

Anti Cheat Sheet for Preventing Nonprofit Fraud



Make an Organizational Commitment to Prevent Fraud

Fraud preparedness is not a one-person show – it must be addressed at every level of your nonprofit. Board members have a fiduciary responsibility to prevent fraud; you may need to bring in new board members with more financial expertise to meet this responsibility. Management has a corresponding duty to engage in vigilant oversight of fraud prevention measures, so make sure they're trained and supported to carry out that duty. Staff and volunteers must be trained to spot fraud and respond appropriately, as well.

Understand and Communicate Fraud Risks

Think through the specific fraud risks your organization may face, based on your own business operations, vendors, employees, service providers, and transaction activity levels. Improve your insights by getting input from all parts of the organization, and then communicate your findings transparently to improve understanding and foster trust at every level. *Everyone* should feel safe to express any concerns.

Strengthen Your Internal Financial Controls

Educate your staff on the red flags that could indicate fraud, and implement financial best practices to minimize fraud risks. For each significant operation or activity, for example – handling money or cutting checks to vendors – ensure key finance staff members know the answers to these questions:

- How does this process work?
- Who is involved in this activity, both inside and outside the organization?
- Who initiates transactions?
- Who authorizes transactions?
- Who reviews transactions?
- Have we had anything go wrong here before?
- Why did it go wrong? What can we do to ensure the processes and outcomes are correct?
- How are staff members in the department feeling and functioning?

Practice vigilance! Continually assess incentives, pressures, opportunities, and attitudes that may lead to fraudulent behavior within the organization. Put whistleblower and HR policies in place to reduce fraud risk, and keep your employee handbook up to date.

Above all, create checks and balances that separate key finance functions. For instance, separate individuals should write checks and sign them, and no one person should be in a position to falsify bank reconciliations or financial reports without oversight. (For a full list of internal controls, visit the [Greater Washington Society of CPAs](#) site.)

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Use the Right Tools to Help Spot Fraud

The right technology can help an organization be both proactive and appropriately reactive when it comes to detecting and deterring fraud. It will do so by:

- Creating thorough and accurate audit trails
- Promoting sound accounting policies and procedures
- Using built-in functionality to assign users, permission rights, alerts, and more
- Supporting and promoting proper segregation of duties
- Taking advantage of robust reporting tools to dig deeper and investigate suspicious behavior further, as needed

Develop a Clear Plan of Action for Responding to Fraud

You should have a crisis management and disaster recovery plan that addresses the who, what, when, where, and how, so your organization can deal effectively with any fraud that occurs. This plan will help you understand the decisions that must be made quickly, so your organization can respond appropriately to any crisis. In particular, you should think ahead about when to engage outside experts such as attorneys, forensic accountants, fraud examiners, law enforcement, and PR professionals.

Once you've developed your plan, test your organizational readiness by conducting fraud drills. Actually simulate fraudulent behavior within your fund accounting system to see what it looks like when it goes through, discover how easy it might be to perpetrate, and understand what controls or processes may need to be put in place to spot it and prevent it from succeeding.

Respond Actively to Change

Keep looking forward. Be aware of the fraud implications when your organization gains opportunities for larger fundraising programs, new funding sources, or other new initiatives. Stay alert especially during times of change – in operations, programs, systems, or key personnel – that might impact your anti-fraud controls and processes.

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