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Profitable Solutions for Nonprofits

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Association of Certified Fraud Examiners report

Don't let fraud prevention slide

The ongoing pandemic has strained many nonprofits, forcing them to cut corners to survive. But fraud prevention is one critical area you can't afford to overlook, even just for the short term. If anything, antifraud measures are more important than ever.

Vulnerabilities of nonprofits

The Association of Certified Fraud Examiners' (ACFE's) study, *Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse*, notes that nonprofits can be more susceptible to fraud than for-profit businesses. Even in normal circumstances, they typically have fewer resources available to help prevent and recover from a fraud loss.

Experts often refer to the "fraud triangle:" three factors that must be present for fraud to occur — opportunity, motive and rationalization. Current conditions exacerbate the odds that these factors exist in your organization.

For example, if you've had to cut staff, you may find it difficult to segregate duties so that accounting and finance functions are properly divided among staff. That can translate to greater opportunities to commit fraud. Employees may be motivated to pursue fraud schemes because of personal financial problems created by the pandemic. And they might rationalize such actions because they feel overworked and underpaid.

4 essential steps for prevention

Several measures can help nonprofits of all sizes combat the risk of fraud:

1. Create fraud-reporting mechanisms. Year after year, the ACFE finds that organizations with hotlines detect frauds more quickly than those without (12 months vs. 18 months). Moreover, in the most recent report, organizations without hotlines suffered a median loss nearly double the median loss for those with hotlines ($198,000 vs. $100,000).

It's worth noting that the preferred mechanism seems to be shifting. While the previous two ACFE reports found that telephone hotlines were the most popular reporting method with whistleblowers, email and web-based reporting both were as popular in 2020. Thus, you should think about offering multiple reporting channels.

2. Conduct training. Employees at all levels — and possibly volunteers — should undergo regular antifraud training. The training should explain the types of behaviors that constitute fraud and the consequences for the organization and its mission. It should cover all your fraud-related policies (for example, conflicts of interest and whistleblower policies) and the availability of a fraud-reporting mechanism. The ACFE has found that training boosts the likelihood of detection via tip.

Discussion of a zero-tolerance policy also can serve as a deterrent, assuming you walk the talk when fraud occurs. Nonprofit organizations should consider pressing criminal charges against perpetrators to send a message to employees and other stakeholders.

3. Take a proactive stance toward detection. Don't be passive, waiting for red flags to pop up before you act. For example, the ACFE recommends using data analytics to search for anomalies that can suggest fraud. It also suggests that managers regularly review internal controls, processes, and accounts or transactions in their areas for adherence to the organization's policies and expectations.

In addition, management should make these reviews known to all. That may deter potential bad actors and also sets the tone, showing that the threat of fraud is taken seriously. Comprehensive fraud risk assessments, ideally performed by an independent party, are advisable as well.

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4. Fortify internal controls. The ACFE report identifies the three most common control weaknesses for nonprofits. The lack of internal controls ranks at the top, followed by lack of management review and override of existing controls. Several such controls are worth implementing, although some may be easier than others.

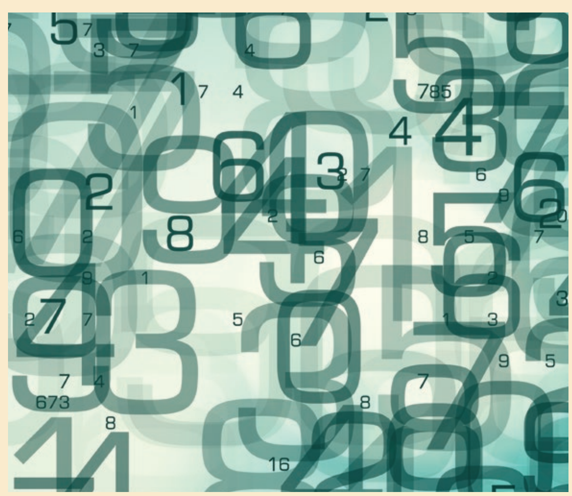
Your nonprofit should routinely reconcile its assets and liabilities accounts, as well as reviewing bank and other third-party statements. Job rotation and mandatory vacations can make it more challenging for an employee to carry out a long-term scam. Authorizations (or perhaps two-party authorizations) for access to specific accounts should be required for certain transactions.

Cheaper in the long run

Some of these measures may seem unduly burdensome or unnecessarily pricey. However, the possible long-term costs of fraud, both financial and reputational, far outweigh those concerns. ■

Nonprofit fraud by the numbers

The Association of Certified Fraud Examiners' latest report on occupational fraud drills down into fraud in the nonprofit sector. The study includes 191 nonprofit cases, with a median loss of $75,000 and an average loss of $639,000.



Frauds perpetrated by executives (39% of the cases) had a median loss of $250,000. Manager or supervisor schemes (35%) clocked in with a $95,000 median loss. Those committed by staff (23%) had a median loss of $21,000. Frauds committed by those at the highest levels of an organization, profit or nonprofit, often come with the highest price tags, as those individuals tend to have greater opportunity and the ability to override internal controls.

While asset misappropriation is the most common type of scheme across industries, corruption accounted for most nonprofit fraud cases (41%). Corruption includes offenses such as bribery, conflicts of interest and extortion. Billing (30%) and expense reimbursement (23%) fraud rounded out the top three schemes.

4 best practices for successful virtual events

Virtual events were supposed to be a short-term replacement for traditional fundraisers. But, almost two years after the first COVID-19 lockdowns, plenty of nonprofits still rely on them. The good news is that some overall best practices have emerged from the pandemic. Here are some ways your nonprofit can make the most of your next virtual event.

1. Prioritize donations over registration revenues

Even the best-run virtual event can't duplicate the glitz and glamour of, say, an annual ball. Moreover, the costs of virtual events are far lower. The ticket price, if any, should reflect these realities. That doesn't mean the revenue opportunities necessarily have to suffer, though.

By offering an affordable admission fee, you can encourage greater overall generosity. For example, you may attract people who would normally be turned off by a high admission fee but are willing to pay a lower fee and then make donations on top of that. Your registration should include the option to obtain certain perks for an additional donation, anything from branded merchandise or early access to an online auction catalog to exclusive panel discussions.

2. Revamp your format

Attendees likely will be sitting in front of a computer or phone in solitude during the event. Many people are "Zoomed-out" at this point, and their attention spans are shorter. So single sessions shouldn't run more than an hour, including audience Q-and-As, and you should provide intermissions between sessions, if applicable. You also might consider holding a series of virtual events, rather than a one-time, multi-session event. One potential benefit? Higher sponsor interest.

Whether you go with a one-time event or a series of sessions, consider using breakout sessions to connect with your attendees. The networking and connections that happen in smaller groups at in-person fundraisers can take place in chat rooms, too. Digital breakouts let people get to know each other and share ideas, while also preempting potential tedium.

3. Don't neglect tech

We've all heard about or experienced some virtual meeting "fails" by now. You get audio but no video, video or sound of horrible quality, attendees dropping in and out, or similar snafus.

As the event organizer, you need to invest in top-notch technology. Cameras, microphones and streaming software designed for live streaming are essential. Provide remote speakers and moderators with tip sheets that explain everything they need to know about camera setup, lighting, sound and how to access the event. A "dress rehearsal" is always advisable.

4. Opportunities don't end with the event

The conclusion of the live event isn't the end of opportunities. Of course, you always should follow up with attendees afterward. But the feedback on what worked for them and what didn't is especially valuable for novel situations such as virtual events. You also can give attendees a limited window of time to view the event again, with a link on the screen enabling further donations.

Event recordings can be leveraged to generate additional interest, too. Posting video clips or recaps can draw in even more people. The ongoing exposure will make sponsors happy and could result in more donations.

Here to stay

Virtual events will probably remain a part of fundraising efforts for many nonprofits long after things "return to normal." The practices outlined above can help you maximize your results and avoid common pitfalls. ■

See you at the office?

Reassessing your nonprofit's office space

Where your nonprofit is located and how you use the space you have can mean the difference between striding or just limping along. That fact was highlighted for many nonprofit leaders during the COVID-19 pandemic, when lease or mortgage payments became a financial strain, and dust accumulated on the desks of employees working remotely.

Even with the economy bouncing back, having your nonprofit's employees and volunteers return to previous uses of office space could be a mistake. For example, you might be overpaying for the property you're leasing. Or you might be able to afford better space in other areas of the country. In addition, the way your space is configured might no longer be appropriate if hybrid work arrangements prompted by the pandemic become permanent. Now is the time to consider flexible/coworking office space, moving into a smaller space or opting for a shorter lease term.

Optimizing space

Some organizations, including nonprofits, have converted staff to full-time remote positions. It became clear over months of stay-at-home orders that, equipped with reliable Wi-Fi, quality devices and the necessary software, employees can perform their jobs without being onsite.

If many of your employees will be working at least part-time from home after the pandemic is over, a smaller office space might be necessary. But will that affect your workforce productivity during the times when all or most of your employees and volunteers are present in the office? Regardless, it's a good idea to reconsider the layout of shared spaces. Using space design and furniture, you can create a sense of calm and comfort in your nonprofit's workspace.

Making the move

If you're not interested in a complete office space redesign, you can make other improvements. Many companies are looking to relocate, often from downtown areas to the suburbs.

That might not make sense for your nonprofit. But a move to a more desirable location could be in the cards — whether that desirability is based on easing employee commutes, being closer to your donors, or just relocating to a more attractive building. With high vacancy rates driving down rents, and the possibility that you may choose to downsize, locations that were previously unaffordable might now be within reach.

Striking a deal

Finally, your best opportunity in today's environment may be to strike a better deal with your landlord. Several approaches might work. After you read your lease carefully, find out whether any of your landlord's other tenants have successfully negotiated better lease terms. And check out the occupancy rate for similar properties in your area to get a feel for how eager your landlord might be to keep you as a tenant.

You might want to:

- Ask for an amended lease with a reduced rent and no strings attached,
- Agree to extend your lease, but with reduced rent,
- Agree to pay the contracted rent if the landlord foots some or all of the bill for improvements you want to make in your leased space, or
- Ask to be able to sub-lease some of your space (if not already an option).

Generally, the more you can share with your landlord about why you need to make a change, and why the new arrangement you're seeking will be financially sustainable for you, the better.

Looking long-term

Your CPA is a good source of information and may be able to assist with negotiating ideas to help you reach the best possible outcome. Now is the time to make the best choice for your nonprofit's office space needs and long-term financial sustainability.

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Number of U.S. nonprofits nears 2 million

The most recently released *Internal Revenue Service Data Book*, which covers the federal fiscal year running from October 1, 2019, through September 30, 2020, shows that the United States has about 1.8 million 501(c) organizations. That includes 1.4 million religious, charitable and similar organizations, 79,050 social welfare organizations, and about 62,000 business leagues.

The IRS collected $1.2 billion in unrelated business income tax (UBIT) in 2019 and $944 million in UBIT in 2020 from tax-exempt organizations. It received 1.6 million tax returns and other forms from these groups in 2019 and 1.4 million tax returns in 2020. The agency audited 1,417 Forms 990, 990-EZ and 990-N in 2020. About 93% of the almost 96,000 applications for Sec. 501(c) status in 2020 came from religious, charitable and similar organizations. Just over 89% of all applications were approved. ■

Why nonprofits are asking for more labor data

More than 250 national, state and local nonprofits and individual researchers have submitted a letter to the U.S. Department of Labor requesting the release of quarterly data on nonprofit employment and wages. The Bureau of Labor Statistics (BLS) provides regular quarterly workforce data to other industries, but, according to the letter, the nonprofit sector must "either purchase this information or wait years for it."

The letter was a joint effort by the Aspen Institute's Nonprofit Data Project, Independent Sector, the National Council of Nonprofits and the Johns Hopkins Center for Civil Society Studies. It notes that the nonprofit sector is estimated to have lost more than 1.6 million jobs during the COVID-19 pandemic. The direct release of nonprofit job data by BLS, it says, "could help policymakers make informed decisions and help the sector to recover." ■

Employee volunteering down, donations up

A report from YourCause, a unit of Blackbaud, on trends in employee philanthropic behavior reveals that employees were more engaged in giving than volunteering in 2020. But both were down compared to 2019.

The news isn't all bad. For example, the median employee donation increased by $447. Companies with up to 1,000 employees (the smallest size included in the report) had the highest average employee donation amount at $2,414 and the most average volunteer hours per employee at 18 hours. But only 10% of companies are considered "volunteering superstars," which means their employees volunteer 37 or more hours.

The volunteer engagement rate of the smallest company size is about four times higher than the largest company size (19.31% vs. 4.48%). Companies with more than 100,000 employees fall below the overall engagement rate (combined giving and volunteering) of 11.47%, with a rate of 9.96%. ■

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