

Nonprofit Organizations and Ethical Behavior

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**“Always do right. This will gratify
some people and astonish the rest.”**

-Mark Twain

**New York Times: \$40 billion lost
annually through fraud
(March 29, 2008)**

Major Trends

A. Proliferation of Charities

B. Increased Scrutiny

C. Fraud and Embezzlement

Proliferation of Charities

1. Registered with the IRS –

1940	12,500
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1980	320,000
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1996	654,186
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2007	1,128,367
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**2. In 2007, IRS approved
68,278 new 501(c)(3) entities**

Increased Scrutiny: Who's Watching You Now?

Internal Revenue Service

Form 990

Attorneys General

Fiduciary Duties
Excessive Compensation

Senate Finance Committee

Accountability
Senator Grassley

House Committee on Government Oversight

Professional Fundraisers

Fraud and Embezzlement

**Board Responsibility for
Prevention of Fraud**

Auditor's Role

**Association of Certified Fraud
Examiners (CFE)**

– 2010 *Report to Nation* (www.acfe.org)

Embezzlement and the Sector:

“It couldn’t happen at our place; everyone who works here is just like family.”

“She embezzled \$15,000 from her first employer, was indicted and convicted, and later plead guilty to embezzling \$340,000 from a later employer.”

“A former nun embezzled \$700,000 from a law firm where she worked as a book-keeper.”

“The treasurer of a Lutheran Church in Pennsylvania embezzled over \$1,000,000 of church funds. There were no internal controls in place.”

“The perpetrator embezzled \$1,000,000 in 1999 and 2000, but he remained on the payroll until June 2008. The executive officers decided to hide the theft from the board of directors and from law enforcement.”

Embezzlement :

**“10% of employees will never steal;
10% of employees will always steal;
80% of employees will steal, if given
the right *opportunity, motivation* or
justification.”**

Eights Ways to Prevent Fraud

1.Educate staff and volunteers

2.Create whistleblower protection system

3.Board leadership

4.Background checks on certain new employees

5.Divide responsibilities for reviewing bank statements

6.Require independent directors with financial literacy

7.Obtain employee theft insurance

8. Direct audit committee to implement fraud prevention