

The webcast will start at 1:00 p.m. Eastern

- Visit capincrouse.com/navigating-fraud to access these materials from today's webcast:
 - Handout
 - Recording
- If you qualify for CPE credit, a certificate will be emailed to you soon



Important CPE Information

- We are using Conferences i/o for CPE
- To receive CPE credit:
 - Navigate to capincrouse.cnf.io and tap the "Navigating Current Fraud Risks" section
 - OR point your phone's camera at the QR code to join directly
 - Check in and answer the polling questions throughout the webcast



Navigating Current Fraud Risks

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Ken Tan, Partner
11.19.24



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Session Objectives

At the end of this session, you will be able to:

- Understand the anatomy of fraud and its financial impact on an organization
- Identify the traits of a fraudster
- Describe real case studies of fraud
- Review current nonprofit fraud risks
- Explain prevention methods your nonprofit can apply to help decrease the risk of fraud

5

Polling Question 1

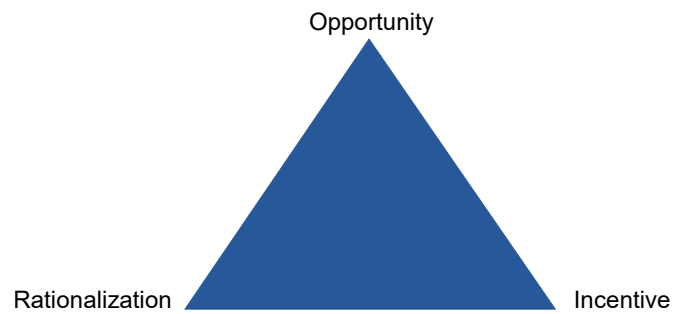
Do you want CPE credit?

- Yes
- No

Answer in the Conferences i/o app on your device.

6

Fraud Triangle



7

What is fraud?

- An intentional deception made against an individual or organization for personal gain
- **A violation of trust**

8

Anatomy of Nonprofit Fraud

- Cost?
- Schemes?
- Who? Why?
- How can you protect your nonprofit?
- Conclusions and recommendations

9



Understanding the Cost of Fraud

Thoughts to Consider

- In a recent Church Law & Tax survey of 700 church leaders:
 - Nearly **1 in 3** respondents said their church had suffered some form of financial misconduct
 - Half of the fraud incidents occurred within the last 10 years
- No organization is immune to the risk of fraud

11

Organization Type – Frequency

- Nonprofit organizations account for 10% of all fraud reported
- 21% of fraud cases occurred within organizations of 100 or fewer employees, with a median loss of \$141,000
- \$85,000 median loss in fraud cases at religious, charitable, or social services organizations

Source: *Occupational Fraud 2024: A Report to the Nations*, Association of Certified Fraud Examiners, Inc. (ACFE)

12

Additional Thoughts to Consider

- Church fraud estimates:
 - Global fraud for Christian organizations is expected to hit \$86 billion in 2024
 - Churches gave \$73 billion to global missions in 2023
 - Church crime grows an average of 6% a year
 - Gordon-Conwell's Status of Global Christianity (2024)
 - Giving to Christian causes = \$1.3 trillion
 - Ecclesiastical crime = \$86 billion (6.7% of total giving)

Sources: [World Christianity 2024: Fragmentation and Unity](#), *International Bulletin of Mission Research*, 48(1), 43-54; [Status of Global Christianity, 2024](#), Gordon-Conwell Theological Seminary

13

Median Loss Due to Fraud

- \$76,000 in nonprofits
- \$150,000 in government agencies
- \$150,000 in private companies
- \$150,000 in public companies
- As a percentage of total cash reserves, nonprofit losses are much higher and more damaging than those of public companies

Source: *Occupational Fraud 2024: A Report to the Nations*, Association of Certified Fraud Examiners, Inc. (ACFE)

14

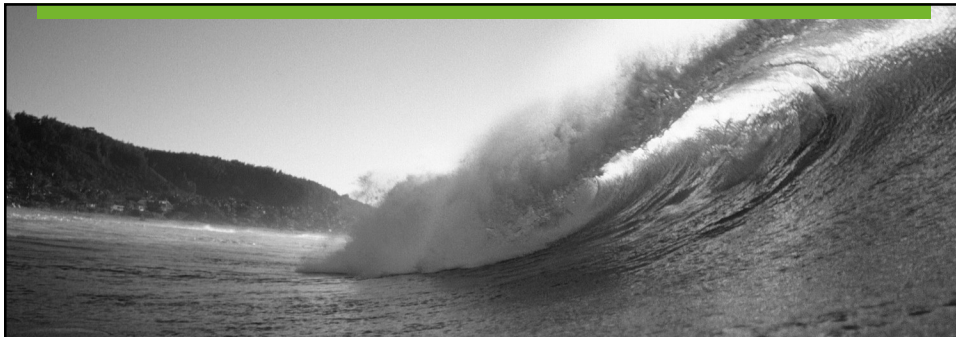
Collusion Makes a Big Difference

Number of Perpetrators	Median Loss	Duration
One	\$75,000	12 months
Two	\$135,000	12 months
Three or more	\$329,000	14 months

54% of fraud cases in the 2024 ACFE report involved two or more perpetrators.

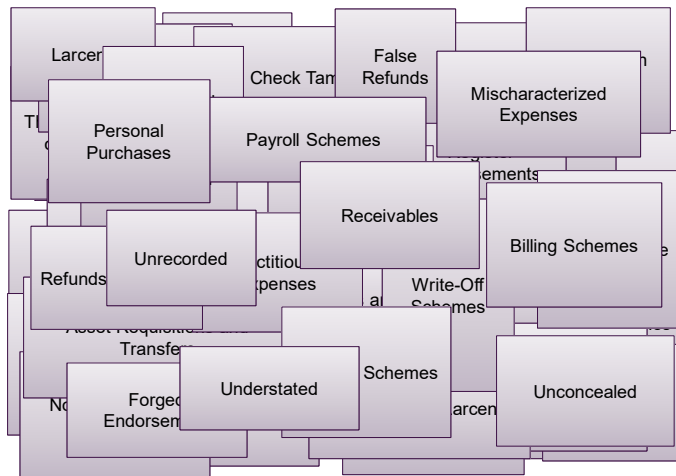
Source: *Occupational Fraud 2024: A Report to the Nations*, Association of Certified Fraud Examiners, Inc. (ACFE)

15



Understanding How Fraud is Committed

Types of Fraud Committed



17

Asset Misappropriation: Most Prevalent Fraud Scheme

Scheme	Percent of Cases	Median Loss
Billing	22%	\$100,000
Noncash	22%	\$66,000
Expense reimbursements	13%	\$50,000
Check and payment tampering	11%	\$155,000
Cash on hand	11%	\$50,000
Skimming	10%	\$43,000
Cash larceny	10%	\$50,000
Payroll	10%	\$50,000
Register disbursements	3%	\$50,000

Source: *Occupational Fraud 2024: A Report to the Nations*, Association of Certified Fraud Examiners, Inc. (ACFE)

18

Polling Question 2

I believe the following about occupational fraud:

- My organization will never be a victim.
- It's possible that it could occur in my organization.
- Everyone in my organization is capable of perpetrating it.

Answer in the Conferences i/o app on your device.

19



Knowing the Profile of a Fraudster

Perpetrator Profiles

Most Common

- 74% of fraudsters were male
- 69% were 31 – 50 years old
- 87% were never previously charged or convicted of fraud
- The longer the perpetrator has worked for an organization, the more costly their fraud

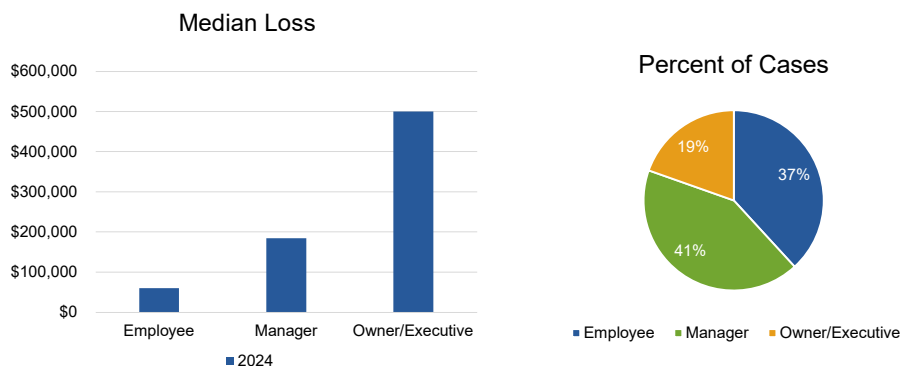
Most Costly

- Male – median loss of \$158,000
- Age 60+ – median loss of \$675,000
- Owner/executive – median loss of \$500,000

Source: *Occupational Fraud 2024: A Report to the Nations*, Association of Certified Fraud Examiners, Inc. (ACFE)

21

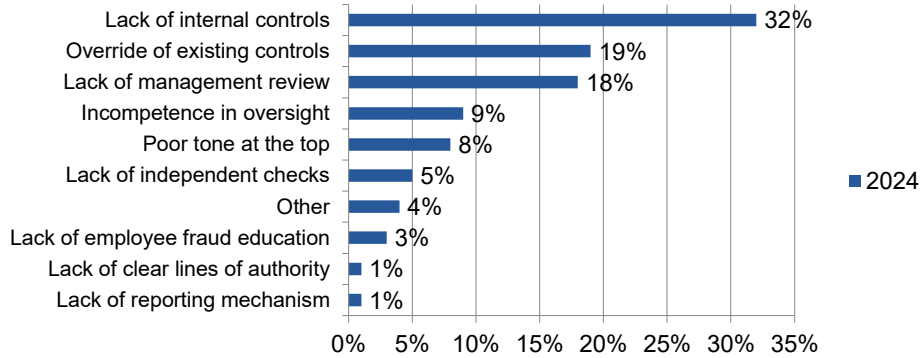
Employment Level of Perpetrator



Source: *Occupational Fraud 2024: A Report to the Nations*, Association of Certified Fraud Examiners, Inc. (ACFE)

22

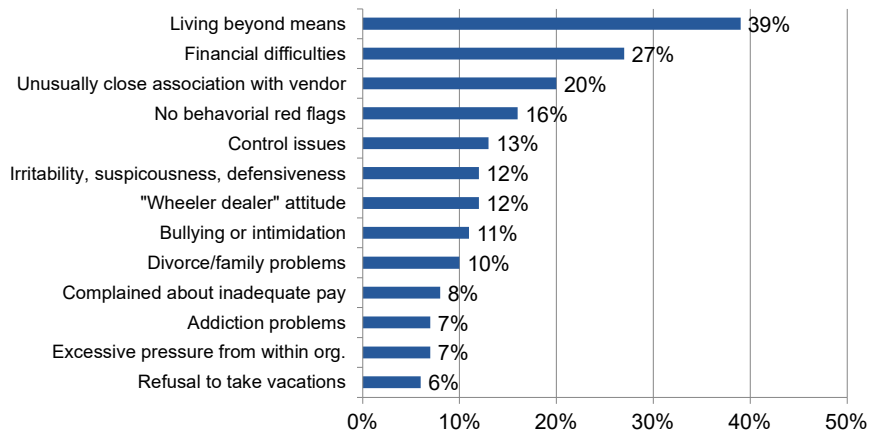
Primary Internal Control Weaknesses



Source: *Occupational Fraud 2024: A Report to the Nations*, Association of Certified Fraud Examiners, Inc. (ACFE)

23

Top Behavioral Red Flags Displayed by Perpetrators



84% of fraudsters displayed at least one behavioral red flag.

Living beyond their means has been the most common red flag since 2008.

Source: *Occupational Fraud 2024: A Report to the Nations*, Association of Certified Fraud Examiners, Inc. (ACFE)

24

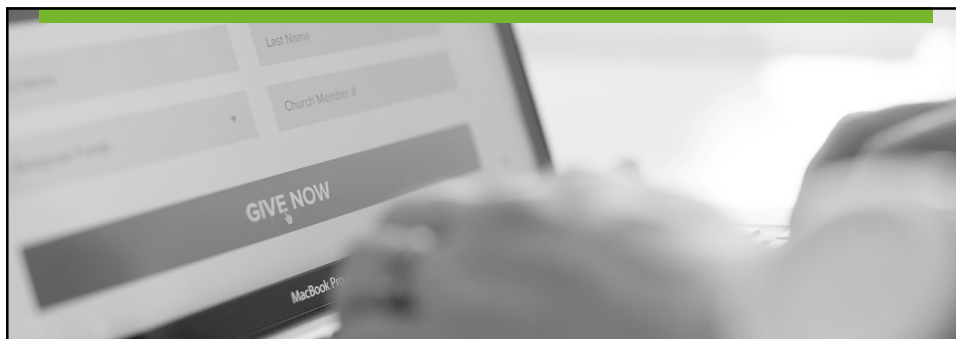
Polling Question 3

Are you aware of a fraud incident that happened at a church or other nonprofit in your community?

- Yes
- No

Answer in the Conferences i/o app on your device.

25



Nonprofit Fraud Case Studies

**Former Georgia man sought for \$30 million
Christian ministry fraud scheme, authorities say**

AL.com, August 2, 2023

**Police: Over \$470K embezzled from Dallas, NC
church since 2018**

WBTB.com, December 18, 2023

**Memphis pastors among 10 indicted in COVID-19 relief fraud
schemes, officials say**

fox13memphis.com, October 11, 2023

27

**Former Virginia Beach church accountant
gets 5 years for embezzling**

The Virginian-Pilot, October 25, 2023

**West central Minnesota sisters
jailed, ordered to pay \$100,000 to
church, township**

West Central Tribune, October 27, 2023

**Priest at North Strabane church accused of stealing
more than \$117K**

The Observer-Reporter, December 1, 2023

28

Case Study – HR Director

- **Incentive** = Lavish lifestyle
- **Opportunity** =
 - Lack of timely bank reconciliations
 - Unsecured check stock
 - Management override
 - Methods:
 - Ghost employees/terminated employees
 - Insurance premium payments to personal account
 - Related-party vendors
- **Rationalization** = No one will notice



29

Case Study – Church Finance Administrator

- **Incentive** = Personal gain
- **Opportunity** =
 - Lack of segregation of duties
 - Methods:
 - Unauthorized cash disbursements
 - Checks payable to self or cash
 - Diverting of incoming funds to personal bank accounts
- **Rationalization** = Will pay back the money



30

Case Study – Executive Director

- **Incentive** = Personal benefit
- **Opportunity** =
 - Inadequate board monitoring
 - Inadequate internal review process
 - Methods:
 - Unauthorized cash disbursements
 - Unauthorized credit card charges
 - Expense reimbursements with no business purpose documentation
- **Rationalization** = None provided



31

Case Study – International Mission Organization

- **Incentive** = Sale/leaseback of building in foreign field location
- **Opportunity** =
 - Distance and limited onsite monitoring
 - Methods:
 - Collusion with a local attorney knowledgeable in local real estate transactions
- **Rationalization** = Building will be used just the same



32



Understanding Current Nonprofit Risks



Top Nonprofit Cyber Fraud Risks to Consider

- Cyber Fraud
 - Social Engineering
 - Ransomware
- Internal Fraud
 - Corruption
 - Asset Misappropriation
 - Payroll Fraud

Cyber Fraud: Social Engineering

- The art of manipulating people to give up confidential information
- Targeting individuals who are susceptible to give sensitive information such as:
 - Passwords
 - Bank information
 - Computer access
- Easy to exploit the natural inclination to trust
 - Easier to fool someone to provide a password than to try to hack it

35

Types of Social Engineering

- **Phishing – Sending emails acting as a reputable company/individual to persuade the recipient to reveal personal information**
 - Email from a trusted friend
 - Contains a link or a download of an attachment
 - Email from a trusted source
 - Financial institutions
 - Notification of a breach and to “verify information”

36

Phishing (continued)

- Emails with compelling story or pretext
 - Posing as your boss or coworker
 - Urgent request for help
 - Donation to charitable fundraiser
 - Notification that you have won a grant or large donation and asking you to verify information by clicking on the link provided

37

Ransomware

- Malware that employs encryption to hold a victim's information for ransom
- Encrypts an organization's database to restrict access
 - A ransom is demanded to provided access
- Usually distributed through spam or targeted attacks
- Never a guarantee that the recovered data is not compromised

38

Internal Fraud – Asset Misappropriation

- Occurs when people who are entrusted to manage the assets of an organization steal from it
- Typically cash or cash equivalents are stolen
 - Fake invoicing
 - Skimming
 - False expense reimbursements
- Common in nonprofit fraud due to recurring theme: Lack of segregation of duties

39

Internal Fraud – Corruption

- Dishonest behavior by those in positions of power
 - Executive directors and leadership
 - Committee/elders
 - Those in a decision-making capacity
- Abusing one's influence and power for personal benefit
- Conflicts of interest and lack of disclosure

40

Internal Fraud – Payroll Fraud

- Phantom employee
 - Employee terminated, but supervisor continues to submit hours and obtains terminated employee's checks
 - Fake employee added to register
- Payroll manipulation
 - Person with access to payroll register updates their rates or the rates of others without supervision
- Lack of oversight and review

41


Polling Question 4

Have you or a colleague encountered one of these fraud trends in the past year or two?


- Yes
- No

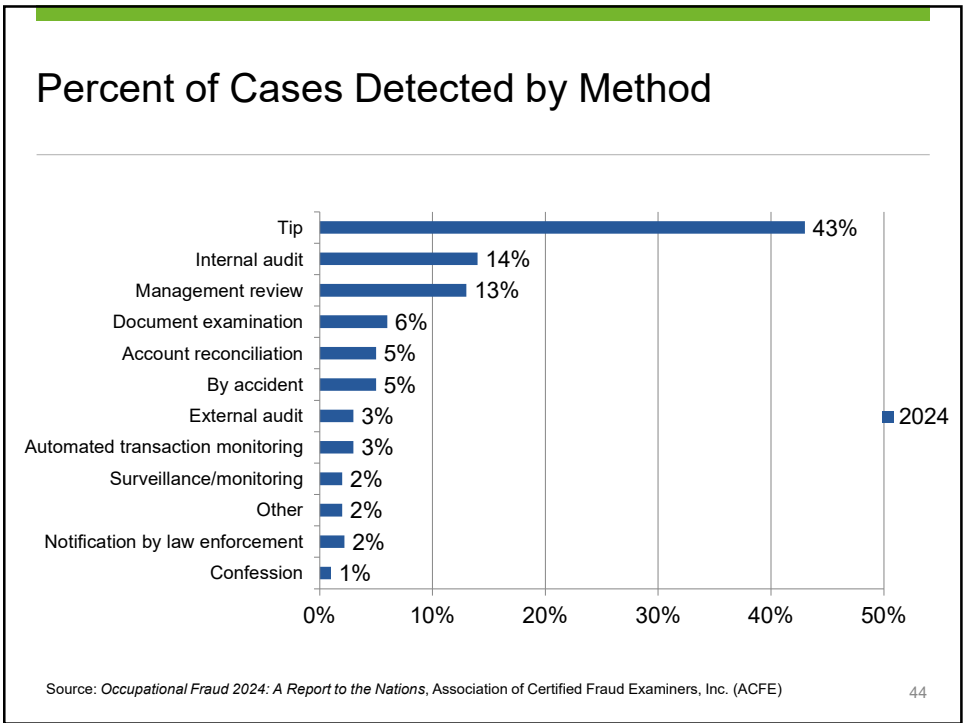
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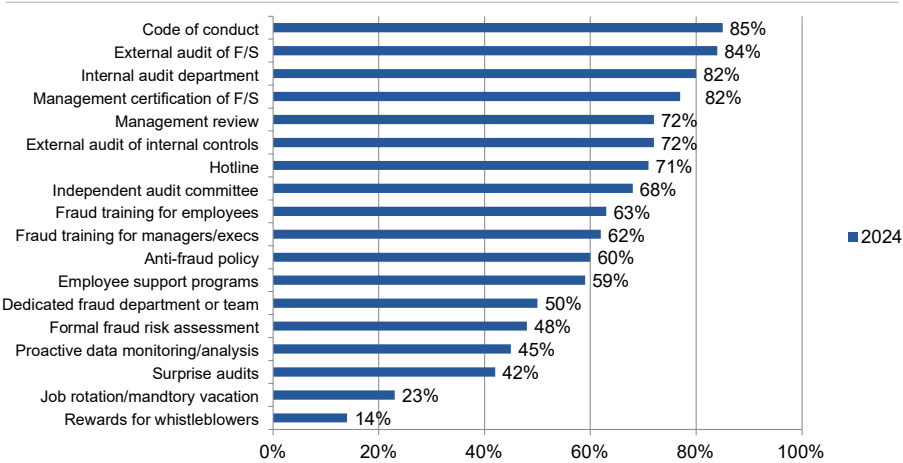


Fraud Prevention





Anti-Fraud Controls Used



Source: Occupational Fraud 2024: A Report to the Nations, Association of Certified Fraud Examiners, Inc. (ACFE) 45



Protecting Your Nonprofit

Knowledge is Power!

- Educate nonprofit leaders and staff about risks and prevention
- Focus on controls
- Use technology as a tool

47

Educating Nonprofit Leaders and Staff

- Teach nonprofit leaders and staff about the risks of fraud and what to be mindful of
- Regularly test staff and leaders to keep awareness heightened
- Encourage a culture of fraud awareness among staff
- Adopt, and rigorously implement, a zero-tolerance policy toward employee fraud
- Develop and implement a clear response plan in case fraud is discovered

48

Focus on Controls

- Implement clear segregation of duties
 - Consider outsourcing some areas
- Implement a Whistleblower Policy
- Regularly perform bank and account reconciliations
- Clearly define review and authorization levels for payments
- Trust but verify

49

Technology as Your Tool

- Restrict and closely monitor access to sensitive information and systems
- Adjust email spam filters
- Secure computing and technology devices
 - Anti-virus software
 - Firewalls
 - Email filters
 - Update operating systems regularly

50

Additional Tips to Consider

- Consider automating processes (cash receipts and cash disbursements)
- Use expense management systems to monitor spending
- Outsource back-office processes (Accounting, HR, etc.)
- Supplement support through committee and nonprofit donors
 - Don't sacrifice controls for convenience
- Always perform due diligence in hiring
 - Background checks
 - References
- Set regular touchpoints with staff
 - Identify red flags
 - Beneficial for mental and social health

51

Conclusions and Recommendations

- DO implement an anonymous tip line and whistleblower policy
- DO review credit card statements, canceled checks, and bank reconciliations
- DO implement fraud training
- DO increase the perception of detection
- DON'T rely upon your external audit
- DON'T use trust as an internal control
- DO assess your organization's vulnerability to fraud
capincrouse.com/fraud-questionnaire
- DO understand your fiduciary responsibility
perlmanandperlman.com/embezzlement-board-liability

52

Resources to Help Protect Your Organization

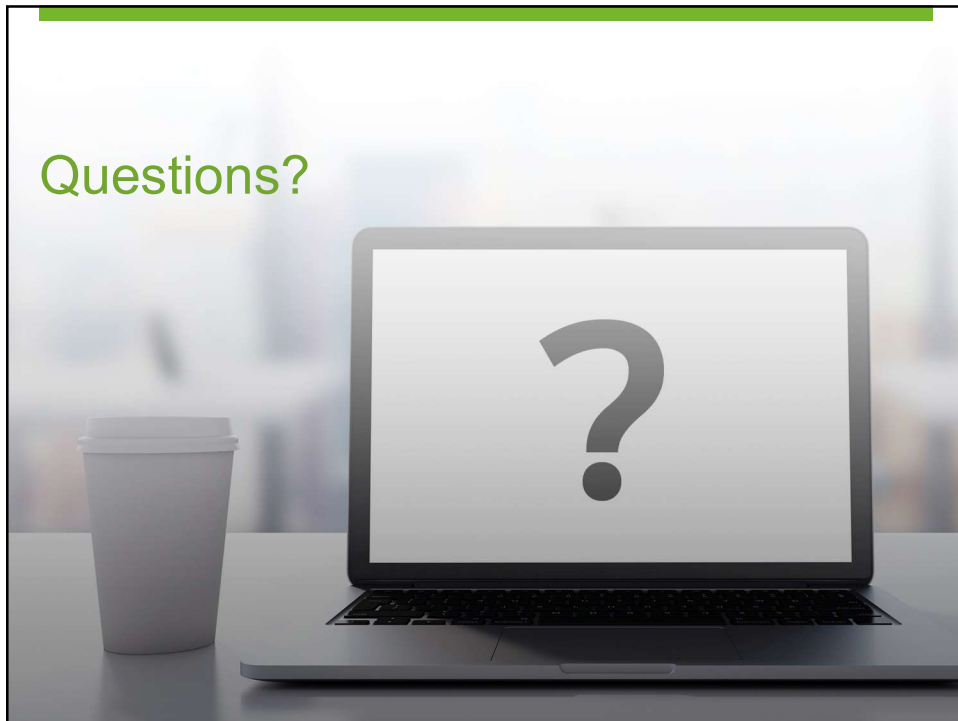
CapinCrouse offers experienced insight and informative resources to help you reduce the risk of fraud and respond effectively if it occurs.

Scan the QR code or visit capincrouse.com/fraud-forensics to learn more and access free resources.

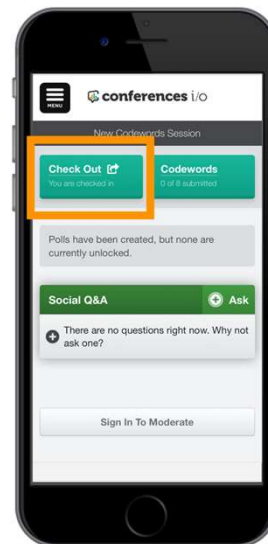


53

Questions?



Don't forget to check
out of Conferences i/o
before you leave!



Thank you.

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