk and Maintaining Compliance Webcast
- February 23, 2010, "Protecting Your Nonprofit's Money in the Post-Madoff Era" at the 2010 Charity Effectiveness Symposium, hosted by The Education and Research Foundation of The Better Business Bureau of Metropolitan New York
- January 12, 2010, Insider Trading Enforcement Trends: Considerations for Hedge Funds and Alternative Managers
- September 17, 2009, "Foreign Evidence: Collecting it and Protecting it" for the American Bar Association
- June 12, 2009, The Reverse Merger Conference 2009
- June 9, 2009, Venable is Hosting the National Foreign Trade Council Global Payroll Seminar
- April 17, 2008, Forensic and Valuation Services (FVS) Webinar
- March 31, 2008 - April 1, 2008, Investors' and Issuers' Summit on Alternative Capital Raising Strategies
- December 4, 2007, THE CREDIT CRUNCH: How to Not Only Survive, But Prosper

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Monica Modi Dalwadi, CPA, CIA, CFE

Director

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Monica Modi Dalwadi is a Director in Baker Tilly's risk advisory services practice with ten years of experience. Monica's primary focus is fraud investigations, internal auditing, and consulting on a wide range of business issues and regulatory compliance matters, corporate governance and internal control structures, at private, public, and not-for-profit organizations.

Specific experience

- Performs fraud investigations, fraud risk assessments, and forensic accounting work.
- Works with internal and external legal counsel, assists in prosecution efforts, and uncovers and gathers evidence that would have otherwise gone undetected, through detailed review efforts.
- Her investigative work has resulted in criminal sentancing, employee terminations, and client process revisions.
- Adept at using datamining procedures to locate potential fraud and errors.
- Conducts foreign corrupt practices act (FCPA), human resources, and treasury fraud audits internationally.
- Performs detailed reviews of executive expenses for potentially inappropriate, abusive, or wasteful reimbursement requests.
- Perform construction audits and has lead four webinars on construction auditing for over 250 participants.
- Analyzes manadory disbursments (e.g., tax remittances) for impropriety.
- Has reviewed organizational hiring practices including claims of nepotism, favoritsm, conflicts of interest, and insufficient background checks.
- Worked on NCAA compliance matters for an institute of higher education where she helped to re-institute inelgible athletetes within one day of non-compliance.
- Worked on Sarbanes-Oxley engagements since the inception of the legislation. Her work has included full scale implementations, efficiency reviews, and co-sourced as well as outsourced testing of controls.
- Currently serving as the lead manager on the firm's largest outsourced internal audit client, where she is responsible for assisting with the risk assessment process, developing and executing audit programs, and board level reporting.
- Performed audit and consulting activities in India for a mircofinance bank and a manufacturing and distrubution client.

- Has helped numerous clients in performing risk assessments, analyzing the results, and developing risk responses; and has presented these plans and their results to senior leaders and board members across a wide span of industries.
- Participates in ongoing operational meetings with her clients to discuss compliance, strategy, and control matters.

Publications and Presentations

- Monica has co-authored, “Conducting Internal Investigations of Sponsored Research Activities” Parts I and II in NCURA Magazine.
- Monica has delivered four webinars with ACUA on construction audit activities, including pre-construction audits, continuous monitoring, and post-construction audits.
- Monica has presented, “Compliance Triage: Responding Rapidly to Hotline Requests” and “Auditing Fraud in Sustainability Projects” at the ACUA National Conference.
- Monica has presented, “Getting Practical about Privacy” and “The IRS Compliance Project” at the SCCE National Conference.
- Monica has facilitated a discussion on “Document and Evidence Review in Fraud Investigations” at the ACFE.
- Monica has presented, “Foreign Corrupt Practices Act Audit Activities” at a Fraud Seminar for the Northern Virginia Chapter of the Institute of Internal Auditors.

Industry involvement

- Association of College and University Auditors
- Association of Certified Fraud Examiners
- Institute of Internal Auditors
- Society for Corporate Compliance and Ethics
- Virginia Society of CPAs
- Vice President of the Board of Directors, Washington Improv Theatre
- UNC Kenan-Flagler Business School Alumni Club
- Ascend: Pan-Asian Leaders in Finance and Accounting

Industry involvement

- Recognized as a SMARTCPA in the September 2011 issue of SMARTCEO Magazine

Education

Georgetown University
Masters of Business Administration

University of North Carolina at Chapel Hill
Bachelor of Science in Business Administration

WELLS FARGO

Maria Christofi Georges

Senior Vice President
Education & Nonprofit Banking
Wells Fargo & Company

Maria Georges is a senior vice president in Wells Fargo's Education & Nonprofit Banking group. Based in McLean, Va., Maria specializes in providing customized financial solutions to national and international nonprofit organizations headquartered in the Washington, D.C., area. She's responsible for providing a seamless client experience while delivering Wells Fargo's full capabilities to her clients. She also serves as direct liaison with bank executive management.

Maria has been in the commercial banking field for 22 years. She has spent the last 20 years focusing her talents on the nonprofit community. For 10 of those years, she worked at Bank of America where she was responsible for building one of the largest portfolios of nonprofit clients.

Active in her community, Maria has spent 16 years as a volunteer and board member for the Juvenile Diabetes Research Foundation, most recently as Gala Auction Chair; eight years with the Finance & Administration Roundtable, where she served as Chair, among other positions; an active volunteer and member of the Finance and Business Operations Section Council for ASAE; and serves on the finance committee of the Preeclampsia Foundation. She also serves in a variety of volunteer capacities at her children's school.

Maria has also been a guest speaker for ASAE, the Finance & Administration Roundtable, and the National Council of LaRaza, as well as other major industry organizations on various banking topics.

Maria was selected as a member of ASAE's Future Leaders Conference and was selected as a rising star in Washington Business Forward's magazine Next Network issue. She graduated from George Mason University in Fairfax, Va., with a B.S. degree in business administration.

Maria is married with two children and resides in Fairfax, Va.

Additional Information

VENABLE® LLP

Publications

September 8, 2009

Preventing Embezzlement in Your Nonprofit Organization

AUTHORS

William H. Devaney

Jeffrey S. Tenenbaum

RELATED PRACTICES

SEC and White Collar Defense

RELATED INDUSTRIES

Nonprofit Organizations and Associations

Related Topic Area(s): Corporate Governance, Miscellaneous

Sadly, nonprofit organizations are not immune from employee embezzlement. Because many nonprofits tend to be more trusting of their employees and have less stringent financial controls than their for-profit counterparts, they fall prey to embezzlement and other forms of employee fraud at an alarming rate. By way of recent example:

- On September 17, 2009, the former CFO of the Association of Fish and Wildlife Agencies, an international conservation group based in Washington, D.C., is to be sentenced in federal court after her plea of guilty to wire fraud. A 10-year employee of the organization who worked her way up to CFO, she used the organization's credit card to charge approximately $184,000 in personal expenses, including hair and make-up expenses and casino charges.
- On September 4, 2009, the former Executive Director of the Oklahoma CASA Association, an advocacy agency for abused and neglected children, received a 15-year prison sentence after her plea of guilty to embezzling $549,024. Another 10-year employee of the organization, she also used the organization's credit cards for personal expenses such as foreign vacations, cosmetic surgery, and college tuition. During the investigation, it was reported she told law enforcement officers, "I was very good at cooking the books."
- On August 31, 2009, a former bookkeeper and office manager at the House of Ruth, a California organization that provides shelter to homeless women and children, was sentenced to a year in prison. The former bookkeeper and office manager had pleaded guilty earlier in the year to federal charges of misappropriating $138,370 in federal funds and embezzling $238,000 from the organization's bank accounts.

Nonprofits are not defenseless, however, and there are several proactive steps organizations can take to prevent and detect employee embezzlement.

Double Signatures, Authorizations and Back-up Documentation

Multiple layers of approval will make it far more difficult for embezzlers to steal from the organization. For expenditures over a predetermined amount, require two signatures on every check and two authorizations on every cash disbursement. Where the professional staff of an organization is too small to effectively implement a double authorization policy, consider having a (volunteer) officer or director be the second signatory or authorization required (generally, an officer will be preferable to a director). Similarly, all check and cash disbursements should be accompanied by an invoice or other document showing that the payment or disbursement is appropriate. If the size of your organization allows it, the invoice or disbursement request should be authorized by a manager who will not be signing the check. Never pre-sign checks. With credit cards, require prior written approval for costs estimated to exceed a certain amount. Again, the person using the card cannot be the same person authorizing its use.

Segregation of Duties

Hand in hand with multiple authorizations goes the segregation of duties. At a minimum, different employees should be responsible for authorizing payments, disbursing funds, and reconciling bank statements and reviewing credit card statements. If the organization does not have enough professional staff to effectively segregate duties, a (volunteer) officer or director should be tasked with reconciling the bank statement and reviewing credit card statements. Because embezzlement also can occur when funds are coming into an organization, no single individual should be responsible for receiving, depositing, recording, and reconciling the receipt of funds. By the same token, all contracts should be approved by a manager uninvolved and personally uninterested in the transaction (*i.e.*, it will not impact his or her bonus or salary) and, wherever possible, contracts should be the product of competitive and transparent bidding.

Fixed Asset Inventories

At least yearly, the organization should perform a fixed asset inventory to ensure that no equipment or other goods are missing.

Background Checks

Background checks on new employees and volunteer leaders can unearth things such as undisclosed criminal records, prior instances of fraud and heavy debt loads that can make it more likely that an employee or volunteer leader might succumb to fraud.

Audits and Board Level Oversight

The control measures discussed above only work if someone is checking. In addition to management, who should be ensuring that the measures discussed above are followed, organizations should also undertake regular external audits to ensure that these measures are effective. Organizations also should establish audit committees on their board of directors, containing at least one person expert in accounting, that would serve as the primary monitor of these anti-fraud measures. In lieu of an audit committee, smaller organizations should consider putting a CPA or other financially-knowledgeable person on the board of directors to serve a similar function.

* * * * * *

While there will always be instances where a determined thief manages to beat an organization's controls, the steps suggested above will go a long way toward deterring embezzlement and other types of fraud, and will make it easier to expose dishonest employees.

William Devaney is a partner at Venable LLP, resident in its New York City office. A former federal prosecutor, he frequently conducts internal investigations for nonprofit organizations and represents them in government investigations.

Jeffrey Tenenbaum is a partner at Venable LLP, resident in its Washington, DC office. He chairs Venable's Nonprofit Organizations Practice Group.

This article appeared in the September 11, 2009 issue of *Association Trends;* the December 2009 issue of *Exempt Magazine;* the November/December issue of *Association Impact;* and the 2010 edition of *Journal for Nonprofit Management.*

Facts and protection strategies

Fight fraud checklist

Online fraud-fighting strategies

- ☐ Implement **dual custody** on all online payment transaction and self administration services. Dual custody requires a second level of approval to release online payment transactions and make self administration user changes.
- ☐ **Train your employees *never*** to give out their online banking access credentials (IDs, passwords, and token passcodes).
- ☐ **Do not respond** to an e-mail, phone call, or text message expressing an urgent need for you to update your information, activate an account, or verify your identity by calling a phone number or submitting information on a Web site. Report these phishing attempts to your relationship manager or ReportPhish@wellsfargo.com or abuse@wachovia.com.
- ☐ **Scan** for viruses frequently **and update** antivirus and antispyware software and firewalls regularly.
- ☐ **Use trusted Web sites.** Always access the *Commercial Electronic Office*® (*CEO*®) portal and *CEO Mobile*® service through our trusted Web address or mobile apps. Sign on to the *CEO* portal through wellsfargo.com, never through a link in an e-mail or text message. The *CEO Mobile* app is available through the Apple iTunes App Store, the Blackberry shortcut from the *CEO Mobile* sign-on page.
- ☐ **Protect your network.** Identify trusted Web sites for your business and block access to any Web address that is not relevant to your employees' business needs.

Electronic payment fraud-fighting strategies

- ☐ Place the Wells Fargo **ACH Fraud Filter** service on all accounts.
- ☐ Set **authorization limits** by dollar amount and account number for each individual user of online payment transaction services.
- ☐ Implement the Wells Fargo ***Perfect Receivables***® service if you have a high volume of ACH and wire receivables.
- ☐ Sign up for the *CEO* **Event Messaging** service to receive text or e-mail notifications alerting you of electronic debits from your accounts.
- ☐ Initiate money movement transactions from **standalone PCs** that are not enabled for e-mail or Web browsing.

Fraud attacks on your accounts undoubtedly will increase. The good news is that you can foil most fraud attempts with the right fraud protection strategies.

Together we'll go far

- ☐ Use **repetitive payment templates** to prevent modification of key fields, such as beneficiary information.
- ☐ **Return** unauthorized ACH debits to your accounts promptly. Know the time limits for returns.

Check fraud-fighting strategies

- ☐ **Replace check payments** with more secure ACH, wire, and card payments.
- ☐ Use **separate accounts** for check payments and for ACH and wire payments.
- ☐ Implement **positive pay** services on *all* accounts on which you issue checks.
- ☐ Implement **payee validation** services on *all* accounts with positive pay.
- ☐ Implement **reverse positive pay** services if you are unwilling or unable to transmit issued check files to the bank.
- ☐ **Keep check issue files and online check registers up to date** at all times, including intraday.
- ☐ Verify that your bank has **integrated check and electronic payment systems** so that checks converted to ACH appear in reconciliation reports and flow through the positive pay system.
- ☐ Establish **payment authorization** controls on all depository-only accounts. Set the maximum dollar limit for checks clearing the account at $0.
- ☐ Apply **dual custody** to check issuance: assign one employee to create checks, another to verify the checks and send issue files to the bank.
- ☐ **Lock up** blank checks, check stock, and signature stamps. Require two keys to open the lock.
- ☐ **Shred** unused or outdated check stock before disposing of it.
- ☐ **Investigate claims** in which a customer claims to have paid a bill, but your files show no record of the payment. A dishonest employee could have intercepted the check.

General fraud-fighting strategies

- ☐ **Reconcile** your bank accounts daily.
- ☐ **Know your employees.** Perform credit checks and background checks of all new employees who have access to your accounts, account records, or cash. Telephone at least three references to verify an applicant's information.
- ☐ **Know your vendors.** Require all changes to vendor payment account numbers to be made in writing on the vendor's letterhead and verified with a call to the vendor's telephone number in your files.
- ☐ **Keep authorizations up to date**. When an authorized signatory or approver on your accounts leaves your company, notify your bank immediately to remove the employee name from all authorizations. Conduct an annual audit of all bank signature cards, funds transfer agreements, access codes, and other authorizations to ensure they are current.

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Fraud-Fighting Strategies

The bad news is that you can't stop fraud attempts. Today's embezzlers, organized crime rings, and fraudsters are opportunists just looking for an opening. If you leave a door ajar, they will find a way in and steal from you.

The good news is that you can stop thieves and foil most fraud attempts by putting the right fraud protection program in place.

Six rules for a strong fraud protection program

1. **Protect access credentials**. Never give out passwords, IDs, token codes, token serial numbers, or other authorization credentials. If you receive an e-mail, phone call, or text message claiming to be from your financial institution, asking for your credentials, it is likely a "phishing" attempt. DO NOT respond to it. Report it to your financial institution immediately.
2. **Increase your internal controls**. Implement dual custody on all online payment services (ACH, wire transfer, foreign exchange) and self-administration services; reconcile accounts daily to detect suspicious activity; lock check stock and signature stamps in a secured location; update antivirus and antispyware software and firewalls regularly.
3. **Educate your employees**. Instruct your employees never to give out the credentials they use to access your online banking systems or accounts. Repeat this message often so it remains top of mind. Our customers' employees who were victims of phishing fraud tell us this happened for one of two reasons:
   - They didn't know about phishing fraud; they lacked education.
   - They knew, but let down their guard; they needed to be reminded.

   Remind your employees of the following:
   - **Do not** click on links purporting to be antivirus or anti-malware software.
   - **Do not** download files from peer-to-peer sources or other unknown sources.
4. **Know your employees**. Perform a credit check and a background check on all new employees who have access to your accounts, account records, or cash. Call at least three references to verify information.
5. **Keep authorizations up to date**. When an authorized signatory or approver on your accounts leaves your company, notify your bank immediately to have that employee's name removed from all authorizations. Conduct an annual audit of all your bank signature cards, funds transfer agreements, access codes, and other authorizations to ensure they are current.
6. **Know your vendors**. Require all changes to vendor payment account numbers to be made in writing on the vendor's letterhead and verified with a call to the vendor's telephone number in your files.

Are you doing everything you can to fight fraud?

Use this fraud protection strategies checklist (PDF*) to make sure you cover all your bases.

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