



Managing Fraud Risk: A Checklist for Not-for-Profit Organizations

To protect their resources, maintain donor trust, and continue their positive impact, Not-for-Profit (NFP) organizations should implement essential precautionary measures. Risk management should be an ongoing process, adapting to evolving threats.

- Not-for-Profit (NFP) organizations should **promote accountability**, responsibility, and transparency, these should be evident through implementing proper internal controls where the review and approval processes are thoroughly performed and will assist in mitigating the occurrence of fraud.
- **Setting the tone at the top**, refers to the principles set by the board of directors and management which is a crucial element of the control environment of an organization. This defines the organization's leadership ethical values, which often if present reduces/deter employees from committing fraudulent acts. However, one must not forget management override of controls (management bypassing controls they have implemented), mitigating this risk can be initiated by constant board oversight.
- Having **clearly documented policies and procedures** with regular updates will help to identify, detect, and prevent fraudulent activities while adapting to changing circumstances.
- **Establishing segregation of duties** ensuring that no one individual has complete control over financial transactions typically authorization, record-keeping, and reconciliation will reduce the risk of fraud.
- **Reviewing/researching vendors** ensuring they are legitimate businesses prior to establishing a relationship with them. All vendors should be verified, ensuring their businesses are registered with appropriate authorities, their financial stability should be checked through credit reports or financial statements as well as doing online searches to assess their reputation. This could eliminate or lessen fraud with illegal entities. These searches can highlight relationships with internal personnel.
- All transactions should be properly approved and relate to the organization's operation. There should be an **independent review** of invoices, checks prepared, credits received from vendors and receipts submitted for reimbursement. Requisitions and reimbursement forms should be completed in its entity where the purpose and amount are properly scrutinized. Forty-two percent of financial misconduct is found in inappropriate expenses reimbursements according to Church Law and Fraud Survey 2021.



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- NFP should also **consider implementing positive pay with their banks** – where a list of all checks written would be sent to the bank who would then cash checks based only on this provided list. According to the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN), reports of check fraud increased from 350,000 in 2021 to 680,000 in 2022 per the ACFE July/August 2023 fraud magazine. This increase can be linked to the increased number of checks that are stolen from mailboxes that are located outside the actual post office which are then manipulated in several ways. The most secure way to mail checks is to actually drop the mail inside the post office, limiting or avoiding giving mail to mail carriers as they are being targeted.
- **Rotating job functions and mandatory vacation** should be included in the organization policy and enforce. These controls can reduce the opportunity for fraudulent behavior, increase awareness and allow for recognition of irregularities or suspicious activities while roles are interchanged. Fraudulent activities can be detected during this period as discrepancies or missing information may be uncovered.
- **Implementing a tip hotline** or having some form of anonymous medium for one to report fraudulent activities is important. One would feel more comfortable reporting such act if his or her identity remains unknown especially if they are reporting his or her superior. In addition, it is important to have a whistleblower policy, this protection will also encourage reporting without fear of retaliation.

According to ACFE 2022 Report to the Nations, organizations with hotlines detect fraud more quickly and have lower losses than organizations without hotlines. Also reported by ACFE, email and web-based reporting were 40% and 33% respectively, therefore deemed as effective methods as well.

- **Regular training and education for employees/volunteers** about fraud risks, prevention and reporting procedures can help to alleviate the occurrence of fraud. The more employees see employers taking this seriously the more likely they might adhere.
- Often recurrence of fraud takes place because the perpetrator is not held accountable. Including disciplinary actions in the organization's policy for fraudulent behavior outlining consequences can be used as a preventative measure and could deter fraudulent activities. A former priest was held accountable sadly after stealing from several churches which contributed to one closing their doors.



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