



## **Preventing Fraud in Nonprofit Organizations: How to Effectively Manage an Employee Credit Card Program**

By Roberta Katz, MBA

An increasing number of nonprofit organizations are instituting employee credit card programs to facilitate the purchasing of goods and services, improve tracking of expenses and eliminate the use of cash for business expenses. Whether your organization uses a manual or an online automated system to manage your program, internal controls, policies and procedures must be established, documented and carried out in order to prevent fraudulent use of the credit cards and ensure proper safeguarding of the organization's assets. Each step in the process must be strictly adhered to from the issuance of the credit cards to the submission and approval of credit card charges and ultimately the recording of the transactions in the financial records.

### **Issuing Credit Cards**

- Determine the criteria for eligibility and the need for specific employees to receive credit cards.
- Establish a process for requesting a credit card including the authorization required, the format of the request (e.g. standardized form; e-mail request) and maximum credit limit allowed, which can be raised if necessary.
- Prohibit the ability of employees to obtain cash advances from the credit cards.

## **Submitting Credit Card Charges for Approval**

- Expense coding of credit card charges should be consistent and uniform throughout the organization, in accordance with the approved Chart of Accounts. Distribution of an expense coding guide for commonly charged business expenses is helpful.
- Supporting documentation that is legible and clearly identifies the credit card charges should be submitted for approval. A detailed valid business purpose must be included (e.g. conference location and agenda; client(s) served, using initials if names are confidential).
- Due dates for submission and approval of all credit card charges must be clearly communicated to all staff and strictly enforced (e.g. the 5<sup>th</sup> business day after month-end). Timely submission and approval is essential for accurate financial reporting.
- The administrator of the credit card program should track cardholders who repeatedly submit their charges after the due date and approvers who consistently approve charges after the due date. A course of action should be established for these individuals (e.g. submit their names to senior management for follow up or cancel their credit card privileges).

## **Approving Credit Card Charges**

- Each cardholder should be assigned an expense approver. Notification should be received from the Human Resources department when an expense approver leaves the organization so that a new approver can be assigned and expenses can be authorized prior to month-end close.
- Approval limits and number of approvers should be established (e.g. expenses over \$5,000 must have a second approver).
- If the business purpose stated is not detailed, the charge should be returned to the cardholder for clarification. If it is not an authorized business expense, reimbursement from the employee must be requested and timely received.

## **Reconciling Credit Card Charges to the General Ledger**

- Reconcile all monthly charges on the credit card statement to the General Ledger to ensure that all expenses have been properly recorded.
- Identify charges on the credit card statement that have not been submitted and approved and follow up with the cardholder and their approver for resolution prior to month-end close.
- On a monthly basis, compare actual to budgeted expenses to ensure that spending is in line with the organization's budget. Significant variances could identify unauthorized or fraudulent activity.

The risk of fraudulent use of an organization's credit cards can only be mitigated by the implementation, administration and oversight of an efficient and effective credit card program. Documented policies and procedures must be strictly enforced upon all cardholders, including staff at the highest levels. Due to the large volume of credit card transactions and the wide distribution of credit cards within an organization, it is an area that is susceptible to improper use and fraudulent activity. That concern has also resulted in increased scrutiny of credit card transactions during audits by government agencies who provide funding to nonprofit organizations and by independent CPA firms. However, with the proper internal controls, policies and procedures in place, any such activity can either be prevented or identified and resolved in a timely manner.

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*Roberta Katz, MBA has worked in senior financial management positions at several major nonprofit organizations. She has successfully overhauled their Finance Departments and implemented key processes such as those outlined in this article. Roberta is available for part-time and full-time consulting assignments. She can be contacted at [robertapkatz@gmail.com](mailto:robertapkatz@gmail.com).*