

# FRAUD IS PREVALENT IN THE NOT-FOR-PROFIT INDUSTRY – IS YOUR ORGANIZATION AT RISK?

Presented By:

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## › Learning Objectives

1. Understanding The Psychology Behind Fraud
2. How Does Financial Fraud Occur
3. Evaluating and Responding to the Risk of Fraud in Your Organization  
(Good/Better/Best Approach)
4. Examples from Real Life Fraud Cases

# › What's your interpretation?

The Law



A suggestion

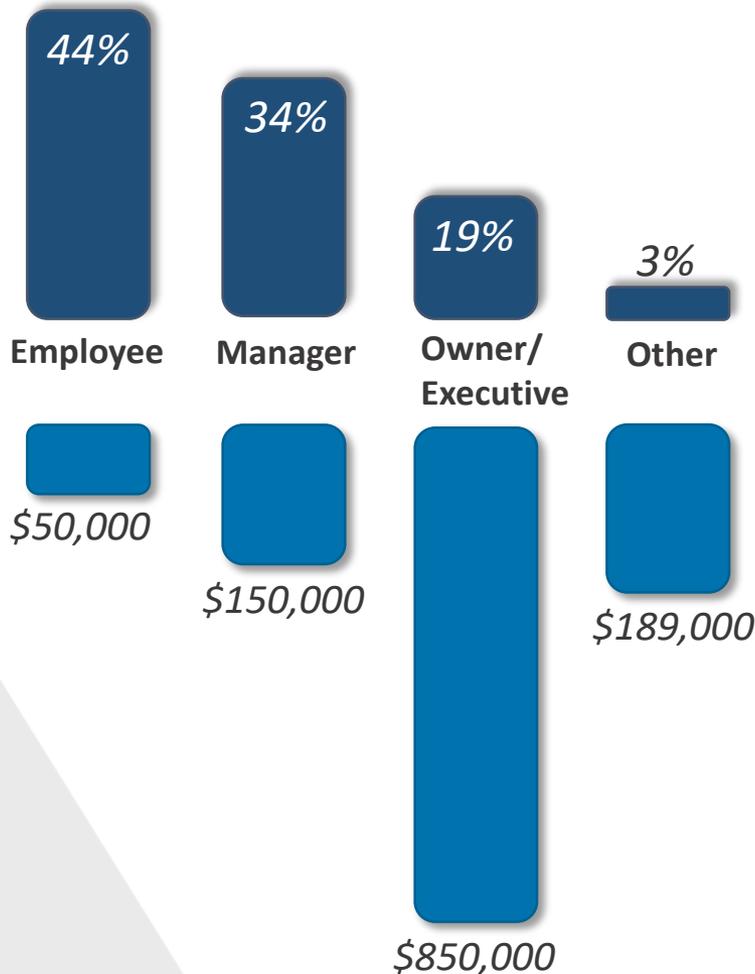
Depends on  
the situation

Just another  
road sign

# UNDERSTANDING THE PERPETRATOR

# Understanding the Perpetrator

## Role of Fraudster



## Age

- 38% of fraudsters were between the age of 36 and 45 years old
- Largest median costs were caused by individuals 56 years of age and older

## Gender

- 69% of perpetrators are male and incur a median loss of \$156,000
- 31% are female with a median loss of \$89,000

## Criminal Background

- 89% are first-time offenders
- Only 4% had been convicted of a fraud-related offense

## Tenure

- 44% of fraudsters were employed 1 to 5 years

# Spring Grove man pleads guilty to embezzlement

Liz Evans Scolforo, 505-5429/@LizScolforoYD

Published 5:18 p.m. ET Jan. 17, 2018 | Updated 5:34 p.m. ET Jan. 17, 2018



(Photo: Submitted)



A Spring Grove man originally accused of embezzling more than quarter-million dollars from the Mechanicsburg-area company where he was vice president has avoided prison.

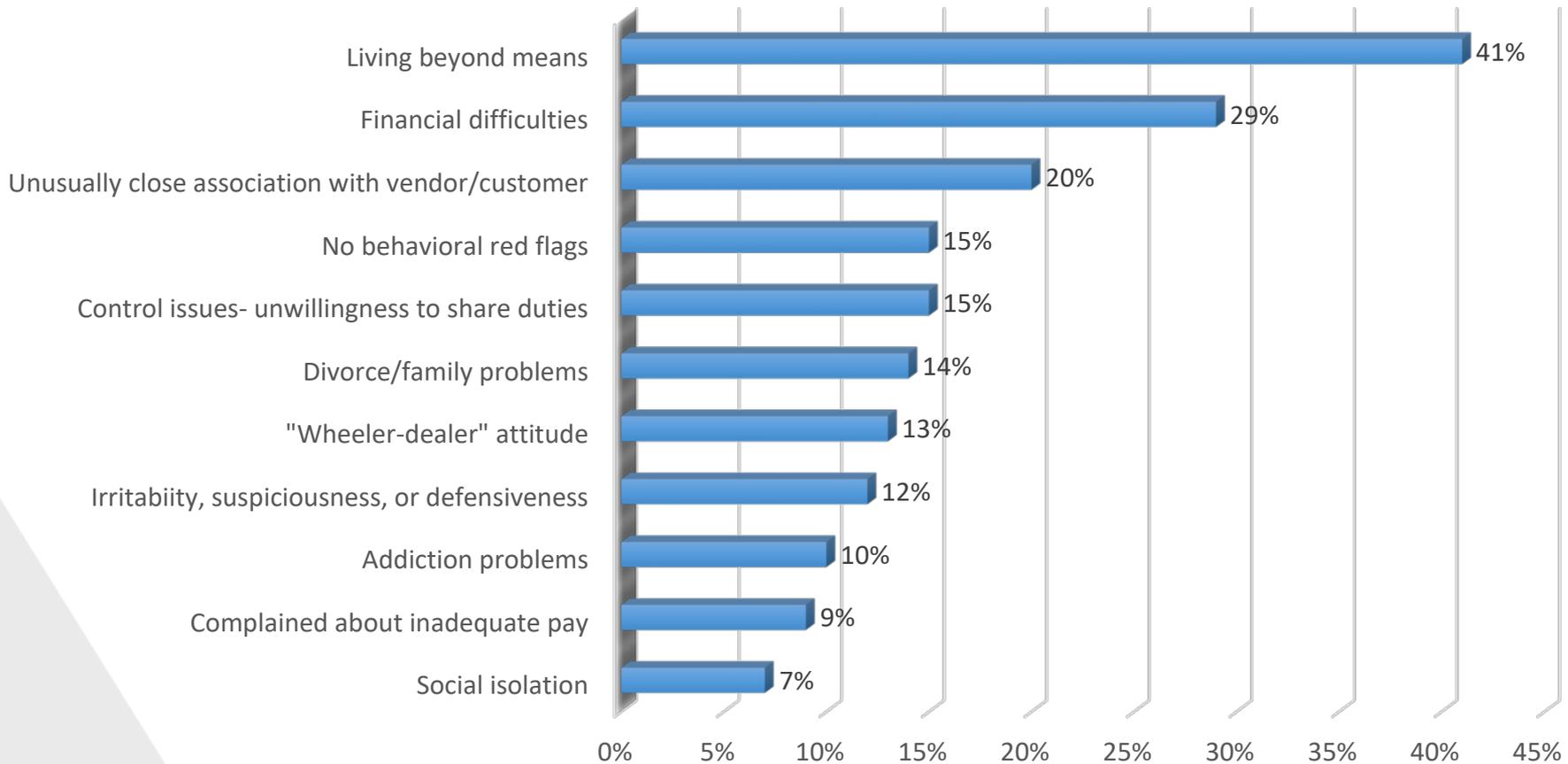
Jeffrey P. King, 62, pleaded guilty in Cumberland County Court on Wednesday, Jan. 17, to one count of misdemeanor theft, according to assistant district attorney Erin Bloxham.

He was ordered to pay \$25,000 in restitution, court costs and a \$300 fine and to serve two years of supervised probation, she said.

As part of his plea agreement, King forfeited any financial interest he had in Valley Supply Inc. at 700 Independence Ave. in Upper Allen Township, according to Bloxham.

Township police said King embezzled about \$272,000 from the company between January 2011 and September 2013. The business sells concrete and cinder building products to both wholesale and retail customers, according to police.

# Perpetrator Behavioral Red Flags



# Fed prison for Dover-area businesswoman who embezzled \$200K to \$400K

Liz Evans Scolforo, York Dispatch

Published 4:02 p.m. ET June 4, 2019 | Updated 4:10 p.m. ET June 6, 2019



Buy Photo  Scales of justice logo (Photo: The York Dispatch)

The part owner of a York County storage-tank installation and removal business has been sentenced to federal prison for embezzling between \$200,000 and \$400,000 from the Dover-based company.

Wendi E. Detter, 46, appeared Monday, June 3, in Harrisburg's federal court, where she was sentenced to 18 months in prison followed by two years of the federal version of probation, according to federal court records.

The company, YCP Inc., is located in the 1500 block of Oak Lane in Dover Township, according to its website. However, it was incorporated in Delaware, federal records state.

A message left on Detter's listed phone number was not returned Tuesday, June 4. She is now living in Lititz, Lancaster County, according to the U.S. Attorney's Office.

Detter pleaded guilty in February 2018 to one count of felony wire fraud related to the thefts.

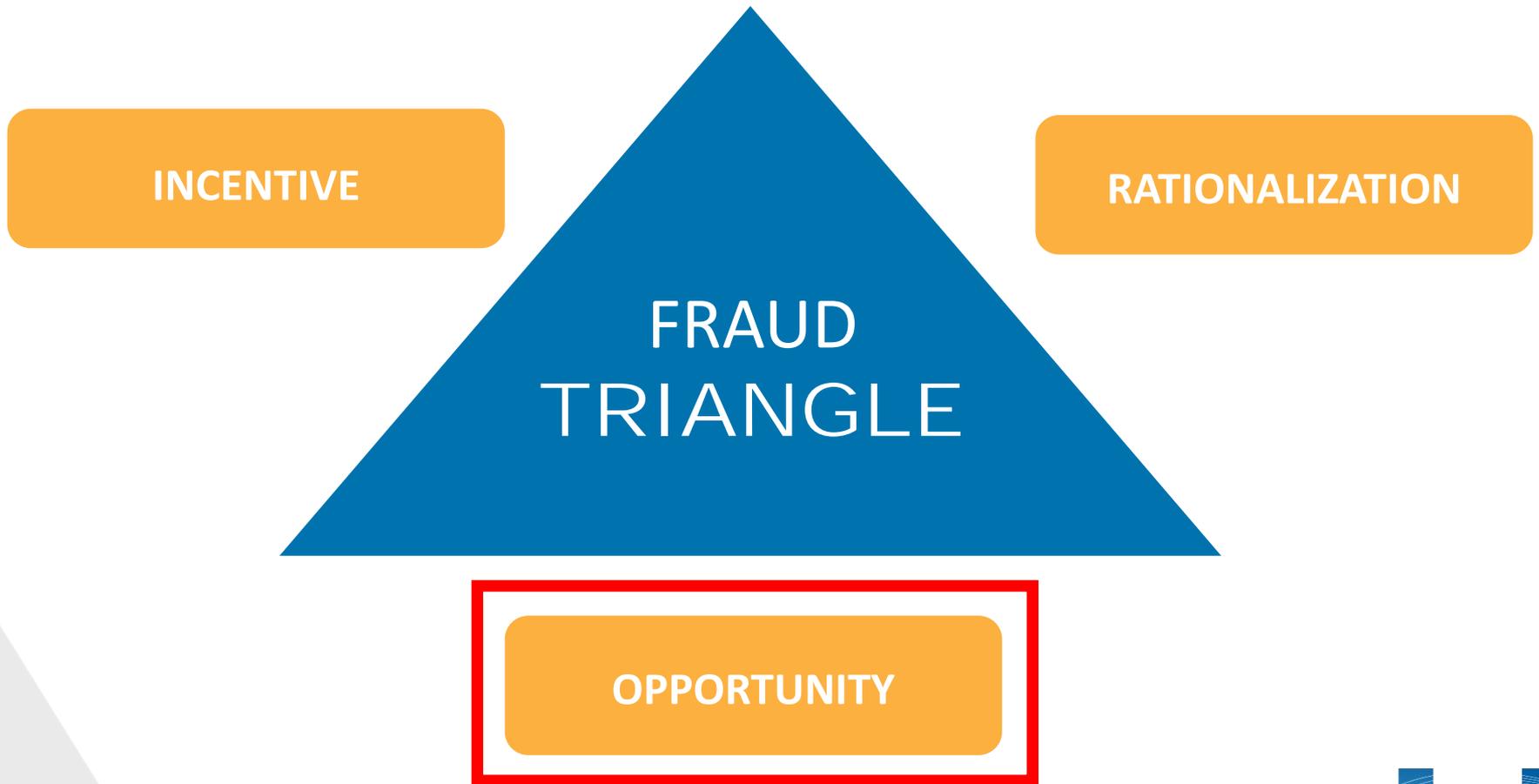
On Monday, she was ordered to pay \$100,000 in restitution to Jean Capello, the listed victim in the case, according to federal records.

She issued YCP Inc. checks that she made payable to herself and to cash, then used the money "for her own personal benefit and financial gain," federal court records state.

To hide her thefts, she cooked the books by making false entries into the company's accounting software, according to her indictment.

# HOW DOES FINANCIAL FRAUD OCCUR?

# › How Does Fraud Occur?



Perceived ability to commit fraud

# › Common Occupational Fraud Schemes

- Cash Receipts
- Disbursements – Accounts Payables
- Disbursements – Payroll
- Disbursements – T&E
- Financials Statements
- Bonus/Incentive Plans

TRIVIA

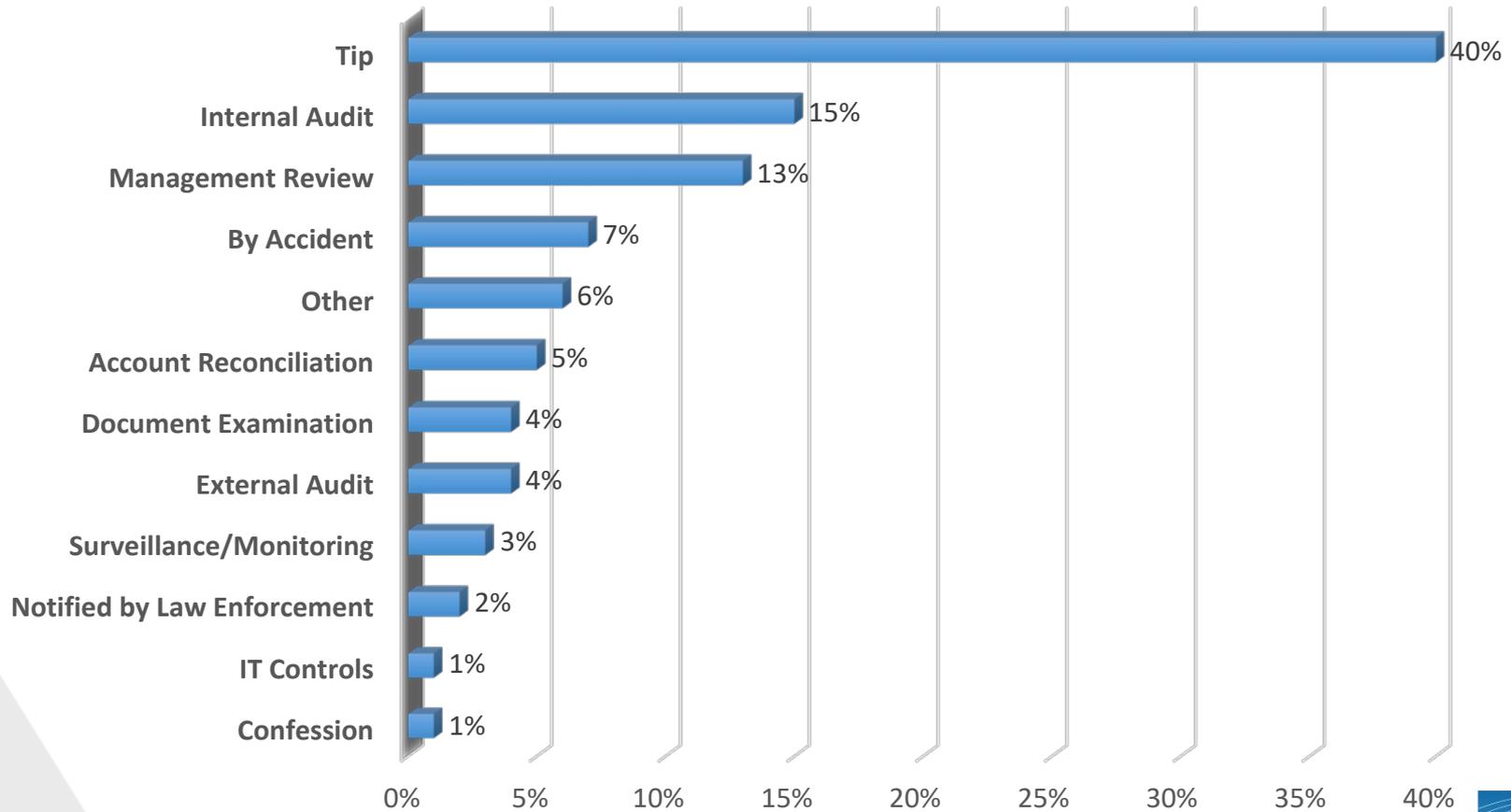
# QUESTION #1

## › Trivia Question #1

According to the 2018 *Report to the Nations on Occupational Fraud and Abuse* what was the most common way for asset misappropriation schemes to be discovered?

- A. By Accident
- B. External Audit (audit by CPA)
- C. Management Review
- D. Tip

# How is Fraud Discovered?



# › High Level Fraud Fighting



TRIVIA

# QUESTION #2

## › Trivia Question #2

According to the 2018 *Report to the Nations on Occupational Fraud and Abuse*, what was the preferred method used by whistleblowers to report fraud?

- A. Email
- B. Telephone Hotline
- C. Web-based Online Form
- D. Mailed Letter/Form

# › Whistleblower Reporting

*2018 Report to the Nations on Occupational Fraud and Abuse:*



Telephone  
Hotline: **42%**



Email: **26%**



Web-based/  
online form: **23%**



Mailed  
letter/form: **16%**



Other: **9%**



Fax: **1%**

# EVALUATING AND RESPONDING TO THE RISK OF FRAUD IN YOUR ORGANIZATION

# › Responding to the Risk of Fraud

## 3 Step Response

1. Deterrence & prevention
2. Early detection
3. Effective handling

# › Inventory your “Current State”

## Brainstorming

- Complete a fraud risk inventory
- Involve key process holders
- Consider high impact areas first
- Consider controls already in place

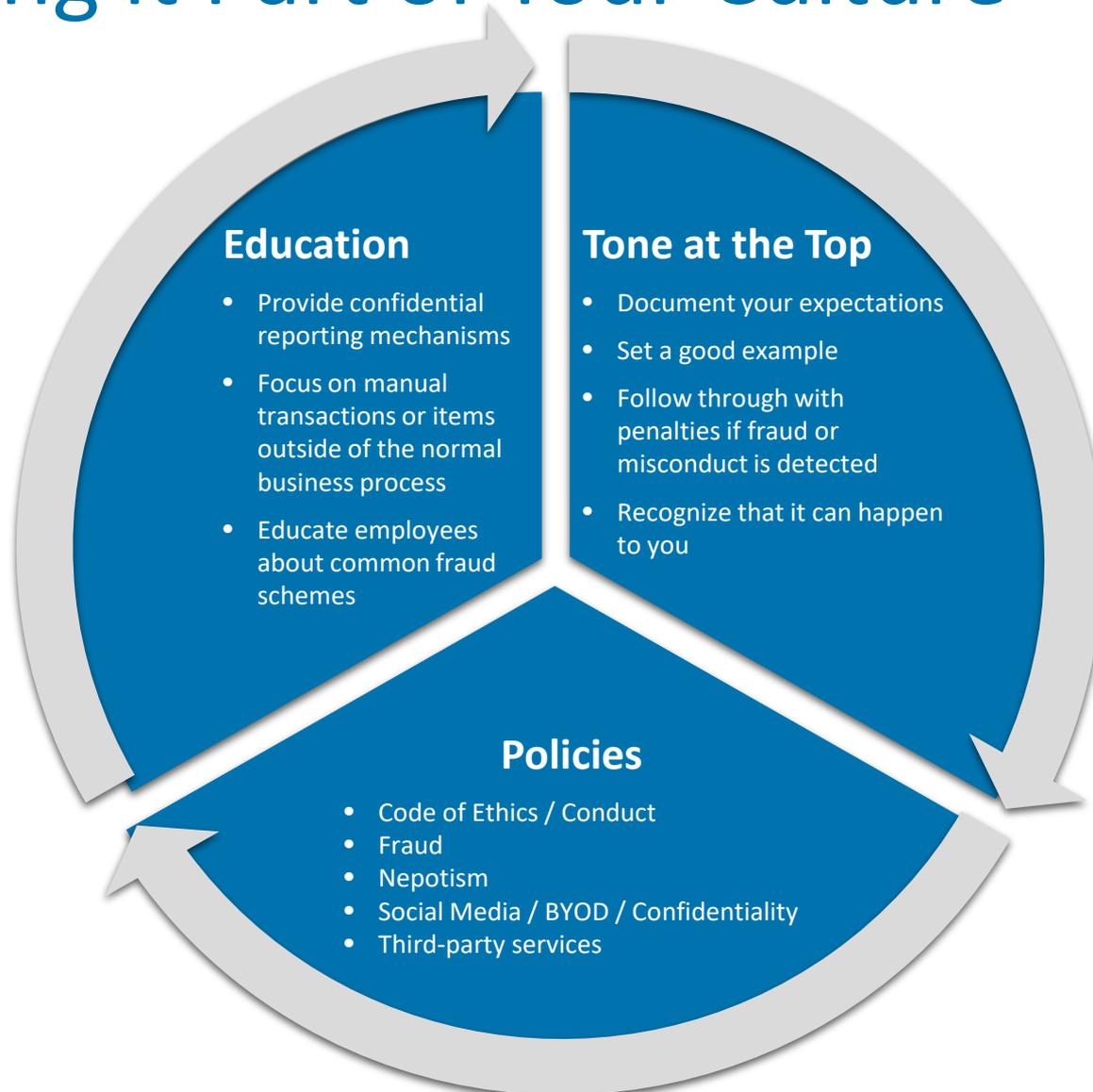
## Define FRAUD

- Are your policies and handbooks up to date?
- Be specific to avoid interpretation (speed limit)

## Agree on your Culture

- Does your “tone at the top” support your policies?
- Are employees trained on policies?
- Does everyone agree on fraud response?

# › Making it Part of Your Culture



# Using the Good/Better/Best Method

## Good

- Basic internal controls do exist (either as primary control or in mitigating controls)

## Better

- “Good” plus there is documentation of policies and training for the team on those policies

## Best

- “Better” plus monitoring becomes part of your process. People learn to do the right thing and Internal Control becomes “top of mind”

# › Internal Controls – Cash Receipts

## Good

- Proper segregation of duties exist between cash receipts, invoicing and financial reporting

## Better

- “Good” plus SOP (Standard Operating Procedures) documented and employees are cross trained

## Best

- “Better” plus mandatory vacation policy is in place and followed

# Internal emails detail scope of York Ice Arena investigation

David Weissman, 505-5431/@DispatchDavid

Published 10:39 a.m. ET Jan. 24, 2018 | Updated 4:41 p.m. ET Jan. 24, 2018



(Photo: The York Dispatch)



Internal emails among York City Ice Arena employees and customers show concerns about theft from the city-owned facility, though an ongoing police investigation has not led to any charges.

The emails, provided to The York Dispatch by former assistant general manager John Feuerstein, also show how the timeline of the investigation coincided with the termination of longtime general manager Mike Cleveland.

The York Dispatch had filed Right-to-Know requests seeking those emails, but the city denied the request for failing to provide "sufficient specificity."

The internal emails suggest RKL was brought in to investigate the allegations, and consultants at the York-based accounting firm were asking arena employees questions via email as early as Aug. 9.

On Aug. 25, RKL sent an email to Feuerstein and another employee asking questions about Cleveland, including whether they remember an incident in 2015 when Cleveland reportedly got mad at an employee for recording money collected from a group into the arena's accounting system.

# › Internal Controls – Accounts Payable

## Good

- Limited access to vendor setup and proper segregation of duties exist over Accounts Payable activities

## Better

- “Good” plus payments made in accordance with payment authority matrix and only independent vendors set up (no commingling of personal)

## Best

- “Better” plus periodic independent review of vendors and payments, including proof of performance. Correlations made to GL postings.

# Spring Township man embezzled over \$400,000 from employer in West Reading, authorities say

**According to court papers, investigators believe thefts from the medical supply business had been going on for years.**

WRITTEN BY [MICHAEL YODER](#)

WEST READING, PA —

A Spring Township man is accused of embezzling hundreds of thousands of dollars from his employer in West Reading over the course of nearly a decade.

Kerry M. Dunn, 56, of the 400 block of Unami Drive was charged Wednesday by state police with 164 counts of forgery, along with charges of theft by unlawful taking and theft by deception for incidents that were traced back to April 2008.

An investigation began in March 2017 after the owner of C&S Medical Supply Inc. in the 200 block of Penn Avenue in West Reading contacted state police about possible fraud in his company.

The owner told investigators he suspected that Dunn, who had worked for C&S for about 28 years, had embezzled more than \$400,000 from the company after the owner discovered a fraudulent invoice submitted by Dunn on March 9.

The invoice, which was for about \$2,000, was submitted by Dunn for a medical supply company in New Jersey that did not exist. The invoice indicated that Dunn had used his personal credit card to make the purchase.

## ➤ Best Practices – Code of Ethics/Conduct

### Good

- Code of ethics/conduct, including fraud policy, exists and is up to date

### Better

- Code of ethics/conduct and fraud policy are followed and reviewed annually by all management employees. Code is benchmarked against best in class for quality.

### Best

- Code of ethics/conduct and fraud policy are reviewed annually by all employees and reinforced through interactive scenario based training to gauge the employees' understanding

# ➤ Too Small for Good Internal Controls?

- Involve the Board of Directors
- Involve the Executive Director and Senior Management
- Get program staff involved in budgeting and monthly budget to actual reviews
- Consider the use of an outside service provider
- Use smoke & mirrors

## › Larger Organization?

- Incorporate social engineering testing and/or more advanced employee screening in hiring
- Consider internal audit function or surprise audits for high risk areas
- Implement Fraud Hotline
- Maximize IT system audit trails and triggers

## › Found Fraud? Now What?

- Reporting mechanism
- Investigation (who?)
- Loss recovery – “Begin with the end in mind”
- Correct the control weaknesses
- Report to external authorities (approx. 40%)
- Have a plan to handle publicity
- Develop a plan to handle morale and other HR concerns

# › Fraud Prevention – Questions to Consider

- Do you have an effective and involved audit/finance committee?
- Do you have a code of ethics?
- Do you have a fraud policy?
- Do you have effective internal controls?
- Are the internal controls functioning as designed?
- Do you have audited financial statements?
- Do you have whistleblower procedures in place?
- Do you have a record retention/document destruction policy?
- Do board/committee minutes adequately document proceedings/approvals?
- What related party transactions occur and are they appropriately documented and approved?

# REAL LIFE FRAUD CASES

# › Demonstration – Identifying Fraudulent Documents

## REVIEW OF PAYROLL DOCUMENTS:

- Skyline Medical paystub
- Flawless F/B paystub
- ANC Company paystub

Do these documents look **authentic** or **fake**?

**Why?**



EMPLOYEE ID: 57544    SSN:    # 22093

Taxable Marital Status: Married  
Exceptions / Allowances: 2  
Federal:  
State: Tennessee  
Local:

SKYLINE MEDICAL CENTER  
3441 DICKERSON PIKE  
NASHVILLE TN 37207

# Earnings Statement

CATHERINE

HENDERSONVILLE TN 37075

PAY DATE: 07/16/2015

REPORTING PERIOD: 07/08/2015 - 07/14/2015

## Important Notes

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Earnings	RATE	HOURS	CURRENT PAY	YTD
Regular	30.67	80.00	2453.60	68700.80
Overtime	0.00	40.00	0.00	0.00
Holiday	0.00	0.00	0.00	0.00
Vacation	11.47	40.00	458.80	12846.40
Bonus	0.00	0.00	0.00	0.00
Sales Commission	0.00	0.00	0.00	0.00

<b>Gross Pay</b>	<b>2912.40</b>	<b>81547.20</b>
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Deduction	Statutory	Current Pay	YTD
	Fica - Medicare	42.23	1182.44
	Fica - Social Security	180.57	5055.96
	Federal TAX	494.05	13833.40
	TN State Tax W/H	0.00	0.00
	<b>Other</b>		
	Medical/Dental	64.55	1807.40
	Child Support	0.00	0.00
	Retirement	0.00	0.00
	Deduction Total	781.40	21879.20

<b>Net Pay</b>	<b>2131.00</b>	<b>59668.00</b>
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<b>YTD GROSS</b>	<b>81547.20</b>
<b>YTD DEDUCTION</b>	<b>21879.20</b>
<b>YTD NET PAY</b>	<b>59668.00</b>
<b>TOTAL</b>	<b>2912.40</b>
<b>DEDUCTION</b>	<b>781.40</b>
<b>NET PAY</b>	<b>2131.00</b>

**FLAWLESS F/B**  
**16000 NINE MILE #620**  
**SOUTHFIELD MI 48075-4851**

9993

**Earnings Statement**

EMPLOYEE NAME / ADDRESS	SSN	REPORTING PERIOD	PAY DATE	EMPLOYEE ID
NICOLE DEARBORN MI 48124	[REDACTED]	05/06/2015 - 05/19/2015	05/22/2015	5251

INCOME	RATE	HOURS	CURRENT PAY	DEDUCTIONS	TOTAL	YTD TOTAL
<b>GROSS EARNINGS</b>	Salary		1970.23	Statutory Deductions		
				Fica - Medicare	28.57	314.27
				Fica - Social Security	122.15	1343.65
				Federal Tax W/H	314.78	3462.36
				MI State Tax	83.73	921.03

YTD GROSS	YTD DEDUCTIONS	YTD NET PAY	TOTAL	DEDUCTIONS	NET PAY
21672.53	6041.31	15631.22	1970.23	549.21	1421.02

FLAWLESS F/B  
 16000 NINE MILE #620  
 SOUTHFIELD MI 48075-4851

**PAY \*\*1421\*\*DOLLARS AND\*\*02\*\*CENTS**

To the order of: NICOLE  
 DEARBORN MI 48124

CHECK DATE

05/22/2015

CHECK NUMBER

9993

THIS IS NOT A CHECK

Direct Deposit

**Non-Negotiable**

**ANC COMPANY**  
**3525 PIEDMONT RD**  
**ATLANTA GA 30305**

#9094

## Earnings Statement

EMPLOYEE NAME / ADDRESS	SSN	REPORTING PERIOD	PAY DATE	EMPLOYEE ID
KIMBERLY  ATLANTA GA 30363		06/17/2015 - 06/30/2015	07/03/2015	1934

INCOME	RATE	HOURS	CURRENT PAY	DEDUCTIONS	TOTAL	YTD TOTAL
<b>GROSS EARNINGS</b>	Salary		2782.23	<b>Statutory Deductions</b>		
				Fica - Medicare	40.34	564.76
				Fica - Social Security	172.50	2415.00
				Federal Tax W/H	517.76	7248.64
				MI State Tax	118.24	1655.36

YTD GROSS	YTD DEDUCTIONS	YTD NET PAY	TOTAL	DEDUCTIONS	NET PAY
38951.22	11883.76	27067.46	2782.23	848.84	1933.39

# › Demonstration – Identifying Fraudulent Documents

## REVIEW OF AP DOCUMENTS:

- Scholarship Money Orders
- Ohio Department of Taxation payment
- NBT Solutions invoice

Do these documents look **authentic** or **fake**?

**Why?**

[REDACTED]

July 18, 2018

Mr. James Carrington  
3365 Fountain Rock Drive  
Dover PA 17317

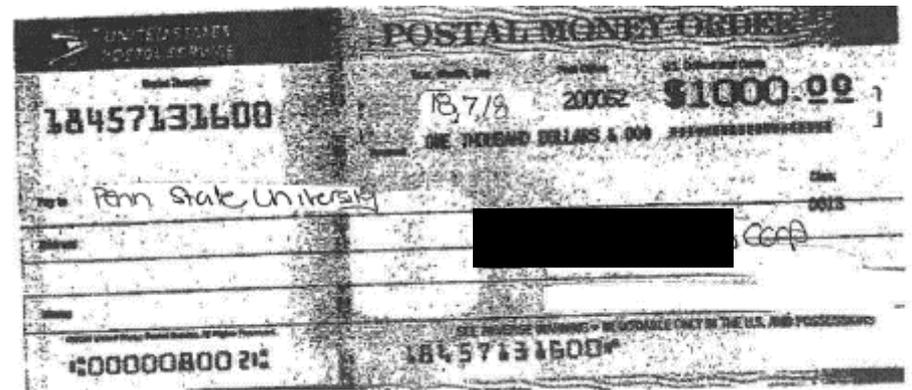
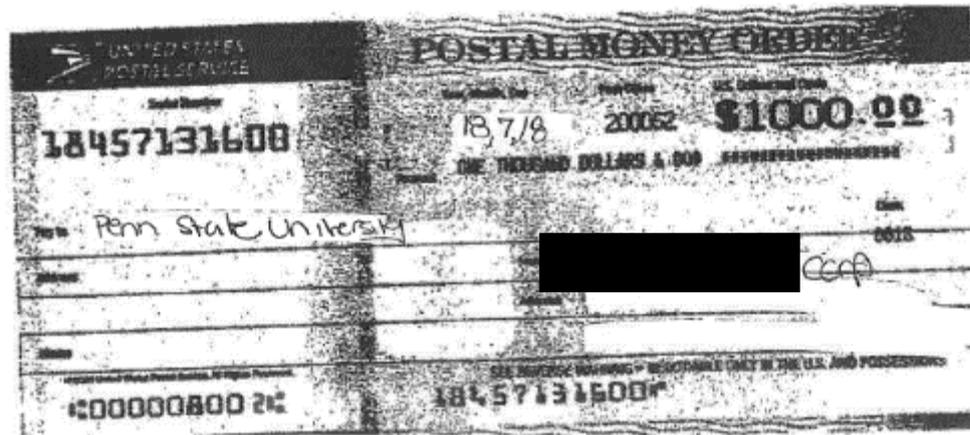
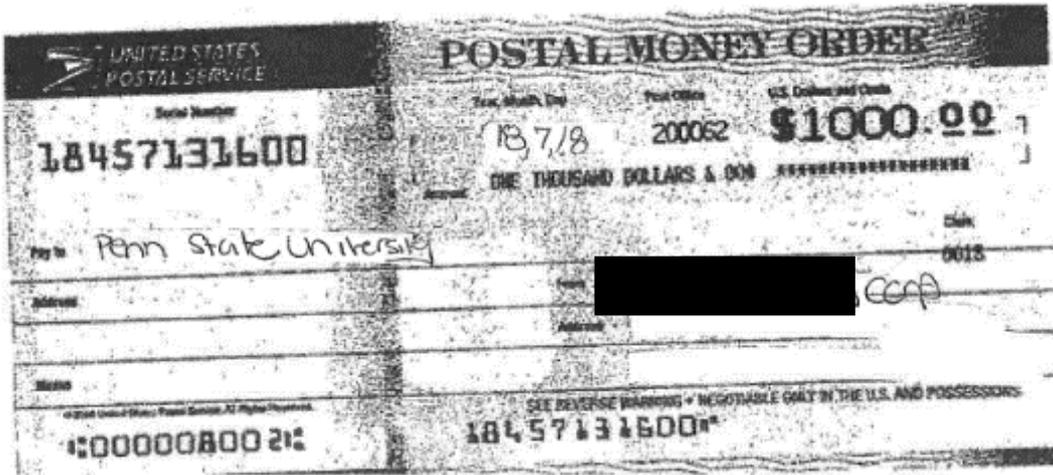
Dear Mr. Carrington,

We are enclosing three money orders in the amount of \$1,000.00 each made out to Penn State. Our organization congratulates you on graduating with high honors. We wish you well in your future endeavors.

Sincerely,

  
[REDACTED]  
President

[REDACTED] Corp



<https://www.washingtoncitypaper.com/news/loose-lips/blog/13133097/more-fun-with-money-orders>



June 5, 2018

Dear [REDACTED] Facilities,

Our records indicate that the following taxes have not been paid for the attached invoice. Please make payment in the amount of \$672.79. This total includes a penalty for none payment. Please make payments to BYD/WLSN Mngt or file online.

Ohio Tax Department Collections

Account Number: [REDACTED]

Check Number: 21408

Date: 06/19/2018

Amount: 672.79

021408

**Fulton Bank.**

LISTENING IS JUST THE BEGINNING.®

60-142/313

CHECK DATE

June 15, 2018

PAY

Six Hundred Seventy Two and 79/100 Dollars

AMOUNT

672.79

TO

BYD/WLSN MANAGMENT



*Melwra Est*  
AUTHORIZED SIGNATURE

37 Trading Post

⑈021408⑈ ⑆031301422⑆ 0010042199⑈

Security features. Details on back.



February 14, 2018:



RE: SC Recruiting

Andy,

Below is the total owed for consulting you requested for a marketing person at you firm.

Total owed **\$19,000.00**

Please contact us again in the future.

Sincerely,  
Nancy Vogel  
Administrative Assistant

Please make checks payable to: NBT  
Mail checks to: PO Box 149  
Columbia, South Carolina 29201

*ALS - OK*  
*Feb 20, 18*

Account Number: [REDACTED]

Check Number: 21415

Date: 06/19/2018

Amount: 19,000.00

021415



**Fulton Bank**

LISTENING IS JUST THE BEGINNING®

60-142/313

CHECK DATE

June 15, 2018

PAY

Nineteen Thousand and 00/100 Dollars

AMOUNT

TO

19,000.00

NBT  
iBen operations



*Melvin Esler*  
AUTHORIZED SIGNATURE

Security features. Details on back

⑈021415⑈ ⑆031301422⑆ 0010042199⑈

## ➤ Demonstration – Identifying Fraudulent Documents

### INDICATIONS OF FRAUD:

- Poor alignment
- Use of similar wording and phrases
- Numbers that don't match
- Improper business language
- Overall “unprofessional” appearance
- Nonsensical titles, addresses or names
- Addresses that don't make sense
- Handwritten notes on printed checks

The key is to know what the document **SHOULD** look like, so you can identify irregularities.

# FOCUSED. ON YOU.

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