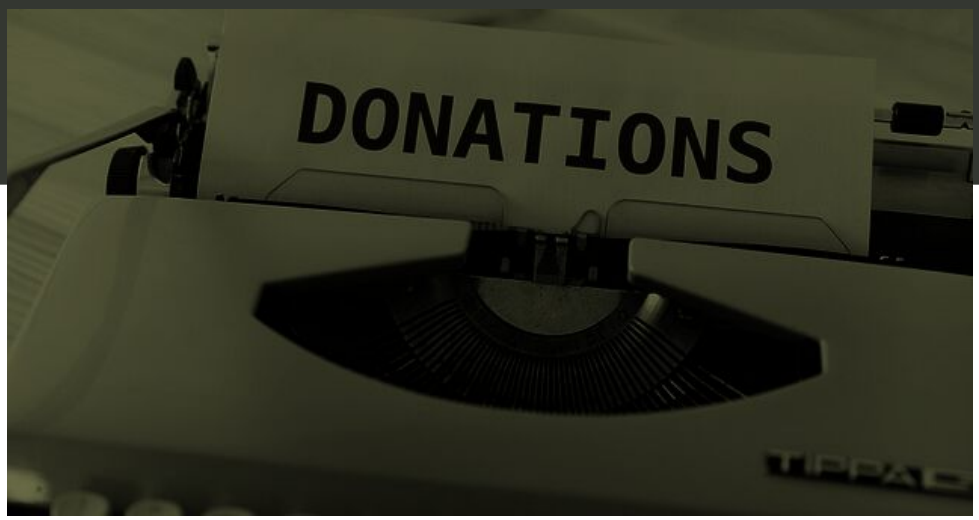
GENERAL

Donation Fraud in the Charitable Sector

05.14.24 | Linda J. Rosenthal, JD



What will it take in 2024 to "confront and combat" charity fraud?

The key takeaway from last fall's Charity Fraud Awareness Week 2023 is that charity fraud is "… a huge problem that is morphing regularly by creative con artists who seem always to be one step ahead of the organizations they victimize." The goal is to ensure that charitable institutions of all sizes "know what [they] are up against and to "have a plan so that [they] are prepared, should the worst happen."

The kickoff conference began in London on November 27, 2023. Organizers BDO UK and the Fraud Advisory Panel hosted global participants including charitable-sector leaders, representatives of many organizations, academic and professional experts, and government regulators and law-enforcement fraud specialists, including from the United States.

The conference highlight was the release of the much-anticipated Charity Fraud Report 2023, based in part on answers to a recent survey of U.K. charitable institutions. Respondents were asked about their perceptions over the prior twelve months of the types of charity-fraud risks and threats they had expected to face, as well as their actual experiences of fraudulent incidents. They were encouraged as well to discuss their predictions about the biggest risks and threats for the next twelve months.

"The report reveals crucial current data about the broad scope and all-too-common instances of deception, misappropriation, and other wrongdoing by bad actors – by strangers as well as by insiders. It also presents year-over-year comparisons, predictions for the next twelve months, and valuable advice on how to guard against these dangers or catch perpetrators and recover losses."

A Year-Round Effort

We covered this London conference in real time in a series of four posts from November 21 – December 5, 2023. Our reporting also linked to the invaluable online resource hub at Preventing Charity Fraud, sponsored by the Fraud Advisory Council and the Charity Commission for England and Wales.

The goal of the Charity Fraud Awareness Week organizers and supporters is turning this now-global effort into an all-year-long campaign because "everyone in an organization – leadership, staff, board members, and volunteers – must understand its many variations and nuances."

This spring, we're continuing this important conversation, addressing each of the seven categories identified in the Charity Fraud Report 2023 as posing the most pressing current threats. They are, in no apparent order: "Insider Fraud; Payment Diversion Fraud; Cyber Fraud; Expenses Fraud; Donation Fraud; Grant Fraud; and Procurement Fraud."

So far, we've covered: *Procurement Fraud* (February 11, 2024); *Expenses Fraud* (February 19, 2024); and *Payment Diversion Fraud* (February 26, 2024).

Last week's topic was *Grant Fraud in the Charitable Sector* (May 9, 2024), based partly on an article titled *Giving or Taking – is your charity losing funds to fraud?* (September 23, 2023) by BDO UK's head of Quality and Risk Management, Kaley Crossthwaite, *bdo.co.uk*.

Now we move on to the flip side of that giving/taking coin: "donation fraud."

Donation Fraud: What is It?

"Donation fraud happens," according to Ms. Crossthwaite in her September 2023 *Giving or Taking …* article, "when individuals falsely claim they are raising funds for a charity but never intend to donate the money and instead keep it for themselves …. This type of fraud means that monies intended for the Charity never reach them, instead remaining with the malignant fundraiser."

There have been "… some successful prosecutions (public and private) in this area in recent years," she explains. "For example, Annette Wilcox was found guilty of defrauding Macmillan Cancer Support by falsely claiming to be raising funds for the charity but keeping the funds for herself. She pleaded guilty to two counts of fraud by false representation."

Similarly, in *An 'In-House' Issue: reducing the risk of insider fraud at your charity* (March 22, 2023) *bdo.co.uk*, Kaley Crossthwaite employs the term "donation fraud" to "misappropriation of fundraising monies." She adds: "…Fraudulent fundraisers … erode the trust of the public and donors, resulting in a decline of funding."

So far, so good: But a word of caution is in order.

While certainly this definition of "donation fraud" is sometimes used to describe fraud committed by a fundraiser (paid or volunteer), the general public seem to understand it to refer to a much broader range of wrongful schemes and activities. A quick Google search results in links to activities as far afield as individuals launching Go Fund Me scams for nonexistent "charitable" causes or organizations all the way to improper diversion of charitable testamentary bequests.

The authors of the Charity Fraud Report 2023 confuse the matter further – for example – by the chart on page 7. It shows survey respondents' answers to the question: "What types of fraud did your charity suffer in the last 12 months?" There are fourteen listed categories including a single one inexplicably labeled "donation/legacy fraud."

Charitable bequests may constitute an important source of an organization's income. "Legacy fraud" is also sometimes called "probate fraud." This term means "the misappropriation of money or property left in a will. The perpetrator might be: an executor (a solicitor or lay executor); the deceased person's relative or carer; or one of your own staff members or volunteers."

Prevention Tips

Because of this terminology confusion, the matter of offering advice for protection and prevention is a bit tricky.

Nevertheless, the Charity Fraud Report 2023 includes a "Donation Fraud" section on page 22 as part of its "Top Tips for Preventing Fraud":

- "Perform social media sweeps to identify unauthorised events and activities
- Keep good records so that you can scan activity data for unusual patterns and anomalies
- Create a formal, centralised log of all reports of potential fraud and suspicious behaviour
- If a fundraiser seems highly reluctant to accept new procedures for handling money, this could be a red flag, particularly if the proposed handling would give the charity more visibility over the funds
- If you receive reports about collection bags when you are not currently using this fundraising method, you should investigate further
- Have clear means for members of the public to report any suspicions and deter fraudsters."

For additional guidance, see – for example:

- *How to Safeguard Cash During Fundraising Events* (July 29, 2015) Brittany Leonard, CPA, *Hawkins Ash CPAs*
- *Nonprofit Embezzlement: More Common And More Preventable Than You Think* (November 15, 2008) Jan Masoka, *Blue Avocado* [including: thefts of checks from donors; thefts of cash from special events]
- *How can charities combat fundraising fraud? (January 2023) Chartered Accountants Worldwide*
- *Protecting Your Charity from Fraud* (undated) Australian Charities and Not-for-profits Commission

Donation Fraud: The Volunteer Connection

There is a subcategory of "donation fraud" that is so sensitive that it usually stays well below the radar. But the reality of volunteers fraudulently soliciting donations or otherwise keeping donated money or other property cannot be ignored. In any given year, it can account for almost 10% of the reported charity fraud.

The Prevent Charity Fraud website includes two relevant Help Sheets under the Resources tab:

- Volunteer fundraising fraud
- Speaking to volunteers about charity fraud

Notably, both of these guides use the term "fundraising fraud" instead of "donation fraud." The former term is a more accurate and precise choice to describe this type of wrongful activity.

The first Help Sheet explains: "Most people who fundraise for charity do so because they believe in the causes they collect for. However, a small number of fundraisers are not so well intentioned, or they start out with good intentions but find the allure of cash hard to resist."

There are two categories of volunteer fraud: namely, "Premeditated Frauds" and "Spontaneous Frauds." Each has several subcategories.

This document offers advice on implementing basic controls without frightening off or alienating the volunteer. "Spontaneous frauds can often be prevented through good fundraiser management processes." And "every charity should make it easy for fundraisers to do the right thing."

There is a section as well on "warning signs" along with a checklist on "when and how to take action" if necessary.

The second Help Sheet offers more specific advice: "When volunteers are giving up their time to support your charity," bringing up the topic of possible insider threats can be "sensitive and difficult." Nevertheless, fraud is always a possibility, particularly where one or more volunteers carry out all roles."

How can an organization keep itself "safe against the insider threat whilst ensuring that volunteers do not feel they are not trusted?" There is an eleven-point list of suggestions and "best practices" that are hard-nosed but important to review and consider.

Conclusion

The Prevent Charity Fraud website includes an additional Help Sheet titled *Getting to know your volunteers:* "Volunteers play an important role within many charities. Conducting proper due diligence as part of their recruitment and management is an essential part of getting to know them and can also reduce the risk of fraud."

It's all part of the necessary response to a "challenging fraud risk landscape." The "adverse impact of fraud" is much more than "just financial." There is often staff turnover as well as a significant slide in the organization's "reputation, which can hit the bottom line when donors think the charity cannot be trusted with their hard-earned funds."

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