



YH ADVISORS

THE EXEMPT ORG EXPERTS

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FRAUD AND THE EXEMPT ORGANIZATION

Fraud within an exempt organization will never be 100% preventable. But understanding the characteristics and typical signs associated with fraudulent behavior can help mitigate some of the risks for the exempt organization, specifically a smaller exempt organization where complete segregation of duties may not be feasible.

The most common type of fraud present within an exempt organization is the misappropriation of assets. Not surprisingly, the most common asset to be misused or stolen is, of course, cash. Perpetrators will generally start stealing small, seemingly unnoticeable amounts, and should those acts go undetected, increased levels of courage may result in attempts at pilfering larger sums. These attempts may be as blatant as larceny (physically removing assets from the exempt organization's property), or as subtle as skimming (pocketing cash from a transaction before it is ever recorded on the exempt organization's books). However, in our experience, the most common form of misappropriation of an exempt organization's assets deals with fraudulent disbursements.

So how can management and the governing body of an exempt organization lessen the likelihood of fraud occurring within their organization? By knowing the signs, keeping assets secure and regularly reviewing the financial statements of the organization.

For a fraudulent act to be committed, three attributes must typically be present: incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. Many employees on the verge of committing a fraudulent act may feel disconnected from the exempt organization or feel that they are "owed" something for their efforts. Creating a culture within the exempt organization that encourages accountability and openness with employees will allow management to better know who is working for them and may create opportunities to grant employee praise or reward. In doing so, this creates the feeling of a "team" environment where all employees feel that they are contributing to the common goal.

In addition, this openness will allow management to see when changes in an employee's behavior occur. Perhaps the employee is suddenly reluctant to take time off, may want to work additional hours when no one else is around, or recently is observed gallivanting off on exotic vacations that previously wouldn't have been conceivable. Whatever the signs may be, being able to recognize and address them early will give the organization the best chance of minimizing fraudulent activity.

Keeping assets secured seems like such a straightforward proposition, yet so many exempt organizations don't take this simple step. Petty cash is likely the first asset which is thought of in terms of a physical asset that should be secured. Additional items to consider are credit or debit cards, blank checks, parking validations and signature stamps. By limiting access to only those with legitimate need, the chances of these assets being misused are lessened.

Finally, and probably the most effective means by which an exempt organization can detect fraud in its early stages, is having more than one set of eyes on the finances of the exempt organization. This means regular management and Board review of the periodic internal financial statements and even the underlying books and records. As an

Executive Director, COO or Board member, it is fine if you do not fully understand the debits and credits supporting the financial statements. Ask questions. Inquire as to why a specific item is being reported on the financials; why something was recorded a certain way; and what is the nature of a particular transaction. This process of inquiry will not only allow the executives to better understand the exempt organization's financial statements, it will also "inform" the staff of the exempt organization that management is watching their actions.

ABOUT THE AUTHOR

STACEY BERGMAN, CPA



Stacey Bergman, CPA currently heads up the Audit and Accounting area of YH Advisors, Inc. Her comprehensive professional experience includes over five years in public accounting and two years in the private sector, working with exempt organizations in the preparation of their internal financials, helping get exempt organizations get ready for financial audits and reviews, the conducting of audits, reviews and compilations for exempt organizations of varying size and the preparation of the information and income tax returns for exempt organizations.

Stacey and her team currently serve as an outsourced Controller and accounting department for multiple exempt organizations, assisting with the creation, documentation and implementation of internal controls and accounting procedures as well as special projects based on the specific needs of the organization.

Please do not hesitate to contact Stacey Bergman at (310) 982-2805 or sbergman@yhadvisors.com if you have any questions regarding the foregoing or if you need any additional information whatsoever regarding the exempt organization accounting and auditing services which YH Advisors provides.

ABOUT THE FIRM

YH ADVISORS, INC.

YH Advisors is one of the truly distinctive CPA firms in the United States in that our focus is addressing the tax, legal and accounting needs of all different types of exempt organizations. Founded by Brian Yacker and Lauren Haverlock, our exclusive focus on exempt organizations but our services significantly extend beyond that of the traditional CPA firm to being a true partner/trusted advisor with all of our exempt organization clients. Additionally, a very important core foundational principle of YH Advisors is to conduct outreach and educational activities in the exempt organization sector to encourage the self-sufficiency and sustainability of exempt organizations.

Collectively, we possess over 35 years of experience in providing tax compliance services, tax/legal consulting services and accounting and audit services to all different types and sizes of exempt organizations. We are equally adept at providing significant value-added services to large hospital systems as we are to start-up public charities and private foundations. We collectively sit on a good number of Boards of exempt organizations and we are active in the furthering and promoting of pro bono initiatives in the exempt organization sector.

For more information about our tax, accounting/audit, and educational outreach services, please do not hesitate to contact us at info@yhadvisors.com.