

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

Among the fraud cases studied in the [Occupational Fraud 2022: Report to the Nations](#) from the Association of Certified Fraud Examiners (ACFE), the top three internal control weaknesses leading to fraud at nonprofits were:

- Lack of internal controls – 29%
- Override of existing controls – 20%
- Lack of management review – 16%

And fraud can be costly. Among nonprofit organizations in the ACFE study, the median loss from fraud was \$60,000. The median loss for religious, charitable, and social services organizations was \$78,000.

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

Strong internal controls can both reduce the opportunity for fraud in your organization and help you detect fraud quickly if it does occur.

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.

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](#) with any questions or to learn more about our fraud prevention services.

This article has been updated.

About the Author

Nathan D. Salsbery, Partner
Executive Vice President
nsalsbery@capincrouse.com
o 505.50.CAPIN ext. 1552

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 assurance and consulting services to numerous types of nonprofit organizations, and he is a certified fraud examiner. Nathan serves as a Board member and Treasurer for the Christian Leadership Alliance and as Board Chair for a private K-12 Christian school. 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 degree with an emphasis in church and ministry leadership.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

CapinCrouse is an independent member of the BDO Alliance USA.



© Copyright 2022 CapinCrouse LLP