



DANNIBLE & MCKEE, LLP

Certified Public Accountants and Consultants

Delivering **Confidence**

The background features a collage of various text elements related to crime and fraud, including phrases like 'fraud and dishonesty', 'Trusted employee', 'Accountant', 'Crime in business', 'Pyramid scheme exposed', 'Retailer suffer heavy losses', and 'Crooked staff eat into profits'. A pair of silver handcuffs is visible on the left side, with one cuff at the top and another at the bottom.

Fraud Risk During COVID-19

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Dannible & McKee Nonprofit Conference

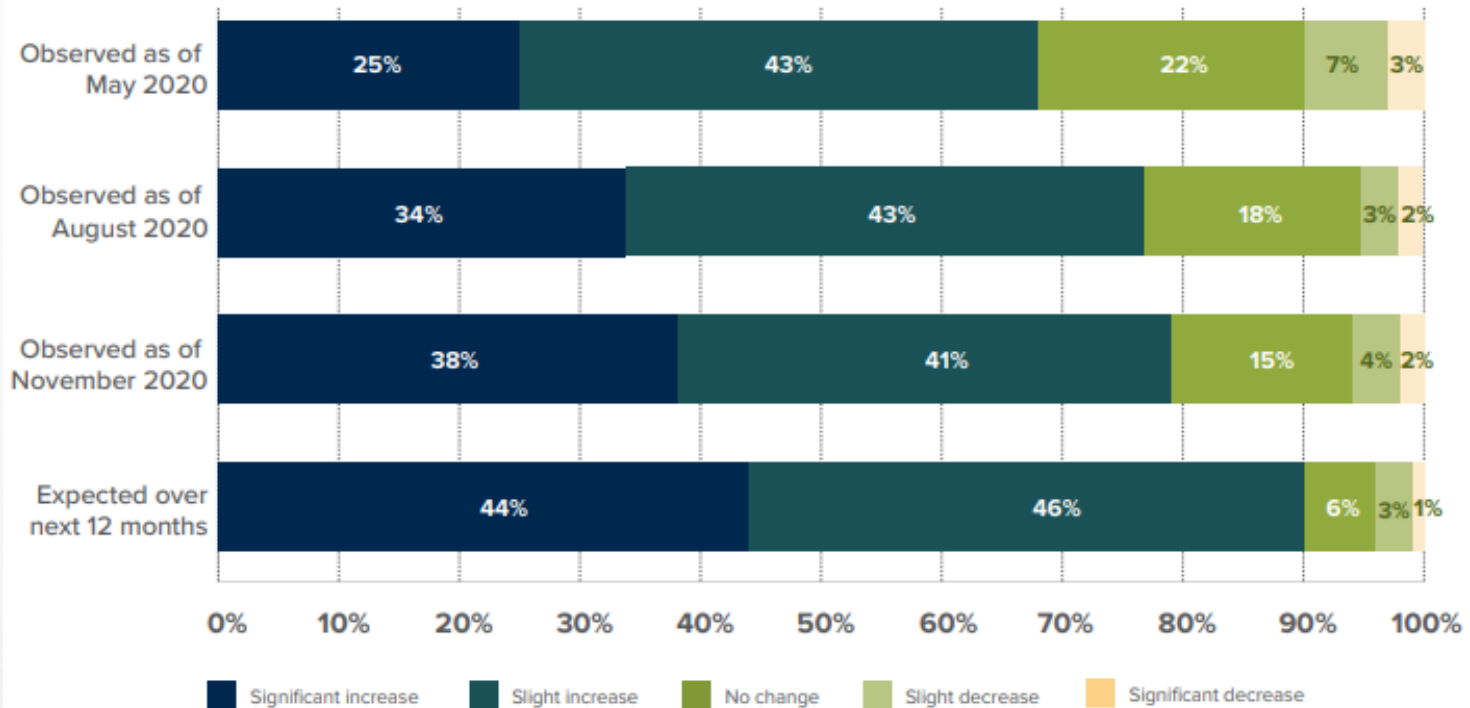
January 13, 2021

... Fraud Triangle

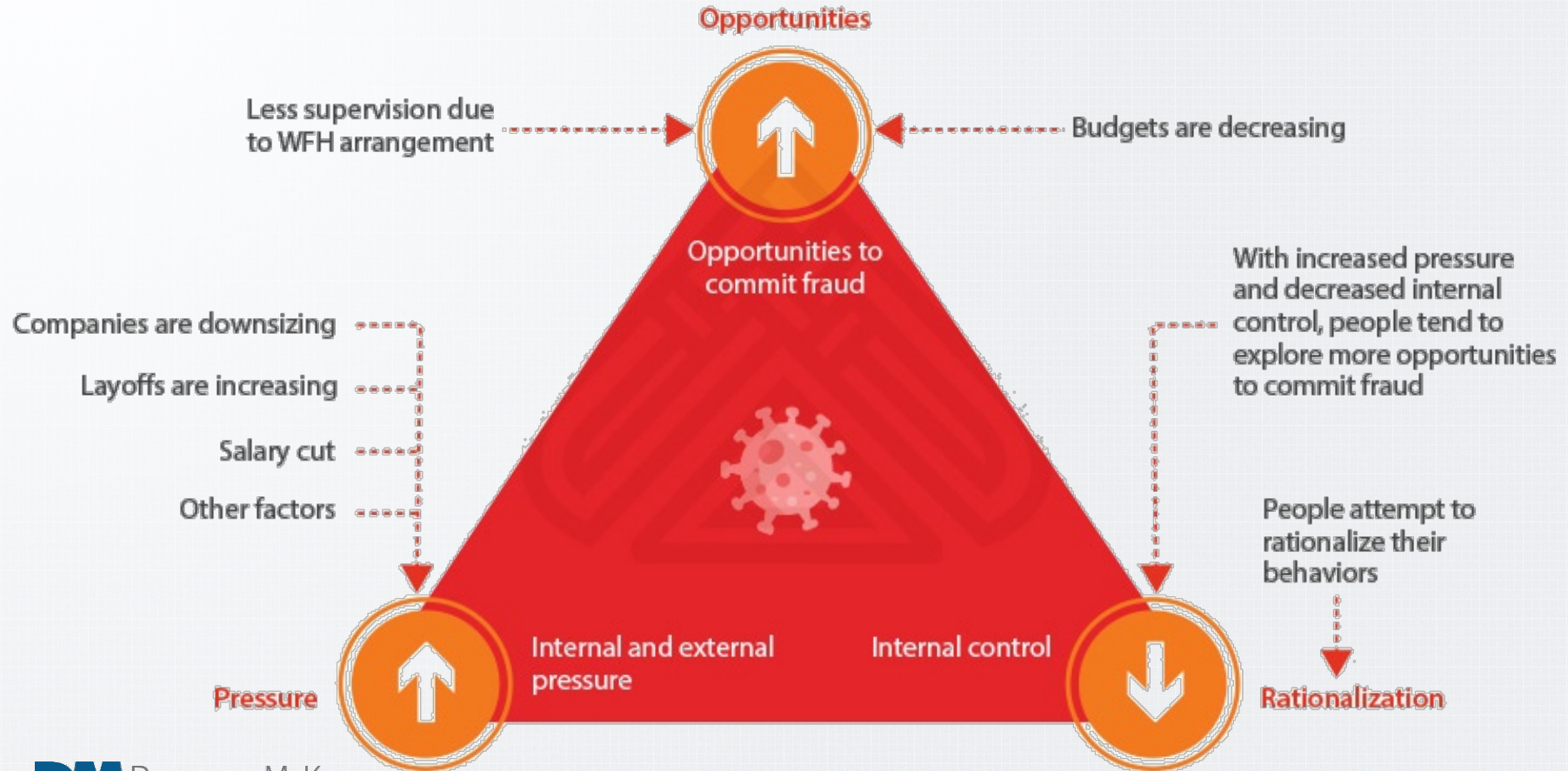


COVID-19 Affecting Fraud

FIG. 1 Change in the overall level of fraud



... Fraud Triangle in the Context of COVID-19



... Current Business Environment

- Extreme pressure on business operations
- Declining revenues for many organizations
- Cost-cutting measures implemented
- Downsizing, layoffs, furloughs
- Reduction of managerial oversight and control
- Increased pressure to perform
- Employee morale and organizational culture suffering from distancing
- Shifting strategy, resources and priorities
- Compromised internal controls

ACFE: As of November 2020 79% of Anti-Fraud Professionals have seen an increase in the overall level of fraud.



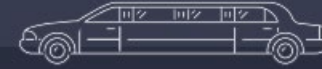
... Behavioral Red Flags

85% OF ALL FRAUDSTERS displayed at least one **BEHAVIORAL RED FLAG** while committing their crimes.



A fraudster living beyond his or her means is the most common red flag by a sizable margin.

This has ranked as the **#1 red flag** in every study since 2008.



7 KEY WARNING SIGNS



42%

Living beyond means



26%

Financial difficulties



19%

Unusually close association with vendor/customer



15%

Control issues, unwillingness to share duties



13%

Irritability, suspiciousness, or defensiveness



13%

"Wheeler-dealer" attitude



12%

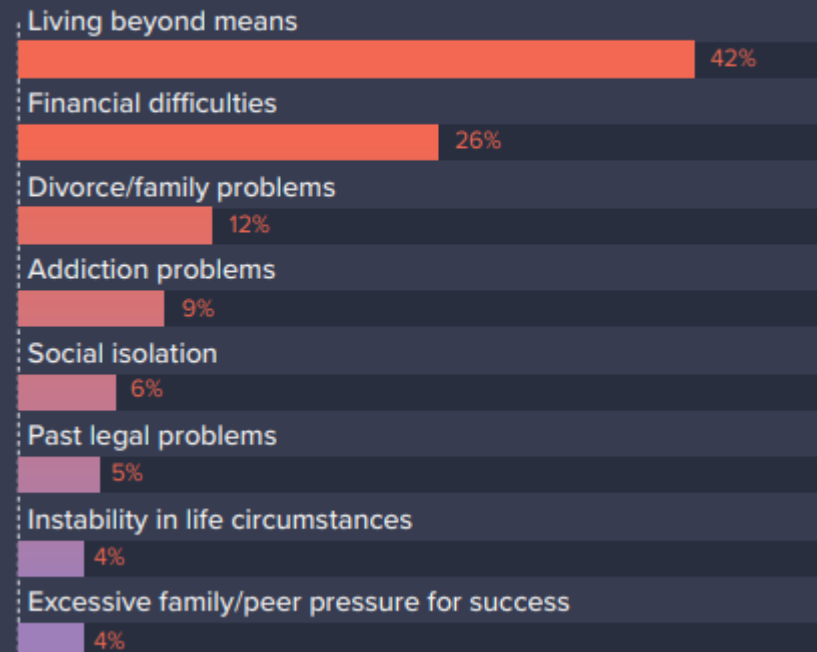
Divorce/family problems

... Behavioral Red Flags – Work & Personal

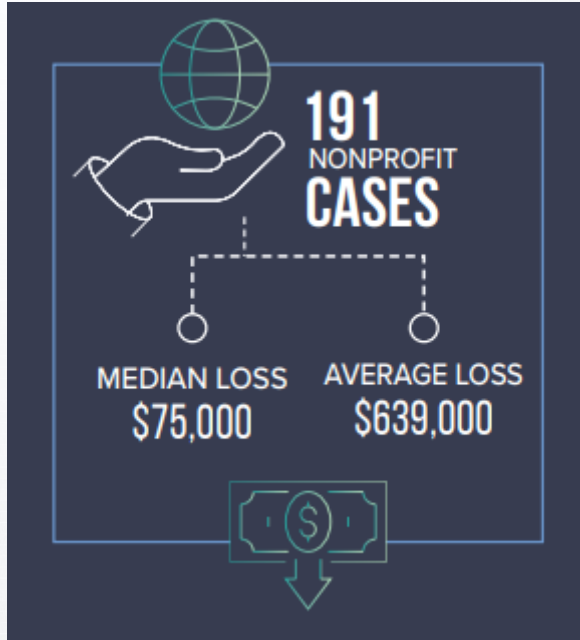
In **52%** of cases, the fraudster exhibited red flags connected to their **work duties**.



In **63%** of cases, the fraudster exhibited red flag behavior associated with his or her **personal life**.



... 2020 ACFE Report to the Nations



Nonprofit schemes

Percent of cases

Corruption	41%
Billing	30%
Expense reimbursements	23%
Cash on hand	17%
Noncash	16%
Skimming	15%
Check and payment tampering	14%
Cash larceny	12%
Payroll	12%
Financial statement fraud	11%
Register disbursements	3%

Polling Question

Do you think nonprofit's fraud risk was impacted by the COVID-19 pandemic?

- a) YES
- b) NO

Nonprofit Impacts From COVID-19

- Revenue
 - Cancelled fundraising events
 - Closed revenue generating operations
 - Loss of funders or corporate partners
 - Challenges meeting fund requirements
 - Grants/contracts at risk
- Reduced revenue can lead to various issues
 - Program/service functionality, ability to attain proper resources, etc.



Nonprofit Impacts From COVID-19

- Working from home
 - Increases technology fraud vulnerability
 - Requires increased training and resources for employees
 - Ex. Cyber attack training, work from home equipment
- Employee Retention
 - Not enough funding to keep all employees
 - Reduced employee pay and benefits
- Unable to stay operational
 - COVID-19 impacts are too much for some organizations to stay open and operational and they close

Nonprofit Impacts From COVID-19

- Increased demand for services
 - Challenges:
 - Less funding
 - Reduced staff
 - Things to remember:
 - Client demands may grow and/or shift
 - Be attentive to staff needs (Ex. Potential exposures or personal risks connected to COVID-19)
 - Strategically choose partners



Nonprofit Impacts From COVID-19

- Current issues affecting nonprofits:
 - Mental health issues
 - Political and social unrest
 - Long-term sustainability
 - Media-driven issues
 - Talent retention and growth opportunities
 - Ongoing shifts and economic uncertainty
 - Housing

Top Considerations

- Cash management is critical
 - Build operating reserves
 - Prepare cash forecasts and review frequently
 - Tighten billing and collection processes
 - Employ cost containment strategies
- Use scenario analysis and more robust budgeting



Top Considerations

- Keep your board and finance committee informed with more frequent meetings and reports
- Assess the challenges your organization faces and implement reinforced policies
- Assess any technology barriers with working remotely



... Risk Assessment

- Specifies suitable objectives
- Identifies and analyzes risk
- Assesses fraud risk (considers potential fraud)
- Identifies and analyzes significant change

COVID-19 related:

- Identify any existing risks that are increased
- Identify any new risks



Polling Question

Do you think nonprofits are more or less vulnerable to fraud than for-profit businesses?

- a) MORE
- b) LESS

General Fraud Risk Factors

- Employees and Leadership
- Public Trust
- Lack of Training
- Informal Culture
- Volunteers



... New/Enhanced Risks (COVID-19)

- Cyber
 - Phishing, intellectual property, network vulnerabilities
- Physical Security
 - Asset misappropriation, access controls, no oversight, timecard fraud
- Financial Statement Fraud
 - Meeting investor and donor expectations, complying with bank covenants, PPP loan compliance
- Organizational
 - Disengaged leadership, short-term vision, lack of physical interaction
- Outsourced functions
 - Risks from outside your own organization, important to monitor outsourced companies

... Control Activities

- Selects and develops control activities
 - Segregation of Duties
 - Physical Controls
 - Authorization of Transactions
 - Performance Review
 - Information Processing
 - Physical Control of Assets
 - Prenumbering of Documents
- Selects and develops general controls over technology
- Deploys through policies and procedures

... Information and Communication

- Uses relevant quality information
- Communicates internally
 - Internal Auditors
 - Audit Committee
 - Management
- Communicates externally
 - External Auditors
 - Consultants



Monitoring Activities

- Conducts ongoing and/or separate evaluations
- Evaluates and communicates deficiencies



Addressing the Culture

- ACFE reports that more frauds are uncovered in not-for-profits by other employees than by an external audit.
 - It is important to foster a culture of ethical behavior in the organization
 - Encourage employees to speak up when they observe suspicious activity
 - Organizations should identify where they are the most vulnerable to fraud and train employees how they can protect against fraud

Detection AT NONPROFITS

TIP OR
COMPLAINT

40%



INTERNAL
AUDIT

17%



MANAGEMENT
REVIEW

13%



BY
ACCIDENT

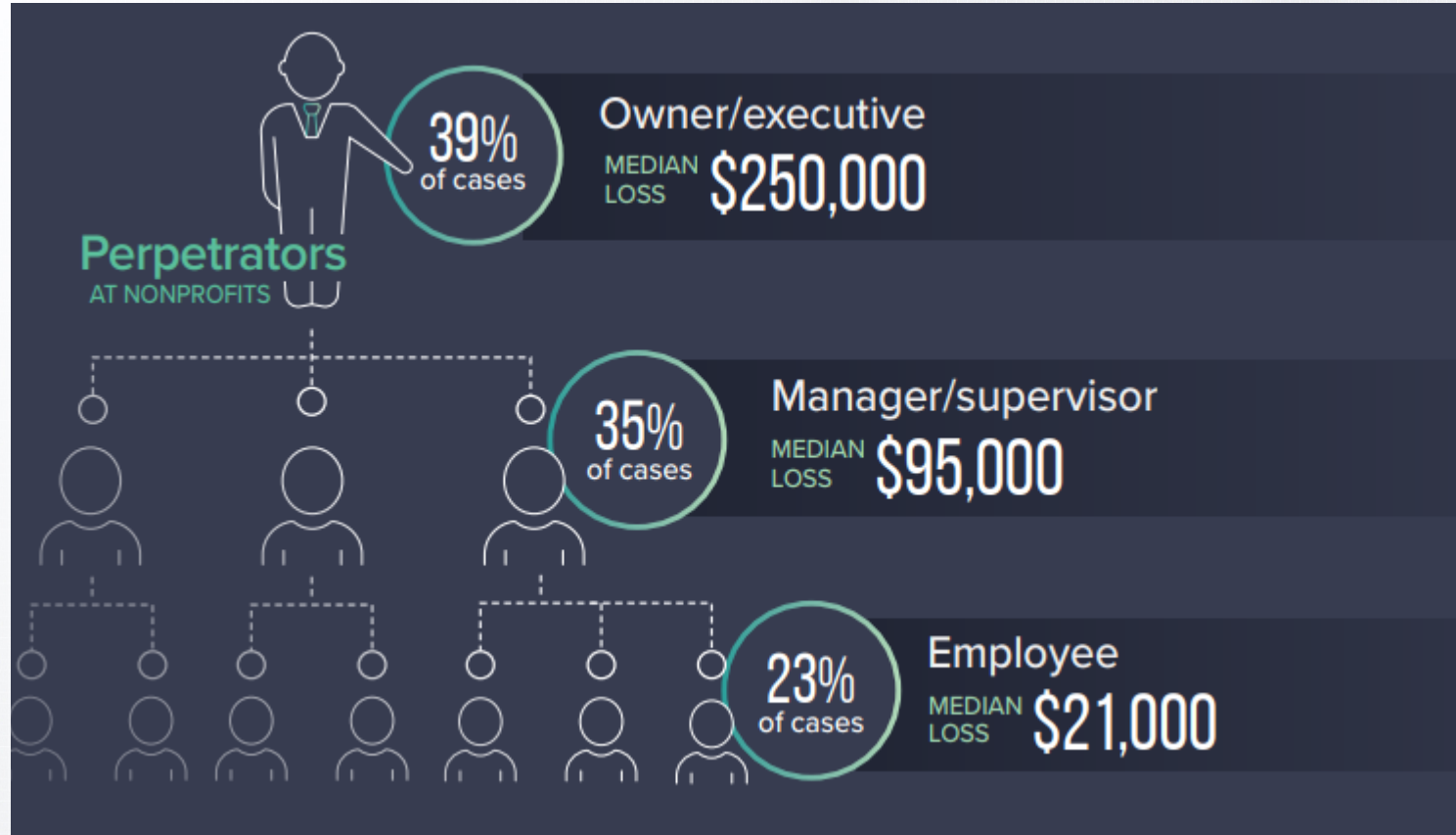
7%



EXAMINATION
OF DOCUMENTS

6%





... Control Environment – Tone at the Top

- Demonstrates commitment to integrity and ethical value
- Board independence and exercises oversight responsibilities
- Establishes structure, authority and responsibilities
- Demonstrates commitment to competence
- Enforces Accountability



Internal Controls

- **Policies and Procedures:** Conduct analysis on existing policies and procedures
 - Compare to industry standards
 - It is important to maintain up to date policies, but it is more important for them to actually be put into practice
- **Segregate duties:** even in small organizations attempt to segregate duties so that custody, reporting, and reconciling duties are all done by separate individuals
 - Makes fraud harder to commit and cover up
- **Regular internal audit committee check-up/meeting**



Internal Controls

- **Draft whistleblower policy:** protect employees from retaliation for raising concern about activities taking place within the organization
 - Institute of Internal Auditors (IIA) identified five things that will make a whistleblower policy effective:
 - Protection
 - Accessibility
 - Tone at the top
 - Support network
 - Awareness
 - Create anonymous tip line or other mechanism for reporting fraud



Internal Controls

- **Adopt expense reimbursement policies:** ensure receipts are allowed and reviewed for all expenses
 - Require a supervisor to approve all employee expense reports to ensure they comply with organization policies for acceptable reimbursements
 - Provide training on acceptable expenses
 - Create threshold amount on checks where two signatures become required
- **Mandatory job rotation:** Those less familiar with an organization or position are less likely to identify opportunities to commit fraud

THE PRESENCE OF ANTI-FRAUD CONTROLS
IS ASSOCIATED WITH LOWER FRAUD LOSSES
AND QUICKER DETECTION



Polling Question

Does your organization perform background checks as a part of pre-employment screening?

a) YES

b) NO

Not-for-Profit Best Practices

- Perform background checks on those who have access to cash or financial information
- Screen recipients of program services carefully to prevent fraudulent completion of program activities or fraudulent payments to individuals
- Create an internal audit function to oversee internal controls, best practices, trainings, and reporting
- Commit to an external audit
- Adopt a document retention and destruction policy, and a guidance on electronic documents
 - Make policies available to all staff, board, and volunteers
- Consider increasing levels of transparency

... Theft of Cash on Hand

- Theft of cash that has already been recorded on the company's books
 - Theft of cash from a register
 - Social distancing makes it hard to “look over someone's shoulders.”
 - Reversal of cash transactions
 - If people are working from home, employees coming into the office may get access to records they shouldn't.
 - Altering cash records
 - Look for proper approval for alterations if possible.



... COVID-19 Cash Receipts

- DO NOT have customers send checks to an employee's personal residence
- If the assigned employee, who usually opens mail is working from home, use another employee who is in the office and does not work for the A/R dept.
- If no one in the office can pick up this responsibility, consider:
 - Requiring customer payments to be electronic
 - Using a lockbox system with your bank

... Preventing Theft of Cash on Hand

Tips & safeguards to protect cash on hand:

- Segregation of duties
- Management approval for returns
- Cash reconciliation
- Accounts receivable reconciliation
- Daily cash deposits
- Employee screening
- One employee per register
 - Cameras over register and counting areas
- Tone at the top
 - Explicitly tell employees there's zero tolerance for stealing
- Go cashless/online ordering
 - Cash has a lot of germs, so it achieves two goals
- Insurance
- Don't leave excess cash in your business overnight.
- Limit employees that have access to financial records or passwords to those tasked with financial responsibilities.

... COVID-19 Cash Disbursements

- DO NOT send checks to vendor's personal addresses
 - Alternative: use ACH or wire transfer
 - If vendor makes you send to alternative address; get request in writing from appropriate employee in the organization and follow up with a phone call.
- If switching to credit card from check disbursements:
 - Enforce organization's approval and spending policies
 - Get individual receipts from card administrator daily
 - Timely review card payments against invoices, receipts and approvals
- In general, you may want to consider moving to a more electronic system
 - Still maintain similar controls, just do it electronically

... Supply Scams

- Businesses are limited with supplies
 - Fraudsters have been able to mimic the look of well-known online retailers
 - Claim to have supplies you need; really fakes to grab credit card number
 - COVID supplies have been hot items to use (i.e., gloves, masks, cleaning supplies)



... Preventing Supply Scams



Tips & safeguards to prevent supply scams:

- Type out the URLs you know to be genuine
- Check them with trusted industry colleagues
- Do your own research; it takes a few seconds to Google something

Grant Scams

- COVID-19 provides opportunity for scammers to exploit the use of grants
 - Fraudsters can act as if they are giving you a grant to get critical data they are looking for



Preventing Grant Scams

- Be conscious of who you are contacting about grants
 - Don't give out your bank account to anyone you don't know
 - Don't pay money for "free" grant
 - Be careful of emails, phone calls, etc. regarding grants



Technology Fraud

- Increased reliance on technology presents increased risk of cybercrime
 - Phishing
 - Ransomware
 - Exploiting software vulnerabilities
- Working from home forces organizations to rely on technology more, creating more opportunity



... CEO Scam/ACH Transactions

- An employee gets a message that appears to come from a company higher-up directing the person to wire money, transfer funds, send gift card codes, etc.
 - It's just a spoofed boss email address or phone number
 - Know the signs: these methods of transferring money used because it is harder to trace
- COVID-19 has led to a significant increase in unusual financial transactions
 - Expedited orders, cancelled deals, refunds, etc.
 - Emergency requests that would have been questioned before COVID, now might not w/ COVID
 - Employees working from home can't walk over to whoever and investigate a questionable request.
- I.T. scam similar except it's an "I.T. employee" asking for a password

... Preventing CEO Scams



Tips & safeguards to prevent robocall scams:

- Warn employees about these scams and give them a contact where they can verify requests they received.
 - Never rush out a payment that seems suspicious
- Have multi-personnel approval process
- Email is not a secure way to send financial information.

... Expense Reimbursement Fraud

- Claiming reimbursement for fictitious or inflated expenses
 - Forged receipts
 - Double reporting expenses
 - Overstated expenses
 - Mischaracterized expense reimbursements
 - working from home home office expenses
 - Desks, laptops, monitors Internet
 - COVID expenses
 - Masks, gloves, cleaning supplies



... Preventing Expense Reimbursement Fraud

Tips & safeguards to prevent and detect expense reimbursement fraud:

- Expense reimbursement policy
- Tone at the top
- Require receipts
- Examine receipts to ensure authenticity
- Review process for employee expense reports
- Update expense policy for COVID
- Require supervisor review and approval
- Issue company credit cards as to not have employees use personal ones:
 - Easier to check records
 - Earn points
- Surprise audits
- Monitor spending over time

... Check and Payment Tampering

- Employee steals, alters or forges a check that is payable from the employer's business account
 - Altered Checks
 - Altered ACH
 - Forged Checks
 - Concealed Checks
 - Authorized Maker



... Preventing Check and Payment Tampering

Tips & safeguards to protect against tampering fraud:



- Maintain checks under lock and key
- Review of online checks clearing
- Review and reconciliation of accounts
- Limit access
- Investigate out-of-sequence checks
- Separation of duties
- Switch to an electronic payment method if possible, especially if your employees are working from home

Payroll Fraud

- Theft of cash from a business via the payroll system
 - False expense reports
 - Ghost employees
 - Advances not paid back
 - Unauthorized modification of records
 - Overriding or inadequate controls
 - Employees overstating hours and saying they worked the required amount when they didn't while working from home



Charity Scams

- Americans are incredibly generous, especially so after the pandemic, and look to help others, but scammers like to exploit this generosity
 - Blind generosity leads to scamming
 - Scammers pose as real charities or use the names of real charities to dupe people
 - Scammers will leverage the COVID-19 pandemic to steal money and personal information from individuals
 - Email addresses can be made to look similar to the real charity's official email
 - Phone numbers can be spoofed by scammers to appear like they are the real charity

... Preventing Charity Scams

- When donating to charitable organizations do your homework:
 - Research and determine legitimacy of the organization
 - Be wary of organizations calling you about a donation pledge you do not remember making
 - Do not be pressured or rushed (this is a strong indicator of a scam)
 - Research and verify the phone number
 - Do not click on links sent via email
 - Before donating, ask how much of the donation will go toward the program or cause you want to support. Every organization has administrative costs, and it's important to understand those structures
 - After making a donation, be sure to review your financial accounts to ensure additional funds are not deducted or charged.

... Employee Screening Fraud

- COVID has/had closed several of the links in the background check for employers
 - Courts, public record repositories, drug testing labs
 - Previous employment and education verification is now harder to access with employees working from home and closures.
- Easy to forge academic records and may be hard to verify
 - Have employees submit transcripts directly from the college/university
- Millions are unemployed in U.S. currently
 - They all want to beef up their resumes to stand out (either truthfully or not)



... Preventing Employee Screening Fraud

Tips & safeguards to protect against employee screening fraud:

- Not all courts are closed, and many have reopened over the past couple months.
 - Public record searches are different from county to county.
 - Online resources may be available, but some info needs to be verified by the courts
 - Online information is only accurate if it's up to date, which can't happen if they are closed
 - National online databases are insufficient.
- Get official transcripts sent directly from the college/university
- Directly contact former employers
 - May take time to respond back depending on their current situation

... Preventing Employee Screening Fraud

Tips & safeguards to protect against employee screening fraud:

- Either delay screenings or stop screening until info becomes available
 - The background screening might just take longer if you want to verify all the information.
 - If you chose to forgo the background check and hire immediately, consider:
 - Flagging anything you find and follow up on it when resources become available
 - Changing the wording in the offer letter to have contingency for employment based on background check even after start date.
 - Deferring drug tests or potentially doing oral-fluid testing online via video chat w/ a trained observer.

... Boosting Numbers Due to COVID-19

- Improper timing of revenue recognition
- Fictitious revenue
- Channel stuffing
 - Selling excess inventory to suppliers
- Third-party transactions
 - Bill and holds, goods on consignment
- Fraudulent estimates
- Improper capitalization or deferral of expenses
- Misleading forecasts or projections



... Journal-Entry Internal Controls

- Standard JEs (usually covered by entity's internal controls)
 - Recurring basis to record transactions such as monthly sales, purchases and cash disbursements
 - Or to record recurring periodic accounting estimates
- Nonstandard entries (not always covered by same level of internal controls)
 - Nonrecurring transactions like business combinations
 - Or entries used to record a nonrecurring estimate, such as an asset impairment
- Other adjustments (Not formal JEs and might have no internal controls)
 - Consolidating adjustments
 - Report combinations
 - Reclassifications
- Thus, auditors consider placing additional emphasis on identifying and testing items processed outside of the normal course of business.

... Financial Statement Internal Controls

- Keep accurate and complete financial records with detail and supporting evidence
- Show proper management authorization
- Access to assets is restricted
 - Unannounced asset checks to compare book amount to actual

... COVID-19 JE & F/S Internal Controls

- Management should continue to review JEs and check reconciliations to ensure they are up to date and timely reviewed
- Estimates should be reviewed to ensure it is still reasonable with the COVID situation
 - Ex: Bad debt expense may increase due to customer having trouble paying
- Financial disclosures need to reflect any COVID material effects on F/S
- Document any changes to internal controls

Polling Question

Does your organization perform a review of internal controls and risk at least annually?

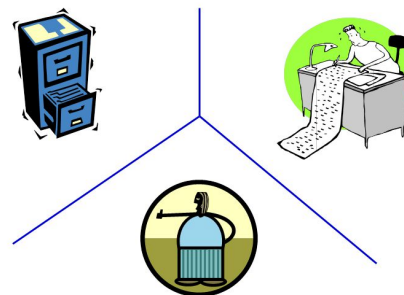
- a) YES
- b) NO

Internal Controls

Ways to combat the lack of segregation within a Non -profit Accounting Function:

- Written Code of Ethics
- Educating and Training employees to prevent fraud
- Segregation of duties
- Maintaining reasonable expectations
- Performing regular bank reconciliations
- Set a good example from the top, finance committee
- Hire an outside financial professional to examine the books
- Institute a fraud hotline

Segregation of Duties

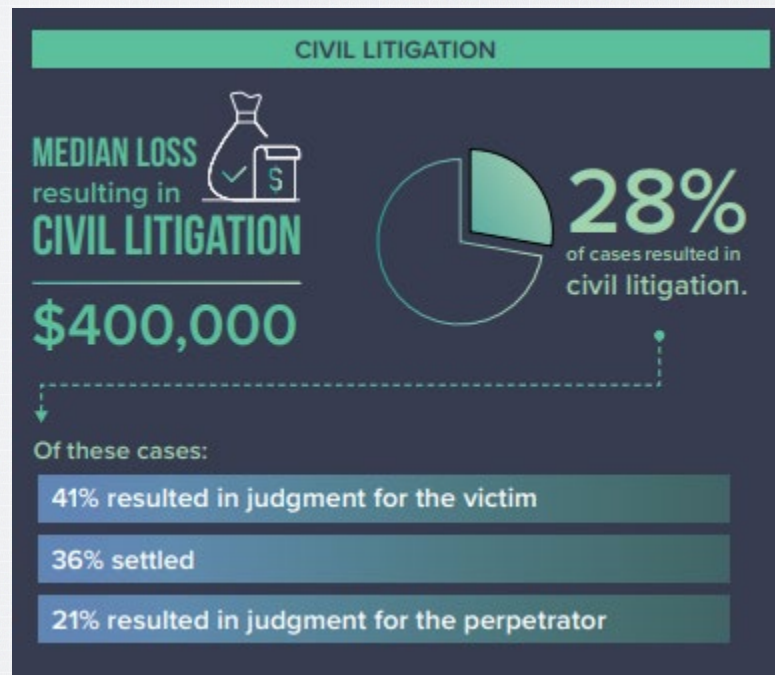
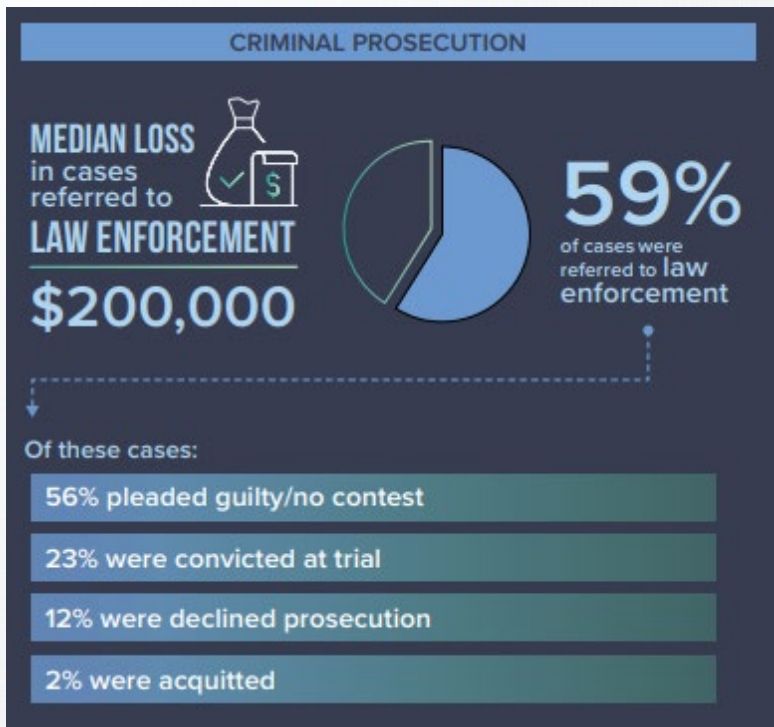


... What to do if you suspect fraud has occurred?

- Call your accountant, attorney or certified fraud examiner to assist you in this process
- Obtain as much information as possible before anyone is questioned
- Alert proper authorities of the findings and/or allegations
- Document all observations and actions
- Maintain confidentiality



Response to Fraud



Questions





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