

Report Sketches Crime Costing Billions: Theft From Charities

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The volunteer treasurer of the Madison County Humane Society in Indiana was charged this month with using \$65,000 of the charity's money to buy jewelry and makeup. In San Francisco, the chief financial officer of the Music Concourse Community Partnership was fired after he was accused of taking \$3.6 million of the organization's money to play the stock market.

Nonprofit leaders tend to shrug off such cases as evidence of “just a few bad apples.” **But a new report, trying to identify the scope of such thefts for the first time, suggests otherwise.**

The report, by four professors who specialize in nonprofit accounting, found that the typical theft from a charity was committed by a female employee with no criminal record who earned less than \$50,000 a year and had worked for the nonprofit at least three years. The amount she stole was less than \$40,000.

The most costly cases, the study found, involved male executives earning \$100,000 to \$149,000 a year. The thieves in such cases had typically been with the organization the longest.

But what is getting the attention of nonprofit leaders is the report's estimate of the overall cost, which the authors put at \$40 billion for 2006, or **some 13 percent** of the roughly \$300 billion given to charity that year.

“It's a surprisingly large number,” said Paul C. Light, a professor of public service at [New York University](#) who does surveys of public confidence in charities. The new report is based on data from the Association of Certified Fraud Examiners, which, the report said, found that “all organizations,” whether government, for-profit or nonprofit, “lose on average 6 percent of their revenue to fraud every year.” Applying that percentage to nonprofits' total 2006 revenue of \$665 billion — donations, government payments and other income — the authors came up with the **\$40 billion** estimate.

“Determining how much theft and embezzlement takes place has been the holy grail of the sector,” said Jack B. Siegel, a tax lawyer who specializes in nonprofit matters.

If the \$40 billion figure is accurate, then the money lost to fraud equaled the combined giving by corporations and foundations in 2006, said Diana Aviv, president and chief executive of the Independent Sector, which represents nonprofit groups.

The report, published in December 2007 issue of Nonprofit and Voluntary Sector Quarterly, found that losses to fraud among the 58 cases reported to the fraud examiners association in a random survey of nonprofits ranged from \$200 to \$17 million, the median fraud costing \$100,000.

“Most of these things are not caught by routine audits,” said Gary Snyder, who tracks nonprofit fraud in his newsletter, Nonprofit Imperative. “They’re usually done by someone in the financial area — the treasurer, the bookkeeper, the signer of checks — who knows how to avoid getting caught.” Almost 95 percent of the reported frauds entailed loss of cash, and a majority of those involved false or inflated invoices, billing for expenses that were never incurred and check tampering.

“I gave a talk to a group of nonprofit executives a few weeks ago, and every single one of them had a fraud story to tell,” said one of the report’s authors, Janet S. Greenlee, an associate professor of accounting at the University of Dayton. “This has been going on for years, but there’s a feeling that it shouldn’t be discussed,” because of the effect it might have on donations.

Professor Greenlee — joined in the report by Mary Fischer of the University of Texas at Tyler, Teresa P. Gordon of the University of Idaho and Elizabeth K. Keating of [Boston College](#) — said the failure of organizations to punish those who steal from them was one of the biggest reasons for fraud. [note: the result of institutionalization]

But it will now be harder for charities to hide fraud, because beginning with tax forms they must file for 2008, the [Internal Revenue Service](#) has added a question requiring them to disclose whether they have experienced theft, embezzlement or other fraud during the year.

“Not only will that eventually give us a much better idea of how widespread fraud is with these groups, it also gives them an incentive to have better financial controls,” said Mr. Siegel, the tax lawyer, who is credited with the idea of adding the question to the tax forms.

Mr. Siegel used to track cases of fraud among charities but “got bored,” he said, because there were so many of them. Mr. Snyder, the tracker of nonprofit fraud in his newsletter, said that through use of databases and other searches, he had stumbled across more than \$700 million in fraud already this year among government agencies and nonprofits, **including church-related organizations.**

Asked about his favorite example of nonprofit fraud, Mr. Snyder was initially stumped. “There are so many,” he said. He eventually settled on the embezzlement of some \$25 million from Goodwill Industries of Santa Clara County in California.