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Original Paper

An Overview of Fraud in Nonprofit Organizations and the Appropriate Approach to Prevent It

Yousef Seyam[1], Omar Seyam[2], Nora Salama[3] & Achraf Seyam[4*]

[1] Hofstra University, New York, United States

[2] Stony Brook University, New York, United States

[3] Baruch College, New York, United States

[4] Borough of Manhattan Community College, New York, United States

[*] Achraf Seyam, Borough of Manhattan Community College, New York, United States

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Abstract

Fraud within nonprofit organizations has been on the rise. The majority of nonprofits that suffered losses through fraud recently were public charities. However, it doesn't matter whether the organization is small or large, fraud may occur anywhere from little leagues to health care organizations. Nonprofits diligently carry out their mission through relatively small sized staff and tight budgets. Not only are nonprofits as well as their donors surprised to navigate through these challenges, but also an unfortunate danger, fraud committed by employees, volunteers, organizations and executives. This article demonstrates that anti-fraud measures does not stop fraudulent activity as well as examining the fraud that occurs within nonprofit organizations. We begin by reviewing the description of what fraudulent activity is and how it ensues. We then review examples of certain cases of fraud in nonprofit. Lastly, we discuss how fraudulent activity should be prevented in nonprofit.

Keywords

Fraud in nonprofit, billing schemes, consumer fraud, check tampering, medicare fraud

1. Introduction

Not-for-profits organizations, which consist mainly of educational, religious, social service, and charity institutions, have a mission of improving the community as well as the people that are situated in it. There may be an impression that not-for-profit organizations are less likely to be involved in fraudulent activities due to the aim of depending heavily on government assistance and charitable donations rather than on generating a profit. Unfortunately, an unexpected rate of fraud occurs in not-for-profit organizations due to a variety of factors. These fraud cases consisted of the following: corruption, misconduct of the Board of directors or employees, theft, embezzlement, and misrepresentation of financial statements. According to a study conducted by the New York Times, approximately 40-45 billion dollars was lost in internal and external fraud in not-for-profit organizations from 2007-2010 which has surpasses 67 billion dollars in 2013. It is essential to understand the fraud that takes place within not-for-profit organizations, weaknesses in institutional structures of the organizations and governmental regulations, appropriate approach to prevent against fraud and the different types of fraud that occur. This is vital since any means of taking money unrightfully will not be used for charitable causes and or social services. In addition, this could also discourage any donations from donors if they assume that the money will end up not benefiting social services or charities that they are intended. The main purpose of a non-for-profit organization is to generate revenue and with that revenue reach the organization's goals. With the revenue that the organization brings in, none of it is distributed among any of its members, managers, and or administrators within the organization. Many years ago, many not-for-profit organizations were also able to use the revenue brought in for the organization's employees' salaries. Some organizations may have even given out bonuses for anyone who held a certain position within the organization or sometimes the salaries were extreme. During this time, shareholders would sell their stocks that could be considered not-for-profit to receive profit without paying taxes. Not-for-profits do not operate to earn revenue for shareholders as opposed to for profit business.

2. Uncovering Fraud within Non-For-Profit

What is the true meaning of fraud? Fraud is a crime made to intentionally deceive an individual for one's own personal benefit or to sabotage another individual's reputation. Without intention one cannot depict fraud. Fraud is a white-collar crime, meaning the perpetrator can be any ordinary individual. In court, fraud must be proven by showing that the defendant's actions involved five separate elements: Misstatement of material fact, Information on defendants untrue statement, defendant's intent to betray plaintiff, legitimate statement to relieve doubt by plaintiff, and abuse imposed on plaintiff. High levels of pressure, opportunity and realization often exists when fraud takes place. Pressure stimulates an individual to enact fraudulent behavior. Financial, emotional and lifestyle are types of pressures. Financially failing to pay off debt from excessive spending of one's actual budget pressures embezzlement by employees. Emotional pressures stimulates from feeling mistreated, unrecognized, or unsatisfied. Lifestyle originates from a history of decisions such as gambling or usage of drugs that inspires one to commit fraud or live up to certain statuses. All three have clear motives illustrating a perpetrators need to remove themselves from strenuous situations. In order to replace themselves in favorable alternatives, unlawfully.

Opportunity identifies an occurrence to "allow a person to commit fraud, conceal fraud and convert into personal gain". Rationalization serves as an excuse for perpetrators to defend their wrongdoings. In essence, throwing away their integrity. Approximately 90% of occupation fraud comes from asset misappropriation and embezzlement. This comes into play when employees gain cash or property from a business while finding ways to hide their tracks. Embezzlement is the act of a person controlling funds in an illegal manner. Normally, if embezzlement occurs away from the public eye, the company takes care of the situation privately. It is evident that non-profit sectors, created to do good for the public, face higher risks and chances of abuse compared to for-profit enterprises. Unlike for-profit, the conditions in which non-profit operates serves as an opportunity for perpetrators to disobey company policies and business regulation which include the following: nonprofits often place disproportionate control in their founder, executive director, or substantial contributor, nonprofits often allocate limited resources to accounting, internal controls, and financial oversight, nonprofits frequently have all-volunteer boards of directors, with little or no financial oversight expertise, nonprofits typically have nonreciprocal transactions, such as charitable contributions that are easier to steal than other sources of revenue where there is a consideration exchanged, and nonprofits are highly susceptible to the effects of negative publicity and, therefore, are reluctant to report, or even discuss, fraud when it occurs. There has been an increase in fraud activities throughout the years. One of which, occurred pleading Karen Shuerger guilty to embezzlement against Red Cross. Karen's responsibilities were to keep track of money and donations, as well as, make sure records of financials were kept properly and accurate. Instead, she committed fraud, altered documentations, and forged false journal entries to conceal, and converted it to her personal gain of more than $100,000. Based on her decisions, consequences of imprisonment were entitled.

2.1 Understanding the Impacts due to Fraud

Non-profit organizations influence the lives of people living in the United States. There sparks an interest to understand where donations are allocated to and whether or not the money is utilized properly. The National Center for Charitable Statistics (NCCS), is a resource to the public to further analyze reports not-for-profit and charitable activities. Billions of dollars are funded to organizations all around the world and families are constantly eager to give more. Therefore, it is highly meaningful to stay alert and care for any fraudulent behavior. Trusted anti-fraud organizations like the Association of Certified Fraud Examiners (ACFE) and the Certified Fraud Examiners (CFEs) hone in on occupational fraud. In 2012, ACFE's reported organizations would have an estimated loss of total revenue to reach 5% due to fraud. Although that may seem insignificant, on a global spectrum, it spans to an unrecovered loss totaling to $3.5 trillion dollars. The impact causes 49% of organizations victim to write off such damages. Almost 12-13% prescribed fraud cases released to the public, harming non-profits such as health care agencies, education agencies, government and social services. We must acknowledge the severity, as these numbers resemble estimated losses. Apart from financial casualty links to a breakdown of trusted relationships amongst vendors and volunteers being destroyed. Between vendors, partners, and communities hinders services non-profits offer, which conveys a bad image for the organization to regain. Thus, resulting in poor reputation and a lack of effective operation.

2.2 Nonprofits' Nature of Fraud and Perpetrators

Two broad categories of non-profit fraud exist: first committed against, second committed at the hands of. Some instances include where fraud incurred against the nonprofit are skimming, credit card abuse, fictitious vendor schemes, payroll schemes, and sub-recipient fraud. Second category refers to deceptive fundraising practices and fraudulent financial reporting. Nature of fraud committed against non-profit organization branch out into internal and external frauds. The organization's perpetrators of internal fraud mark current employee members commonly abused in asset appropriations and fraudulent financial reporting. In contrast, vendors and volunteers contribute to external fraud.

The Roman Catholic Archdiocese of New York experienced a clear example of an internal fraud committed by an accounts payable clerk. Anita Collins after working 8 years accumulated $1 million by supporting her sons expenses. Anita's ability to surpass checks of $2,500 dismissed the review from the supervisor. Manipulating the organization by paying supplies and fees to vendors, Anita intentionally deceived those around her to gain profit. After the discovery of her fraudulent behavior, Anita was imprisoned. On the other hand, although external fraud may not occur as often as internal fraud, there continues to be cases where vendors or even volunteers exemplify fraudulent acts. Examples include vendors request fake overpriced bills or provide undeliverable goods or services. Fundraising events and opportunities that raise money are highly susceptible to fraud. For instance, Kids Wish Network aims to serve families and children in critical conditions generates large revenue, only reported $4.8 million of charitable contributions and donations out of $110 million. This labels the organization as committing fraud in the hands of the fundraising process. According to the 2012 AFCE report, the main departments that possess the majority of fraud committed were operations, customer services, sales, accounting, executive/upper management, and purchasing. Employees, managers and owner/executives are the types of positions individuals violating internal fraud. Based on their lack of internal controls, expertise, and resources produce falsely represented financials by employee members. Approximately 42%, 38% and 18% of frauds are committed by employees, managers, and owners or executives, respectively.

2.3 Identify Fraud

In order to understand why bad judgement are made by perpetrators, it is vital to identify areas of corruption and fraud. According to KPMG's survey measuring the detection of fraud, 43% uncovered tips, all of which 20%, 6% and 12% is viewed by employees, internal and external department, respectively. Lately, organizations have been turning to insurance policies to protect against potential suspicion of fraud. Certainly it has alleviated unrecovered losses, but it does not make fraudulent behavior preventable. Fraud ruins a non-profits basic principles of trust. Therefore, it is necessary to implement stronger internal controls.

2.4 New Regulations in New York State Signed into Law

Nonprofit Revitalization Act is constructed to minimize the incidents of fraudulent behavior and embellish nonprofit organizations' governance and oversight. Each of the following changes are: chair of the board: nonprofit employees are no longer able to aid in the chair of the board, meaning the chairman can only aid if he/she is an outsider or independent of the organization. Transaction with Related Party: If the nonprofit organization decides to enter into an agreement with a related party, from all levels of positions, documents and nature of transaction must be disclosed. This helps assess civilly, honestly, and in prosperity of the nonprofit organization's growth. Oversight over Financial Audit: Assigning independent auditors annually is mandatory for every nonprofit organization to make sure financial statements are free of material misstatement. Conflict of Interest Policy: All nonprofit organizations must include the necessary procedures and policies that state the exact nature of a conflict of interest and a way to resolve it. Whistleblower Policy: When a nonprofit organization exceeds $1 million in revenue, and includes 20 or more employees, then it is mandated to include a whistleblower policy to address unlawful behavior. Nonprofit Revitalization Act has also took the load off of nonprofit organizations towards additional administrative changes, to simplify internal control governance and oversight procedures such as: elimination of types: nonprofit revitalization act, accounts for two types: charitable and non-charitable, when typically accounting for four types: Type A, B, C, and D. Audit Threshold: Gross revenue that surpasses $500,000 rather than it typically being $250,000, an independent CPA audit is required.

2.5 Executive Compensation Reform Act

Executive Compensation Reform Act adapts a new method to show if compensation by a nonprofit organization is unreasonably high. Amendments involve: compensation review by independent directors: Independent directors authorize if compensation is reasonable to executive officers. Additional oversight: a nonprofit organization that generates over $2 million in annual revenue, is obligated to select either five highest compensated employees or five notable employees to compare and review against other organizations similar employees.

3. Types of Fraud

Employment fraud can be defined as, "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets" according to the Association of Certified Fraud Examiners (ACFE) (Keller & Owens, LLC, 2013). There are two types of fraud that exists regarding not-for-profit organizations: external and internal. External fraud is executed outside the organization, while internal fraud is executed within the organization.

3.1 Cash Larceny

Cash Larceny "the intentional taking away of an employer's cash without the consent and against the will of an employer". Cash larceny however is different from skimming being that the cash in already recorded on the books of the company. A person committing fraud may committing cash larceny may steal cash at different points within the recording process.

3.2 Billing Schemes

Billing Schemes are the most costly and common type of false claim for payment on the victim's company. They can be achieved through three different types of method: personal purchases with company funds, invoicing via non-accomplice vendors and invoicing via shell companies. Using a shell company, fraudsters can submit false invoices usually for services not performed. A shell company can be described as a "fictitious entity created for the sole purpose of committing fraud" according to the Corporate Fraud Handbook. A fraudster can submit false invoices for services not rendered by using a shell company. Since services are not physical, it is easier for fictitious services to be created rather than goods. It is important to note that invoicing with non-accomplice vendors does not have to do with creating a shell company. This method is intentionally used to pay the wrong vendor, double pay a real invoice, and/or overpay a real invoice. The overpayment is returned and the fraudster keeps the money.

Through false invoicing, personal purchases are achieved with company funds. The fraudster submits a payable to the company by first purchasing an item for personal use. In addition, one can make purchases for personal items at the company's expense if that employee has access to a company credit card. The scheme is simple, if the fraudster allows authorization for the invoice himself. Under other conditions, one may falsify documents to get the purchase approved.

3.3 Payroll and Expense Reimbursement Schemes

Payroll and Expense Reimbursement Schemes are very similar/common to billing schemes in which they are generally smaller than fraud schemes. The percent of payroll and expense reimbursement schemes committed by executives and owners was almost double the percent of executive and owner fraud in total. Three different types of methods are used to perpetrate payroll schemes: commission schemes, ghost employee schemes, and falsified hours. This employee can either be a real or a fictitious person. In ghost employee schemes, the fraudster mad add collect the paycheck once issued, record fictitious hours or even add fake employees to the payroll. One of the common payroll scheme is falsified hours, mainly if times are manually prepared. An absent employee's time card may be punched by a present employee, thus allowing the absent employee to earn wages when the employee is not working. Four different types of methods used to perpetrate expense reimbursement schemes: multiple reimbursements, overstated expenses, fictitious expenses, and mischaracterized expenses. Mischaracterized expense is when you submit a reimbursement request claiming that it is a business expense and for a personal expense.

3.4 Check Tampering

Check Tampering "is three times as common as payroll fraud or skimming" and is most likely to happen in small businesses rather than large businesses. This type of fraud can be achieved through five different types of method: authorized maker schemes, altered payees, concealed check schemes, forged endorsement and forged maker schemes. A check maker is a person who is held responsible to sign the checks. This person is within the not-for-profit organization who has the authority to authorize the checks to be dispersed throughout the organization. When a fraudster forges the maker signature on a company's check made payable to themselves to cash or an accomplice is known as a forged maker scheme.

3.5 Bribery

Bribery occurs when an illegal payment from one party to another happens in return for a financial or legal favor. In many not-for-profit organization bribery can be achieved through kickbacks. Kickbacks are rewarded for redirecting specific vendor to businesses or undertaking billing schemes similar to those mentioned before in the asset misappropriation section.

3.6 Illegal Gratuities

Illegal Gratuities don't usually affect a business decision such as bribery. For example, Jack Abramoff is currently an American political lobbyist who gave illegal gratuities toward Bob Ney who is a congressman in the form of dinners, campaign contributions, drinks as well as vacations.

3.7 Conflicts of Interest

Conflicts of Interest occurs when an employee has an undisclosed personal or economic interest in a transaction that negatively affects the organization. One of the most common forms of conflicts of interest is a purchase scheme. An employee may either undertake overbilling schemes or have ownership interest in a vendor company. However, sales schemes is the opposite of a purchase scheme where the employee will under bill vendor companies which they do have ownership interest to. Other types of schemes could be financial disclosures, resource diversions and business divisions. Resource diversion occurs when an employee uses the resources or funds in financial disclosures of their employer to develop their own business. There are many different types of way a not-for-profit employee can commit fraud against their company. Nonetheless, a not-for-profit organization can be the subject engaging in fraudulent activity as well.

3.8 Financial Statement Fraud

One of the largest losses an organization can incur significantly is from financial statement fraud committed by nonprofit organizations. Financial statement fraud deals with the intent to misrepresent material fact by failing to comply with GAAP rules. Perpetrators feel pressure to change the numbers around to falsely portray favorable reports. This fraud may not identify a clear warning of personal gain or specific benefits for an individual. Certain pressures from employees, volunteers, and board members to commit a fraud like this are preferably to reach budget goals, receive bank loans, or secure donor funding. Examples include, inflating revenues, decreasing liabilities and expenses, not willing to report significant information as well as disclosing them. Other examples include the organization's statement of financials and activities labeled as restricted contribution are treated as unrestricted. Financial statements truly define an organization's strength in its business, the understanding of where funds are coming and going, and the types of decision making processes that help operate its growth. This can damage the reputation of the nonprofit organization if it is caught misused. One known example of financial statement fraud is Medicare fraud. Non-profit organizations that commit Medicare fraud request reimbursements for services not yet provided. In order for healthcare providers or even hospitals to "cook the books", this allows them to overstate their revenues and falsely report information. WakeMed a nonprofit hospital in Raleigh, NC, in recent years, was caught committing Medicare fraud. In this case, patients that were admitted into the hospital and released day-of falsely billed WakeMed in the system for staying overnight. WakeMed incurred $8 million to pay settlement.

Pertaining to financial statement fraud, nonprofits in other occasions can dishonestly report fundraising and administrative expenses as program expenses. This changes around the ratio between program expenses and total expenses and projects a more favorable depiction of the financials for stakeholders. The difference between both program expenses and administrative and fundraising expenses is related to activities targeting their mission. Imagine a nonprofit showing better outcome with less expenses, this can truly sway stakeholders on how effective the organization can be. Portraying inaccurate outcomes through increase of program expenses, misleads potential donors and their trust for the nonprofit organizations.

3.9 Consumer Fraud

Consumer fraud is the act of deception, false pretense, false promise, misrepresentation, or the knowing and concealment of important information upon which others rely on for sale or advertisement. In a fundraising event, a situation involving an unlawful practice can occur when a person swaps price tags to purchase it a lower price. This fraud occurs quite often than not as there is continues issues related to customer service and very little restrictions.

3.10 Insurance Fraud

Insurance fraud is the act that can occur anytime there is an intent to fraudulently acquire some sort of personal gain or accessing an advantage without earning proper entitlement. This is used when dishonest insurance claims are intended to deceive insurance providers. Commercial enterprise was the start of insurance fraud. Insurance fraud can happen in all areas of insurance and crimes can vary in extent. The lives of innocent people can severely be impacted directly and indirectly. Such an issue has made both the government and organizations to take matters into their own hands to find measures to deter insurance fraud. In order to receive cash from an insurance company, an organization vehicle may be reported as stolen.

3.11 Medicare Fraud

Medicare fraud refers to a corporation or individual who seeks to collect Medicare health care reimbursements under false justification. There are different types of Medicare fraud, all of which that have the same theme among them: to illegally collect money from the Medicare program. There are three prevalent ways Medicare Fraud can occur. The first includes phantom billing which is the unnecessary procedures or procedures that were never completed in which the medical provider bills Medicare. Second, patient billing, a patient that is voluntarily involved in on the scam and provides their Medicare number in exchange for money or kickbacks. Then, the medical provider bills Medicare and the patients admits that they have received medical treatment. Third, upcoding scheme and unbundling: Using a billing code in order to inflate bills which indicates that the patient needs very costly procedures. In addition, since fraud can be committed by either a provider and or a member, there will be more complex issues considering that if the involved nonprofit organization is in the Medicare industry or in healthcare. There are a great amount of articles and studies showing insurance companies denying and cancelling coverage, underpaying physicians and hospital for what the normal fees are actually supposed to be, and not paying claims and deleting them. Even though it might be difficult to obtain this type of information, it can be estimated by comparing revenues from expenditures and premium payment on health claims.

4. Case Study 1—Human First

Human First, Inc. is a non-for-profit organization that is located in Lynbrook, New York. Their mission statement is to provide their individuals with greater opportunities with special needs for them to reach their personal goals. They serve over 1400 families in both Long Island and New York City by providing services to individuals with developmental disabilities.

On July 21, 2016, Wafa Abboud, former executive director of a charity that provided services to individuals with developmental disability was charged with laundering of hundreds of thousands of dollars from that charity for Abboud's personal use and embezzlement. Using the money to pay her personal expenses, which included more than $114,000 in personal credit card debt such as family vacations, meals, spa treatments, cosmetic surgery, make large international wire transfers. She also used the money to pay property taxes on her home located in Merrick. *Prosecutors say Abboud also wired more than $23,000 to people in Morocco and Egypt between 2012 and 2014. "The crimes alleged by state and federal prosecutors are troubling, particularly because they involve funds intended to benefit the developmentally disabled community," said Attorney General Schneiderman. "When individuals embezzle funds intended for a charitable purpose it undermines the mission of the charity and harms all donors and honest non-profit organizations."*

Being that Wafa Abboud purchased a home in Merrick for $1.3 million dollars, and making a down payment of $340,000 made the neighbors disgusted with her behavior once they found out about the fraud. Prior to her purchasing the house and making a down payment, she demanded hundreds of thousands of dollars from Human First for her renovation work on Human First's owned properties that her co-defendant Taha was held responsible for. Instead of the money being used for the Human First owned properties, it was rerouted to Abboud bank account and was used to help pay for her $340,000 down payment on her home in Merrick. In fact, the department of justice stated that this wasn't the first time that Taha and Wafa had to plan to embezzle fund from Human First. Between April and December 2015, Abboud had more than $400,000 transferred to a construction company for renovations on her new home for renovations in which Taha was held responsible.

In this not-for-profit case, we can say that Wafa Abboud and her co-workers had committed cash larceny. Cash larceny is an example of asset misappropriation fraud because the money was recorded in Human First's book while Abboud was using it for personal use.

4.1 Case Study 2—Federal Trade Commission vs. Cancer Fund of America

The Cancer Fund of America (CFA) founded by James T. Reynolds established a non-profit organization in 1987 for the sole purpose to financially support and provide comfort to the lives of destitute cancer patients. In his pursuit, Reynolds later furnished three individual nonprofit organizations named Cancer Support Services (CSS), Children's Cancer Fund of America (CCFOA), and The Breast Cancer Society

(BCS). In May 2015, after extensive review of the organization's 990 form, the Federal Trade Commission with the help of regulators, and the District of Columbia spotted fraudulent behavior amongst all four non-profits. In their belief, it has caused them to enter into a lawsuit against Cancer Fund of America, as it felt each non-profit cancer organizations planted a false impression of their true intention. Between 2008 and 2012, the 990 forms provided substantial evidence to the Federal Trade Commission. From one year to the next, trails were tracked that proved all proceeds made to cancer patients only received less than ten percent of donations and contributions collected by solicitors. Solicitors claimed to help cover costly expenses like hospice care, transportation, and pain medication. Federal Trade Commissioners discovered that was not the case, in fact, 85 percent of the donations was used for personal expenses of hired professionals. Expensive vacation trips, car payments, gym memberships, college tuition, and plenty more unrelated to their proclaimed mission is were money was spent. Under the Internal Revenue Services (IRS) section 501(c) (3), any earning from a tax-exempt nonprofit organization cannot inure to any private shareholder or individual. Thereby, indicating management's decision to contradict this law formed by the IRS, which demonstrates misappropriation of assets.

Furthermore, the Federal Trade Commission also tracked CFA's ability to manipulate financial reports that auditors themselves could not detect. CFA's wrongful behavior concealed their administrative and fundraising costs by raising revenue and blew donations out of proportion. Both are simultaneously clear red flags that non-profit organizations can intentionally commit fraud by stating incorrect information. Such increases in value classified $223 donations as "gifts in kind" to recipients overseas. This made believe these nonprofit cancer organizations gave large contributions, which boosted their reputation to those in need across the globe. Thus, the stakes were high for management to deliver staggering numbers to keep up with their façade, which motivated false altercations to financial statements. Sooner or later, fraudulent behavior becomes more noticeable as heavy investigation is enforced. CFA in 2014 was listed as "America's Worst Charities". Ever since FTC unraveled the case, each of the entities was handled independently. FTC reached a conclusion to dissolve approximately $30 million of liquidated assets to both (CCFOA) and (BCS) as settlement. The legal outcomes of fraud also left, CFA and CSS to repay $75 million settlement. Through the Internal Revenue Service Code in the United states, Section 501 (c) 3 was given in 1969 through the Tax Reform Act. More policies, rules, and regulations were created through this act. Today, Not-for-profit organizations have grown around the world. For instance, The American Civil Rights and Civil Liberties Union which has been registered as 501(c) 4. As of end of fiscal year ending March 31st, 2017, this union as reported Net assets of $118,621,756.00. Nonprofits may become a target for fraud, even though there main focus is to help the groups the serve.

In 2016, there were 1.10 million not-for-profit business operating, according to Baker Tilly LLP. Approximately $77 Billion of losses are sustained by not-for-profit organizations according to the Associate of Certified Fraud Examiners. The different types of fraud that were committed were: deceptive fundraising practices, skimming, fraudulent financial reporting, and credit card abuse. For most not-for-profit organizations, their executive essentially someone who doesn't have an accounting background and who engages with volunteers who aren't in control procedures. Accountants, attorneys, and investigators are able to avoid fraud. Because of this lack of training, it easily allows for fraud to take place so in order to prevent it is crucial to identify potential areas of fraud from before. Fraud is often started by fraudsters who follow the fraud triangle which starts by pressure that is from either emotions or financial circumstances. Then it leads to the opportunity to create a plan for fraud and the rationalization which will justify the fraud.

In 2015, fifty states and The Federal Trade Commission (FTC) charged four cancer charities for misusing $187 million dollars' worth of donations. The four charities were Children's Cancer Fund of America (CCFOA), The Breast Cancer Society (BCS), Cancer Support Services (CSS), and Cancer Fund of America (CFA). Interestingly, James Reynolds Sr. was the operator for Cancer Fund of America, his son James Reynold Jr. was the operator of Breast Cancer Society, his ex-wife Rose Perkins was the operator of Children's Cancer Fund of America, and lastly the last accomplice Kyle Effler was the operator for Cancer Support Services. According to the report by FTC, these funds were used on trips to Disney world, Caribbean Cruises, and funding college tuition. Similar benefits were being given out to family members such as high paying jobs in which they were not qualified for.

James Reynold Jr., Rose Perkins, and Kyle Effler all had agreed to settle on the charges against them. They were all banned from charity management, the oversight of charitable assets, and from fundraising. Specifically James Reynold Sr. was banned from charity management, fundraising, the oversight of charitable assets, and forced to surrender a portion of his personal assets. According to NBC news, only 3% of the funds that were raised by the four charities went to charitable causes. This was apparently the first time that all of the 50 states including the District of Columbia and the FTC had filed a joint enforcement action. It was hoped that this would serve as a strong warning to anyone who has the intentions of exploiting people through charitable causes. All of the offenders had ended up paying minimal amount in fines compared to the amounts that were mismanaged. In order to hide the costs from regulators and donors, there was a $223 million amount reported in donated gifts in kind which were supposedly distributed to international recipients. This deception had let to misleading donors in thinking they were larger with donors contributions. The first problem to consider in this case is the ethics. The people that were involved in this situation had taken away valuable resources that could have been used to do further research or fund someone's fight against cancer. It is also worth noting the history James Reynold Sr.

4.2 Case Study 3—Whistle Blower Suit, U.S and State of New York ex rel Lacey v. Visiting Nurse Service of New York, U.S. District Court, Southern District of New York, No. 14-05739

The total amount of Medicare fraud is not easy to track since not all suspicious fraud turns out to be fraudulent and not all fraud can be detected. In 2010, there was $47.9 billion of Medicare "improper payments" according to the Office of Management and Budget. Later, some of these payments turned out to be valid. In 2010, according to the Congressional Budget Office, there was approximately $528 billion of total Medicare spending. The reason why the Medicare Program is a target for fraud is because it's based on the "honor system" of billing. Its main purpose was for honest doctors to help the needy with medical services.

In recent years, a nonprofit home health care organization named Visiting Nurse Service of New York (VNSNY) was charged for wrongfully committing Medicare and Medicaid fraud. Recognized as one of the largest agencies, VNSNY's mission was to provide service to their 150,000 patients by bringing skilled nurses to assist with care, as well as provide special therapy sessions concerning health related matters straight to their homes. Nonetheless taking part in governor Cuomo's administration to support Medicaid patients. On the contrary, due to the misconduct of the organizations unethical and fraudulent behavior has left the lives of hundreds of thousands of fragile patients desperately seeking the medical care they need.

Unlocking the unlawfulness of the organizations behavior, proclaimed litigations were found privately set to investigate without alerting existing patients of the current circumstances. In the meantime, multiple intents were made to disregard the policies given by physicians, only to provide partial care and collect financial gain under Medicare. Exposing a risk to harm crippled patients in urgent need of a precise number of rehabilitation and nursing visits over a set period of time prescribed by their doctor.

Other instances patients that have faced major surgical transplants, ruptures, replacements, even fatal diseases in elderly patients that VNSNY neglected to treat. Ultimately billing Medicare and reporting services rendered when in fact patients were not receiving the complete authorized treatment VNSNY said they did. The rise of complaints escalated as patients suffered, left little to no time to recover the costs, damaging the image of the agency's reputation.

Among the many litigation charges the agency has undergone, various audits processed, each of which notifying actions to repay Medicaid close to $34 million. Soon after spotting the enrollment of unqualified patients that used their adult day care amenity.

The likelihood for fraud to be committed more than once is often highly probable due to the nature and extent of management's corrupt character. VNSNY continued to gather government reimbursements without completing the necessary services of the particular number of rehabilitation/nursing visits requested by the patients doctors. In VNSNY's pursuit, service records for agency nurses were fictitious, and ties of vendor agencies lacked proper oversight. The lack of oversight was the nature of their operations, thus, regularly billing government entities for home aide services that were not delivered or achieved. Companies and individuals are held liable for taking advantage of government programs in which the False Claims Act is a federal law.

4.3 Case Study 4—Misleading Financial Statements

Fraud pressures in non-for-profits occur most when it comes to financially reporting expenses to the public. Such pressures involve scenarios that misrepresent ratios measuring a non-for-profits performance. Evaluating one non-for-profit from another, users repeatedly look at the ratio of program expenses to total expenses/income. Mainly because expenses for non-for-profit fall under either two classifications, “program” or “supporting service”. To distinguish the two apart, program expense steers directly towards the non-for-profit purpose, whereas supporting service incurs all other expenses in order to keep the organization functioning.

Under the umbrella of “supporting services” falls fundraising expenses. Fundraising expenses recognized by non-for-profits must document an IRS form in the total amount incurred for the sake of tax purposes. However, countless non-for-profits complicate the lives of many Americans in understanding how the funds are used, since it is common for them to misreport billions of dollars compiled in donations.

Peninsula Community Health Service’s (PCHS) is a relatable example. Their mission statement highlights the importance of offering care for underprivileged families with low income at affordable prices. Delivering a wide range of counseling, medical and dental care to promoting health education in PCHS facilities. It all became a concern when PCHS documented to the IRS zero expenses in raising 1.9 million from charitable contributions and other various funds from fundraising activities.

Taking a closer look at the total number of charities in the United States in 2012, 37,987 non-for-profits never accounted any expenses incurred to the IRS, when a minimum of $1 million was claimed. It becomes difficult to trust the claims behind how a non-for-profit can naturally receive a load of grants, awards, and gifts without paying out of pocket any expenses.

Organizations are easily inclined to overstate program expense ratios. It has become surprisingly common for non-for-profits to falsify financial ratios and reports in order to favor the opinion of donors. Fundraising expense is the ultimate financial instrument of knowing where the money of donors is allocated to satisfy the organizations mission.

4.4 Case Study 5—Recipient Fraud of Not-for-Profit Funds

External fraud not only damages a non-for-profit organization but also impacts the lives of the public. Those that benefit typically thrive off unearned funds or services, instead of someone who should have been the actual recipient. Individuals outside the non-for-profit commit this type of fraud.

A case in 2008 sets an incident that occurred exemplifying external fraud. Charles E. Coughlin, a Navy officer was accused of faking his injuries during the 9/11 attack to earn $330,000 from a government victims’ fund. Coughlin worked at the Pentagon during the time of the attack, receiving both a Purple Heart award and a Medal for evacuating those still inside the Pentagon building.

According to Coughlin’s medical records in 1998, he suffered a neck injury that pretended the impact resulted from the 9/11 attacks. Coughlin and his wife continued to report false claims and fabricated conditions that restricted Coughlin from participating in activities he valued. Running a marathon, playing basketball and among others were no longer part of his routine, yet shortly following the attack prosecutors argued Coughlin completed the New York City Marathon.

Coughlin’s first request was dismissed by the victims’ fund in 2004, which lead him to appeal. After the appeal, he was granted 60,0000—refusing to accept the amount to demand for more. Through the 2nd appeal, Coughlin and his wife approached a plan to over exacerbate his health conditions at a scale that convincingly awarded them $330,000.

Prosecutors dropped Coughlin's wife's charges in 2009. However, the evidence gathered by prosecutors was not in favor Coughlin, which lead for the case to continue. Their anticipation drew them to hold Coughlin accountable for theft of unearned funds from the public, submitting dishonest statements and behaving in manners dealing with mail fraud. The jury's decision found Coughlin guilty in 2011. Consequently, serving three and a half years in jail from funds that were not his to claim.

5. Appropriate Approach to Prevent Fraud

Once fraud occurs, it takes organizations and individuals a lot of time and efforts to solve the problem. Believe it or not, audits are not the most efficient way to detect fraud; in fact, most frauds are found as a result of a tip according to the Association of Certified Fraud Examiners (ACFE). To help control and prevent fraud within a non-profit organization they must follow these anti-fraud principles.

Create an independent and effective audit committee. An audit committee is a committee of a company's board of directors that is in charge of disclosure and overseeing financial reporting. In order to maintain a qualified audit committee to be listed on a stock exchange, it must be a U.S. publicly traded company. In addition to enforcing and establishing a system of effective controls. A good internal control environment will do its best to minimize fraud by making it harder to carry out a scheme. Some ways to make it harder to carry out a scheme would be to do authorizations and double signatures and establishing the right control environment starting with management. One of the most important things that management has to do is to set the right tone/mood which will help everybody as a whole. Management should try to promote integrity and ethics to their employees for them to prevent fraud and dishonesty within the workplace. This strategy is known as a top-down approach which is beneficial if implemented correctly by providing an easy and effective way to report skeptical behavior. Many not-for-profits organization have a third party hotline for tips on fraud to be reported in where tips are one of the ways to detect fraud.

If fraud within a not-for-profit organization is exposed, it is important that you act openly, quickly and directly about the matter. Fraud within a not-for-profit organization can be inimical to not only you but the other people surrounded by you so it is important that you are truthful about fraud because it will minimize the damage applied. Employees in not-for-profits have a high turnover rate. Being that they have a high turnover rate, management should make sure to perform sufficient background checks on all their employees to minimize the risk of fraudulent and unethical employees. It is crucial for any businesses to perform periodic reconciliations as a standard control check. Cross Checking these numbers with your bank deposits to make sure that nothing is missing and everything adds up and comparing your receipts that are recorded to your revenue. Also, reviewing your online statement to look for any out of place transactions. The Association of Certified Fraud Examiners (ACFE) shows that they implement anti-fraud training programs to experience less loss and more diminutive frauds than those organizations that choose not to implement the training to the employers. In not-for-profit anti-fraud training should be provided to both the employees as well as their managers. Furthermore to antifraud programs, employees should also be briefed on how fraud harms not just the not-for-profit organization but those who benefit from the services of the organization, donors and employees. Since 2013, the American Institute of Certified Public Accountants (AICPA) has advised not-for-profit organizations to create a fraud risk management program and execute an anti-fraud team. Not-for-profit organizations should also have internal auditors, an certified fraud examiner, audit committee, and external auditors.

6. Conclusion

Fraud is associated with large public companies, investment firms, and banks. Since not-for-profit organizations have a higher level trust in the eyes of the public, it normally doesn't come to mind when discussing the topic of fraud. However, through our analysis and case studies, it is made clear that many people are deceived by not-for-profit fraud. Many times these cases have went uncovered for years. Not-for-profit organizations deal with employees that are just like any that work for profit-business as well as huge sums of donations made each year. Therefore, the risk that is faced by profit-businesses is same for not-for-profit. In fact, there may be a higher risk associated with not-for-profit due to a lower amount of internal and governmental control efforts.

6.1 Predictive Controls

6.1.1 Suggested Incremental Government Controls and Guidelines

Though the aim of not-for-profit organizations are not to generate a profit, there are revenues generated from donations. Technically, they generate profits just like for-profit organizations. However, the profit in not-for-profit must be distributed for social service program or charities and reinvested into the organization. It is best for the government to require not-for-profit organization to document and report their sources of income. By documenting the source of donations, expenses, and income, this will allow for a lower risk for misappropriation of assets, risk of theft of funds, and misleading financial statements. The government should mandate not-for-profit organizations on providing instructions to donors on verifying their corporate status and providing donation receipts. In addition, large not-for-profit organizations should be required to perform annual external audits performed by an independent third party while also requiring them to file audit results to the government. The company's financial statements and audit reports should be publicly accessible to the general public.

6.1.2 Suggested Additional Internal Controls

Interestingly, approximately 22 percent of frauds were discovered by accident and tips detected 43 percent of frauds. This exemplifies how essential it is to rotate employee duties periodically to uncover fraud. When duties are rotated, it is easier to uncover fraud by another employee.

Company credit cards and cash expenses are another concern. Companies must set up requirements for approval for cash disbursements, limits for the transaction amount, and submission of cash receipts. Supervisors and managers should validate vendor accounts and perform spot checks on financial documents on a consistent basis. Vendors that work with not-for-profit organizations should be approved and be vetted business entities. It would be ideal for there to be an annual risk assessment in order to evaluate the likelihood of various fraud risks since the vendors, managers, stakeholders, and employees regularly change.

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