

Accounting for Success



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“In recent years, several states started enacting what has come to be known as an ‘economic nexus’ standard.”

Losses from Fraud are on the Rise

Although this column focuses on nonprofit organizations, this information affects any type of organization or business. The 2018 Report to the Nations shows there has been an increase in the per-incident losses among nonprofits over the past two years. According to the 2016, report religious, charitable, and social service organizations were experiencing a median fraud loss of \$82,000 based on the ACFE’s 2016 report, and that number rose to \$90,000 per incident in the 2018 survey. This increase raises the red flag that organizations need to implement and carefully review anti-fraud measures to ensure a maximum level of protection.

About the Survey

The 2018 report is based on information collected by the Association of Certified Fraud Examiners through an online survey which was conducted from July – October 2017. Participants were asked to provide information on the cases they investigated which met specific criteria, including that the case must have involved occupational fraud that was investigated since January 2016. There were 2,690 cases examined in the study.

Key Findings

- **Median Loss** – The average loss per incident for religious, charitable, or social service organizations was \$90,000 in 2018, an \$8,000 increase compared with the 2016 study. The average loss for arts, entertainment, and recreation organizations in 2018 was \$88,000, which is an increase of \$12,000 compared with 2016. While the loss per incident for both types of organizations trended toward the lower end of all industries surveyed (\$525,000 for communications and publishing companies and \$240,000 for manufacturing companies), the increase reveals the need for more effective controls to ensure the opportunities for losses are minimized.

- **Common Types of Fraud** –The survey analyzed the reporting cases to identify the most common types of fraud committed by company type. For religious, charitable, or social service organizations, the most frequently reported fraud activities included billing, corruption, payroll,

skimming, and expense reimbursement schemes. Among arts, entertainment, and recreation organizations, the most common types of fraud included cash on hand, corruption, skimming, and cash larceny. Other less notable forms of reported fraud include check tampering, financial statement fraud, and register disbursements.

- **Recovering Fraud Losses** – To understand the importance of fraud prevention, the study analyzed the amount recovered after discovering fraud. Unfortunately, victims are rarely able to recover the full amount of the loss. The study shows that 53 percent of participants did not receive any settlement, 32 percent made a partial recovery, and 15 percent recovered all losses. While it’s encouraging that a small portion of participants made a full recovery, most were not made whole. For organizations with limited financial resources, such a loss can be devastating.

- **Behavioral Red Flags** – When designing a fraud prevention program, it’s important to understand the most common behavioral red flags fraudsters exhibit. According to the report, 41 percent were living beyond their means, 29 percent were experiencing financial difficulties, 20 percent had an unusually close relationship with a customer or vendor, 10 percent had addiction problems, 9 percent complained about inadequate pay, 7 percent had social isolation, 6 percent experienced past legal problems, and 6 percent refused to take a vacation. Less commonly reported red flags included instability in life circumstances, past employment-related problems, and complaints about lack of authority. It’s important to note that someone exhibiting these behaviors does not necessarily indicate fraud, but it paints a picture of the type of person who may be disposed to do so.

The threat that fraud poses to nonprofits and any business or organization is serious and real. We advise clients to assess their fraud prevention programs to ensure they are properly protected from possible threats.