

# Expenses Fraud in the Charitable Sector

02.19.24 | Linda J. Rosenthal, JD



“Charity fraud has [long been a serious problem](#), threatening the existence of even some of the most well-established organizations....” Despite stepped-up efforts in recent years to raise awareness of these dangers, the newest [data](#) reveal the continuation of troubling numbers.

That was the focus late last November in London at the 8th annual conference kicking off Charity Fraud Awareness Week. On Day 2, co-sponsors [BDO UK](#) and the [Fraud Advisory Panel](#) published the results of its most recent Charity Fraud Awareness Survey. See [Charity Fraud Report 2023](#).

According to FAP’s chair, Sir David Green, CB KC: “This year’s Charity Fraud Report underlines the need for charities of all sizes to cooperate in the fight against the threats posed by fraud. The 2023 survey [clearly identifies those threats](#) and highlights the need for collaboration across the private, public, and third sectors, so that the strength and effectiveness of our counter-fraud defences are maximised.”

The cosponsors continue the momentum of Charity Fraud Awareness Week all year long with its [#StopCharityFraud](#) campaign of education and activism.

We’re taking that cue, following up on [our earlier four-part series](#) about the London conference and the fraud-awareness survey. First up: [Procurement Fraud in the Charitable Sector](#) (February 11, 2024).

We now move on to “expenses fraud,” the second of seven distinct categories featured in the [Charity Fraud Report 2023](#) in its concluding section of prevention tips.

## ***Learning “What Fraud Is”***

In [How To Be a Fraud Fighter In Your Organization 2023](#), the Association of Certified Fraud Examiners (ACFE) make an important point: “To fight fraud in your organization, you first have to learn what fraud is, why it’s important to stop it, red flags to look for and ways to prevent it.”

At the 2023 Charity Fraud Awareness Conference, experts and industry leaders, top charity regulators, and law-enforcement anti-fraud officials from around the Commonwealth as well as United States shared “...insight around best practice, threats and mitigation, all designed to enhance fraud awareness amongst charities and to assist with the design and implementation of their own defences and response plans.”

So – what *precisely* – is “charity fraud”?

Do we all “know it when we see it”? Does everyone – expert and layperson alike – understand that term in the same way and agree on its scope?

And how about the many and varied discrete acts of wrongful behavior within the scope of “charity fraud”? Does everyone discuss or define them consistently? Or group them together – in purportedly related categories – meaningfully?

The simple answer: Probably not. Does the imprecision matter? Perhaps, yes; particularly in terms of consistency *across* surveys and studies.

And definitely yes, when organization officials want to nail a perpetrator – especially an “insider” – on wrongdoing. The failure to be maddeningly precise in any employment contract, policy handbook or notice, or in any document seen or signed by that insider, may provide an escape hatch.

### ***What is Expenses Fraud?***

“Expenses Fraud” is one of the seven categories selected by the lead authors of the *Charity Fraud Report 2023* for inclusion in its “prevention tips” section.

Otherwise, though, the term is not defined in that Report. Nor does it coincide exactly with terminology offered in Section 6; namely, in a chart of 14 responses (from most to least) by survey participants asked: “What types of fraud did your charity suffer in the last 12 months?” The top answer was “misappropriation of cash or assets” followed immediately by “expenses/subsistence fraud.”

Looking elsewhere in the literature for a definition of “expenses fraud,” the following examples are the closest that pop up:

- “False expense claims – “...[A] type of payroll fraud that occurs when expenses are incorrectly claimed for more money than was spent, siphoning funds from the charity into personal accounts....A false expense claim occurs when an employee submits a claim for expenses to be reimbursed without having the right to do so. For example, claiming personal expenses such as a meal with friends or family as a business expense.”
- “False expenses. Another common method of internal fraud is by claiming over-inflated, non-existent or inappropriate expenses or overtime.”
- “Asset Misappropriation: Schemes in which an employee steals or misuses an organization’s assets. Common examples include skimming payments received from customers, intercepting outgoing vendor payments and overstating reimbursable expenses.”

- “Asset misappropriations: \* \* \* Payroll and employee expense reporting schemes \* \* \* Fictitious expenditures– submission of fictitious expenditures for reimbursement has become a significant problem especially with the evolution of desktop publishing. The effort involved in creating a bogus invoice for reimbursement can be rather minimal.”
- “Some of the more common frauds committed by employees include the theft of company assets, such as cash or inventory, and the misuse of company assets, such as using a company car for a personal trip.”
- “Expense Reimbursement Schemes: Travel and expense budgets are common targets for occupational fraud. Employees might falsify information about their business expenses, enabling them to receive inflated expense reimbursements. Fraudsters can perpetrate this scheme by overstating real expenses or creating fictitious expenses in areas such as client entertainment and business travel.”

Sources: *How To Be a Fraud Fighter In Your Organization 2023*, ACFE, [fraudweek.com](http://fraudweek.com); *Preventing and Detecting Fraud in Not-For-Profit Organizations* (Updated edition, April 2021) Keller & Owens LLC, [elearning.scranton.edu](http://elearning.scranton.edu).; *Charity fraud examples you should watch out for in 2023* (April 14, 2023) Jenny Phipps, [qlicnfp.com](http://qlicnfp.com); *Charity Fraud: Five common types & how to prevent them* [thirdsectorprotect.co.uk](http://thirdsectorprotect.co.uk); and *What is Charity Fraud?* St. Paul’s Chambers, London, [stpaulschambers.com](http://stpaulschambers.com).

### ***Expenses Fraud: Tips for Prevention***

The *Charity Fraud Report 2023* is considerably more helpful with prevention recommendations. There are four specific tips under “Expenses Fraud”:

- “Require pre-approval of all expense claims
- Require proof of purchase and delivery of the goods and services
- Regularly monitor staff expenses to look for any trends or spikes in activity
- If frequent ad-hoc purchases are required, consider a corporate credit or pre-paid debit card that is controlled and reconciled centrally”

In addition, the *Report*’s prevention advice under the “Insider Fraud” category includes worthwhile advice, considering “expenses fraud” can only be committed by an insider. See:

- “Conduct thorough hiring processes that include due diligence, background checks and checking references (from junior members of staff up to senior executive level)
- Perform rigorous agency checks – you might also want to consider the types of roles that are suitable for temp employees and permissions (ie. access to key systems or bank accounts)
- Have a clear whistleblowing policy through which members of staff, volunteers and trustees can confidently report concerns
- Perform a thorough risk assessment to identify any new weaknesses which have arisen because of hybrid working and put a plan in place to mitigate those risks
- Consider offering financial and mental health well-being sessions, whether through an independent party or simply a conversation with colleagues (ie. with a manager or HR

team”

### ***More Helpful Recommendations***

Third Sector Protect UK advises: “False Expenses: Ensure all expense claims are as described on the claim form, are accompanied by a receipt and are submitted within a reasonable time period.”

The Association of Certified Fraud Examiners explains: “In addition to organization-wide controls, individual employees are essential in preventing and detecting fraud....Conduct fraud training and raise awareness including by being ‘aware of red flags’ and ‘reporting irregularities.’”

The Nonprofit Risk Management Institute strongly suggests having a “...robust, written ‘fraud policy’ that makes clear that everyone has reporting responsibilities. Sample language could be: ‘It is the responsibility of every employee, supervisor, manager and executive to immediately report suspected misconduct or dishonesty to their supervisor or the Executive Director if the supervisor is involved, or the Board President if the Executive Director is involved. Supervisors, when made aware of such potential acts by subordinates, must immediately report such acts to the Executive Director.’”

Haley Beatty, forensic accountant and financial crime-reporting expert at consulting firm Aprio, lists key warning signs in *4 Most Common Red Flags for Employee Expense Fraud* (November 7, 2022), *aprio.com*. Among the “... most common red flags of employee expense fraud” are: “1. missing or suspicious supporting documentation; 2. mischaracterized expenses; 3. expenses that violate your policy; and 4. ‘inflated’ expenses for standard items.”

### ***Conclusion***

Ms. Beatty adds the valuable insight that “[e]mployee expenses are some of the most common gateways for internal fraudulent activity, ...”

And it’s a category that – even without more and different wrongdoing – “represents huge potential losses in any enterprise or organization...” – accounting for up to 20% of fraud in smaller entities.

These cases, she emphasizes, “can be hard to spot and investigate” so careful vetting of expenses ahead of time is critical.

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