



## Kids Kapers' books need adult supervision

Barry VanderKelen

A fictitious scenario was offered in my last column dealing with apparent discrepancies in the financial reports of a small nonprofit. My made-up organization, "Kids Kapers," had been relying on the volunteer services of a board member to verify the accuracy of the books.

An independent audit turned up circumstantial evidence suggesting improper management of finances.

In addition to the many responses that people shared by telephone or e-mail, I discussed what action would be appropriate for the board to take with Kathi Niffenegger, certified public accountant and the lead audit partner with Glenn, Burdette, Phillips & Bryson, a San Luis Obispo accounting firm.

Niffenegger says that the Kids Kapers' board should do several things. It must immediately investigate the cause for the apparent discrepancy between money collected and activities of the organization. Currently, the program officer collects the enrollment fees and turns them over to the bookkeeper. "Our first inclination is to think either person stole the money," she states. "It could be, however, that the program officer is offering free or reduced priced enroll-

ments. Another possibility is that the record keeping is sloppy." Without more information, unsubstantiated accusations could make the matter worse. The board must implement stronger financial controls. The four main areas of concern, according to Niffenegger, are custody of funds, recording of transactions, authorization of disbursements, and reconciliation of records. Ideally, different people are responsible for each of these areas.

Properly segregating these duties is an ongoing concern for small nonprofits. Kids Kapers has three regular employees and must figure out how to install appropriate checks and balances. Niffenegger suggests that the bookkeeper be allowed to record and reconcile, while the executive director or a board member be allowed to sign checks and other disbursements. More than one person should review incoming checks and cash, and that money should be deposited in the organization's bank account as quickly as possible. At a minimum, the person who collects the enrollment fees should not be allowed to authorize payments.

Board members can help. For instance, the bank statements should go to someone other than the bookkeeper, perhaps the board treasurer. Board members should make spot checks of the books

and conduct reviews. "When a third person is involved, it's harder to conceal illegal acts," Niffenegger observes. Kids Kapers should establish activity goals for the organization, and produce reports of progress toward those goals. "The board should monitor revenue and expenses against these goals," Niffenegger states. "What revenue should be expected given the enrollments?" Changes in program offerings each year make simple comparisons to a previous year almost meaningless. Furthermore, any free or reduced fee enrollments must be budgeted with clear criteria their use established. The board relied on one of its members to assure the accuracy of the information in the financial reports. Although the board member said he audited the books, what he presented was something less than what he described. A formal audit looks for proper controls and verifies that the information fairly reflects the financial condition of the organization. The board must share some of the blame in this scenario.

Niffenegger warns that "during tough economic times, when people are under stress, the opportunity for error or fraud is high. The first defense is the level of interest on the part of the board."

### Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

### Nonprofit Business Column of The Tribune

The San Luis Obispo Tribune publishes a column every other week in the Business section dedicated to the business practices of nonprofit orgs. Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes the bi-

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