

Procurement Fraud in the Charitable Sector

02.11.24 | Linda J. Rosenthal, JD



Late in November 2023, participants from around the world convened in London for the conference marking the [eighth annual](#) Charity Fraud Awareness Week.

The buzz on Day 2 focused on the important findings from the [2023 Charity Fraud Awareness Survey](#) just released by conference sponsors BDO UK and the UK's Fraud Advisory Panel. Charity fraud has long been a serious problem, threatening the existence of even some of the most well-established organizations. The Survey Report revealed crucial current data about the broad scope and all-too-common incidents of deception, misappropriation, and other wrongdoing by bad actors – both insiders and strangers.

In 2023, survey respondents reported an [increase in the volume](#) of fraudulent activity and financial losses. This trend is on course to continue and accelerate throughout 2024. Many charities described *multiple* – and varied – incidents of fraud over the preceding twelve months. One of the most provocative morsels in the latest [Survey Report](#) is that participants' answers about "perceived risk" do *not* "correlate with the details of fraudulent activity they told researchers that they experienced." See [Charity Fraud Awareness Week Begins November 27th](#) (November 21, 2023) and [New Charity Fraud Awareness Survey 2023 is Out](#) (November 30, 2023).

Among the key takeaways of these latest findings is the need for [heightened vigilance](#) against this critical danger to the charitable community and the general public it serves. That's why the Charity Fraud Awareness Week's organizers also conduct a year-round [#StopCharityFraud](#) campaign.

A complicating factor is volatility: Creative con artists continually [devise new ways](#) to commit fraud. The explosive growth of technology has, of course, greatly expanded the avenues and opportunities for wrongdoing. In order to confront and combat this threat, [everyone in an organization](#) – leadership, staff, board members, and volunteers – must understand its many variations and nuances.

For convenience, the [Survey Report](#) authors describe and discuss the most common types of charity fraud in seven distinct categories: “Insider Fraud; Payment Diversion Fraud; Cyber Fraud; Expenses Fraud; Donation Fraud; Grant Fraud; and Procurement Fraud.”

We’ll review these categories over the next weeks. But we begin right now – for no particular reason – with the final topic: “Procurement Fraud.”

What is Procurement Fraud?

The troubling data showing increased instances of charity fraud in 2023 may, ironically, mask a bit of good news. If charities are recognizing and reporting more and various incidents, that may indicate *greater awareness* of the scope of this multi-tentacled and insidious threat. Hopefully, it means they are more likely in 2024 and beyond to take steps to mitigate the risk.

“Procurement Fraud” is a description that may sound unfamiliar, but the opportunity for it to occur happens every day in organizations large and small. “Just like any commercial business, charities purchase materials from time to time like stationery, office furniture, and tools....”

“The procurement cycle is the set of activities related to buying and paying for goods and services. This can range from one-off purchases from unknown suppliers to regular purchases through known suppliers, all the way up to large-scale procurement projects put out to a tender process.” See [Outward Bound – Fraud in the Procurement Cycle](#) (May 18, 2023) Kaley Crossthwaite, Partner, Head of Quality & Risk Management, [bdo.co.uk](#) [BDO UK is a key sponsor of Charity Fraud Awareness Week].

“Procurement fraud is a general term to categorise [fraud that occurs anywhere in the expenditure cycle](#), from the planning and assessing stage to contract management,” explains Ms. Crossthwaite. “Compared with the previous year, [our latest survey](#) found a five-fold increase in supplier and procurement fraud (increasing from 5% to 26%). 5% had seemed particularly low when compared to our experience of the prolific nature of procurement fraud, so the latest results are – unfortunately – more in line with our expectations.”

The experts at Procure Desk describe this category as “... a type of fraud that entails the manipulation of a procurement process to obtain financial benefits illegally.” See [Procurement Fraud: Understanding Its Impact On Company Evolution, Prevention, And Real-Life Examples](#) (last updated: June 13, 2023) [procuredesk.com](#). “It involves dishonesty and unethical behavior by a vendor, employee, or contractor working to secure a financial gain or one we can call an unfair advantage....”

They add: “The scope of procurement fraud is not limited to supplier and buyer collusion, but it is a recurring theme” And it “... is more common at the beginning of the procurement process (vendor selection stage) than at later stages like vendor performance and delivery.”

Common Examples

In the Procure Desk [article](#), there is a section describing the leading types of procurement fraud:

- *Employee/Supplier Collusion*

An employee "... responsible for purchasing a product or service colludes with a supplier to purchase a product at a higher cost or a cheaper product that doesn't meet the quality requirements. In return, the buyer receives a kickback..." citing an article titled *Examples of Procurement Fraud* (August 3, 2012) written by Andrew Bartolini of *CPO Rising*, a news and media site for chief procurement officers.

According to Mr. Bartolini, this is the "most common example of procurement fraud; ... widespread, especially in companies with no well-defined sourcing process, or the Procurement is decentralized to the individual location or departments. The arrangement often involves accepting false invoices for goods or services that were never received or invoicing the company at an inflated price for goods or services." There are many variations including "... the employee receiving "...some type of kick back, remuneration, bribe, gift, or other direct benefits in exchange for their assistance." But, he notes, this type of fraud can occur even if the worker "receives no gain."

- *Conflicts Of Interest*

"Conflicts of interest might occur when a procurement officer awards contracts based on personal relationships or favors a particular supplier, even though it may not be in the company's best interest." Often, it occurs outside the normal bid process.

- *Creating Fake Companies*

"Scammers create fictional companies with fabricated documents to qualify for procurement opportunities they would not otherwise be eligible for. They win contracts for goods or services they never intend to deliver, take the profits, and abscond....Often, the payments are generally small enough not to raise any alarm." Although, it's "not the most common example," it may be the most costly over time.

- *Processing Inflated Invoices*

"Inflated invoicing entails a vendor submitting an invoice higher than the actual price of the goods or services provided to a company. In collusion with the company's procurement officer, the vendor may list additional goods or services that were never provided or increase the number of items provided to generate a larger revenue stream." In many cases, this is done with minor discrepancies – a per-unit figure off by only a few cents.

James Kennedy of Procurement Express describes a variation of this pattern in *Is Fraud a Recurring Problem in Your Charity Organization?* The number of units ordered is the fraudulent element, he explains. "A manager in charge of making the purchases can collude with someone they know at the supplying company by inflating the quantity needed by the organization and steal the surplus."

Prevention

In her May 18th *article mentioned above*, BDO UK's Kaley Crossthwaite reiterates a key theme of the *2023 Survey Report*; namely, the importance of raising awareness among all paid and volunteer personnel. "Be proactive and continually monitor new trends and your responses to them so you know what you are up against. And finally, have a plan so that you are prepared, should the worst happen."

Each organization should perform a fraud-risk assessment at regular intervals; it's not a "one and done" type of task." As a helpful resource, she points to the ["Top tips for preventing fraud"](#) section of the Survey Report.

See also [Preventing procurement fraud](#) (September 15, 2022) Alan Bryce, [preventcharityfraud.org.uk](#). There, the former head of counter fraud and cybercrime at the Charity Commission for England and Wales and the current Business Fraud Campaign Manager at the Fraud Advisory Panel (a co-sponsor of Charity Fraud Awareness Week), provides valuable insight and advice.

"All organisations need to buy in goods and services," he explains. "Regardless of whether you rely on a handful of local traders or a long international supply chain, there is always the risk of fraud. For all charities – both large and small – spotting and stopping fraud in the procurement process is, therefore, important."

He adds: "If the contract management procedures in your charity are not up to scratch, procurement fraud can easily go undetected. And this can happen anywhere in the procurement lifecycle from the planning and assessing stage right through to contract management Some common examples to look out for include fictitious suppliers, collusion (both between staff and suppliers and between suppliers), kickbacks or bribes, inflated invoices, product substitution, and the misappropriation of assets. These are the types of fraud that small charities need to be aware of and protect themselves against."

He wants organizations to ask themselves if the "...staff, trustees or volunteers at my charity know the signs of procurement fraud? If they don't, they should." He suggests checking out his organization's campaign called ["Love Business Hate Fraud"](#) for "simple practical information for small organizations, including charities."

Separately, for a free-of-charge and downloadable "Procurement Fraud Prevention Checklist," see the link in the [above-mentioned article](#) by Procure Desk.

Tactical Dilemma

BDO UK's Kaley Crossthwaite describes a conundrum in the generally accepted advice on tactics for preventing charity fraud. See [An 'In-House' Issue: reducing the risk of insider fraud at your charity](#) (March 22, 2023), where she notes that the [2022 Charity Fraud Awareness Survey](#) made a finding that the rate of "insider fraud" had spiked higher than from stranger or outsider fraud. The data from the more recent [2023 Survey Report](#) has led the experts interpreting it to predict the trend will continue through 2024 and likely beyond.

Procurement fraud represents a hybrid or crossover phenomenon: It can be accomplished by insiders only but more commonly occurs with the collusion of outsiders including suppliers. These outsiders may or may not have personal or family connections to the insiders.

The bottom line, though, is that for six of the seven categories of charity fraud described in the "Top Tips" section near the end of the 2023 Survey Report, there is at least one insider involved.

Here's where the tactical dilemma surfaces: On the one hand, "[s]taff and volunteers are the eyes and ears of any organisation and will likely be the largest source of suspected fraud referrals. As such an important resource in the fight against fraud, it is important for them to be aware of what fraud looks like so they can spot it and know how to confidently report any concerns. With that said, it can be a double-edged sword, as staff and volunteers can also be the largest source of threat to your organisation, given their in-depth knowledge of your processes and controls – and the way to work around them."

However, since "... the vast majority of your staff and volunteers will not seek to defraud you," Ms. Crossthwaite and other experts advise that "it is key that they have the tools to recognise red flags and fraud indicators, at the same time as having all the important checks and balances in place to remove the tempting pull of opportunity."

Conclusion

We've covered the Charity Fraud Awareness Week campaign a few times over recent years, including most thoroughly in 2023. Our reporting from late last year included four consecutive blog posts.

Earlier in this post, we mentioned and linked to two of them – [November 21, 2023](#) and [November 30, 2024](#) – earlier in this post. These selections provide background information and details about Charity Fraud Awareness Week and the 2023 Charity Fraud Awareness Survey.

The two others include links to important resource material on charity fraud: what it is, how to prevent it, and what to do if it occurs. See: [Charity-Fraud Learning Opportunities This Week and Beyond](#) (November 27, 2023) and [Averting Charity Fraud: Tips and Actions](#) (December 5, 2023).

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