Fidelity Bond
For Nonprofit Organizations

FREQUENTLY ASKED QUESTIONS

Q. What is a Fidelity Bond?
A. A Fidelity Bond is an insurance policy (underwritten by a carrier) that protects organizations in case of dishonest acts by employees, such as theft, forgery, larceny, or embezzlement, which results in the loss of money or property.

Q. What does underwriting mean?
A. Underwriting is the process that insurance companies use to assume financial responsibility. Part of this process includes a review of certain risk factors.

Q. Does Fidelity Bond insurance cover accounting mistakes?
A. No. A Fidelity Bond does not cover a failure to follow expense accounting rules, sloppy record-keeping, poor business decisions, poor workmanship, job injuries, or work accidents.

Q. Who needs coverage?
A. All nonprofit organizations who receive a grant need Fidelity Bond coverage. The nonprofit is the party insured. This insurance should cover the dishonest acts of all employees, volunteers, officers and directors.

Q. What is the amount of coverage that a nonprofit Grantee should have?
A. Coverage must be equal to or greater than the grant amount.

Q. What if the nonprofit Grantee already has current Fidelity Bond insurance?
A. If the Grantee's coverage is lower than the grant amount, the nonprofit Grantee needs to amend the coverage to reflect the grant amount. In addition, the State of California must be named as a 3rd Party Loss Payee.

Q. Where does a nonprofit Grantee go to obtain a Fidelity Bond?
A. Grantees may obtain the necessary Fidelity Bond through their general liability carrier, a major casualty insurance carrier, or a bonds specialty company. These sources are listed in the yellow pages or on the Internet through their agents or independent agents.

Q. How long must this coverage be kept current?
A. Fidelity Bond insurance must be kept current until at least 6 months after the date of final payment.

Q. Why must Fidelity Bond insurance extend six months beyond the final grant six months beyond the final grant payment date?
A. The extra six months from the date of final grant payment allows time for the grant funds to be deposited appropriately. This period also allows the non-profit Grantee time to file a claim with its insurance carrier if the funds were not deposited properly.

Q. What would be the major underwriting criteria?

A. The number of people handling the money, the types of handling controls, the amount of coverage, prior crime losses within the last 5 years, audits, the length of time that the organization has existed, and other insurance carried, such as general liability.

Q. What is the general application process before coverage is provided?

A. The carrier will, in most cases, accept an application without premium payment, complete the necessary underwriting, and issue a written proposal of coverage pending payment of premium.

Q. How long does the Fidelity Bond application process generally take?

A. The application process takes approximately 2 – 3 weeks.

Q. What are some typical annual premium costs?

A. Premium costs vary according to risk. Premiums for $250,000 of coverage might range between $600 and $1200. Carriers may give a 15% discount for multiple year coverage. The nonprofit is advised to shop for the most competitive rates and overall underwriting, as rates vary.

Q. Does the state grant amount cover the cost of Fidelity Bond premiums?

A. Yes. These premiums are considered eligible non-construction costs. The total of all non-construction costs can not exceed 25% of the grant amount.

Q. How long does it take before the coverage becomes effective?

A. It can take 2 to 3 weeks of underwriting to prepare the proposal of coverage. Most agents have the authority to make the coverage effective by using their binding authority at the time the premium is paid.

Q. How is the State of California protected for the amount of the grant?

A. The State would be named as a 3rd Party Loss Payee, i.e., the same as a bank on a car loan or a mortgage company on a home loan. The complete address is: State of California, Dept. of Parks and Recreation, P.O. Box 942896, Sacramento, CA 94296-0001, Attn: Office of Grants and Local Services, [Project Officer's Name].

Q. What documentation does a nonprofit Grantee need to submit to the Office of Grants and Local Services (OGALS) to demonstrate that it has Fidelity Bond coverage and when does this documentation need to be submitted?

A. The OGALS needs a copy of the policy before the first payment request can be processed. The OGALS also recommends that the Grantee obtain an underwriting notice or a proposal for coverage immediately after receiving notice of the grant award (or sooner) to prevent any potential delays in processing the first payment.

Q. If a "loss" were to occur, how soon would it need to be reported?

A. The Grantee is responsible for notifying the appropriate law enforcement authorities and the Department within 30 days.