



Shielding Your Nonprofit: Fraud Prevention

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Learning Objectives

- New and Evolving Threats in the Fraud Landscape
- Proactive Prevention
- Response to Suspected Fraud



Fraud Statistics

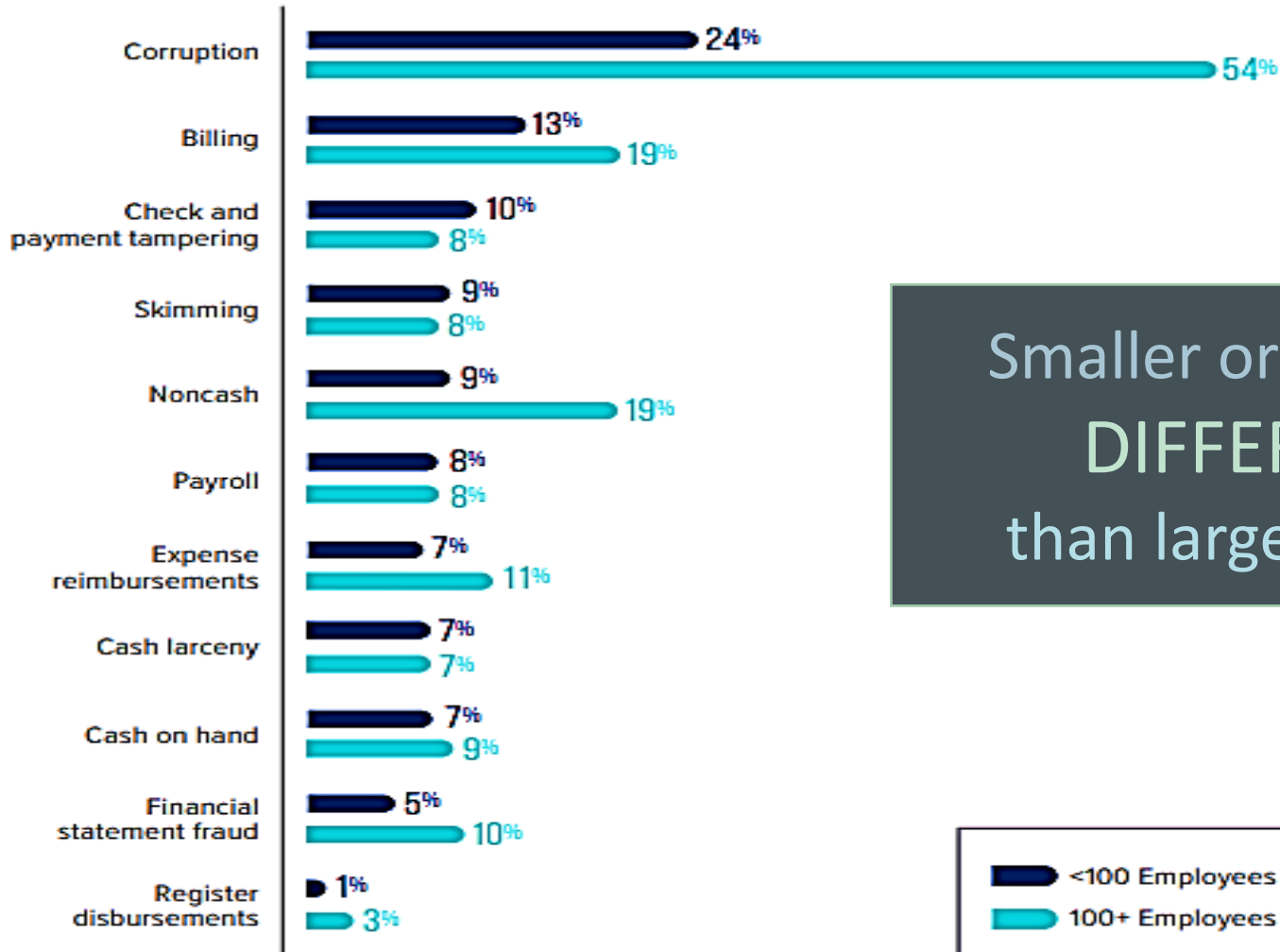
ACFE 2022 Global Fraud Study

- Typical organization loses 5% of revenue to fraud each year
- Median loss caused by occupation fraud = \$117,000
- On average, fraud lasted 12 months before detection

Type of Fraud Scheme	Asset Misappropriation	Corruption	Financial Statement Fraud
Number of Incidents	86% of cases	50% of cases	9% of cases
Average Loss	\$100,000	\$150,000	\$593,000

Fraud Statistics

ACFE 2022 Global Fraud Study



Smaller organizations face
DIFFERENT RISKS
than larger organizations





Real and Recent Fraud

- Dozens of employees, including four supervisors, falsely recorded overtime over a 21-month period which amounted to a loss of \$1 million dollars. The organization's main issue was a lack of management review. (Eastern PA, 2019)
- An organization's Founder diverted and skimmed donations to pay for gambling and personal expenses over the course of six years. The organization's main issue was a lack of automated transaction/data monitoring. (Western PA, 2021)
- An appointed Treasurer of an NFP organization wrote several large checks and falsified reimbursement documentation. The individual forged authorized signatories on the checks. Total embezzlement was \$128,000 over 12 months. The organization's main issue was lack of internal controls. (Central PA, 2019)

Proactive Prevention

- Pre-employment Screens
- Internal Controls
- Third Party Audit



Pre-employment Screens

Credit Checks

Job positions

- Financial or fiduciary responsibilities
- Cash handling

Credit check policy

Background Checks

- No single database containing entire criminal history
- Third party vendor must check *multiple* sources
 - County criminal records search
 - Federal criminal records – FBI
 - State and federal civil records

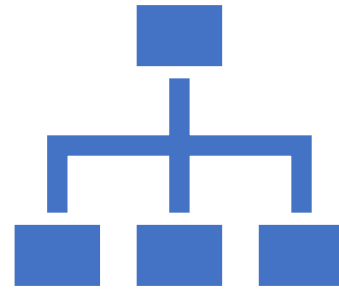


Internal Controls



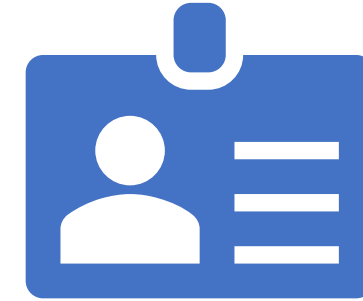
What are they?

Processes designed by management to ensure faithful and efficient financial reporting in respect to laws and other regulations



Why have them?

To safeguard assets against employee theft, unauthorized use, and improper acquisition or disposal



Control Activities

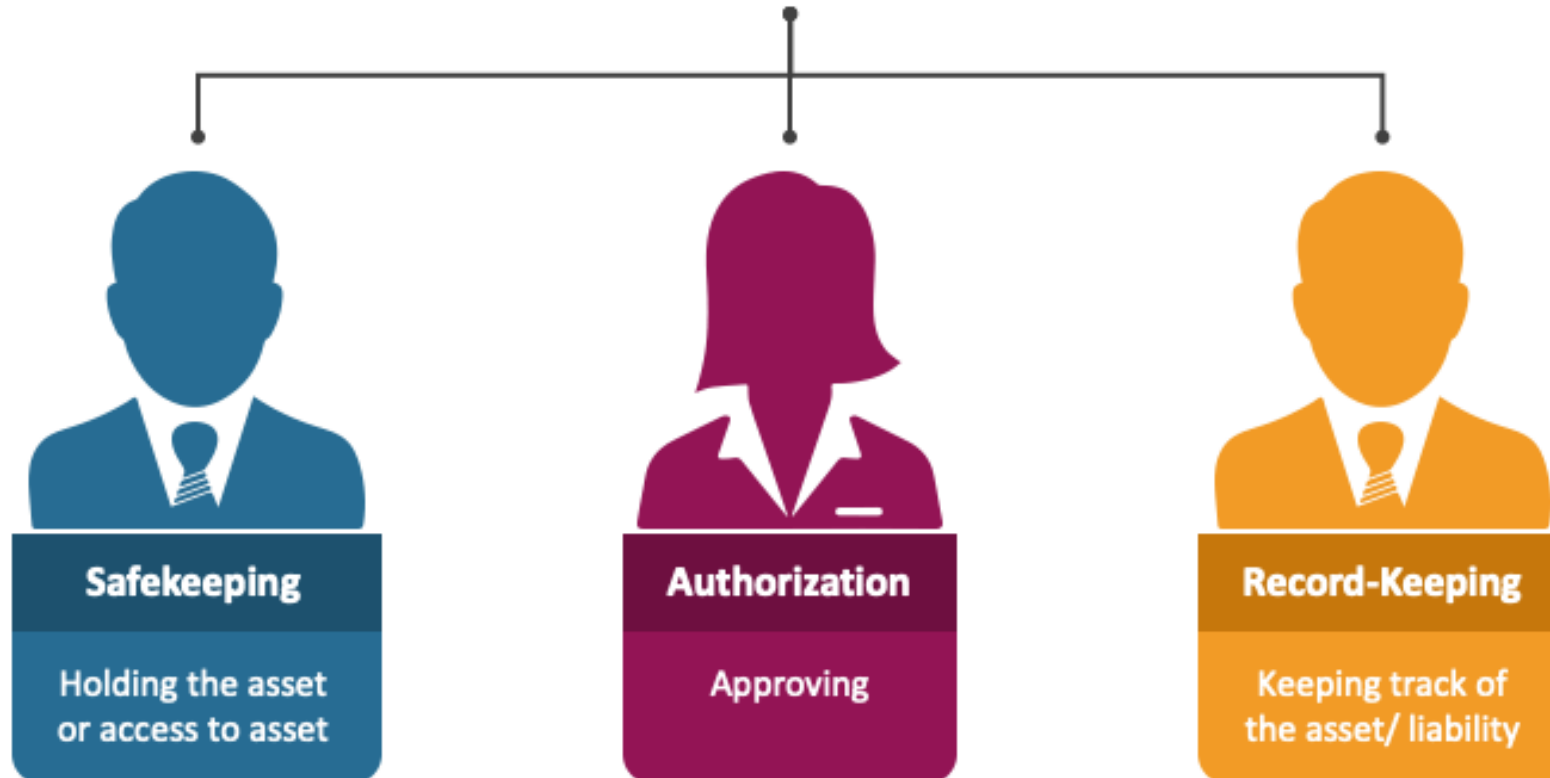
Specific policies and procedures management uses to achieve its objectives

Most IMPORTANT Control Activities

- Segregation of duties
- Proper authorization of transactions and activities
- Adequate documents and records
- Physical control over assets and records
- Independent checks on performance

Internal Controls

**Segregation of Duties(SOD) is a concept of separating
“Incompatible duties” so that 1 person doesn’t have all 3 duties**



Internal Controls

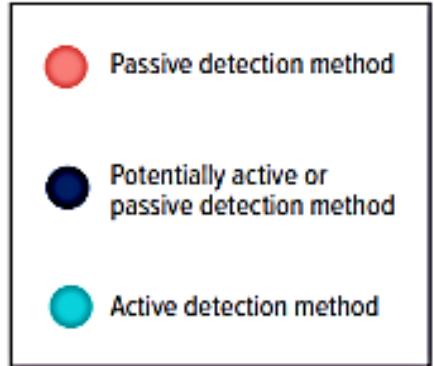
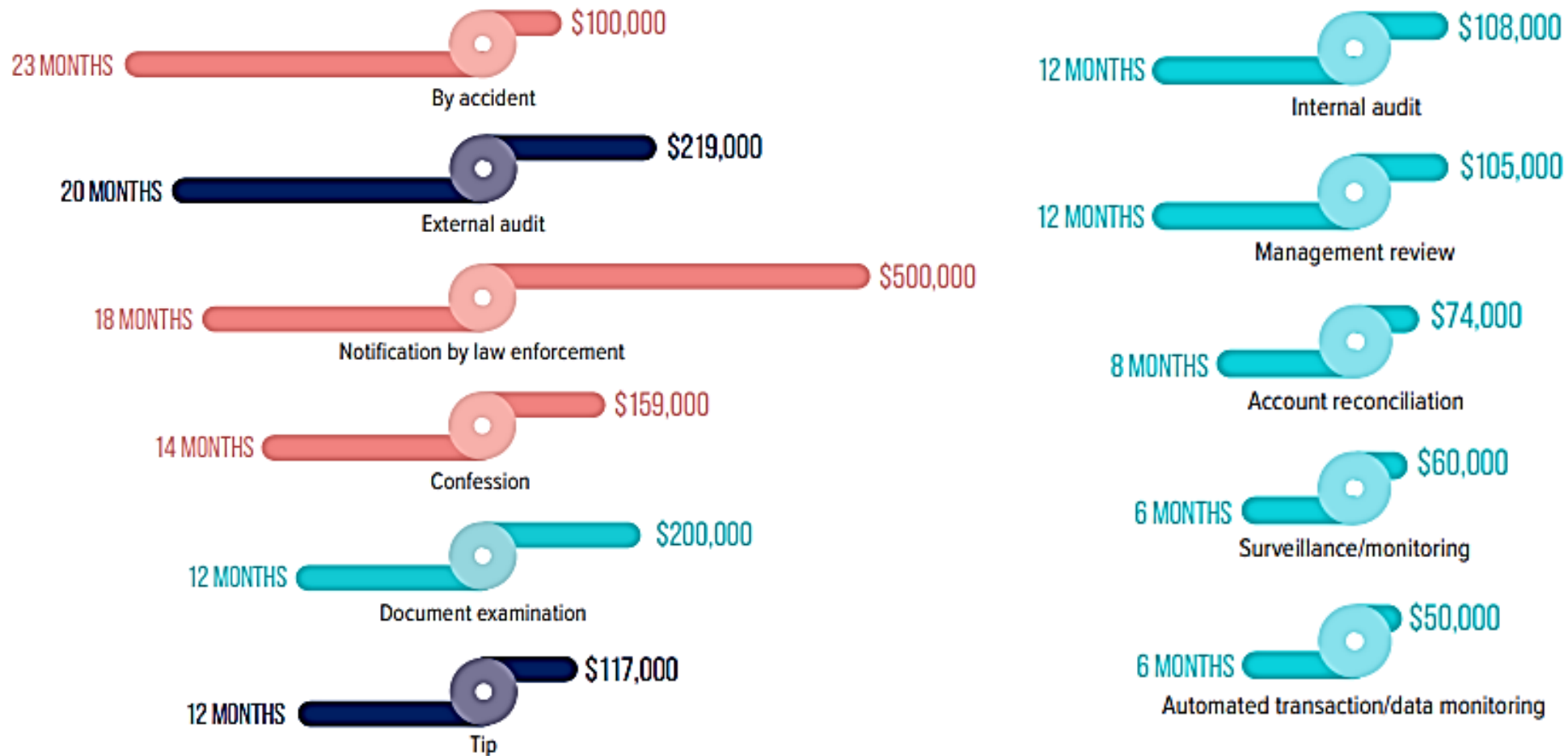
Employee theft is still possible with the implementation of these preventative methods; **HOWEVER**, employees think twice if management is checking on them.



Employees are less likely to steal if they **BELIEVE** there are oversights and consequences in place.

Detection Approaches

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Response to Suspected Fraud



Steps to Respond

Contact An Attorney

- Triage
- Personnel Decisions
 - Will determine the need for an external expert
- Preserve Data
 - Legal duty to preserve data in *native format* for criminal/civil reasons

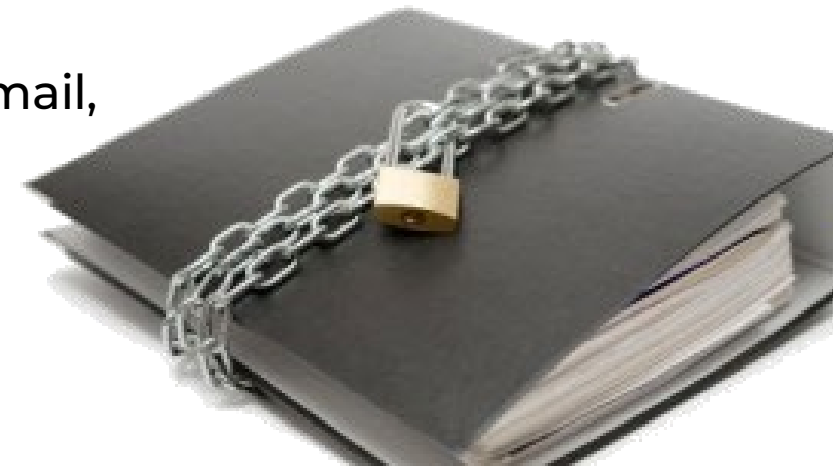
Hold Notification

Step
2

Attorney will issue an Internal Hold Notification

Notice to employees of obligation to preserve evidence and suspend routine document destruction practices

- What must be preserved:
 - Paper documents (stored in central filing, offices, home)
 - Electronic data (office/home computers, work/personal email, databases, servers/networks/cloud/text messages)
 - Telephone records, text messages
 - Electronic back-up systems



Build a Team

Step
3

- Legal Counsel
- Investigator/Expert
 - Forensic Accountant
- Governance/Senior Team



Investigation Scope

Step
4

Identify the purpose of the investigation

- What triggered investigation?
- Who, what, where and when is theft suspected?
- What areas of the company may be impacted by investigation?

Adjust the scope during the investigation if necessary

- Findings may take investigation into new areas



Documentation

Step
5

- Document request lists
 - Should be created and disbursed to necessary departments and individuals
- Chain of custody procedures must be followed
 - Chain of custody logs document how data was gathered, analyzed, and preserved for production
 - Must be able to prove that integrity of evidence has been maintained through production in court



Interview Witnesses

Step
6

- Legal counsel or forensic accountant should perform an interview, if further civil/criminal proceedings are possible



Findings Report

Step
7

- Forensic expert will report findings
 - Expert cannot and will not conclude that wrongdoer committed “theft” or “fraud”
- Reporting of findings and observations





Thank you for Your time!

Questions?



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