

**Managing Fraud Risk Through  
Awareness, Culture Change and  
Practical Policies  
April 1, 2009**

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MONDAY, MARCH 23, 2009

**Former Finance Director Of DC Non-Profit  
Sentenced For \$400K Embezzlement**

**Earl Staubs**, 63, of Arlington, Virginia, was sentenced Friday to 2 1/2 years in prison for embezzling some \$438,000 from the **Center for Applied Linguistics**, a DC-based non-profit organization. According to prosecutors, Staubs set up a bank account in the non-profit's name in 2005, with his home address, deposited checks into that account, and then used the funds for his own benefit. He pled guilty to wire fraud charges in September. Staubs, who is currently serving a 7 year state prison sentence for another embezzlement, faces up to 37 months in prison for the Applied Linguistics case.

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Monday, November 24, 2008

**Former Director of Breast Cancer Charity  
Pleads Guilty To Embezzlement**

**Mary E. Guinard**, 35, of Meridian, Idaho, pled guilty today to embezzling more than \$100,000 from the Boise, Idaho affiliate of **Susan G. Komen for the Cure** for which she served as director. According to prosecutors, between June 2007 and August 2008, Guinard stole \$74,000 by writing some 20 unauthorized checks payable to herself and made \$42,000 in unauthorized credit card charges. She also took two laptop computers and a television, without authorization. Guinard, who was arrested August 25th and originally charged with two counts of grand theft and seven counts of forgery, pleaded guilty today to one count of grand theft and one count of forgery with a recommendation by the prosecutor that she be sentenced to 28 years in prison. Sentencing is set for January 5, 2009.

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### Session Objectives

- Understand impact of fraud in the US
- Learn statistics and factors contributing to fraud
- Recognize fraud schemes
- Implement reasonable best practices to prevent fraud

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### What is fraud?

- **Noun:**
  - deceit, trickery, or *breach of confidence*, perpetrated for profit or to gain some unfair or dishonest advantage.  
[www.dictionary.com](http://www.dictionary.com)
- **Occupational fraud:**
  - The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.  
Association of Certified Fraud Examiners (ACFE)

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### Occupational Fraud: Elements

- Effort to obscure from detection
- Violates perpetrator's fiduciary duties to the organization
- Committed to benefit perpetrator, organization, or both
- Costs victim organization assets, revenues or reserves

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### Fraud Stats & Facts

- Estimated to impact 7% of all organization revenues in US = \$994 Billion per year!
- Median duration of frauds is 18-24 months
- Only 7% of perpetrators had prior convictions
- Occupational fraud is far more likely to be detected by a tip than by audits, ICs or any other method!
- Fraud was most often committed by accounting staff or upper management

*Source: Association of Certified Fraud Examiners*

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### Fraud Stats & Facts: Non-profits

- Median duration of fraud for nonprofits – 24 months
- Lack of balance between funding for stated mission of the organization and protection of the organization's assets
- Inordinate emphasis on ineffective controls

*ACFE 2008 Report to the Nation: 14% of cases examined for report took place in nonprofits (134 cases)*

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### Median Losses

- Private companies - \$278,000
- Public companies - \$142,000
- **Non-profits - \$109,000**
- Government agencies - \$100,000

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**Impact / Consequences:**  
*Bad effects when bad things happen*

- Bad PR
- Loss of public trust (long-term bad PR)
- Loss of future funding
- Increased oversight/scrutiny
- Increased operating costs
- Damaged employee morale
- Loss / theft of funds and assets



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**Why is fraud the problem?**

- Who commits occupational fraud?
- Dr. Donald Cressey
- Fraud Triangle



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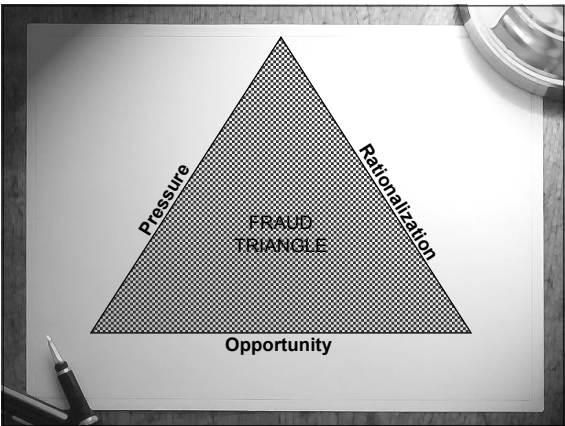
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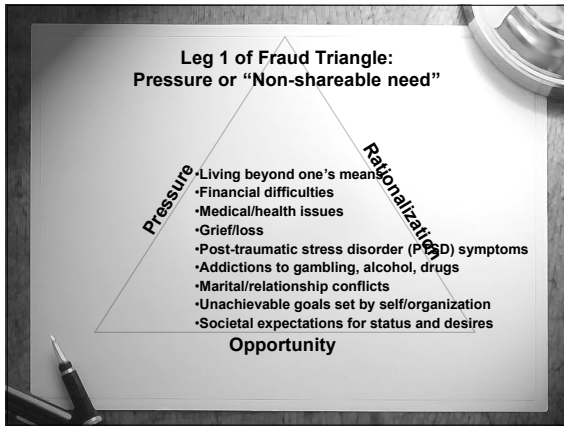
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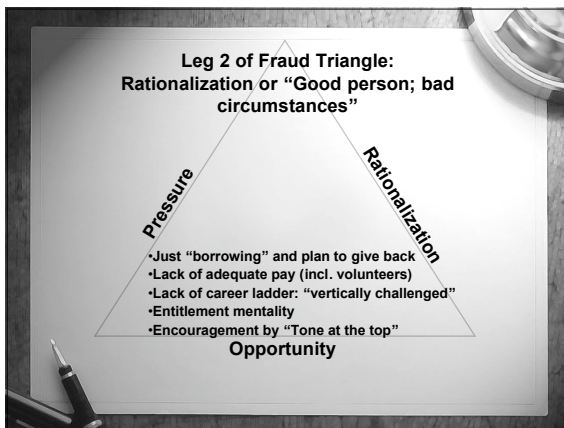
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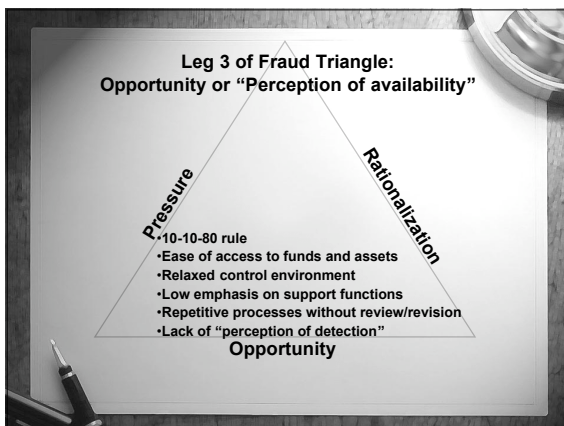
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**Common Fraud Schemes:**  
Misappropriation of assets: Outgoing funds

- Billing fraud
  - Phony vendors
  - Fraudulent payments (i.e. duplicate payments, overpayments, check tampering, refunds)
  - Conflicts of interest / inappropriate vendor selection
- Travel & Expense fraud

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**Prevention:**  
an ounce = many pounds (or dollars)

- Code of conduct, ethics policy, fraud policy
- Documented policies and procedures for core functions
- Employee assistance program
- Background checks for employees
- Protect proprietary and confidential information
- Fraud hotline (internally or externally monitored)
- Risk assessment

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**Prevention:**  
an ounce = many pounds (or dollars)

- Segregation of duties
  - Record the transaction
  - Authorize the transaction
  - Custody of the transaction
  - Execute the transaction
- Required vacations
- Rotate responsibilities periodically and cross-train
- Review key controls
- Trust but don't over-delegate
- Secure assets and document custody transfer
- Management review of financial statements

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**Prevention:**  
**Code of Conduct, ethics policy, fraud policy**

- Comprehensive but applicable to all hierarchical levels of employees and stakeholders
- Align with organization's values and strategic objectives
- Broad dissemination to employees, volunteers, vendors, agents, Board, and stakeholders
- Provide ongoing awareness and education outreach (new employees, periodic reinforcement)
- Document receipt, understanding, and intent to comply
- Deliver translation for applicable languages
- Specify repercussions for non-compliance and enforce consistently

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**Prevention:**  
**Background checks**

- Research indicates that 67% of all résumés/applications contain material inaccuracies
- Periodically (i.e. annual) review position requirements and responsibilities to ensure continued relevance
- Reasonably verify disclosures:
  - Education
  - Employment experience
  - Professional references
  - Credit background (for financial & cash-handling positions)
  - Criminal background
  - Driving history (if applicable)

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**Prevention:**  
**Segregation of Duties - Incoming funds**

Frequently considered "impossible" due to inadequate staffing

- Segregate stages of receipts cycle:
  - Billing
  - Opening mail and restrictive endorsement of checks
  - Recording receipts
  - Write-off of receipts
  - Acknowledgement of receipts to donors and/or confirmations
  - Reconciliation of accounts
- Related controls to implement or consider:
  - Use lockbox service
  - Timely deposits of all funds
  - Closely monitor write-offs, receivable credits, and aging of receivables

Receivables and payables should be fully segregated

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**Prevention:**  
**Other key controls**

- Protect vendor and proprietary information (e.g. donors, employees)
- Strong Board participation and ask "hard questions"
- Audit Committee involvement and external audit assurance
- Fraud risk assessment:
  - Peer organization involvement
  - Top-down approach and participation
  - Organization evolution brings new risks
  - Scenario consideration

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**Resources**

- Non-Profit Risk Management Center:  
[www.nonprofitrisk.org](http://www.nonprofitrisk.org)
- Association of Certified Fraud Examiners for fraud awareness/prevention:  
[www.acfe.com](http://www.acfe.com)

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