

# Crime Risk Management Best Practices

---

## Introduction

There has been a substantial change in one of the insurance coverages that we wanted to bring to your attention. The change in the policy affects only the policy deductible for the Crime Coverage, specifically the coverage for employee or volunteer embezzlement. This resource is intended to a packet of information to help our clients better understand and manage their risk of embezzlement claims.

## Compulsory Controls

The insurance company has now defined and requires specific accounting practices or compulsory controls. When a claim occurs and where this is met, a lower deductible per occurrence will apply. One of the main requirements is “dual control” or having two separate individuals involved in the ongoing financial management of a House Corporation.

If there is a lapse in these compulsory controls of your operation, a substantially higher deductible of \$100,000 per occurrence will apply. Therefore, it is incumbent upon your leadership to review these controls being recommended and make certain that your House Board can meet this test.

In the past six years, the insurance company has seen a substantial increase in the number of sorority related embezzlement claims, both in frequency and severity (larger dollar claims). As a way to maintain and preserve this important coverage, the compulsory controls are gravitating from a recommend practice to a mandatory practice in order to have access to the lower deductible should a claim occur.

What follows are the compulsory controls that will have to be shown at the time of loss as defined by the insurance policy. The term “Insured” refers to the house corporation volunteers and employees.

- No fewer than two house corporation board members serve at any one time;
- Documented budget approval process to include house corporation board review;
- Semi-annual balance sheet and income statement review process to include multiple house corporation members;
- That Insured’s procurement activity or authorization to sign contracts is at all times monitored such that no single individual has the ability to make purchases of greater than \$5,000;
- That Insured’s payments, (check or otherwise) greater than \$1,000 are at all times made under full dual control;
- At all times that Insured has all checks issued for over \$1,000 signed by two authorized signatories;
- At least once a month that Insured’s cash in hand and petty cash is counted and reconciled by a board member other than the board member regularly responsible for managing or looking after cash in hand or petty cash;
- At least once a month that Insured carries out bank and credit card account reconciliation by a board member other than the board member who is not the regularly authorized signatory;
- New vendors or any change in existing vendor will be approved by two house corporation board members.

Review our website for actual crime claims that have occurred in the MJ Sorority Program for our clients. Hopefully you will get a sense of how the lack of adequate controls have developed into some substantial claims and will see how these types of claims are disruptive to the operation of a House Corporation, a Chapter and its collegiate members.

Should you have any questions or concerns, please [contact your Client Executive](#).

### Crime Risk Management of Employees

Unfortunately crime or embezzlement is a fact of life even in the non-profit world, but that doesn't mean your organization has to be a victim. By taking the necessary precautions, you can minimize the potential for crime.

In the MJ Sorority Program, we have seen an increase in embezzlement claims from both the chapter operations and house corporation operations.

<u>Entity or individual</u>	<u># of claims</u>	<u>Cost of the claims</u>
Chapter	31%	1%
House Corporation	66%	90%
Employees	25%	10%
Volunteers	75%	90%

As illustrated by the above results, one of the exposures facing a chapter and house corporation comes from the employees you hire, mainly the house directors. The first line of defense is to hire honest employees. What follows are some risk management recommendations for you to establish for your hiring process.

- Develop comprehensive employment application form that will allow for an in-depth exploration of the applicant's background. The form should be consistent with federal and state requirements and should include at a minimum, information about residence, education, job history, criminal arrest, and bankruptcy filing and references.
- Require applicants to fully complete and sign the application form, accounting for any gaps in information. Check references and previous employers by mail or phone. All questions by telephone should be direct. Letter inquiries should be designed as check-off type questions, not requiring narration-type answers and should include a self-addressed, stamped envelope for return. If you have an email address for this contact, use the check-off type question format above.
- MJ can also be a resource to you as you narrow your candidates. If your candidate for hire has previous house director experience you can contact the MJ Sorority Claims Manager, [Heather Cox](#), to see if there are any "employment red flags" that we have seen.
- Background checks should be secured on your final applicant and the extent to which depends upon the importance or sensitivity of the job. See [our resource](#) at [www.mjsorority.com](http://www.mjsorority.com) more detailed information on background checks.

- Develop a list of questions for the job interview that will provide insight into the applicant's character. Regarding the hiring of house directors, there can be tension points that you would want to address with your applicant to help anticipate any employment issue.

The importance of the employee selection process cannot be overstated. A solid employee can make a significant contribution to your operations to insure a sound business practice and a rich sorority experience for collegiate and alumnae members.

### **Third-Party Financial Services Provider/Accounting Services Providers**

Insurance coverage for the embezzlement exposure is critically important for nonprofit organizations. They are not immune from this risk exposure, and often are at greater risk due to reliance upon volunteers to help run the "business". This is certainly the case for women's fraternity and sorority operations. In the national insurance program provided by MJ Sorority, there has been a significant increase in claims where a "sister" volunteer has stolen from her fraternity/sorority or an employee at the chapter or house corporation has stolen money from her employer.

Most national organizations addressed the risk of financial management for chapter operations some time ago. Many addressed their risk by implementing a robust financial management system, what we call an "accounting service provider", such as Billhighway. Consistent application of this business practice has effectively reduced chapter claims of this type to a rare occurrence. Standardized accounting discipline and dual control and oversight are inherent strengths of Billhighway. We appreciate our clients' leadership in implementing this great risk management tool, as it will help curb future losses and maintain the national organizations' ability to secure the important insurance coverage for this chapter operations exposure.

Conversely, a majority of local house corporations have not implemented a comprehensive financial management system, and many have, unfortunately, experienced disastrous results. The MJ Sorority Department's analysis has shown that 80% of embezzlement incidents and 95% of resultant claims dollars have come from local house corporations volunteers. This hemorrhaging has caused the insurance company to require drastic action in order for us to continue to provide this important insurance coverage. They have chosen to address this "critical" condition with increased premiums and increased deductibles for embezzlement losses when it is determined that the organization's financial management process did not satisfy best practices or what we now have qualified in the insurance policy as the new compulsory controls.

Many local house corporations' processes will now require significantly more oversight in order to comply with the new compulsory controls. This can theoretically be achieved without the employment of an "accounting service provider", however that is still a risk! This risk potentially includes undertaking significant administration of your finances without the aid of a comprehensive financial management system. In addition, you are at risk of the application of a \$100,000 deductible if you have a claim and it is determined that your financial management practices did not meet the compulsory controls now required by your insurance policy.

The main element in satisfying the new compulsory controls is consistent involvement by multiple house corporation volunteers in the financial management of the house corporation. This includes dual

authorization of vendors, purchases and payments and review of financial statements. It is essential that the house corporation board be fully involved in this process. Accountants and bankers can help support the house corporation's financial management process, but the responsibility for satisfying the new compulsory controls rests solely with the house corporation board, no one else.

Should an embezzlement unfortunately occur, we are confident that your use of Billhighway and its inherent dual authorization processes will enable you to demonstrate compliance with the compulsory controls and be eligible for the lower deductible. We throw our full support behind your implementation of the Billhighway financial management system to address the embezzlement exposure. Your insurance company Chubb Insurance Company recognizes this value as well and will stipulate that the lower deductible will apply for those local house corporations that implement and employ this financial management system.

## **Crime Techniques**

In our review of the embezzlement claims over the last ten years, we have noticed several unique "techniques," a euphemistic word that we are using to describe how individuals stole funds from the Chapter or House Corporation. We thought sanitizing some of this information and sharing it with our clients may help prevent future claims.

### **Checks**

Volunteers or employees using checks to pay personal expenses. We have seen volunteers pay personal credit card bills, mortgage payments, grocery bills etc out of the House Corporation's checking account. This is can easily be spotted if another individual is reviewing the account and notices a credit card bill is being paid when the House Corporation does not even have a credit card.

### **Credit Cards**

Volunteers or employees using credit cards for personal use. This can normally be spotted pretty easily by reviewing the statement. We have seen large purchases for furniture that were not for the chapter house. We have seen House Corporation members actually making their personal mortgage payment with the House Corporation's credit card.

Employees using credit cards for fraudulent chapter or house corporation purchases. We have seen employees use the credit card to make fraudulent "purchases" for the chapter and then return their "purchases" for cash. This might be more difficult to spot. You may not always question a Costco purchase. However, this may be easier to catch if you review the receipts. One example is a House Director purchasing televisions and electronic equipment at Costco with the House Corporations credit card and then returning it at another Costco for cash.

*It is also important to have employees return their credit cards when they leave your employment.*

### **Expense Reimbursement**

An employee or volunteer to submits requests for reimbursements that are inflated or not legitimate. An example would be a volunteer making inflated claims for mileages.

House Corporation or Chapter member might make a fraudulent reimbursement to a family member. We have seen incidents where members reimbursed a parent for fraudulent expenses and where a House Corporation member reimbursed a spouse for fraudulent expenses. There was a claim that involved a Chapter Treasurer reimbursing her mother over \$5000 in a six month period. We would recommend any reimbursements be approved in advance and only for small amounts

House Corporation or Chapter member makes the check payable to themselves for a reimbursement that is not Chapter or House Corporation related. One reimbursement that we saw was for a House Corporation volunteer who reimbursed herself for furniture she purchased on behalf of the House Corporation. The furniture was not purchased for a House Corporation but instead for her personal use.

### **Billing**

A volunteer creates a fraudulent invoices and makes a check payable to the name on the invoice and is then able to cash the check.

### **Accounts**

Volunteers set up the House Corporation's account in their name or their name is the only name on the account. They can then transfer money to their own personal accounts. If their name is the only name on the account or if the account is actually in their name, then it is extremely difficult for another volunteer to access the account. We recently came across a House Corporation where the House Corporation President was the only one with access to the account. When questioned about the House Corporation's finances, the President made fake bank account statements. It took several months to gain access to the account, but when access was gained it was revealed that funds had been transferred out of this account and there was a \$0 balance.

Accounts should be in the name of the organization and not an individual. This is also why we recommend more than one person be listed on an account.

### **Additional Resources**

[Guide to Preventing Workplace Fraud: Taking Action to Reduce Business Crime Exposure](#)

*A resource developed by Chubb*

[Crime Claim Examples: Actual claim examples for your review](#)

*Various embezzlement claim examples*

All resources also available at [www.mjsorority.com](http://www.mjsorority.com)