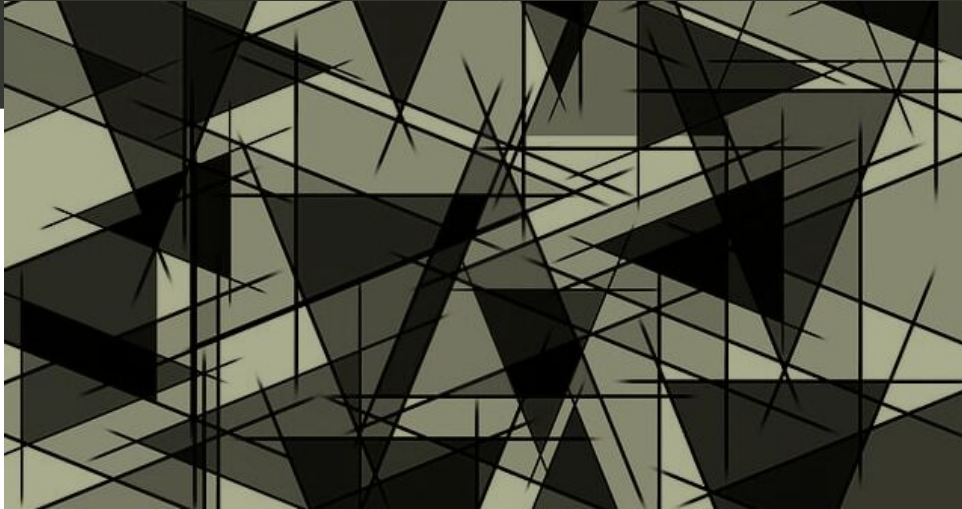




GENERAL

“The Fraud Triangle”: Threat-Assessment Analysis for Charitable Nonprofits

06.25.25 | Linda J. Rosenthal, JD



Last week, in *A Timely Warning About a Projected Rise in Charity Fraud* (June 19, 2025), we wrote about how fraud has long been and continues to be “a persistent threat to charitable nonprofits.

It’s at historically high rates – although that data may reflect a greater awareness of this risk and a global effort over the last decade to educate our sector and the general public about it. We’ve covered the Prevent Charity Fraud initiative as well as the annual Charity Fraud Awareness Week conferences in London. See *Snapshot Summary: Charity Fraud Awareness Week 2024* (November 30, 2024) FPLG Blog and *New Charity Fraud Survey 2023 is Out* (November 30, 2023).

In any event this problem tends “to spike in periods of turmoil, uncertainty, and chaos.” In 2025, a year already marked by upheaval and turbulence, there will be more external fraud like cybercrime as well as a rise in the number of insider incidents including embezzlement. And there will be new and more sophisticated variations of each.

“For a variety of reasons, there is particular reason to believe that insider fraud will see the higher spurt of unwanted activity.”

There is no shortage of other critical problems to monitor, but the specter of charity fraud cannot be ignored or set aside.

Key Factors

In order to prevent and deter these intrusions, or to discover them as early as possible, it’s important to understand three critical points:



- Charitable nonprofits account for a greater percentage of the nation's "occupational fraud" than for-profit businesses, but since these incidents involve much smaller average financial losses, they are often dismissed as much less significant. However, "many nonprofits have limited financial resources to begin with, so a loss of these amounts can be particularly devastating to these entities."
- There are many factors that make 501(c)(3)s particularly "susceptible to fraud" and attractive as perceived easy targets.
- The typical embezzler is not a career criminal but instead has often been a long and trusted employee. This factor makes them harder to spot but also presents opportunities for deterrence.

The Fraud Triangle

Decades ago, sociologist Donald R. Cressey, an expert in the fields of criminology and white-collar crime, set out to understand why a trusted worker with no prior criminal record – often a respected member of the organization and the community – decided to betray that trust. See *The Psychology of Embezzlement* (October 25, 2017) Jonathan Shipley, *LinkedIn*.

See also: *What is the Fraud Triangle?*, *hrzone.com*: This term is "a framework designed to explain the reasoning behind a worker's decision to commit workplace fraud. The three stages, categorised by the effect on the individual, can be summarised as pressure, opportunity and rationalization."

"To predict the conditions that lead to a high risk of fraud, anti-fraud professionals and researchers frequently rely on a concept called the 'fraud triangle.'" See *The Fraud Triangle*, National Whistleblower Center, *whistleblowers.org*.

The term and process of analysis draws on criminological research from Edwin Sutherland and Donald R. Cressey about "conditions that lead to a higher risk of fraud." According to Steve Albrecht, who coined the phrase, "the fraud triangle states that 'individuals are motivated to commit fraud when three elements come together: (1) some kind of perceived pressure, (2) some perceived opportunity, and (3) some way to rationalize the fraud as not being inconsistent with one's values.'"

"Today, the fraud triangle is widely used by anti-fraud professionals to explain conditions that could motivate individuals or companies to engage in fraud. The model can also be used to highlight economic or industry-wide conditions that can lead to a higher overall risk.

Conclusion

The Association of Certified Fraud Examiners, in the *Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse*, advises that the key strategy in the charitable sector must be to pay particular attention to the "opportunity" factor because the "pressure" and "rationalization" elements are more outside the reach of the organization.

As to "opportunity," the "top three causes of nonprofit embezzlement" are: the "lack of internal controls, lack of oversight of existing internal controls, and overrides of existing internal controls."

We'll take a closer look at The Fraud Triangle and this expert advice in the context of embezzlement in the charitable sector. There is abundant literature about likely scenarios, red flags, and the latest



ways to prevent the embezzlement from occurring at all or to thwart it at the earliest possible stage.

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