


# Nonprofits and Fraud



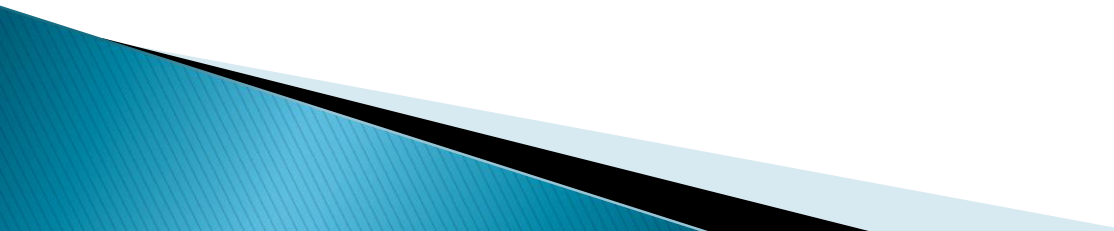
Arlen Gunner, Esq.  
Valensi Rose, PLC

Robert McKim, MPA  
McKim Nonprofit Consulting

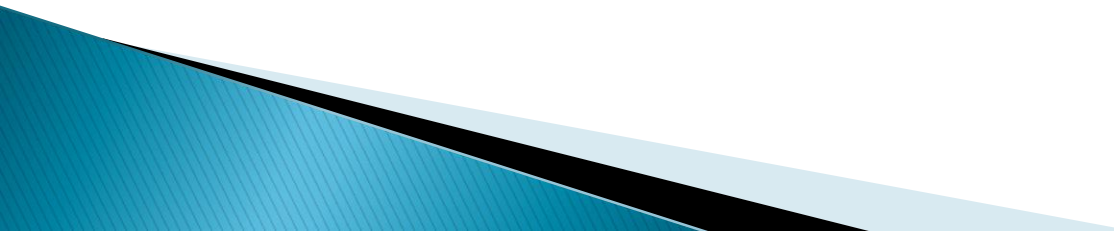
# It is a big problem

- ▶ more than 1.9 million nonprofit organizations in the United States, employing about 13 million individuals and generating an estimated \$1.1 trillion in revenue. Assuming an inflation rate of 3 percent and the Association of Certified Fraud Examiners' 2008 estimate that organizations lose 7 percent of annual revenue to fraud, the nonprofit sector is a victim of \$85 billion in estimated annual losses due to fraud.
- 

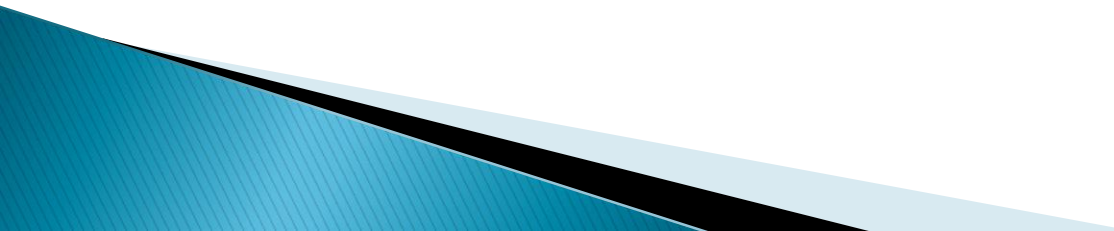
# Damage to the organization's reputation

- ▶ Negative publicity
  - ▶ Lower employee morale
  - ▶ Cost of litigation and investigation
  - ▶ Disruption to business operations
- 
- ▶ 14.3 percent of those involved a not-for-profit organization, with a median loss of \$109,000 per incident.
- 

# More susceptible to fraud

- ▶ Nonprofits often place excessive control in their founder, executive director, or substantial contributor.
  - ▶ Nonprofits often allocate limited resources to accounting, internal controls, and financial oversight.
  - ▶ Nonprofits often have many volunteers working in the organization who are privy to confidential information.
- 

# More susceptible to fraud

- ▶ 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 consideration exchanged.
- 

# More susceptible to fraud

- ▶ Nonprofits are highly susceptible to the effects of negative publicity and, therefore, are reluctant to report, or even discuss, fraud when it occurs.

# Minimize the opportunity for fraud



Typical examples of fraud perpetrated against nonprofit organizations include the following:

# Motives for Fraud

## Financial

Greed  
Living beyond means  
High personal debt  
Unexpected Financial needs

## Vices

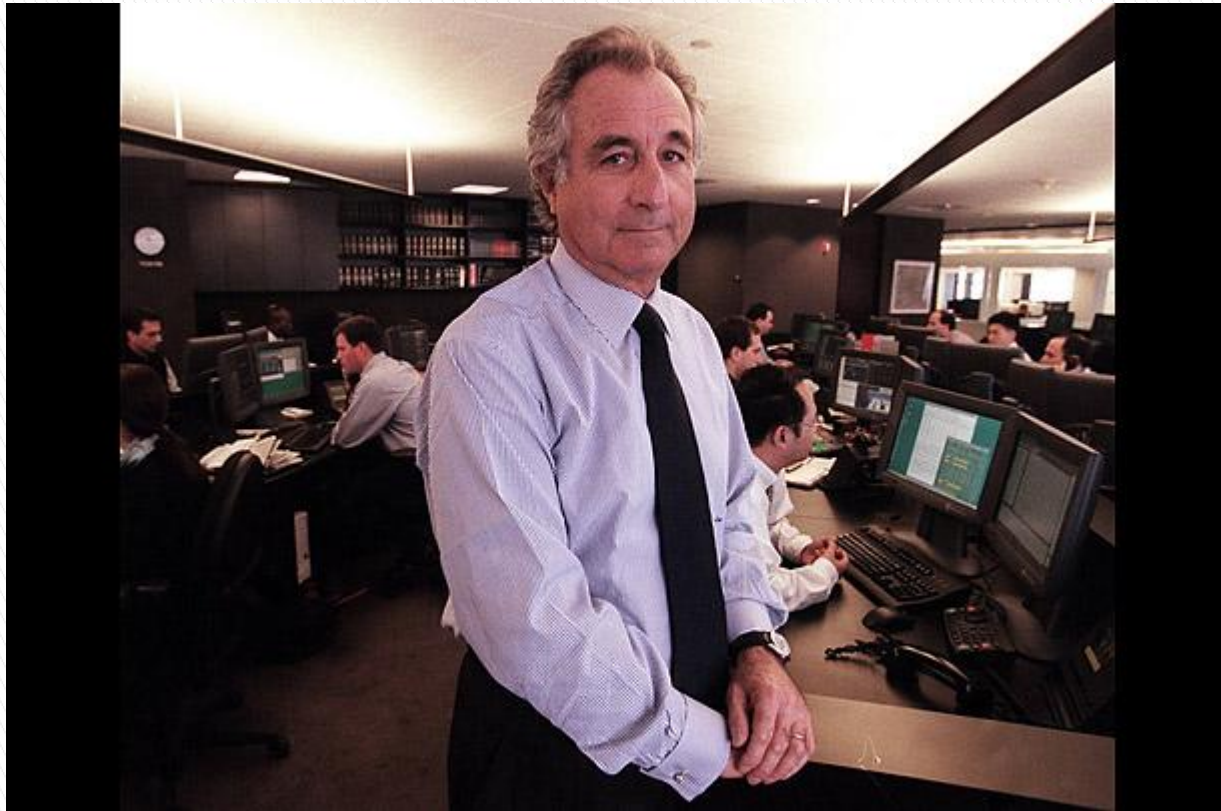
Gambling  
Drugs  
Alcohol

## Work-Related

Job performance recognition  
Job dissatisfaction  
Fearing job loss  
Overlooked/Underpaid

## Other

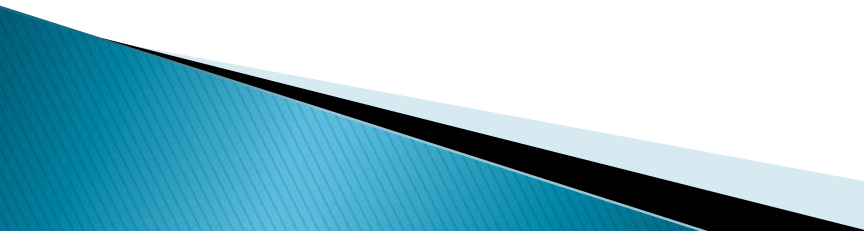
Any pressures not fitting in  
Other motives



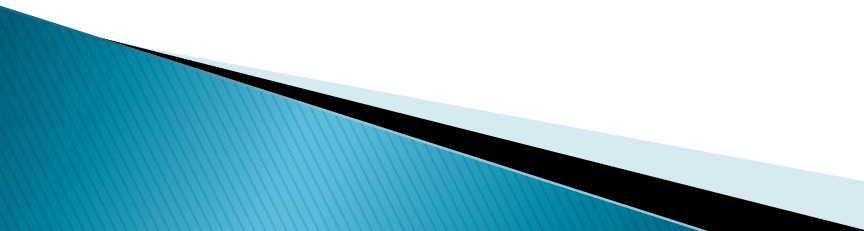
## Rationalization

White -collar criminals have a strong sense of right and wrong and must rationalize their conduct.

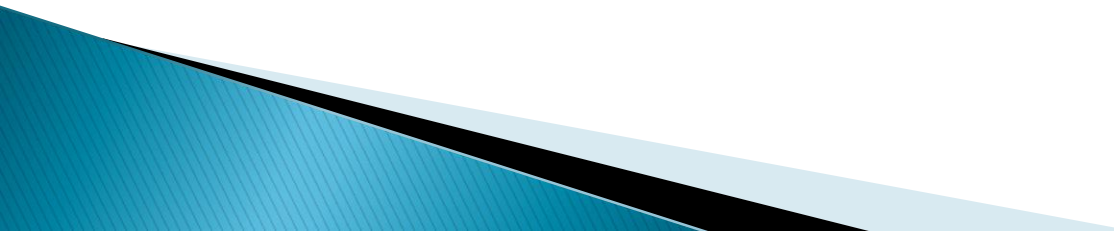
# Nonprofit Integrity Act of 2004

- ▶ 30 days to register and file Articles of Incorporation with Attorney General's Registry of Charitable Trust
  - ▶ Independent Audit of financial statement require for charities with gross revenues of \$2 million or more or \$500K of Government money
  - ▶ Establishment and maintain audit committee for charities with gross revenues of \$2 million or more
- 

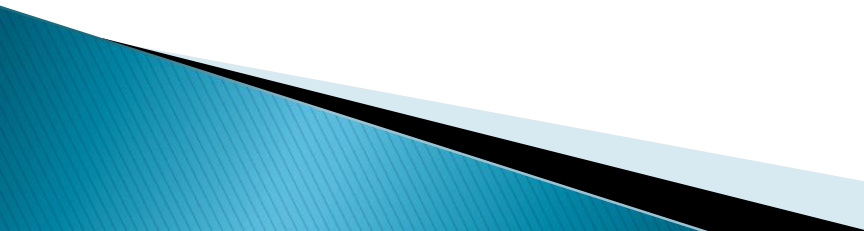
# Nonprofit Integrity Act of 2004

- ▶ Executive compensation by charitable corporations, unincorporated associations and charitable trust must be reviewed and approved
  - ▶ Commercial fundraisers must notify attorney general before starting a solicitation campaign
  - ▶ Commercial fundraisers must have written contracts with the charitable organizations
- 

# Nonprofit Integrity Act of 2004

- ▶ Charitable organizations can void contracts with unregistered commercial fundraisers
  - ▶ Fundraising counsel must notify attorney general before starting solicitation campaign
  - ▶ Fundraising counsel must have written contracts with charitable organization
  - ▶ Charitable organizations can cancel contracts with commercial fundraisers
- 

# Nonprofit Integrity Act of 2004

- ▶ Charitable organizations and commercial fundraisers for charitable purposes have specific obligations when fundraising
  - ▶ Charitable organizations and commercial fundraisers for charitable purposes are prohibited from engaging in misrepresentation and certain other acts when soliciting donations
  - ▶ Commercial fundraisers must keep records of solicitation campaigns for at least 10 years.
- 

[arg@vrmlaw.com](mailto:arg@vrmlaw.com)

Valensi Rose, PLC

310.277.8011

# Thank you!

[rmckim@mckimconsulting.com](mailto:rmckim@mckimconsulting.com)

McKim Nonprofit Consulting

310.930.0066

Arlen Gunner, Esq.  
Valensi Rose, PLC

Robert McKim, MPA  
McKim Nonprofit Consulting