Northeast Institute for Quality Community Action Best Practice Chalk Board

Fraud Prevention.

A recent Guidestar.com poll of the public asked the question whether respondents had more or less confidence in nonprofit agencies today compared to 5 years ago. The response was that 58% of respondents stated they had less confidence in nonprofit agencies with the primary reason given….. "public scandals."

Both preventing and detecting fraudulent behavior is a goal we all share however it is often easier said than done. A survey of 1,134 cases of Occupational Fraud conducted by the Association of Certified Fraud Examiners was published this year and for nonprofit agencies the Report offered some good news and bad news. The good news is that for the period investigated (1/04 – 1/06) nonprofit agencies had the lowest rate of frequency of fraud (13.9%) and median loss ($100,000) of any of the other types or organizations studied (e.g., Government (17.6% - $100k; Public Companies (31.7% - $200k); Private Companies (36.8% - $210k).
The primary types of fraud in nonprofit agencies involves: Corruption (29.3%); Billing (28.6%) and Expense Reimbursements (28.6%). The bad news is that for all types of companies but particularly <u>nonprofits, the most effective method to detect fraud was through tips (34.4% of all cases of fraud detected) yet a little more than one in five (22.4%) nonprofits had created a "hotline" or other secure method for whistleblowers to report fraudulent behavior they observed.</u>

What can you do to strengthen your ability to prevent and detect fraud? First, <u>set a "tone at the top" underscoring your expectation of ethical behavior</u> by Board, staff, volunteers and contractors. Translate this "tone" into a written policy and circulate and train all parties on implementation. Second, <u>review and tighten as needed your internal control systems.</u> Conduct <u>random internal audit checks</u> of the effectiveness of these controls. Finally, if you don't have a <u>whistleblower protection policy</u> implemented in your agency then create one along with a <u>secure method for employees, etc. to report suspected abuses</u> to a person (e.g., Compliance/Ethics Officer, Audit Committee Chair, etc) who has the independence, authority and skills to investigate the allegation.