

Fraud – *Who is Stealing From You?*

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What You Will Learn About

What is Fraud?

How Does Fraud Occur?

Repercussions of Fraud

Prevention

Detection

What to do if You Suspect Fraud?

What is Fraud?



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What is Fraud?

Fraud is defined by Black's Law Dictionary as:

1 A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.

Consequently, fraud includes any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means.

¹*Bryan Garner, ed., Black's Law Dictionary. 8th Ed. (2004), s.v., "fraud."*

Three Types of Fraud

Occupational Fraud (Internal)

Committed by employees, managers, officers, or executive directors

External Fraud

Committed by clients, vendors, and other parties

Fraud Against Individuals

Other schemes that defraud individuals, rather than organizations

What is Occupational Fraud?

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets

What Makes Nonprofits More Vulnerable?

Nonreciprocal transactions (contributions) that are much easier to steal than other forms of income

An environment of trust unlike a for profit

Lack of a board member that has financial oversight expertise

Failure to devote adequate funds to financial management

Job security dependent on program and financial reporting to donors and especially government grants

How Does Fraud Occur?



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Why Does Fraud Occur?

Financial Pressure

Opportunity

Rationalization

Factors Present in Fraud and Abuse Schemes

Intent

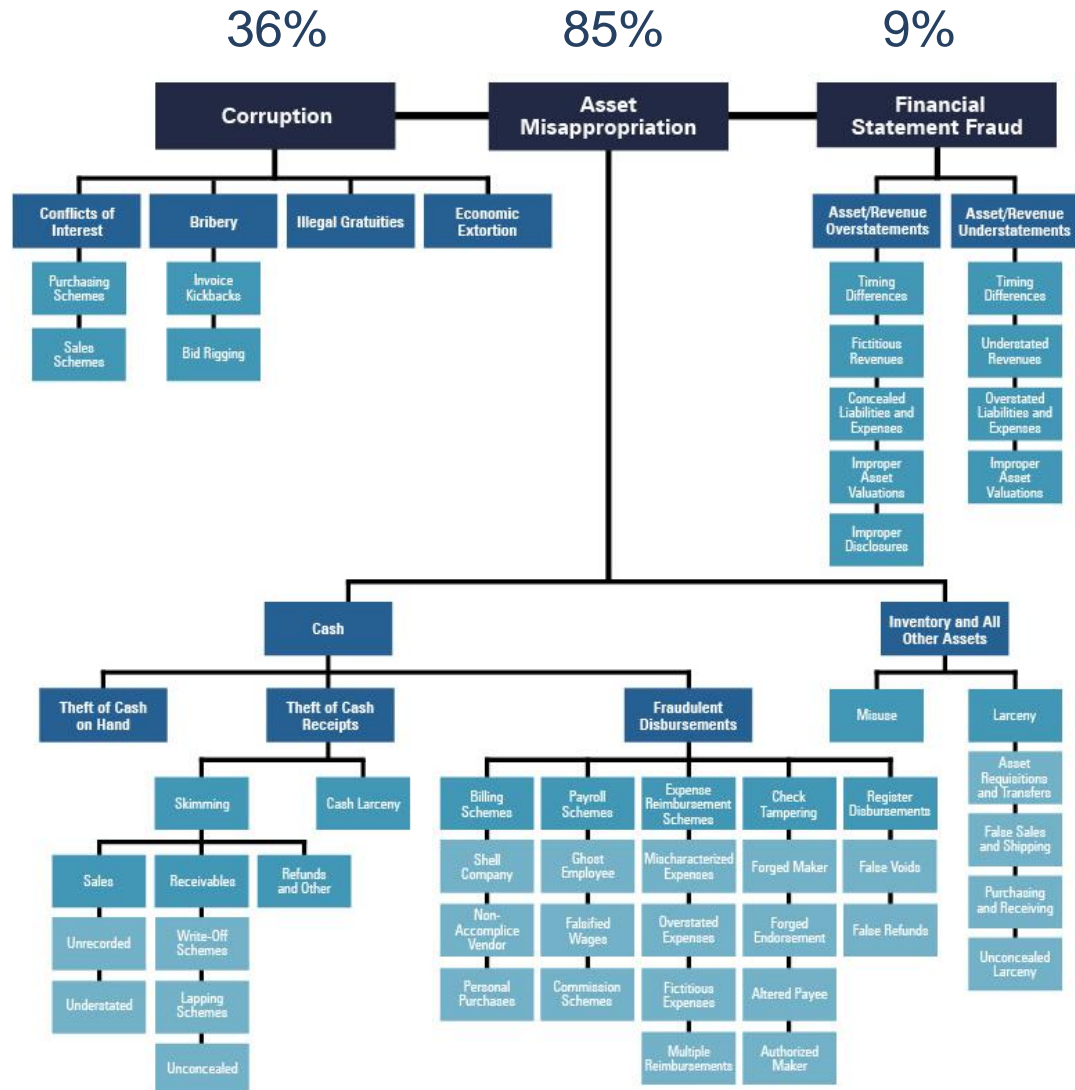
Motive to commit the fraud

Opportunity to commit the fraud

Concealment of the fraud

Rationalization of the fraud

How Occupational Fraud is Committed



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Repercussions of Fraud



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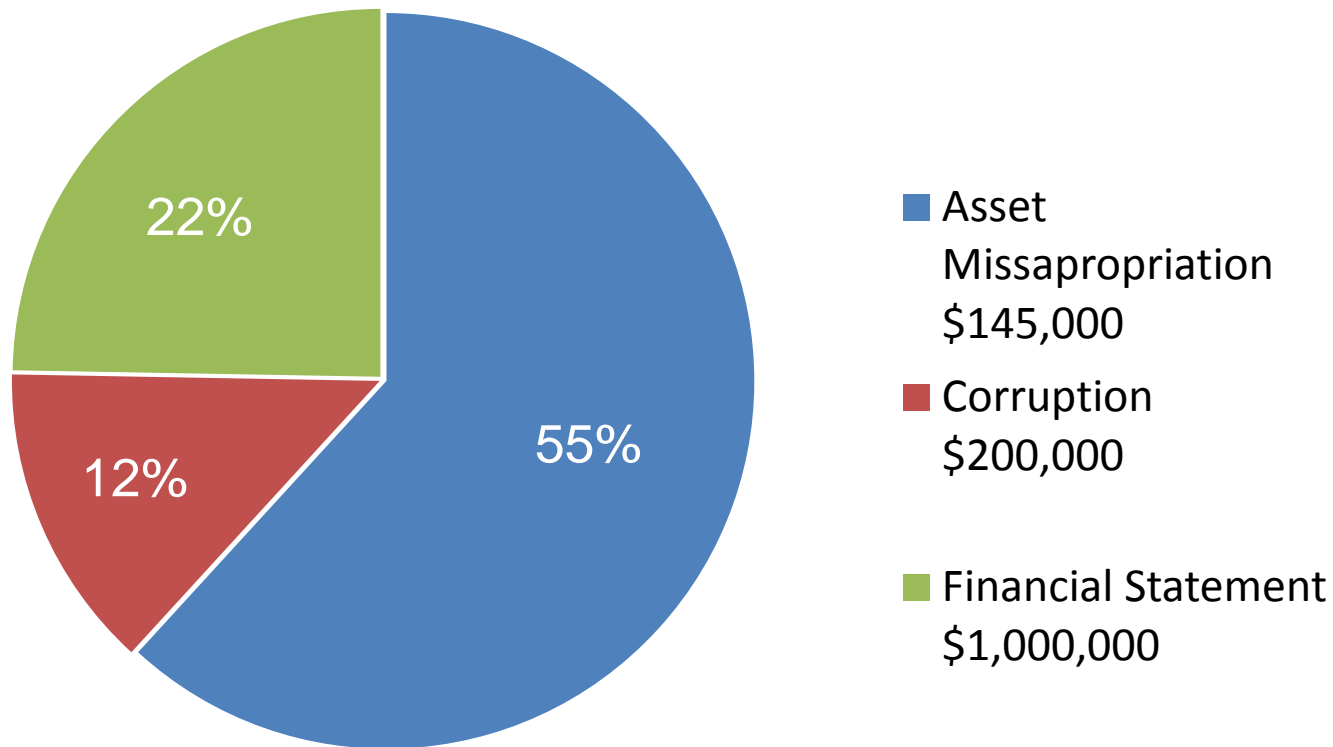
Costs of Fraud

Financial Loss

Legal Ramifications

Loss of Reputation and Trust

Median Losses



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Frequency & Median Loss Based on Duration of Fraud



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Legal Aspects of Fraud

Mail Fraud

Interstate Transportation

Wire Fraud

False Statements to Government Agencies



Prevention



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Aspects of Risk Management

Assessment - Identification of potential risks

Reduction - Policies and procedures

Transfer - Insurance or other means

Acceptance - Level of financial exposure willing to accept



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Board Members General Understandings Needed

Model of deterrence

Roles and responsibilities

Scope and limitations of auditors

Internal controls and policies and procedures

Periodical reassessments of vulnerability to fraud and systems for deterrence

Plan of action if fraud is discovered

Their personal liability of negligence

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Ways to Prevent Fraud

Written Internal Controls and Procedures

Management Review

Employee Background Checks (Pre and Post Employment)

Tone at the Top

Competent Personnel in Oversight

Independent Checks/Audits

Employee Fraud Education

Clear Lines of Authority

Reporting Mechanism

Perception



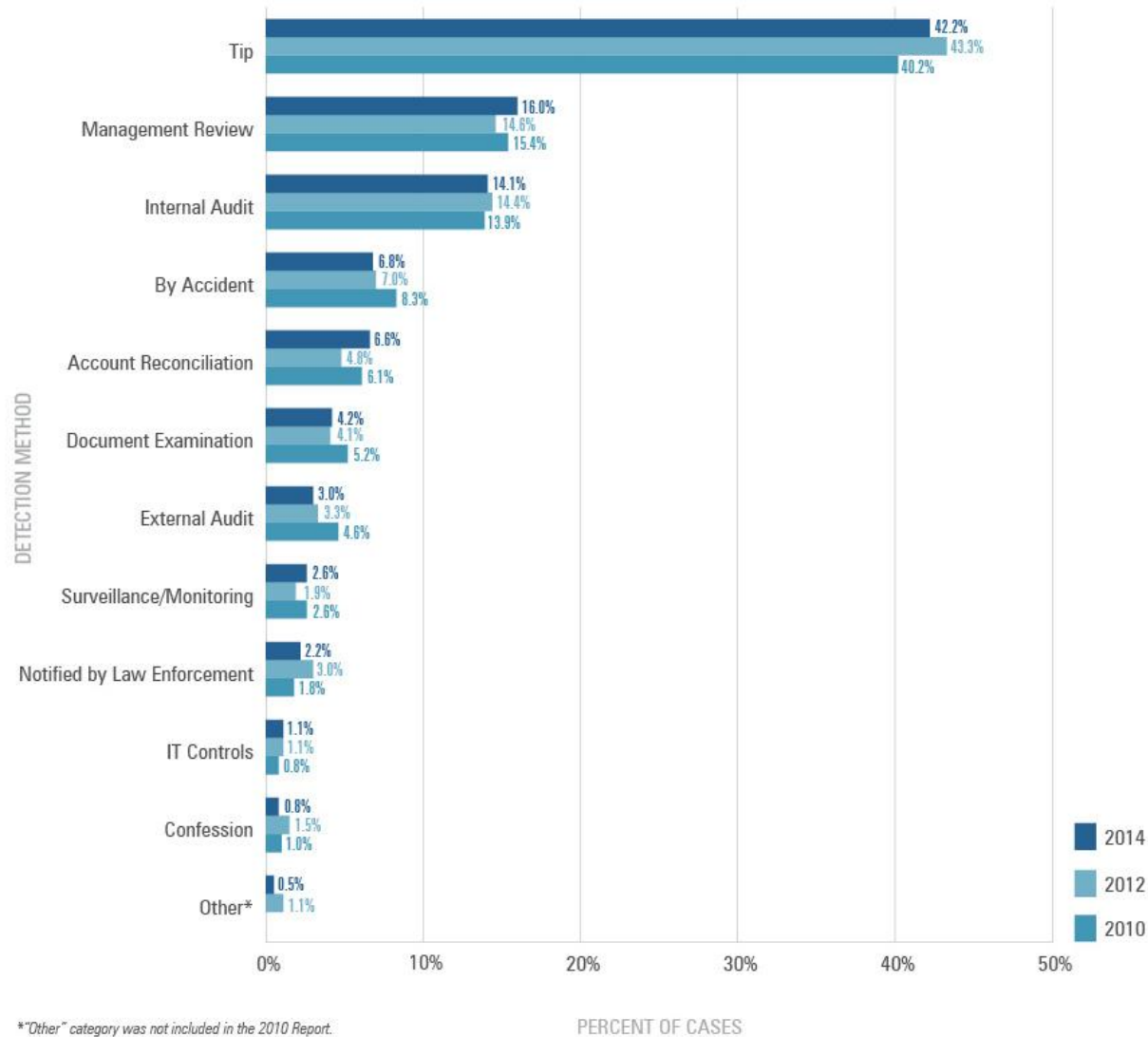
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Detection



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Initial Detection of Occupational Fraud



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Behavioral Red Flags

Living Beyond Means

Financial Difficulties

Unusually Close Association with Vendor/Customer

Control Issues, Unwillingness to Share Duties

“Wheeler-Dealer” Attitude

Divorce/Family Problems

Irritability, Suspiciousness or Defensiveness

Addiction Problems

Complained About Inadequate Pay



Behavioral Red Flags (Con't)

Past Employment-Related Problems

Refusal to Take Vacations

Excessive Pressure from Within Organization

Social Isolation

Complained About Lack of Authority

Excessive Family/Peer Pressure for Success

Instability in Life Circumstances

Past Legal Problems



What to do if You Suspect Fraud?

Do not immediately approach the suspect

Remove suspects access to assets

Notify the Board of Directors

Look in all areas that could be involved

Obtain documentation of proof

Seek outside professional fraud assistance

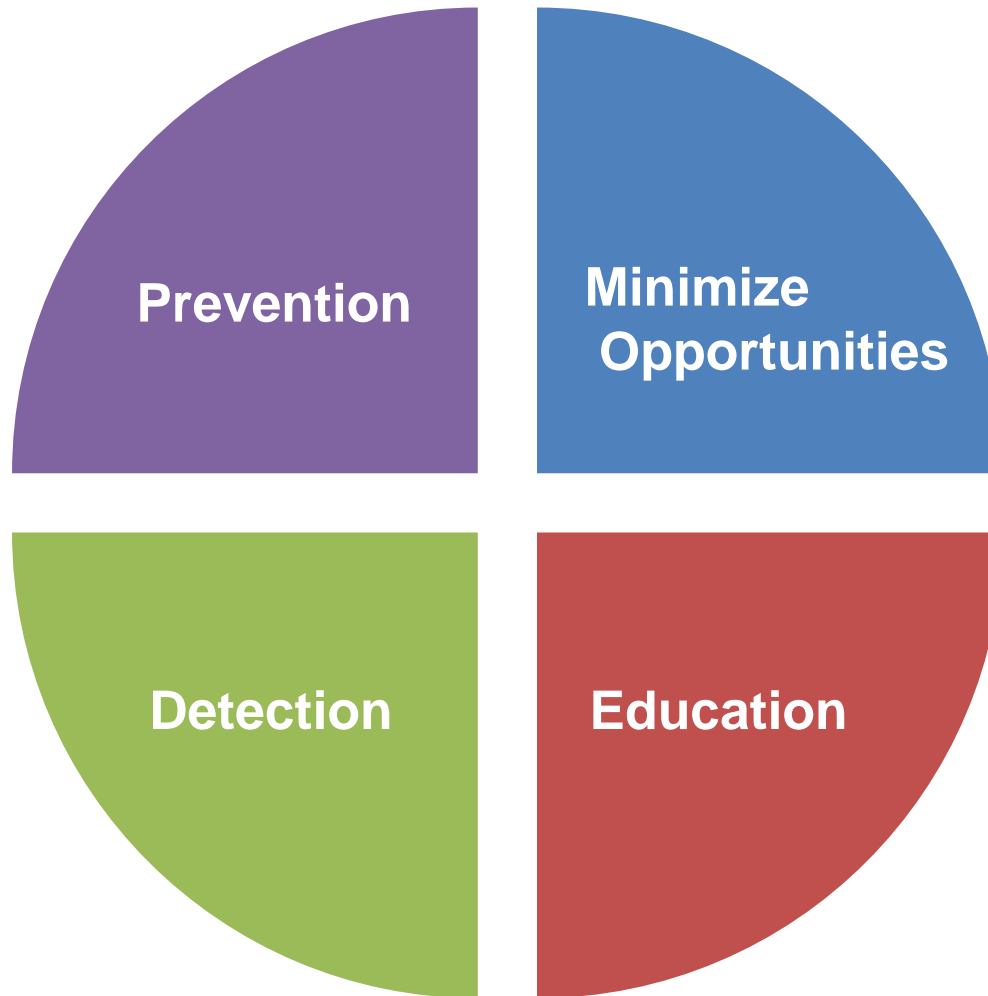
Contact HR for termination instructions

Contact attorney if needed

Contact local police department

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Conclusion to Avoiding Fraud



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Resources

Fraud and Abuse in Nonprofit Organizations by Gerard M. Zack

- Sample Audit Committee Charter
- Sample Code of Conduct
- Sample Policy on Suspected Misconduct
- Sample Conflict of Interest Policy

Association of Certified Fraud Examiners – acfe.com

Board Source – boardsource.org



Specializing in Nonprofit Accounting

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