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Protecting Organization Assets with Internal Controls



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Sources of Information

- ACFE 2012 Report to the Nations on Occupational Fraud and Abuse
 - Self report study conducted by the ACFE
- Non Profit Resource Center
 - Organization based in CA that provides free information related to nonprofit organizations



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Types of Occupational Fraud

- Asset Misappropriation
- Corruption
- Financial Statement Fraud Schemes



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Fraud's Bigger Picture

- Typical organization loses 5% of its revenue to fraud
- Translates to a median revenue loss of \$140,000
- Fraudulent activity typically lasts an average of 18 months before detection
- 55% of the cases had a dollar loss of less than \$200,000



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Fraud's Bigger Picture


- The smallest organizations suffered the largest median losses.
- Small organizations employ fewer anti-fraud controls than their larger counterparts.
- Small organizations are disproportionately victimized due to the lack of resources.
 - These losses, even though small in dollar amount have a larger impact on the organization.



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Fraud's Impact on Nonprofits

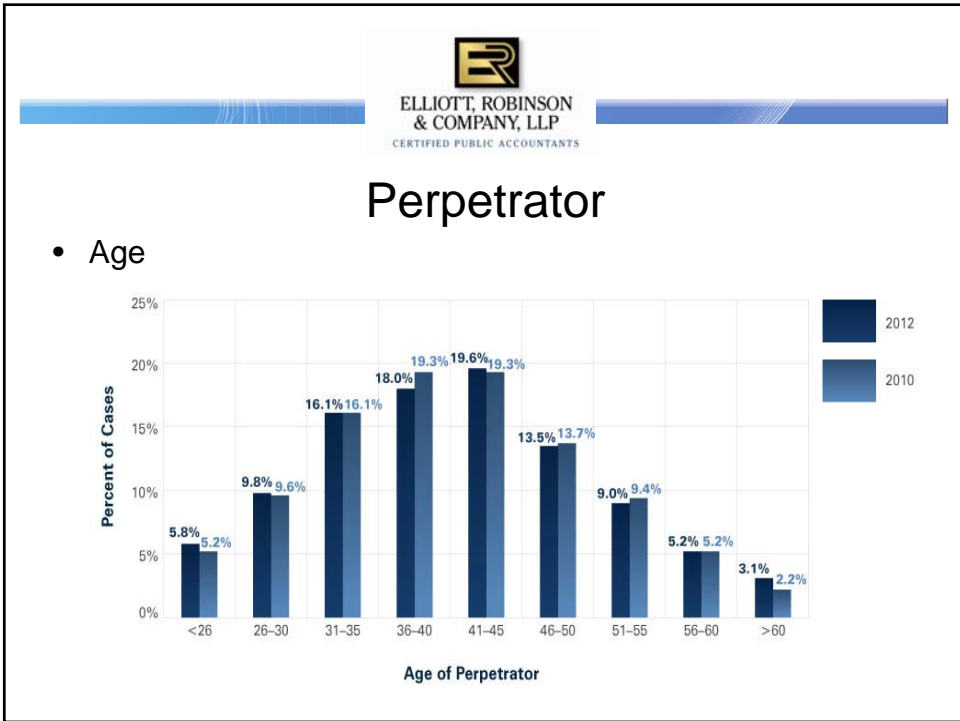
- Of the cases self reported to the ACFE, 10% of the victim organization were nonprofit
- The median loss of fraud to nonprofit organizations totaled \$100,000
- Fiduciary responsibility for donated monies
 - The nonfinancial cost of a damaged reputation could be crippling.

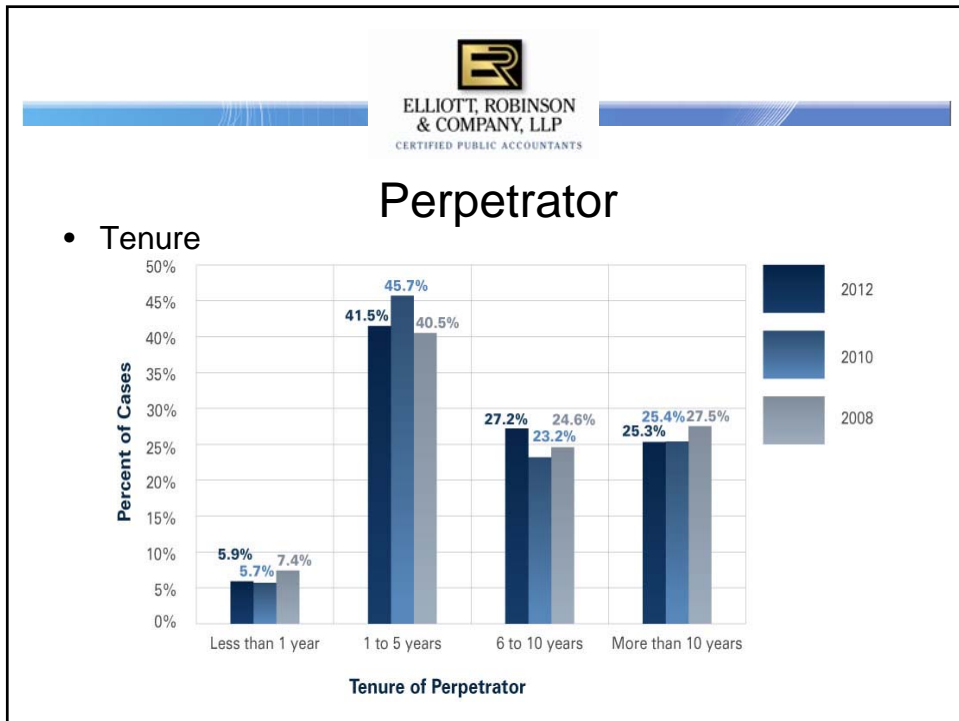
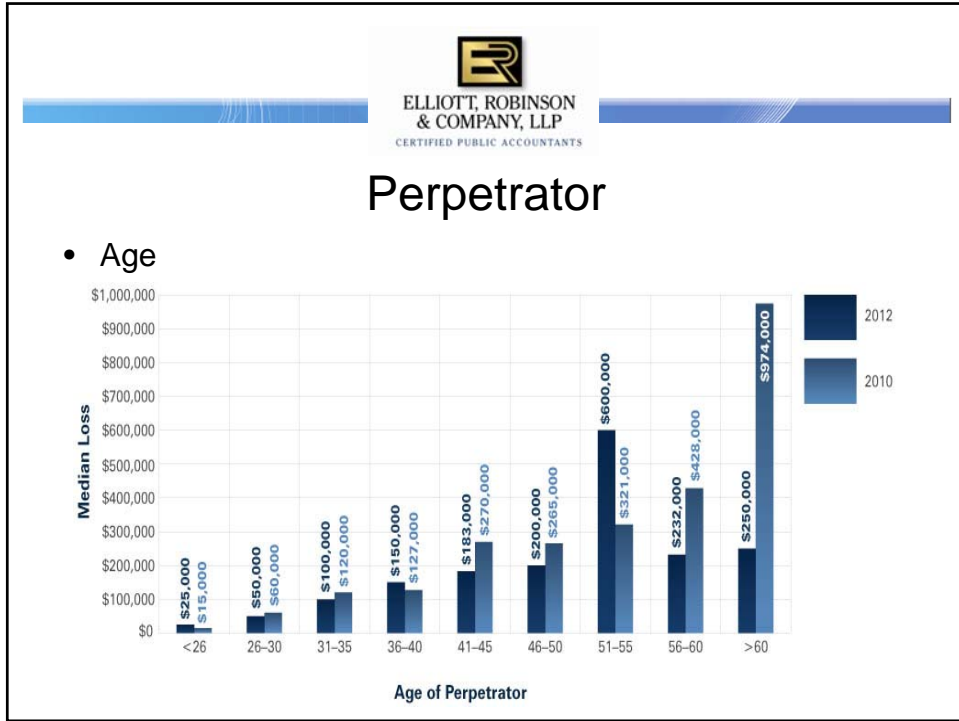


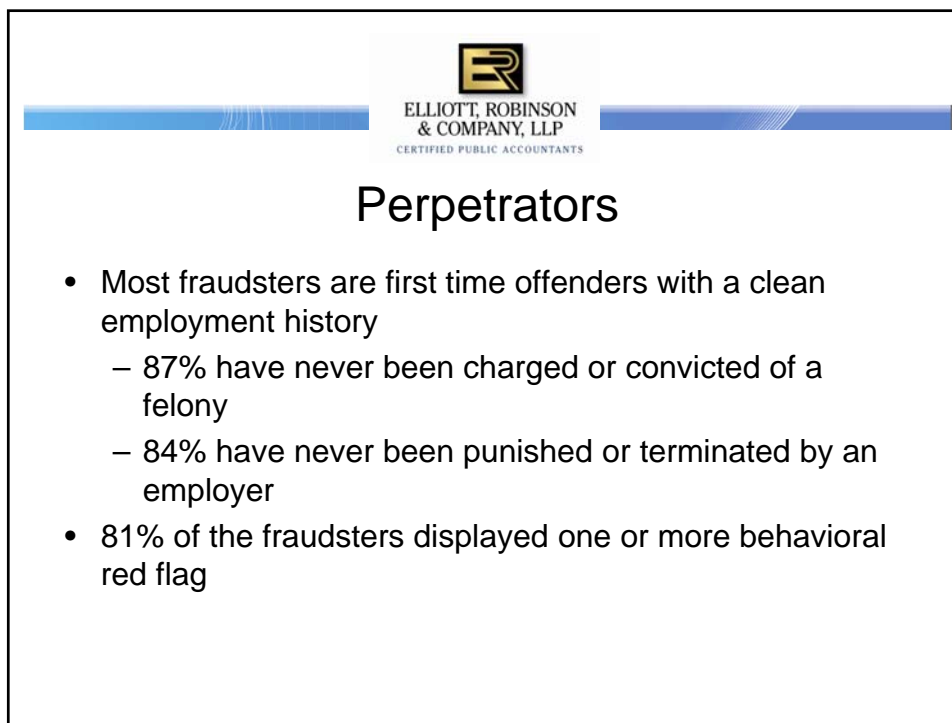
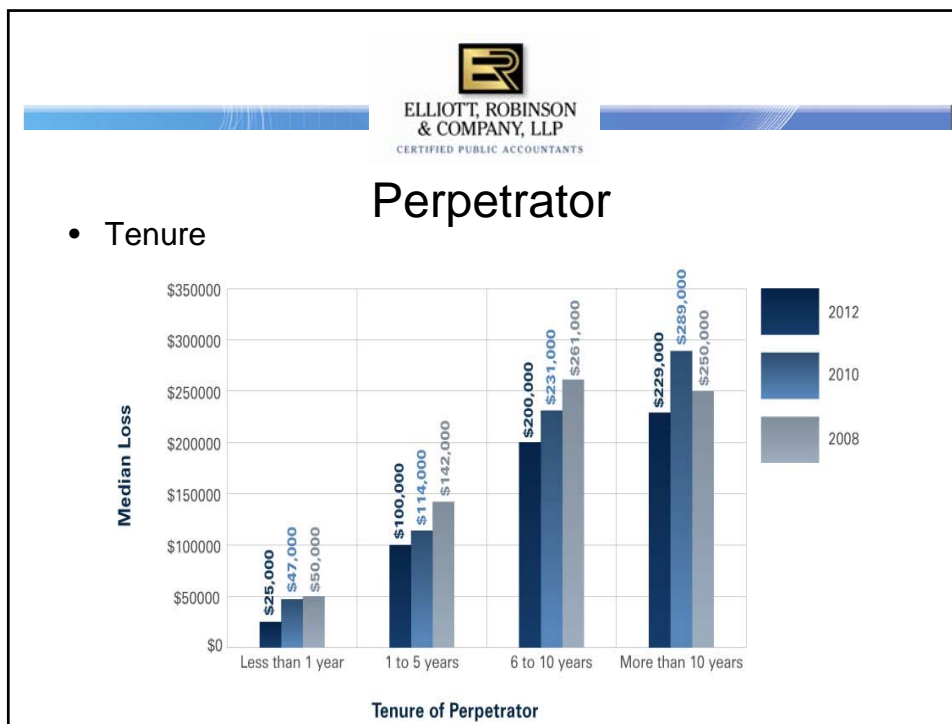
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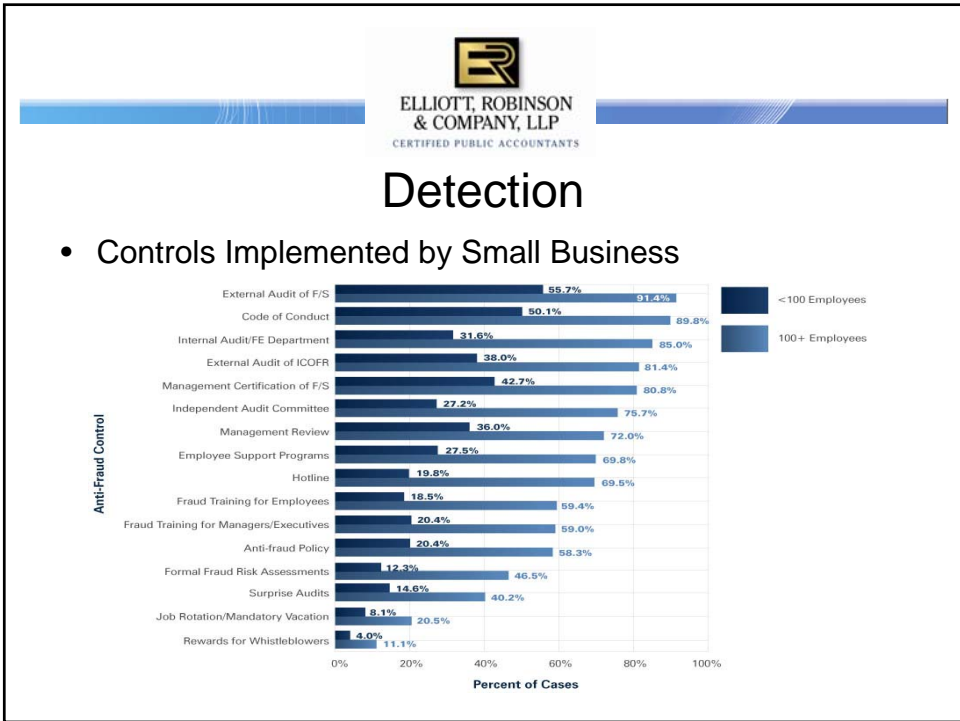
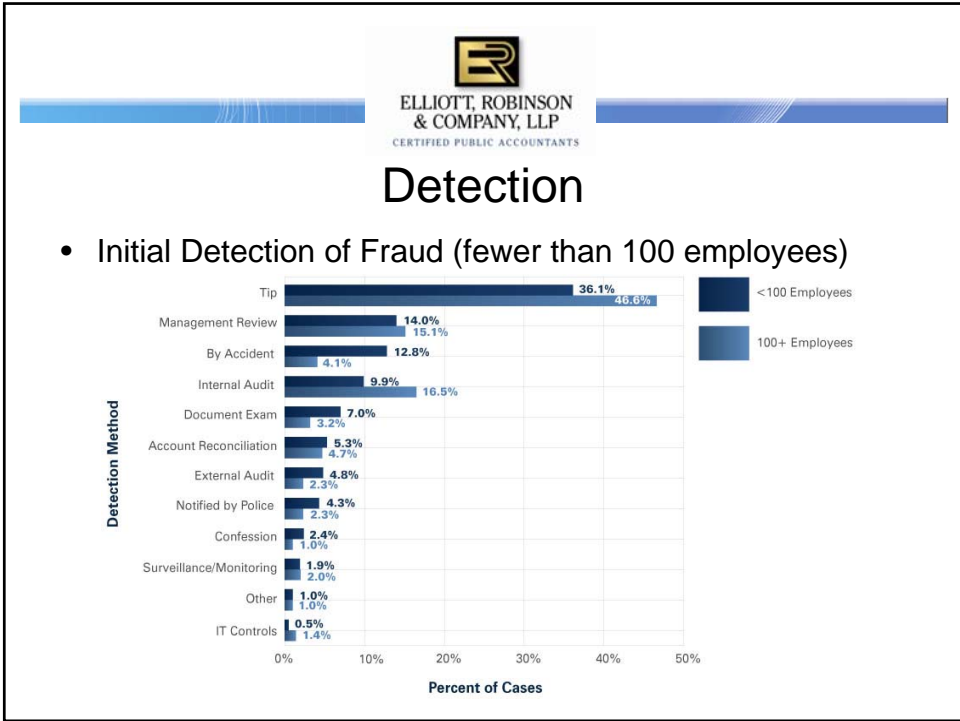
Common Asset Misappropriation Schemes

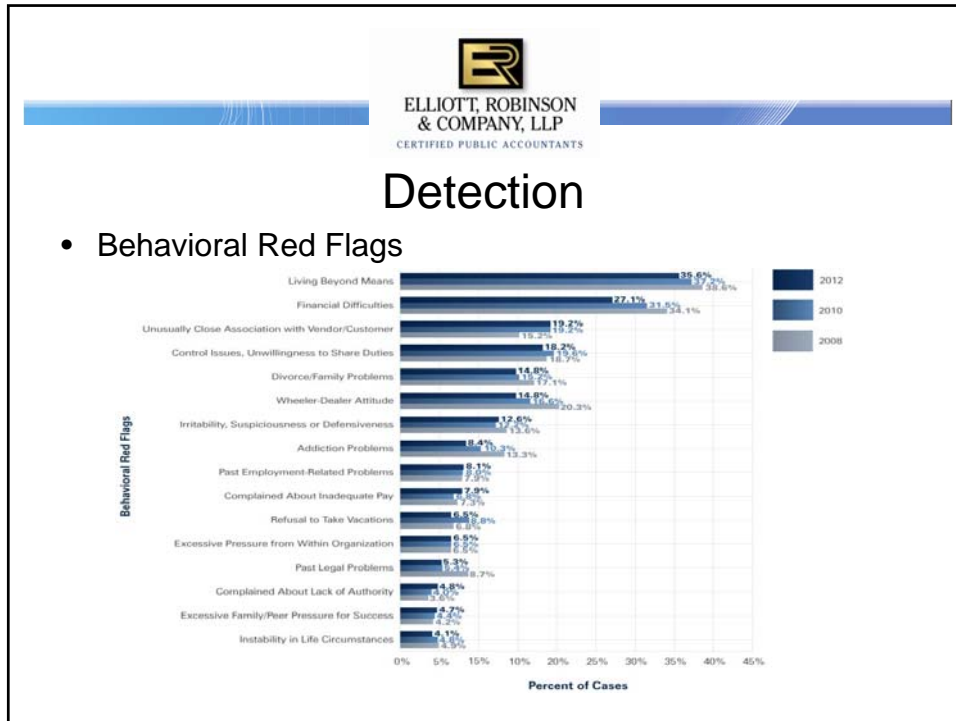
- Religious, Charitable or Social Service organizations represented 54 of the cases
- Top 3 Common Schemes:
 - Billing (28 cases)
 - Check Tampering (18 cases)
 - Expense Reimbursement (17 cases)












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Controls

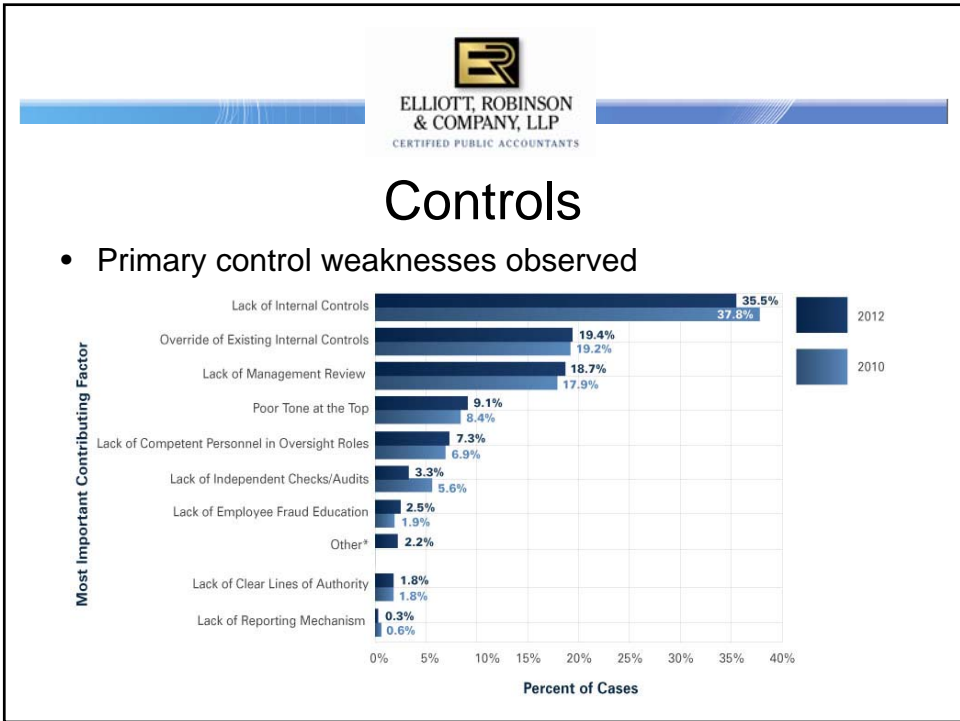
- Presence of anti-fraud controls correlated with significant decrease in cost and duration of fraud schemes.
- Victim organizations that implemented any of the 16 common anti-fraud controls experienced considerably lower losses and time to detection than organizations lacking controls.




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Controls

- Cost Effective Control Mechanisms
 - Hotlines
 - Employee Education
 - Tone at the Top






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Case Results

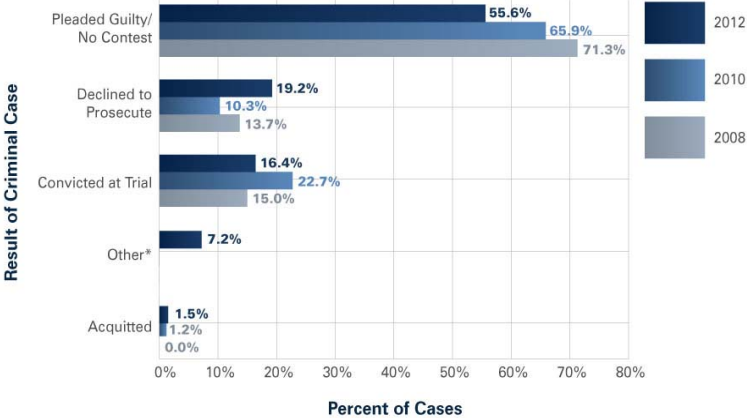
- 65% of cases were referred to law enforcement
- 40 – 50% of victim organizations do not recover any of their fraud losses



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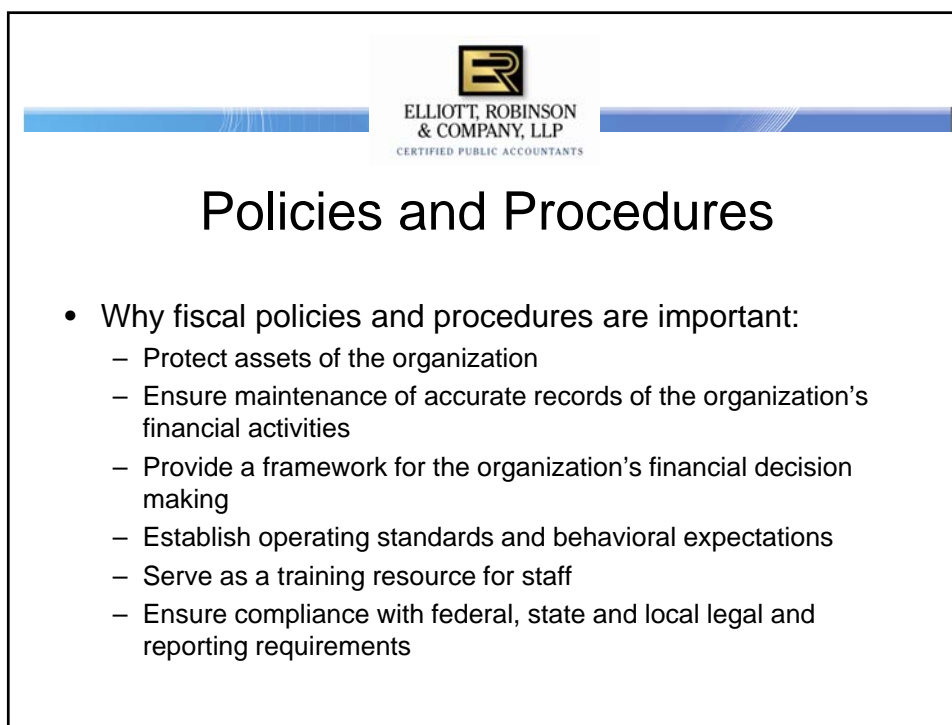
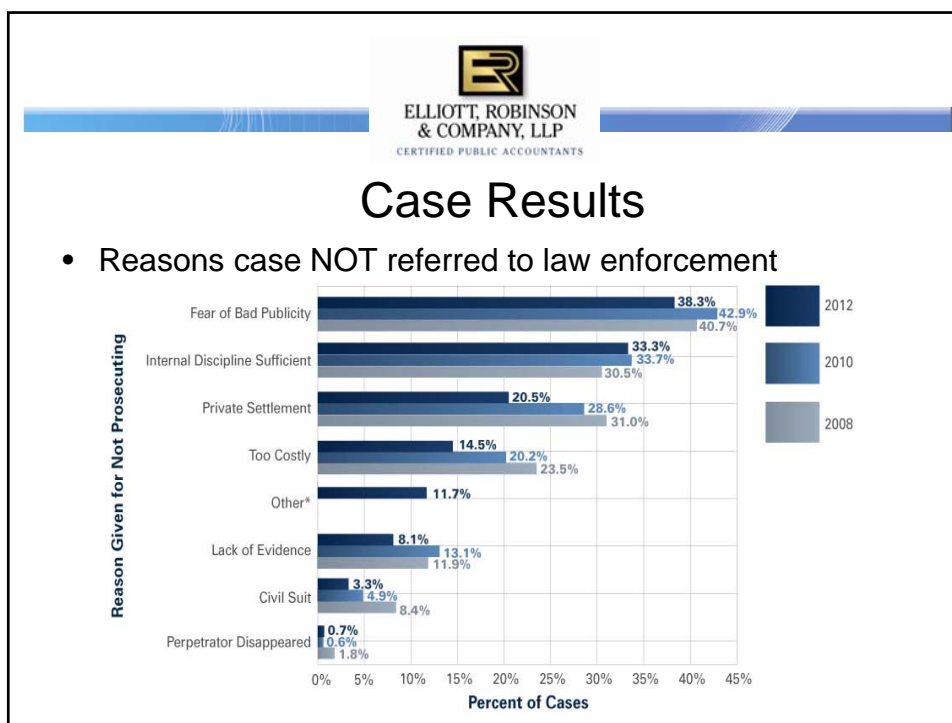
Case Results

- Results of cases referred to law enforcement



Result of Criminal Case	2012	2010	2008
Pleaded Guilty/No Contest	55.6%	65.9%	71.3%
Declined to Prosecute	19.2%	10.3%	13.7%
Convicted at Trial	16.4%	22.7%	15.0%
Other*	7.2%		
Acquitted	1.5%	1.2%	0.0%

Percent of Cases





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Policies and Procedures

- Effective fiscal policies and procedures drive our of three interrelated activities:
 - Information discussion of the organization's potential areas of risk and system needs
 - Decision-making about an appropriate level of policies and procedures to address those risk and needs
 - Documenting those decisions and revisiting them regularly



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Policies and Procedures

- What to think about when drafting policies and procedures?
 - Policies should be clearly documented and easily understood by individual outside the particular department or organization
 - Write policies that you can realistically maintain given the organization's resources
 - Staff members involved in processes should be listed by job title
 - Relevant time frames should be indicated



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Policies and Procedures

- How to establish policies and procedures
 - They should be discussed, agreed upon and regularly review by both the decision makers in an organization and by those who will be implementing them on a day-to-day basis.
 - Typically a combination of Board members, management staff, and front line financial staff
 - The high-level policy questions should be discussed between Board members and management staff.
 - The full Board has ultimate approval of the broad policy decisions.



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Policies and Procedures

- How to establish policies and procedures
 - Day-to-day procedural steps are often best determined between management staff and front line financial staff.
 - Determine the most efficient and effective ways to implement a given policy direction
 - The Executive Director has responsibility for administering the policies and ensuring compliance with procedures once they have been approved by the Board of Directors.



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Questions