

Ways to Help Detect and Prevent Fraud in Non-Profit Organizations

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Preventing fraud in a non-profit organization is critical to protecting its assets, as well as its reputation. Donors to non-profit organizations want to feel that they can trust the board of directors and management of the organization to uphold its fiduciary responsibility to safeguard the organization's assets against fraud, theft and misuse, and to ultimately spend those donations on areas consistent with the mission of the organization.

The following steps can be implemented by non-profits to help prevent and detect fraud:

Implement a tone at the top ethical climate in the organization – The board of directors and senior management should establish a good attitude about internal controls for the whole organization. It is imperative that this ethical climate be practiced by the board and senior management, and communicated consistently to all levels of the organization.

Perform employee background checks – Hiring the right employees for an organization is vital to its success. Properly screening employees, including performing a criminal background check and verifying past work employment, is a good practice to identify any red flags in the potential employee's past.

Implement a fraud policy – Create a written fraud policy for all employees to review and sign. This policy can be established in-house and/or with the aid of an attorney or consulting certified public accountant.

Provide anti-fraud training – Anti-fraud training should be conducted regularly for all employees, at all levels within the organization, with specific fraud threats being identified and discussed.

Implement adequate segregation of duties – Separating duties among different employees within the organization is crucial for minimizing the opportunity for an employee to commit and conceal fraud. For example, requiring multiple people to participate in the various steps in a financial transaction provides more checks and balances for fraud prevention.

Assess fraud risk – A non-profit organization should develop and implement a formal fraud risk assessment. This assessment should identify any weaknesses in internal control that could leave the organization at risk for fraud. After identifying and assessing risks, the organization should put steps in place to address any fraud threats.

Reconcile financial records often – Frequently reconciling financial records to underlying records and source documentation, as well as reconciling bank statements to the organization’s accounting records, are both important controls that aid in the detection of fraud.

Set up a fraud hotline – An anonymous whistleblower fraud hotline can help to encourage the organization’s staff, as well as the public, to come forward to report actual or alleged fraud.

Job rotation and mandatory vacations – If an organization’s employee is in the same position, completing the same duties for long periods of time without rotation or taking vacations, it makes it easier for that employee to conceal fraud. Rotations of assigned duties or requiring vacations will provide the opportunity for other individuals at your organization to complete tasks. This is a good step to help detect fraud that could be being concealed by that person.

Although implementing the above steps cannot completely guarantee that a non-profit organization will be free of fraud, it definitely can help mitigate the risks. Implementing strong internal controls will help with the success of the organization and protecting its reputation with the public.

Additional Resources

- [Association of Certified Fraud Examiners](#)
- HeinfeldMeech articles:
 - [“What We Can Learn from Fraudsters”](#)
 - [“Fight Fraud by Auditing Internally”](#)

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