

New Data Shows Fraud Continues to be a Significant Risk for Nonprofits

By Stan Reiff, Partner

The Association of Certified Fraud Examiners (ACFE) produces a comprehensive report on fraud every two years. The 2016 Report to the Nations on Occupational Fraud and Abuse shows that fraud continues to be a significant threat to all nonprofit organizations.

Here are some of the key findings from the report:

- Nonprofit organizations accounted for 10.1% of all occupational fraud recorded, with a median loss of **\$100,000**
- Approximately 50% of organizations that are victims to fraud do not recover any of their losses
- The top types of fraud committed at religious, charitable, and social service organizations were:
 - Corruption – 28.8%
 - Billing – 25.0%
 - Expense reimbursements – 25.0%
 - Check tampering – 25.0%
- The primary internal control weaknesses that led to fraud included:
 - Lack of internal controls – 29.3%
 - Override of controls – 20.3%
 - Lack of management review – 19.4%
 - Poor tone at top – 10.4%
- Nearly one-third of the fraud schemes in the report lasted at least two years before being detected
- Payroll, check tampering, financial statement fraud, expense reimbursements, and billing schemes had a median duration of two years before detection
- The longer a fraud scheme goes undetected, the greater the loss

5 Steps to Reduce Your Risk

Fortunately, however, there are steps you can take to reduce the opportunity for fraud in your organization, and detect fraud more quickly if it should occur. Although the following isn't a full list, these relatively simple steps can lessen your fraud risk.

1. Understand who commits fraud.

First, it's important to know that most fraudsters are first-time offenders with clean employment histories; 82.5% have never been punished or terminated by an employer for any form of fraud-related conduct.

While anyone can commit fraud, the ACFE data found that among the cases in the study:

- 69% of the perpetrators were male
- 55% were 31 – 45 years old
- 47.3% had a college degree
- 42.4% had been with the organization 1 – 5 years

Among the most costly cases, the average perpetrator:

- Was male and age 60+
- Held an executive position
- Had been with the organization more than 10 years
- Created a median loss of \$630,000

It is also helpful to know where fraud occurs most frequently within organizations. In terms of job responsibilities, the most common positions for fraud are:

- Accounting – 16.6%
- Operations – 14.9%
- Sales – 12.4%

2. Know the behavioral red flags.

The ACFE data notes the following top red flags displayed by perpetrators. At least one was present in 78.9% of cases in the study:

- Living beyond their means – 45.8%
- Financial difficulties – 30.0%
- Close association with a vendor or customer – 20.1%
- “Wheeler-dealer” attitude – 15.3%
- Excessive control issues – 15.3%
- Divorce or family problems – 13.4%

And these behaviors are remarkably consistent — these have been the six most common red flags in every ACFE

report since 2008, when the association first began tracking data.

3. Educate staff members about what constitutes fraud.

Educate and train employees on what activities constitute fraud and how to report questionable activity. Emphasize how fraud can harm your organization and your mission. Communicate that leadership is actively monitoring for fraud and will not condone it, as this can also serve as a deterrent.

4. Develop a whistleblower protection policy.

An effective whistleblower protection policy helps your organization observe high standards of integrity and accountability, and comply with federal and state law. It ensures employees, volunteers, vendors, and others that they have a safe place to submit concerns, without fear of retaliation. This makes it more likely that they will report suspicious activity. According to the ACFE, **tips are consistently the most common method for detecting fraud, and accounted for 39.1% of all fraud in the 2016 report.**

5. Implement a confidential fraud hotline, and make sure employees know it is available.

A confidential hotline encourages employees and others to submit their good-faith concerns, particularly when a whistleblower protection policy is also in place. This enables your organization to detect and respond to fraud more quickly.

In fact, hotlines are the most consistent method for catching fraud. In the ACFE report, **fraud was detected by tip in 47.3% of cases at organizations with hotlines**, compared to just 28.8% of cases at organizations without them. Further, **organizations with hotlines detected fraud 50% faster and had a median loss 50% lower than organizations without one.**

Nonprofit fraud has more than a financial risk. It can also create long-lasting damage to your organization's reputation and donor trust. But you don't have to handle this on your own.

With the new [CapinCrouse Whistleblower Protection Policy and Hotline Monitoring Service](#), our team of nonprofit fraud experts can help your organization create and implement an effective whistleblower protection policy to protect your organization and your employees. We also can provide and monitor a confidential fraud reporting hotline for your organization.

Please [contact us](#) or your engagement team to discuss how our fraud prevention services could benefit your organization.

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Stan's professional experience includes over 30 years in ministry operations, public accounting, government accounting, and missions. He provides strategic leadership of the firm's professional advisory and consulting services and serves as National Director of Church and Denominational Services.

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