

An excerpt on preventing fraud from

MONEY MANAGEMENT IN A HOMESCHOOL ORGANIZATION



A GUIDE FOR
TREASURERS

CAROL TOPP, CPA

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AN EXCERPT ON PREVENTING FRAUD FOR BOARD MEMBERS

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Money Management in a Homeschool Organization: An Excerpt on Preventing Fraud for Board Members

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Introduction

The book, *Money Management in a Homeschool Organization*, is subtitled *A Guide for Treasurers* but there is some information that should be read by all board members of a homeschool organization, not just the treasurer. The full book can be purchased at HomeschoolCPA.com.

This is an excerpt of pertinent information for board members on how to prevent fraud or mistakes in the finances. Chapter 9 “Fraud: It Couldn’t Happen to Us” should be read by everyone in leadership, not just the treasurer because preventing fraud is the responsibility of the entire board and because most fraud is committed by treasurers that do not have proper oversight.

Excerpt from

Chapter 9: Fraud: It Couldn't Happen to Us

WE DON'T LIKE to hear it, but homeschool groups can be victims of fraud and embezzlement. I recommend that homeschool organizations put into place several financial practices that will provide oversight and accountability of the organization's finances. Your organization may already have several of these practices as policies or required in your bylaws.

Check off any practices you already follow. Make a plan to add in any practices that you do not currently practice. Your board should follow up to be sure the policies are put into practice.

RECOMMENDED FINANCIAL PRACTICES

SEPARATION OF DUTIES:

It is vital to your group's financial health to separate the three main duties of authorization, bookkeeping, and reconciling the bank accounts. These duties should be separated and performed by at least two, preferably three, people.

- Authorization of expenses should be done by the board by approving a budget. Some boards have the chairman review every request for reimbursement. Others allow the treasurer to write checks up to a certain dollar amount, but checks above that amount must be authorized by the chairman.
- The treasurer is largely responsible for bookkeeping. In order to keep a separation of duties, he or she should not be approving payments nor reconciling the bank account.
- Another board member or even a volunteer should reconcile the checking account. This may be awkward if the records are on the treasurer's computer. I recommend using QuickBooks online so that it is possible for several people to access the financial records from remote locations. Also the board should be given financial statements on a regular basis so that they are checking the organization's revenues and expenses.
- The treasurer should get authorization before writing a check or paying a bill. For example, the chairman should approve a request for reimbursement or authorize the payment of an invoice, not the treasurer.
- The treasurer should not sign checks. Another board member (usually the president, chairman or director) approves the payment and then signs the check.
- Cash deposits should be counted by one person and verified by another person; both should initial the deposit slip.
- If checks are received by mail, two people should open the mail. All checks to be deposited should receive a stamped deposit confirmation. Purchase a stamp that says "For deposit only" and includes your bank and account number.
- A treasurer should not serve too many years without a break. I recommend a treasurer serve at most three years and then a new treasurer should be found.

MONTHLY BANK RECONCILIATION

- Bank statements should be mailed to a home address of someone other than the treasurer and checked by a board member other than the treasurer.
- A bank reconciliation report should be prepared and given to the board monthly. The board should look for missing checks, checks used out of order, and uncleared checks.
- The treasurer should not reconcile the bank account. It is best if another board member or volunteer does the bank reconciliation. This can be very inconvenient if your organization uses software that is located on a home computer. In those cases, the bank statements should still be mailed and reviewed to someone other than the treasurer. The treasurer can do the bank reconciliation and give a reconciliation report to the board on a monthly basis.

FINANCIAL REPORTING TO BOARD

Each board member has a fiduciary duty of care and loyalty to manage the organization and its funds within the purpose or mission of the organization and not for private gain or benefit.

Specifically, the duty of care includes reading and evaluating financial statements and ensuring the organization has enough funds to meet its purpose. The duty of loyalty includes making a reasonable effort to focus on the priorities of the organization and not that of yourself or another organization.

To exercise the duties of care and loyalty, there are several recommended practices:

- Financial reports, such as a Statement of Revenues and Expenses, Budget to Actual statement, bank reconciliation report, and a Balance Sheet, should be delivered to the board by the treasurer every month.
- Two or three board members should have online access to the checking account and log in frequently and regularly.
- The board should understand how to read a financial statement and ask questions. See Chapter 4 “How to Read and Understand Financial Statements” and share it with your board.

ANNUAL BUDGET

- The board should approve a budget every year.
- The treasurer should give a report comparing the budget to actual income and expenses to the board on a regular basis, perhaps monthly.
- The chairman or the full board should authorize spending outside or beyond the budget.
- The treasurer should not write checks beyond or outside the budget without board authorization.
- The board should set dollar thresholds on what the chair can authorize alone and when the full board needs to be consulted.

CASH AND CHECKS

- Checks should be pre-numbered, used in order and kept safe and secured.
- Checks should be prepared by someone other than the person who approves payments. The treasurer may prepare the checks, but the chairman approves them and signs them.

- ❑ Checks or requests for reimbursement should be prepared from original invoices/bills or reimbursement requests with copies of receipts attached. In other words, the treasurer should request paper receipts before making a payment for reimbursement.
- ❑ The board should authorize all check signers annually.
- ❑ Never allow signing of blank checks.
- ❑ Checks received should be stamped "For Deposit Only" by the person opening the mail.
- ❑ Checks and cash should be deposited as soon as possible; the same day as received, if possible.
- ❑ A log of payments received should be kept including the date, payer, purpose and amount.
- ❑ If your organization receives cash, a cash receipt should be prepared and given to the payer. A copy of the receipt should be kept by the organization. A sales receipt book with duplicates is a good idea when dealing with cash.

True story: A new treasurer called me with several concerns about the financial practices of her very large co-op. It had been the practice for many years for the treasurer to give checks to co-op teachers at the beginning of the year. Some of these checks were quite large—thousands of dollars. The teachers never gave an account of where they spent the money nor turned in receipts. There was no accountability and no duty of care by the board. I communicated in an email to the board in the strongest words possible that this practice was unacceptable—even illegal (because neither the co-op nor the teachers were treating this as taxable income. See Chapter 7 for details on a proper reimbursement policy). They ignored my advice and the treasurer resigned rather than have any part of this improper and unethical behavior.

Some of these suggestions are difficult to implement in a small homeschool group, so try to comply with as many of the recommendations as you can. The goal should be to separate duties and cross check responsibilities as much as possible.

FINANCIAL AUDITS: DO YOU NEED ONE?

An annual audit of the finances in a homeschool group can help catch mistakes and bad habits, but audits are time consuming and expensive if performed by outside auditors. They typically cost \$3,000 to \$5,000. A CPA who specializes in nonprofit audits recommends that an outside audit is not needed until an organization has at least one million in annual revenues.

Instead of an outside audit, many small nonprofits and churches do an internal audit annually or every other year. An internal audit goes beyond the list of financial practices listed above, but it is not as extensive as a full audit. Internal audits are performed by people within the organization, but not by the treasurer or the chairman of the board. The internal auditors examine accounting records and check for compliance with sound financial procedures.

The following website explains internal audits for small churches and nonprofits:
FreeChurchAccounting.com/churchaudit.html

It also contains a checklist for conducting an internal audit. Some of the topics may or may not apply to your homeschool organization, but the checklist is very helpful.

FreeChurchAccounting.com/support-files/internalauditchecklistguidelines.pdf

WARNING SIGNS

There are several signs that your treasurer may be conducting fraud or embezzling money from your group.

- The treasurer does it all; no separation of duties.
- The treasurer has personal financial troubles.
- The checkbook is inaccessible to anyone but the treasurer.
- The treasurer is not performing expected duties, such as writing checks.
- No budget is created.
- Payors do not receive a receipt of their cash payments.
- The treasurer is not detailed-oriented.
- The treasurer does not create financial statements.
- No one but the treasurer sees the bank statements.
- The treasurer will not allow anyone else online access to the checking account.
- The treasurer will not resign and stays on for more than 3 or 4 years.

If you see any of these signs, discuss it with your board and recommend an internal audit be conducted as soon as possible. Hire an outside CPA or fraud specialist to advise you.

WHAT TO DO IF YOU SUSPECT FRAUD

Get help from an attorney, a CPA with fraud experience or a certified fraud examiner. If an investigation is warranted, says Allan Bachman, education manager of the Association of Certified Fraud Examiners, it should be conducted by a trained professional and not by group members with no training in such matters.

Resist the temptation to confront the suspect. If you try to handle the matter internally, you could put yourself and your group at risk for liability.

Contact the police when advised by your lawyer. This is an agonizing decision, but it should be made based on the evidence, not your personal relationship with the person you suspect.

Cooperate with the authorities. The police will review evidence, question the suspect, and determine whether he or she should be charged. If police decline to pursue the case, your attorney can advise you on a civil suit.

When communicating with your group, focus on the steps you are taking to recover the money and prevent theft. Do not comment on past actions, including the alleged theft and any current or pending charges, unless the person has been convicted.

Keep your group functioning as normally as possible. A legal case can take a year or longer to resolve. You don't want to put your events and other activities on hold.¹

Please do not let embezzlement go unpunished. The guilty party will just go onto another organization and could do more damage. Seek to get the embezzled funds paid back to you.

CONCLUSION

To avoid fraud, implement as many of the financial practices listed in this chapter as possible. Conduct internal audits frequently and report suspected fraud to the authorities.

ABOUT THE AUTHOR



Carol L. Topp, CPA, is an accountant and a retired homeschooling mother. She earned her Bachelor of Science degree from Purdue University and worked as a Cost Analyst for the US Navy for ten years. In 2000, Carol passed the Certified Public Accountant (CPA) examination. Carol began homeschooling her two daughters when they started first grade. They are now homeschool high school graduates. She was very active in her local homeschool community teaching classes and speaking at support group meetings.

As an accountant, Carol has served on several not-for-profit boards. She has consulted with leaders from over 300 homeschool organizations and helped more than 90 organizations obtain 501(c)(3) tax-exempt status. In addition, Carol prepares the annual Form 990 reporting with the Internal Revenue Service (IRS) for several homeschool and nonprofit groups. In 2006, Carol launched her website www.HomeschoolCPA.com to help homeschool organizations lead successful groups. It was voted a Top Accounting Blog in 2012, 2015 and 2016.

She is the author of *Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out*, *The IRS and Your Homeschool Organization*, *Money Management in a Homeschool Organization: A Guide for Treasurers* and the ebook *Paying Workers in a Homeschool Organization*.

Carol's publications include numerous articles, podcasts and webinars about operating a homeschool nonprofit organization. Her articles have appeared in *The Old Schoolhouse*, *Home Education* and *Home School Enrichment* magazines. In addition, Carol has enjoyed conducting workshops for homeschool leaders at conventions across the country.

Carol lives with her husband in Cincinnati, Ohio where she enjoys reading, traveling, and helping homeschool leaders. Carol can be contacted through her website www.HomeschoolCPA.com.

¹ Ghezzi, Patti. "Protect Your Parent Group From Embezzlement." PTO Today. <http://www.ptotoday.com/pto-today-articles/article/1180-protect-your-parent-group-from-embezzlement>. Accessed October 29, 2013.