

# A Timely Warning About a Projected Rise in Charity Fraud

06.19.25 | Linda J. Rosenthal, JD



Fraud has long been and “remains a persistent threat to nonprofits, siphoning off funds meant for mission-driven activities.” It threatens an organization’s financial stability as well as its all-important public reputation.

How persistent? For at least 500 years or so.

It was a key impetus to the “birth of the modern law of philanthropy.” In the waning days of the reign of Elizabeth I, members of Parliament enacted the Poor Laws (1597) followed by the landmark Statute of Charitable Uses of 1601.

This impressive legislative package – a public/private partnership – was surprisingly progressive and very much needed in “this period of social stress”: plague, poverty, inflation, malnutrition, property crimes, riots and – of course – religious upheaval. See *Encouraging Charity in a Time of Crisis: The Poor Laws and the Statute of Charitable Uses of 1601* (December 5, 2005) Professor Emeritus James J. Fishman, Pace University School of Law, *Pace Digital Commons*. See also Professor Fishman’s subsequent article: *The Political Use of Private Benevolence: The Statute of Charitable Uses* (April 23, 2008), *Pace Digital Commons*.

“These statutes were designed to spur broader and more generous private-sector charitable giving (along with new government aid) while keeping an eye on the problems caused by ‘opportunistic fiduciaries.’”



Indeed, the Preamble to the Poor Laws made clear that people in the Tudor Era “were well aware that ‘...[c]haritable funds have been and are still likely to be most unlawfully and uncharitably converted to the lucre and gain of some few greedy and covetous persons, contrary to the true intent and meaning of the givers and disposers thereof.’”

### ***Evergreen Issue***

More than once in recent years, fraud affecting charitable organizations has been referred to as an “evergreen concern.”

Notwithstanding a significant global anti-fraud campaign – the annual Charity Fraud Awareness Week – in the past nine years, there’s still a great deal of work to do. See [Snapshot Summary: Charity Fraud Awareness Week 2024](#) (November 30, 2024) *FPLG Blog*.

Not only are rates of charity fraud historically high, but they tend to spike in periods of turmoil, uncertainty, and chaos. That happened during the COVID-19 pandemic. See, e.g., “One of the major side effects of the coronavirus pandemic has been a drastic rise in uncertainty. As our collective attentions are turned toward public health, the economy and our personal well-being, there has been an unfortunate rise in ... fraud as scammers attempt to exploit the situation.” See [The Startling Rise of Fraud and Identity Theft During the Coronavirus Pandemic](#) (September 17, 2021) *pnc.com*.

Experts predict that a similar pattern will emerge in 2025 when the conditions on the ground, particularly in the United States, are fertile for significant problems. See, for example: [Fraud Risks In Nonprofits: Trends and Strategies for 2025](#) (January 27, 2025), Bo Garner, CPA, MBA, *pbmares.com* [Nonprofits “... must confront two primary, fraud-related challenges: internal fraud perpetrated by employees and external fraud targeting systems and data.”]

For a variety of reasons, there is particular reason to believe that internal fraud – (including most notably embezzlement) – will see the higher spurt of unwanted activity.

### ***Embezzlement as Critical Threat***

“One insidious form of fraud is embezzlement, where employees misappropriate organizational funds for personal gain. Surprisingly common, especially within nonprofit settings, embezzlement poses significant financial and reputational risks to organizations.” See [Five Red Flags Indicating Embezzlement in Nonprofit Organizations](#) (April 28, 2024), Dr. Mark Smutny, *civicreinventions.com*.

“Embezzlement can happen to any nonprofit.”

That point was being hammered home almost 20 years ago by philanthropy luminary, Jan Masaoka, then writing for the Blue Avocado Board Cafe: See [Nonprofit Embezzlement: More Common and More Preventable Than You Think](#) (November 15, 2008). “Embezzlement — fraud committed by employees and volunteers — is especially painful in community nonprofits. Not only is real damage done to our organization, but we feel that our cause has been betrayed by someone we trusted and liked.” She added: “There is concern that donors and grantmakers will be less likely to give such an organization future money if they hear about the fraud. And because embezzlement is so often kept quiet in nonprofits, many groups think they are the only ones to experience it.”



There continues to be some reluctance sector-wide for victimized organizations to come forward, report the crime, and discuss it publicly. That means that the statistics about the prevalence of embezzlement are likely too low: The problem is surely larger than the data show.

### ***Why Is This Happening?***

There are theories and speculation on why embezzlement is predicted to jump this year. These insights may help the nation's charities protect themselves from the current schemes and plans that are "coming from inside the house."

There are "several interconnected reasons" why embezzlement happens more often "during times of turmoil and uncertainty". Among them are:

- **Less Oversight:** Because of dire cost-cutting pressures, staff and money may be diverted away
- **Evolving Priorities:** In a crisis, the focus of board and staff may be on bolstering (or re-imagining) mission-related activities to the exclusion of necessary attention to financial checks and balances
- **Increased Lure for Wrongdoers:** Economic slumps create financial strain on workers, thus adding to the temptation to embezzle
- **Loosened Internal Controls:** Experts cite the "lack of adequate internal controls, oversight of existing controls, or overrides of existing controls" as the top three causes of nonprofit embezzlement
- **Limited Financial Expertise:** Smaller or newer 501(c)(3)s may lack staff or access to outside help for financial management and oversight
- **Too Much Trust:** There may be an over-reliance on trust among staff particularly in smaller entities, leading to lax checks and balances. Also, the common and understandable tendency to believe that nonprofit colleagues would never "do such a thing" often overrides prudent precautions.
- **Disrupted Routines:** Crises create dangerous breaks in routines and procedures

### ***Proactive Measures Needed***

The best that organized philanthropy can do – with help from partners in government and the general public – is fortify the barricades. "Proactive measures are key to protecting these organizations from a growing array of sophisticated threats."

"Fraud prevention is a critical issue for nonprofit organizations. Without the right safeguards, fraud can severely damage an organization's reputation and financial health. Nonprofits, particularly those that grow rapidly or manage a variety of operations, can face unique challenges in fraud risk management. By establishing a strong internal control framework, organizations can reduce vulnerabilities and ensure their long-term success." *Fraud Risks in Nonprofit Organizations: Building an Effective Framework of Internal Controls* (June 10, 2025) Cynthia Rowland, Esq., Farella Braun + Martel LLP & Sly Atayee, CFE, BDO USA.

A charity board "should be on alert for emerging technology-related embezzlement schemes such as these:



- “IT personnel who electronically skim small amounts off sales and transfer the funds into their own accounts.
- IT personnel who insert logic bomb codes into nonprofit computer systems to automatically transfer money into their own accounts at regular intervals.
- IT personnel who insert trojan horse programs into your nonprofit’s computer system, enabling it to transfer money to themselves.”

See [Nonprofit embezzlement cases: examples to learn from](#) (September 5, 2024) Rita Auritt, *Board Effect*

### ***Conclusion***

We’ll cover the warning signs of embezzlement in a nonprofit, including advice from experts including on the all-important [spotting of “red flags”](#) as well as on the intriguing topic of “profiling” of actual or would-be embezzlers inside nonprofit organizations.

Some of the most interesting insights come from white-collar criminal-defense attorneys!

– Linda J. Rosenthal, J.D., FPLG Information & Research Director