8 Fraud Risks To Your Nonprofit

Here are eight areas where your nonprofit organization can be at risk of being a victim of fraudulent activity.

Risk #1- Kickbacks Paid to Key Procurement Staff

Selecting vendors without a formal bidding process to ensure quality service and prevent favoritism can result in fraudulent activity such as kickbacks paid to key procurement staff to maintain an account.

Risk #2- Personal Expenses Paid With Organization Funds

A common fraud risk is employees using a business credit card or submitting expense reimbursement requests for personal expenses without proper oversight or approvals.

Risk #3- Conflict Of Interest

The risk of fraud can occur when individuals leverage their positions to obtain an unauthorized benefit from a business transaction entered into by the organization.

Risk #4- Creating Fictitious Vendors

This fraud risk involves setting up fictitious vendors in the Accounts Payable system through which fraudulent invoices are processed and paid.

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Risk #5- Overstated Vendor Invoices

Payment of vendor invoices without comparing them to approved purchase orders, contracts or agreements can result in payments being made in excess of the price agreed upon with the vendor.

Risk #6- Expired or Improperly Executed Contracts and Agreements

Outdated or improperly executed contracts and agreements can result in fraudulent payments being made for goods not received or services not performed.

Risk #7- Improper Internal Controls Over Cash and Checks Received

Theft of cash or checks received can occur in the absence of written and enforced policies and procedures that include efficient and effective internal controls such as separation of duties and supervisory approval.

Risk #8- Theft of Physical Assets

The risk of physical asset theft by internal or external parties can occur without the tagging of assets upon receipt, maintaining an updated inventory list and performing an annual physical inventory count.