

## 4 Steps to Reduce Year-end Fraud Risks

By Nathan D. Salsbery, Partner

All nonprofit organizations, of all types and sizes, are at risk for fraud. It's particularly important to be aware of this risk at the end of the year, when donations typically increase. At the same time, staff members are busy balancing day-to-day work with year-end tasks between holidays and vacations.

Most nonprofit organizations are high-trust environments focused on serving others. But trust is not an internal control. It's vital to review your organization's processes and internal controls and address any weaknesses.

### The Importance of Internal Controls in Reducing Fraud Risk

Of the fraud cases in the [2020 Report to the Nations on Occupational Fraud and Abuse](#) from the Association of Certified Fraud Examiners (ACFE), the top three control weaknesses leading to fraud at nonprofits were:

- Lack of internal controls – 35%
- Lack of management review – 19%
- Override of existing controls – 14%

And fraud can be costly. Among nonprofit organizations in the ACFE study, the median loss from fraud was \$75,000 and the average loss was \$639,000.

Strong internal controls can both reduce the opportunity for fraud in your organization and help you detect fraud quickly if it does occur. We recommend that you start by assessing the following controls at your organization. If they're not already in place, add them. If they are in place, review the controls to make sure they're adequate and working as you intended.

#### 1. Review and standardize procedures.

Start by listing the ways cash comes in and out of your organization. Then document the process for each and identify any potential risks. Make sure each process involves at least two people to provide accountability.

If your organization has multiple offices or locations, standardize the procedures to ensure consistency.

#### 2. Separate the financial duties for authorization, custody of assets, and recordkeeping.

No one individual in your organization should have access to all three of these areas:

- Authorization – such as check-signing authority
- Custody – access to check stock, cash, or online bank accounts
- Recordkeeping – the ability to make entries in your accounting system

Here are some best practices to follow:

- Make sure uncounted funds are never handled by just one person.
- Provide deposit information to the individual processing donor information and to a member of your accounting team. Review the deposit and donor system report to ensure they agree.
- Follow the same processes and controls for checks as you do for cash.

#### 3. Ensure bank statements, canceled checks, bank reconciliations, and credit card statements are reviewed monthly.

Taking this step each month will help your organization quickly identify any concerns.

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#### 4. Increase the perception of detection.

Notify staff about your processes. If you make changes to existing processes, communicate why. Knowing that the organization is monitoring for fraud can be a powerful deterrent.

#### Building on the Foundation

The steps above can help you implement or tighten up internal controls during a very busy time. Once the rush is over, though, it's important to review your organization's fraud risk and how you can reduce it.

#### Here are some resources to help:

- [Fraud Risk and Prevention Questionnaire](#) – A free online assessment adapted from the ACFE Fraud Prevention Check-up. You'll receive an instant score.
- [Don't Become a Statistic: Four Tips for Preventing Fraud at Your Organization](#) – Why you should use a fraud hotline, not over-rely on your external audit, provide fraud training, and understand your fiduciary responsibility.
- [Fraud Happened. Now What?](#) – Key steps to take and key questions to ask for an appropriate and proactive response if fraud should ever occur.

Taking the steps outlined here and keeping fraud prevention a top priority will go a long way in protecting your organization.

Please contact us at [info@capincrouse.com](mailto:info@capincrouse.com) with any questions or to learn more about the [CapinCrouse Fraud Checkup](#) or [Whistleblower Protection Policy and Hotline Monitoring Service](#).

*This article has been updated.*

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Nathan is a partner in the Colorado Springs and Denver offices and serves as the firm's Executive Vice President for the West region. For 20 years, Nathan has provided various assurance and consulting services to numerous types of nonprofit organizations, and his expertise includes fraud prevention and forensic accounting. He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Chartered Global Management Accountant (CGMA). Nathan serves as a Board member and Treasurer for the Christian Leadership Alliance. He also has 10 years of nonprofit industry experience serving on staff part-time as Associate Pastor at his local church, and has earned a Master of Divinity with an emphasis in church and ministry leadership.

#### About CapinCrouse

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