

RISK COMMUNIQUÉ

Fidelity

Fidelity is defined as the strict observance of promises, duties, etc. or adherence to fact or detail. Unfortunately, some officers and managers are not always honest and may be tempted to divert money and other financial assets from your organization for personal gain. This would be known as a Fidelity Claim. Fidelity claims are on the rise.

Fraud, the intentional perversion of the truth in order to induce another to part with something of value or to surrender a legal right, is the umbrella term for many financial losses. Fraud is the most common crime perpetrated against nonprofits.

Someone inside or outside the organization can commit a fraud or a theft of organizational assets or resources. An employee can embezzle funds, steal office supplies or merchandise, pad his/her expense accounts or create a fictitious company and bill the organization for services never rendered. An outsider can sell bogus merchandise, overcharge the organization for materials or services or entice the organization to make bad investments. Imagination is the only limit of the ways to defraud an organization. Insurance cannot and does not cover all of these circumstances. Unfortunately, for every control or security system the organization implements, there is always someone smart enough to breach it. Catching wrongdoing before it translates to sizable losses is the key.

Directors, managers, chief officers, accountants, administrative assistants, thrift shop managers and special event coordinators all could become a financial drain on any organization if they do not perform their job responsibilities with fidelity. The real problem for an organization is that when these losses occur, they generally occur over relatively long periods of time. This may result in staggeringly high losses.

There are proven risk control methods for reducing the possibility of the conditions that make Fidelity theft possible. The following are some of these controls:

For Persons With Purchasing, Fund Management and Check Writing Responsibilities:

- Screen applicants for these positions. Establish and follow screening procedures, which may include reference checks, credit checks and criminal records checks. Use these procedures for all applicants but check only for information relevant to the duties of the position to avoid charges of discrimination against a particular group.
- Observe new employees. Watch daily receipts and scrutinize the work of new employees until you are satisfied that you can trust them.
- Checks should always require two signatures, signed only **after** they have been written in full. **Never** sign blank checks or allow the use of signature stamps, even for convenience.

This is a sample guideline furnished to you by Hospice and Community Care Insurance Services. Your organization should review it and make the necessary modifications to meet the needs of your organization. The intent of this guideline is to assist you in reducing risk exposure to personnel. For additional information on this topic, you may contact your Risk Control Representative at (800) 233-1957 or visit www.hccis.com

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- Have your organization's bank require signature cards to be kept on file. Your organization should keep these up-to-date.
- Bank statements should be received and reconciled by someone who does not have check writing authority.
- Have an independent third party audit your books annually.
- Whenever possible, do not permit persons with close personal ties (husband/wife; brother/sister; business partners) to have control of organizational check writing or reconciliation.
- Require purchase orders and invoices for all purchases of property or service. Have these compared to the written checks.
- Separate financial functions as much as is practical.
- Conduct background checks on all new officers and members.
- Have all financial policies in writing.
- Review your organization's insurance policies to assure available fidelity coverages are in place.

For Persons Who Handle Fund Raising or Special Events Cash:

- Conduct background and credit checks on all new officers and members.
- Do not permit persons with close personal ties (husband/wife; brother/sister; business partners) to handle cash without a third party present.
- For large amounts of cash or for events occurring over a long period of time, have frequent pick-up and accounting of cash. Collected money should be bank deposited to limit the amount of on-hand cash.
- Have at least two people responsible for reconciliation and deposit of cash.
- Whenever possible, have some form of paper trail (ticket stubs, bill of sale and sign-in sheet) so that a close estimate of the anticipated cash can be obtained and confirmed.
- Have all financial policies in writing.

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