Small Nonprofits Are Particularly Susceptible To Fraud

The ACFE 2016 Report to the Nations on Occupational Fraud and Abuse states that small organizations, defined as fewer than 100 employees working at for-profit and not-for-profit entities, were found to be victims of fraud at a 30.1% rate with a median loss of $150,000. Larger entities, defined as 100 or more employees working for profit and nonprofit entities, were found to be victims of fraud at a 23.2% rate with losses climbing to $1,000,000 or more.

Small organizations continue to be particularly susceptible through different forms of fraud schemes. According to the report, small organizations face different fraud risks than larger organizations as check tampering schemes at small organizations were reported to have occurred in 20.1% of cases and in 8.4% of cases at larger organizations; skimming was reported in 19.9% of cases at small organizations and in 8.9% of cases at larger organizations.

If fraud is discovered at an organization, the fall out can include damage to the organization's reputation and standing in the community. Culture contributes to a small organization's fraud risk as a unified family feeling and high levels of trust may exist. There may be an expectation by the board of directors or management that the auditors will uncover fraud. While independent audits serve an important purpose, audits rarely detect fraud due to the nature of the procedures performed. The majority of fraud is detected by employees or through a tip line.

It is important for management to create and monitor its internal controls and provide continuous oversight to help detect and prevent fraud. Management should consider creating a policies and procedures manual comprised of clear descriptions regarding internal control procedures over purchasing, transaction authorization, reimbursements to employees, and recording and monitoring expenditures among other transactions.

Proper procedures for computer systems with regard to access rights for new and existing users should be implemented and followed. Archiving procedures over electronic data should also be defined.

Clearly written job descriptions should include detailed explanation of job functions for management and staff.

Within this manual, policies and procedures over the reporting process with respect to the board of directors is critical. Reporting should include, at a minimum, the most current statement of financial position and statement of activity. The statement of activity should be comparative to the prior year and to the budget. Any variances from expectations should be noted and explained. This comparison allows the board of directors the opportunity to investigate any unexpected or unusual variances.

Management should also consider proper segregation of duties over all phases of cash transactions. Generally, the challenge here for small organizations is to adequately segregate duties given the number of employees. When an organization is unable to segregate all duties, it is important for them to implement compensating controls which can include involving the board member in the internal control structure.

While fraud can occur at any time, small nonprofit organizations must address the specific risks created simply due to the size of the organization and implement effective, policies, procedures and internal controls to safeguard its assets.