Leaders of not for profit organizations, including those who direct the development offices have a special fiduciary obligation to make sure all the assets of the entity are adequately protected. When most people think of assets they think of cash, investments, equipment and the like. I would argue it is equally important to protect the intangible assets of the not for profit.

A charity's supporting constituency developed through strong public relations, development programs, and years of stellar public service can be irrevocably damaged by a single, but significant lapse in judgment or breakdown of controls. Intangible items including your reputation and the records contained in your organization's donor database need to be protected, just as you would cash or investments.

Unfortunately, in many not for profits internal control is weak. The Church Law and Tax Report estimates that 15% of all churches in the United States have been negatively affected by soft internal controls. This means that over 50,000 churches or church related organizations have been victims of a dishonest act by an employee, volunteer or outsider.

I have spent my entire professional career serving the not for profit community. Over the years I have come across more frauds than I'd like to admit. I recall the,

- Payroll clerk who issued additional compensation checks to herself,
- CEO who charged personal travel to the charity's business accounts,
- Programs Director who funded fictitious programs with cash withdrawals,
- Blank checks that were stolen and forged by the disbursement clerks drug addicted boyfriend who came to pick her up every night,
- Cash deposits that were used to fund a gamblers addiction instead of the charity,
- Vendor kickbacks to purchasing agents including, personal use of vendor provided transportation and condos,
- Food purchases billed to a meal program, but shipped to a diner of which the head cook was a silent partner,

All the frauds, or lapses in judgment I have encountered have been traumatic to the organization and those served. However, the most devastating fraud which I ever came across was with a charity we were pulled into try to help, after the fraud had taken place and unfortunately the final blow had already been dealt.

**The Con**

As I understand the circumstances, the crime was perpetrated by a Development Director. In simplest terms he stole the names, addresses and giving histories of one of my former clients. I say former client, because they are now out of business…

**The Victim**

The charity was a missionary group with a stellar reputation of providing aid to those most in need. Unfortunately, they also had an unscrupulous Development Director with an ingenious plan, and leadership trusted him completely.

**The Rip off Plan**

The Director was a long time, well liked and trusted employee who had worked his way up through the ranks. He had been given full access to donor records years ago when he worked in the Information Technology Department (IT). He knew from his days in IT that the charity did not monitor use of the donor file; after all he
was the one who pulled the file for mailings, there was no paperwork related to this and no-one ever questioned him on his work.

He knew the donor information contained in the database of the charity had value if it could be leveraged. He used his knowledge of the weak control system, void of proper checks and balances to his advantage. The poor segregation of duties, lack of oversight, and leadership's complete trust in him fit nicely into his plan because it provided him with the opportunity to compromise the system.

The Pressures at Home

Then there were the pressures, a recent divorce and the cost of maintaining two households were beginning to pay its toll financially. On top of this his high school aged son, a gifted athlete who was banking on a baseball scholarship blew out his elbow playing summer ball during his junior season. Now there were the out of pocket doctor and therapy bills, and Sonny Boy was also looking for Dad to foot the bill for college. The pressure was beyond his comprehension.

The Rationalization

He had given his life to the Church and what had he ever gotten in return? His pay was limited to the "middle to average" no matter how hard he worked or how much he brought in and this was beginning to make him angry. The programs budget had doubled in size since he had taken over as the Director of Direct Mail, now he had been promoted to the Development Director, and what did they give him for the increased responsibility, a few thousand dollars and a title. He deserved more, and he was going to get his due.

The Person was Bigger than the System

Since only he knew the names were unprotected and only he realized they had a "street value" he knew he could pull off his plan and go unnoticed. Unfortunately, the charity knew enough to lock up the petty cash every night, and reconcile the check book every month, but didn't realize its most valuable asset was in a position to be fully compromised.

The plan was simple, steal the names and seed the file of a new (bogus) charity with a similar mission. Of course the bogus charity was one that he would control. He would name himself the Executive Director, President, Secretary, Treasurer of the new "Bogus Missions" and of course the primary program service would be paying his mounting bills.

The Rip Off Starts to Unravel

The plan was going rather well until some unexpected happenings started to take place. Revenue of the "parent" or "sponsoring" organization began to fall dramatically. Donors who had been flagged do not rent or exchange were beginning to complain that they were receiving mail from a very similar group and wanted to know who this other group was and how did they get on their file.

Oh no! He had forgotten to omit the "flagged" donors from his selects, mistake number two (number one was devising the plan in the first place).

He needed to start to cover his tacks, back off on mailing "Bogus Missions" and once again focus on his work before they (the Board) became suspicious. So he forgot about the new charity for a few months and focused on his job, but the damage had been done, the file had shrunk and because there was no excess in the house programs, there was no money for additional acquisition mailings. The downward spiral had begun.

In the meanwhile, he had become accustomed to the extra income "Bogus Missions" had been throwing off and needed to make up the difference…another plan. He knew the "Bogus Missions" names could be rented and he'd make a few bucks on that…so he started marketing the names through a name broker he had heard of, but never worked with before.

What he didn't realize was the brokerage business is a pretty close knit community; everyone seems to know who's up to what and what's hot in the market place. When a new list hits, everyone wants to give it a shot. So the "Bogus Missions" names were rented to with the parent company and guess what? The duplication rate was nearly 90%!

The Whistle Blower

The broker knew something was wrong. She contacted the database management company performing the merge, purge to tell them they thought they had made a mistake and to check their files. They insisted there was no mistake the files had come from the parent and "Bogus Missions."
The parent's broker began to dig deeper, after all she was loosing money if the parent's names were being offered in the marketplace by someone else. Low and behold when she did her homework she found out that "Bogus Missions" was controlled by a related party, Mr. Development Director. She went to the Board with the information she had learned and the scam was over.

The problem for the fraudster besides it being a crime to steal is that there is no exit strategy. The fraudster goes into the act because he doesn't think he will ever get caught or he'll be able to cover his tracks before anyone finds out. Then when he wants to stop often it is too hard, or he can't cover his tracks completely.

**A Lesson to be Learned**

Our story shows that when there is a lack of proper, consistent procedures in place, employees can learn to manipulate accounting and control systems or improperly access and utilize assets. Discussions relating to controls in a not for profit entity is never very popular. Most of us like to think that our peers and leaders are both trustworthy and knowledgeable. We need to learn that organizations and systems are bigger than any one person, and they need to be well managed, control systems well thought out, and designed with care.

As a leader in the not for profit marketplace you have the responsibility to safeguard your organization's assets, both tangible and intangible. Take these responsibilities seriously. You need to eliminate weaknesses in control structures and reduce to a relatively low probability the chance of a fraud occurring within your organizations.

Managing a not for profit is a matter of public trust and accountability. Develop a culture that places a high value on controls, become aware of best practices for controlling financial activities and information technologies. Every charity or Church related group no matter the size needs to have adequate policies and procedures to safeguard assets, periodically check the reliability and accuracy of financial reports, and develop ways of ensuring that your organization is in full compliance with laws, regulations and managerial policies. By doing this you will be less likely to encounter a fraud within your organizations.

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