

GUIDE FOR NONPROFIT ORGANIZATIONS

Handling Embezzlement in Your Nonprofit Organization

No nonprofit Board of Directors ever wants to be in the position of discovering an employee or volunteer has been misappropriating the organization's funds. Unfortunately, fraud and embezzlement do happen in the nonprofit sector. How an organization responds to these breaches of trust can be a severe blow to the organization's ability to serve its mission, or it can be a learning experience that opens doors with donors. Below are some suggestions for responding when you discover someone has been stealing from your organization.

- 1. Make it stop.** It is important that your organization put in place whatever measures are necessary to ensure that no additional money is lost once a fraud or embezzlement is suspected or has been discovered. Don't just wait and see what happens next, hoping the situation will go away on its own.
- 2. Report the embezzlement.** Inform law enforcement of what you've discovered, and assist them in their investigation. A police report and subsequent investigation will create a record of the incident and of the organization's response.
- 3. Investigate.** It's important to learn not only the extent of the damage done, but also who was involved and how the fraud occurred. You need to be able to correct the procedures that allowed the embezzler to take advantage of your organization.
- 4. Create and implement safeguards.** Once you've discovered the fraud and how it happened, the Directors, with the services of an external auditor or other appropriate consultant, should develop procedures that will ensure it cannot happen again.
- 5. Get the stolen money back.** Work with law enforcement to track down and retrieve what funds are still recoverable. You may even consider filing a civil suit if appropriate. At a minimum, you should consider options for recovering the stolen funds.
- 6. Don't let it slide.** At the very least, someone who has admitted to or been convicted of stealing you're your organization should not be allowed to continue on as a trusted member of your team. This person has stolen from your organization, from the organization's mission, from your donors, and from the public.
- 7. Don't pretend it never happened.** There's no need to shout from the rooftops that your donors' money has been stolen, but if you've addressed the problem and developed appropriate safeguards to prevent it from happening again, this can be an invaluable learning experience. You want to be able to show your past, present, and potential donors how you reacted appropriately to protect their valued contributions.

Nonprofit Law Section

State Bar of Montana

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8. Take your Directors' fiduciary duty seriously. As members of the governing body for a nonprofit organization, the Directors act as stewards of public money. The Board of Directors has ultimate responsibility for ensuring funds are not misappropriated or misspent.

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NOTICE: THIS GUIDE IS NOT LEGAL ADVICE

This guide has been prepared as a public service and for general information purposes only. The information in this guide is not legal advice. Legal advice is dependent upon the specific facts and circumstances of each situation. Furthermore, the information contained in this guide is not guaranteed to be up to date. This guide should not be used as a substitute for obtaining legal advice from an attorney licensed or authorized to practice in your jurisdiction. You should always consult a suitably qualified attorney regarding any specific legal problem or matter.