



Fraud Detection and Defense in Non Profit Organizations

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Charity member charged with swindle

By Pam Louwagle
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A former treasurer of the Twin Cities chapter of the Links Inc., a charitable organization, is suspected of swindling the group out of more than \$30,000.

Brenda L. Anderson, 53, of Minneapolis was charged with eight felony counts of theft by swindle involving \$53,270 taken between 2000 and 2002. She was a court reporter for U.S. District Judge Michael Davis but resigned in September.

Asked about the charges, Anderson's attorney, B. Todd Jones,

said, "We'll respond in the appropriate way through the process of the court proceedings."

A criminal complaint in Hennepin County District Court said accountants auditing the organization found an "unusually high number of checks" listing Anderson as the payee, although the checkbook register that Anderson maintained listed them as being written to some other entity.

Some of the missing money falls outside of the statute of limitations, but prosecutors included it in the charging document and plan to seek restitution for

all of it.

According to the complaint, Anderson wrote a note saying that she was sorry and that she left some money to pay back to the Links.

Chapter president Marcia Murray said that the organization, founded on friendship and service, has been in the Twin Cities for more than 30 years and that group members are like family. "We are all in pain over this, extreme pain over one of our sister Links," she said.

Composed mostly of African-American professional women, the Links Inc. has fund-

ed arts and youth programs and has worked on national and international issues such as health care and education.

Murray said the organization has insurance and has made good on all of its support commitments.

"We have put things in place to ensure that this won't happen again," Murray said. "We have taken steps to fortify our bylaws and procedures and to ensure that [people] can definitely trust and support us, because we're a worthy organization."

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12/2/03 *Mpls. Star-Tribune*

Major Reasons Why this Happens

- Lack of Board oversight
 - Board competency issues
 - Lack of balance of control
- Lack of Independent Review
 - Not devoting resources to fiscal management
- “Alms” mentality that suggests that no one would steal from the poor box

Major Reasons Why this Happens

- Source of revenue from contributions that is harder to track
- Inadequate or no cash controls
- Lack of experience of “Mission managers” to manage the business
- Major Contributor influence:
 - Management Selection
 - Discipline

Major Reasons Why this Happens

- Rapid Organizational Growth
- Increased Complex Activities
- Inadequate Reporting
- System Death
 - Old technology
 - Poor security
 - Stale features

Major Reasons Why this Happens

- Mission Drift
- Policy and Procedures breach
- Internal Control Failure
- External Control Failure
- Poor Executive Leadership
- Lack of Timely Board Actions

Major Reasons Why this Happens

- The employee commits it intentionally
- There is some underlying motive
 - Feeling under-compensated
 - Job pressure
 - Harassment
 - No promotional opportunities (not connected enough)
 - Financial stress
 - Addictive issues (drugs, gambling, etc.)
 - Medical issues of family or self
 - LIFESTYLE desires

Who Commits Fraud?

- 58% by employees (small dollar losses)
- 30% by managers (modest dollar losses)
- 12% by executive director/CEO (BIG \$)
- The older the employee the larger the loss
- The more educated the employee the higher the loss

Source: Association of Certified
Fraud Examiners

Types of Fraud

- Asset Misappropriation
 - Cash, Purchasing schemes, Payroll padding, expense reports, and physical asset conversion
- Kickbacks, skimming and conflicts of interest
- Vendor/Supplier fraud
 - Price gouging, failure to deliver goods, double billing

How Long Does This Go On?

- At least 13% go on for at least five years, some even more
- Median length is 18 Months
- Most are simple situations and yet less than 4% are detected within the first month

Source: Association of Certified
Fraud Examiners

How Do They Get Caught?

- Internal Controls 15.4%
- External Audit as part of the “normal” periodic audit process 4% to 11.5%
- Organizational Failure 45%
- Internal Audit 35%-40%

Source: Association of Certified
Fraud Examiners

An Ounce of Prevention and a Pound of Defense

- It's most likely happening right now and we don't know it
- Staff changes and board makeup can increase the risk
- The annual financial audit is unlikely to catch anything
- Internal Controls and Internal Audit usually only identify small issues

An Ounce of Prevention and a Pound of Defense

- Defending the Integrity of the Organization
 - Reputation Loss Risk is more costly than the financial loss
 - Adopting a Comprehensive Approach throughout the organization
 - Board Training
 - Policies, Procedures, Practices of Management and Staff reports
 - Roles and Responsibilities (fiduciary roles)

An Ounce of Prevention and a Pound of Defense

- Adopting a Comprehensive Approach throughout the organization (continued)
 - Internal Financial Controls (Preventive and Defensive)
 - Policies, audit, procedures, authorities, review, accountability, vendor support
 - Departmental Participation
 - Human Resources (identifying vulnerable employees)
 - Computer system security (passwords, access hours)
 - Building and offices security (locks, limited access)
 - Officers, Directors and Employee Fidelity Insurance

An Ounce of Prevention and a Pound of Defense

- Adopting a Comprehensive Approach throughout the organization (continued)
 - Simple things
 - Independent Reconciliation of bank records
 - Review of budget versus actual expenses
 - Variation explanations
 - Accountability
 - Shifting responsibilities
 - Mandatory vacations, days away

Leading By Example: Executive Director/CEO Behavior

- Taking Action to discipline abuses
- Ethical Practices
- Reporting Results
- Communicating with Board/Staff
- Policy Compliance
- Integrity
 - Not overriding approved procedures
 - Validation of the process

Warning Signals for Board Members

- Late or Qualified Audits
- Inaccurate or missing monthly reports
- Executive Director/CEO lack of response to board requests for information
- Sudden requests for emergency loans
- Cancelled meetings due to lack of quorum
- Budget versus actual unexplainable variations

Fraud Detection and Defense in Non Profit Organizations

- One, Two, Three
 - Comprehensive organization-wide system
 - Financial Management Controls
 - Inter-departmental Participation
 - Leadership (CEO) Integrity
 - Board of Director Oversight
 - Responsibility/Accountability understanding
 - Watch Out for Warning Signs