



cutting through complexity

Fraud in Charitable Organizations

Webinar

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Today's speakers



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What is Fraud?

Black's Law Dictionary Definition:

“An intentional perversion of the truth for the purpose of inducing another in reliance upon it to part with some valuable thing belonging to him or to surrender a legal right.”

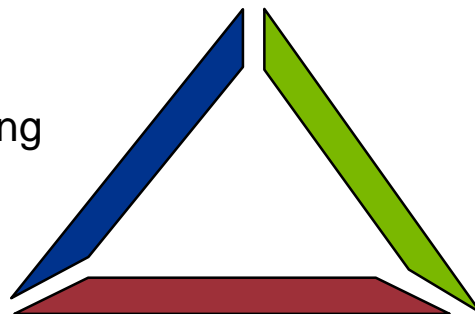
My Definition:

Deceitful Depravation

The Fraud Triangle

Opportunity

- reduced headcount may compromise controls, e.g. lack segregation
- reduced resources for monitoring and detecting
- fewer dollars spent on training



Rationalization

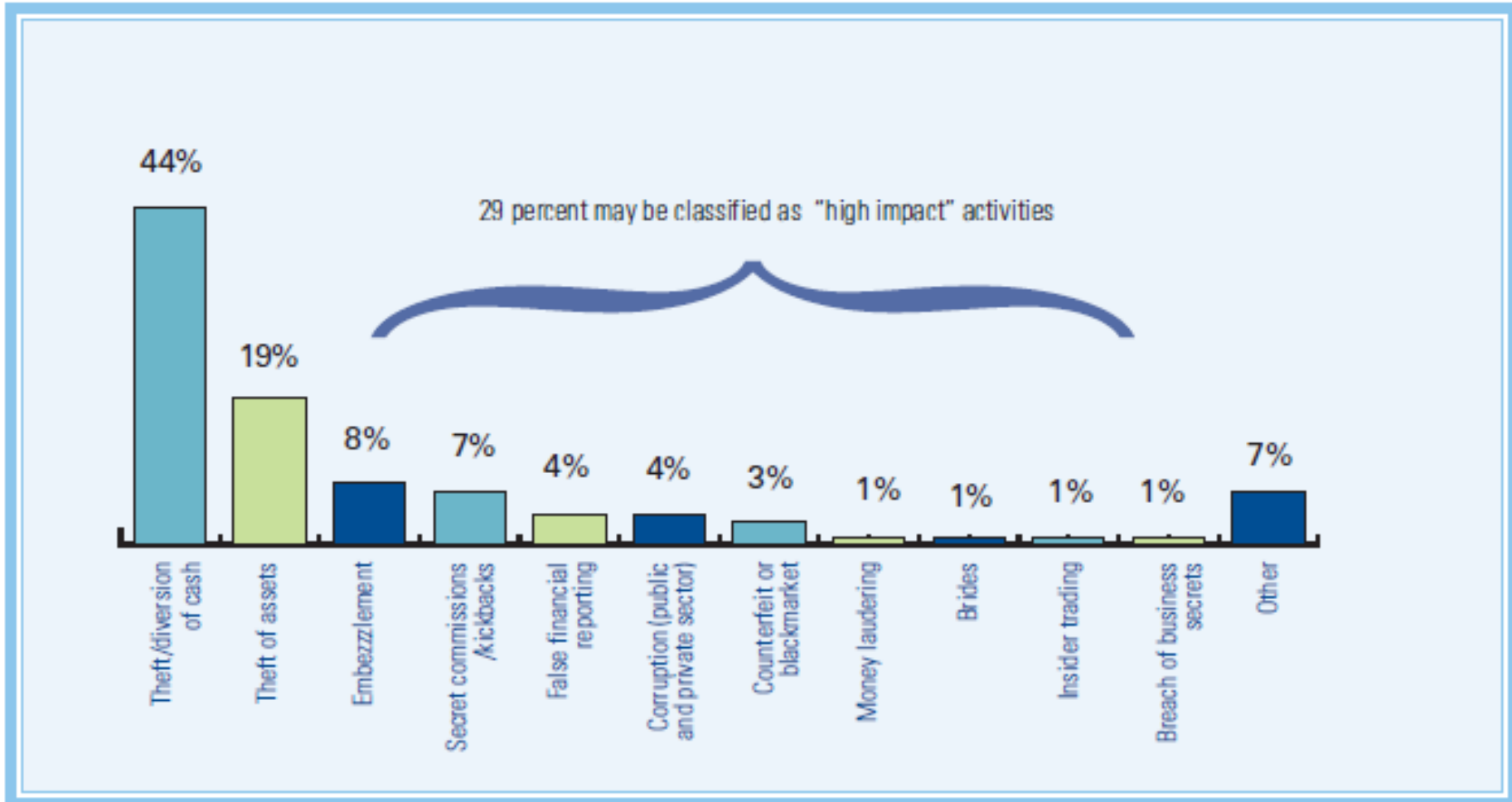
- resentful about doing more for less
- resentful about layoffs
- sense of entitlement
- greater likelihood of feeling treated unfairly

Motive

- business pressures
 - greater pressure to deliver financial results/meet expectations
 - unexpected negative adjustments
- personal pressures
 - pay cuts
 - family job loss
 - loss of equity in home
 - difficulty obtaining credit
 - personal vices
 - unrealistic deadlines

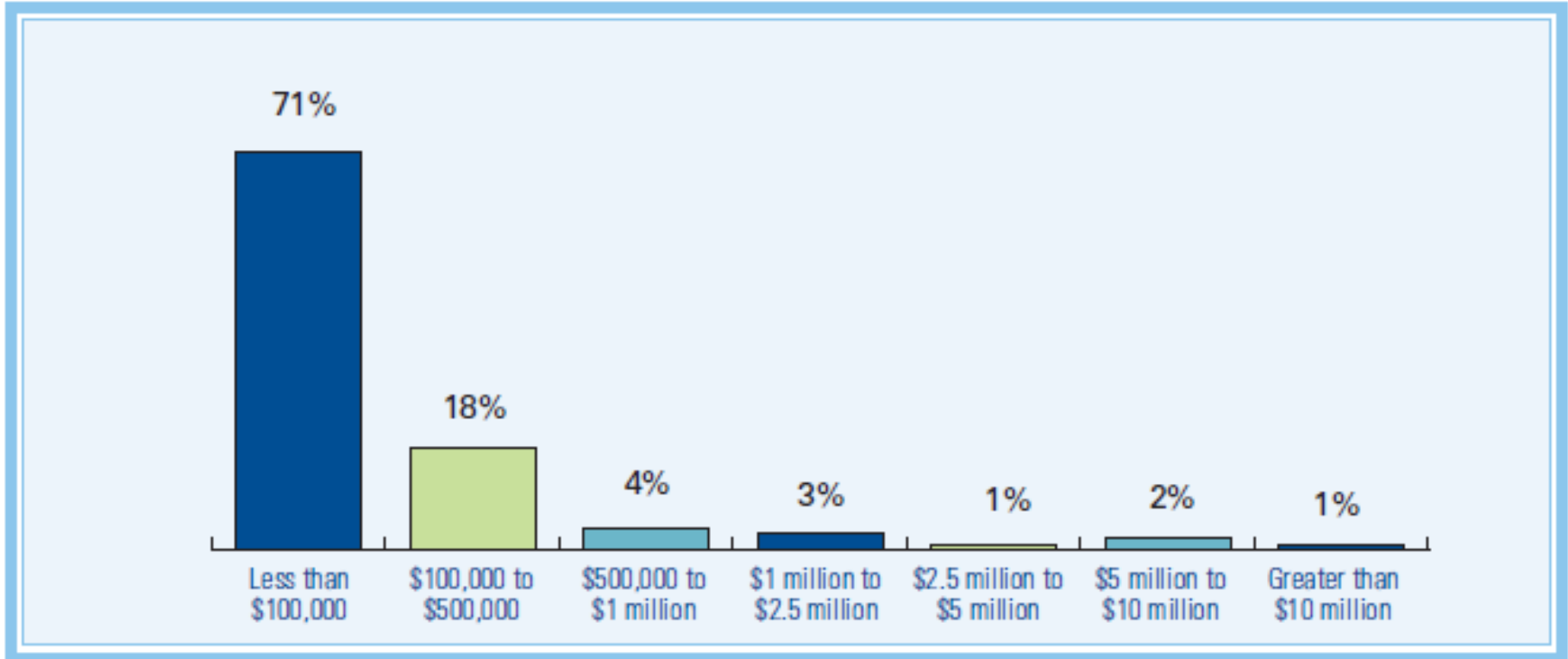
Common types of Fraud

Most frauds are “low impact, low value”, but they are still a cause for real concern



Source: 2009 Profile of a Canadian Fraudster Survey Report

Average size of Frauds

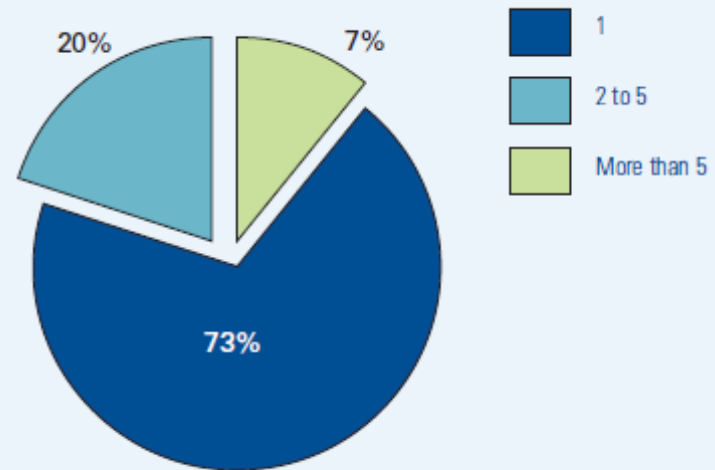


Source: 2009 Profile of a Canadian Fraudster Survey Report

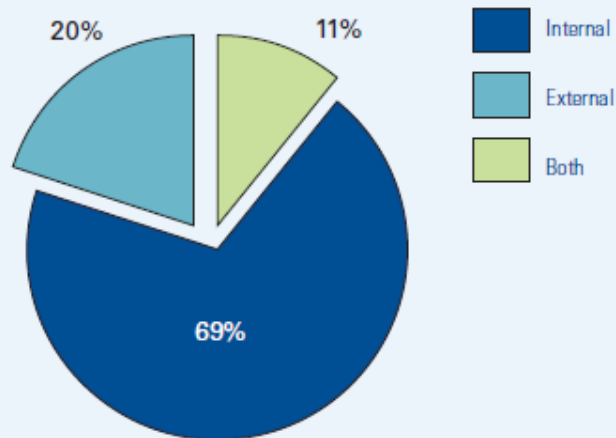
- **Included in smaller frauds are many cheque frauds – but cumulatively, damage can be significant**
- **High impact frauds cause the significant damage on an individual basis**

Profile of the Canadian Fraudster

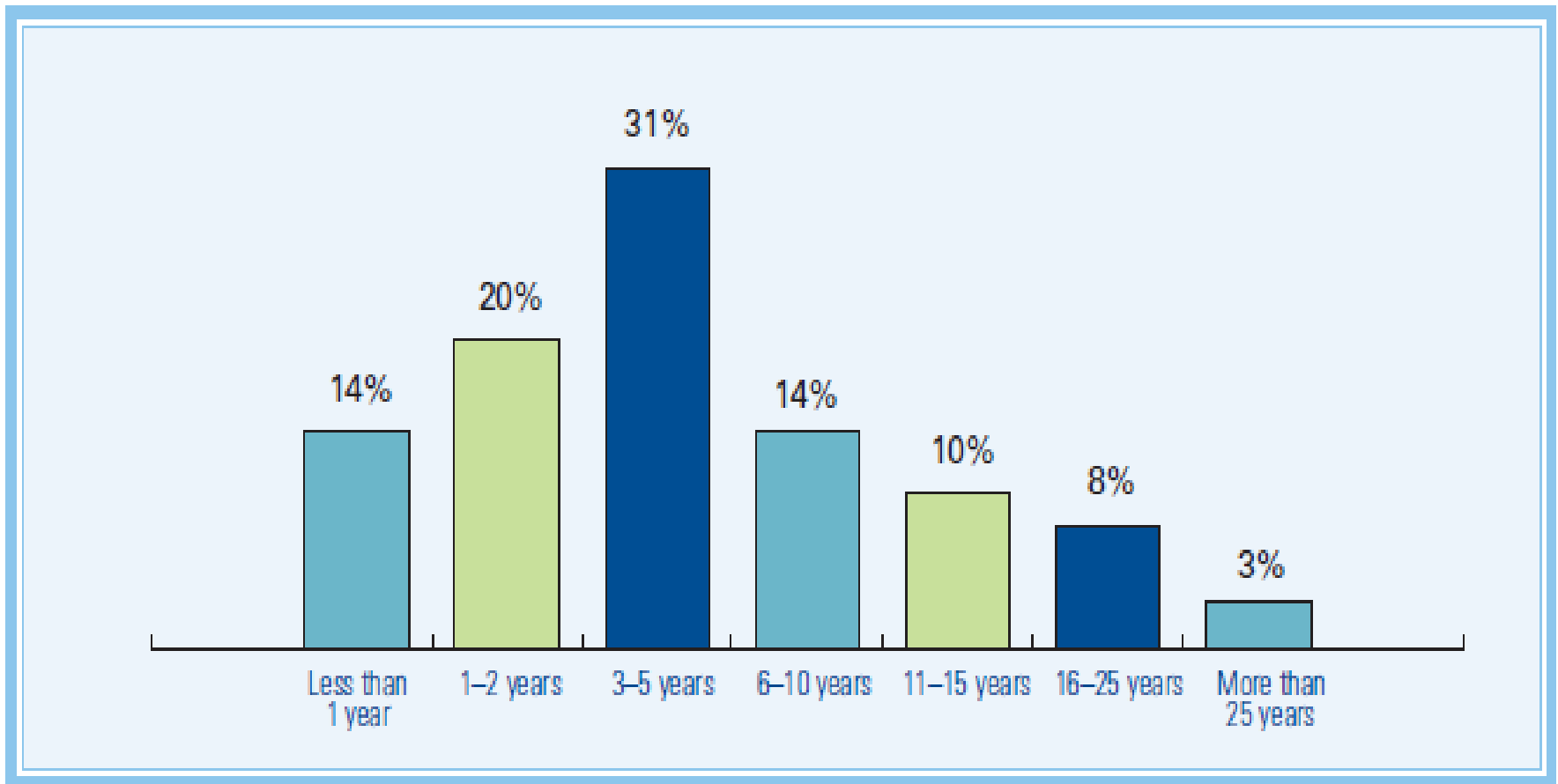
Fraud committed alone or with others



Internal or external to the organization?

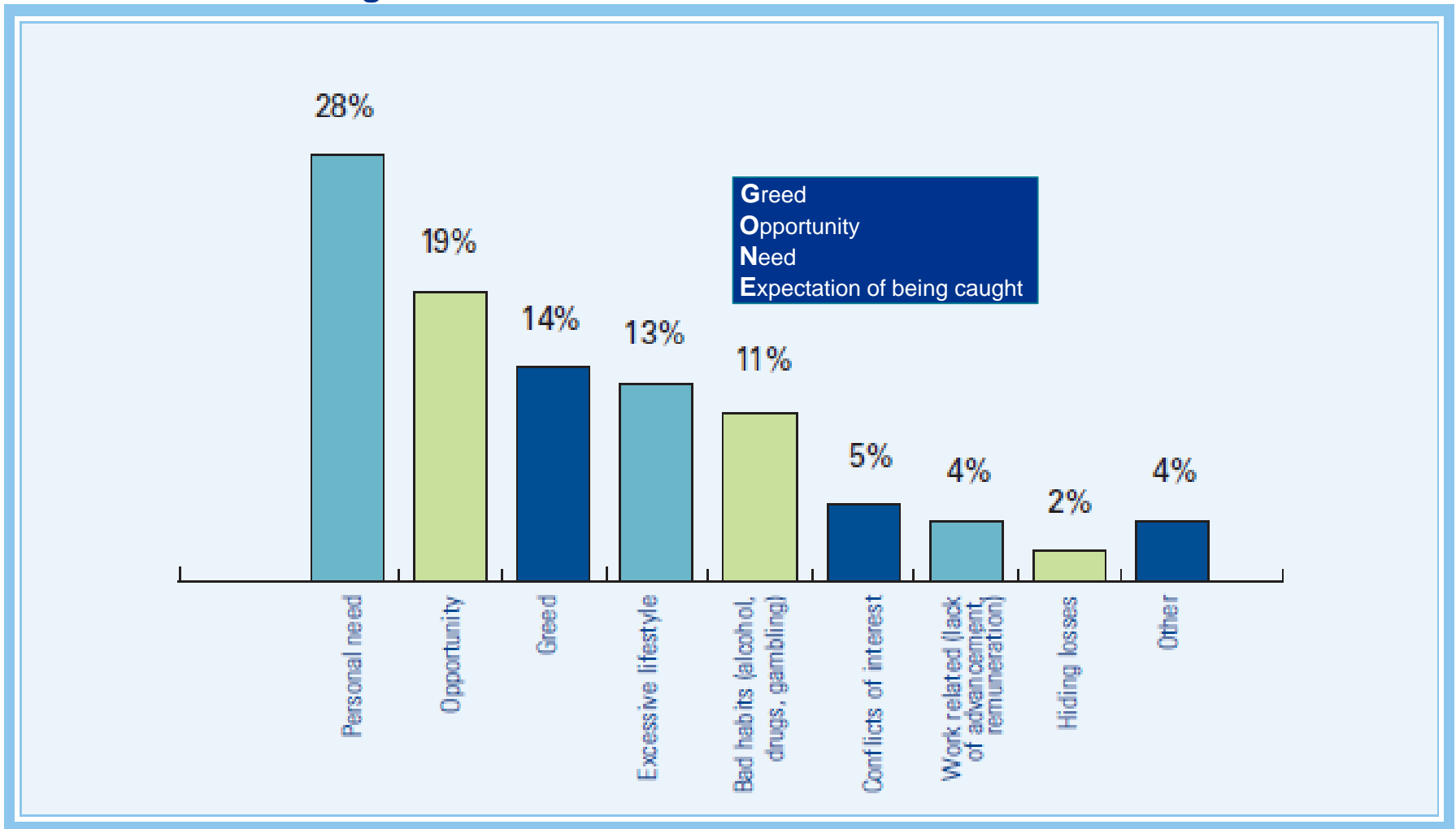


Tenure with organization



Source: 2009 Profile of a Canadian Fraudster Survey Report

Fraudsters' motivating factors



Source: 2009 Profile of a Canadian Fraudster Survey Report

Charities as target

- **Organizational mindset – trust everyone**
- **What kind of person would take advantage of a non-profit agency?**
- **Lack of rigour around entity level controls**
 - No functioning whistleblower mechanism
 - Little or no effective detective controls
- **Unwillingness to report – perpetrator sees lack of risk**

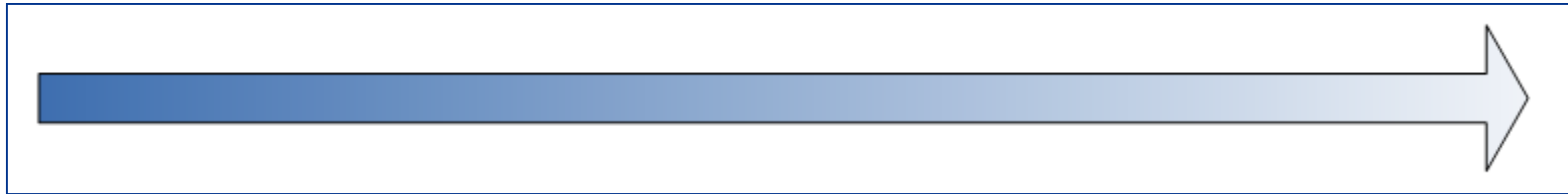
Reputational issues

- **Reputation issues can arise during and following a fraud incident**
- **The financial impact of reputation can surpass the impacts of the fraud incident itself**
- **Reacting to these issues appropriately is critical to minimize potential damage**
- **Impacts on reputation can affect the organization, management, employees and the stakeholders you serve.**
- **Key issues:**
 - Identification of stakeholders who may raise reputational issues (clients, suppliers, partners, donors, regulators, the general public)
 - Understand the impacts on people and operations of reputational issues
 - Develop a plan to address the issues (communications, personal contact, press, etc.)
 - Address the need for professional assistance (PR firm, communications experts, counsel, etc.)

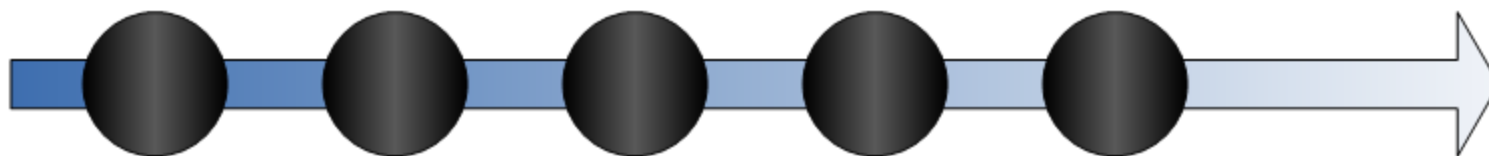
The role of a good process

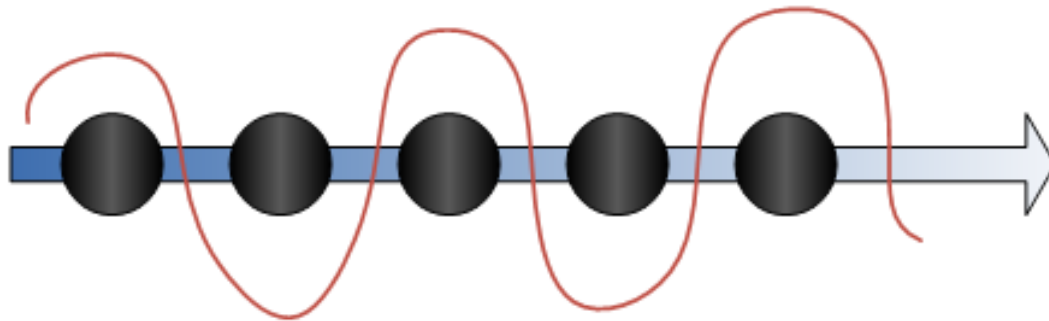
**“Winning...it is cheating with process improvements.”
Jon Stewart**

It all starts with the process....



Add some controls...





What every approver needs to know....

- You are paid too much to be a rubber stamp.
- You are the control – if you aren't doing it right, the control failed.
- How do you do it right?

What to look for?

- 1. Understand if the process was followed – should this be on an expense report or through accounts payable?**
- 2. Understand the business purpose. If the requestor can't articulate it, it likely isn't an appropriate expense.**
- 3. Ask yourself if you were paying out of pocket, would you incur that expense/in that amount/using that supplier? (Would it pass the headline test?)**
- 4. Does the coding make sense?**

What to look for? – Supporting documentation

5. Understand the supporting documentation. Receipts should:

- be original
- include a date, invoice or receipt number
- include an HST number (in most cases)
- include evidence of payment
- have proper spelling and grammar
- be sufficiently detailed in description for you to ascertain what was expensed

What to look for? – Challenge and compare

6. Challenge and compare

- Deterrence value
- Does this make sense?

Why not reported?

- **Unwillingness to report on colleagues**
- **Third party reluctance to get involved**
- **Individuals with knowledge of the fraud did not believe it was their “place”**
- **Fear of repercussion**

Thank you

Presentation by: Colleen Basden & Diane Del Monte



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