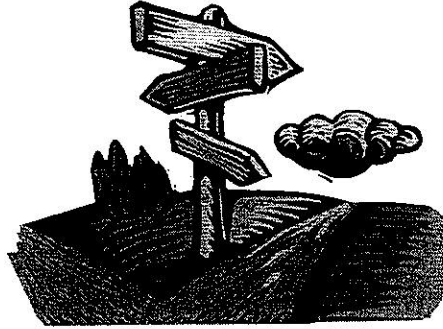


Financial Fraud and Abuse

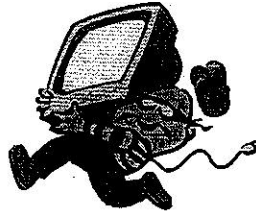
In your current position, you may encounter situations in which employees, vendors, etc. may attempt to exploit or circumvent your organization's policies or assets for personal gain or benefit. Unfortunately, as managers you must be alert for these types of situations and be prepared to address them.



Financial Fraud in the Workplace



The 2010 Report to the Nation on Occupational Fraud and Abuse (by the Association of Certified Fraud Examiners) cites some interesting statistics, based on their analysis of 1,843 occupational fraud cases reported by CFEs who investigated them.



Median loss caused by frauds in the study was \$160,000. 25% of losses were > \$1 million!

Financial Fraud in the Workplace



Just a few of ACFE's findings:

- ACFE's study estimates that 7% of annual revenues would be lost due to occupational fraud.
- Cash is the targeted asset most of the time (85% of the cases).
- Smaller businesses/organizations suffer a disproportionate share of the losses.
- Frauds lasted on average 18 months before being detected.
- In 85% of cases—fraudsters had never been previously charged or convicted.



Financial Fraud in the Workplace

Examples of asset misappropriation:

- Involve theft or misuse of an organization's assets.
- Examples include:
 - a) Billing schemes—payment for fictitious goods/services or personal purchases.
 - b) Payroll schemes—payment by making false claim for compensation or, such as “phantom” employees, inflated hours, etc.
 - c) Skimming—cash is stolen from the organization before it is recorded in the accounting records.
 - d) Non-cash—stealing inventory, etc.
 - e) Expense reimbursement schemes—employees make false claims for reimbursement of fictitious or inflated business expenses.

Fraud Examples—Specific to Non-Profit Organizations

- Statistics from the ACFE study relative to non-profit organizations
- Specific examples of frauds experienced by non-profits
- Sharing of participant's experiences



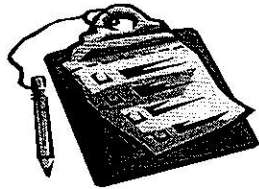
Financial Fraud in the Workplace

- ACFE found that almost 90% of occupational fraud cases investigated involved asset misappropriation.
- Schemes were most commonly detected by receiving a tip from an employee (most common), customer, or vendor (40% of the time).
- Second most common method of detection: management review (15% of the time).
- Third and fourth most common methods of detection: internal audit (14% of the time) and by accident (8% of the time), respectively.
- Further details: www.acfe.com.



Preventing Financial Fraud and Abuse

- Things that you can do as managers to prevent/detect fraud and/or abuse of resources:



Summary and Wrap-Up

- Non-profit organizations have unique accounting issues (e.g., net assets)
- Analysis of a non-profit financial statement can provide insights into their effectiveness and financial strength
- Unfortunately, fraud impacts non-profits but can be limited through effective monitoring and controls

Contact Information

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Senior Meals Program, Inc.

Transactions—January 20xx

Senior Meals Program, Inc. is a non-profit corporation that provides both served meals and delivered meals to area senior citizens.

Following is a list of business transactions affecting the program during the month of January 20xx. The organization had the following beginning balances as of January 1, 20xx:

Cash	\$10,000
Food Inventory	5,750
Equipment	45,000
Investments (permanently restricted)	100,000
Accounts Payable	25,000
Net Assets—Unrestricted	35,750
Net Assets—Permanently Restricted	100,000 (Note: investment income earned is unrestricted)

January Transactions

1. Received cash contributions from several individuals and foundations in the amount of \$35,000. The donations are for general program operations.
2. Received a contribution from an anonymous donor in the amount of \$38,000 for the purchase of a new delivery van for the program.
3. Purchased kitchen and office supplies in the amount of \$5,455. Amount is due in 30 days.
4. Paid January rent for the building where the program operates, \$1,500.
5. Received payments from senior citizens participating in the daily served meals program totaling \$2,385 for the month.
6. Purchased the new delivery van. Final cost was \$38,750.
7. Investment income received on the permanently restricted investments for the month was \$425.
8. Received donated food, 50,000 lbs., valued at \$1.60/lb. from various grocery stores and local bakeries. Additionally, purchased food costing \$6,105.
9. The fair market value of the investments was \$101,428 at January 31, 20xx. The organization is not permitted to use the unrealized gains on the investments.
10. A local carpenter donated his time and the materials and built some shelves and customized storage cabinets for the kitchen area. The program had received bids for the work—fair value of the work performed was approximately \$3,400.

January Transactions (Cont'd)

11. Ending food inventory at the end of January was calculated to be \$4,550.
12. A local senior citizen advises the program that he has named the Senior Meals Program as a beneficiary of his will, through a \$100,000 life insurance policy.

Requirements

1. Complete the transaction analysis spreadsheet for each of the transactions for the month.
2. Prepare a statement of financial position as of January 31, 20xx (see handout).
3. Prepare a statement of activities for the month ended January 31, 20xx (see handout).

Suggested Financial Indicators/Ratios for Non-Profit Organizations

Ratio or Indicator	Calculation and Observation(s)
Current Ratio Measures ability to meet current obligations	Current Assets / Current Liabilities Minimum ratio: Maximum ratio:
Cash on Hand (in days) Measures cash available for operating expenses	Cash / (Total Operating Expenses – Depreciation) What should the number be?
Operating Reserves Ratio (%) Measures ability to cover operating expenses from reserves	Unrestricted Net Assets / Total Operating Expenses
Government Revenue Dependency Ratio Measures % of revenue derived from government sources	Government Revenue / Total Operating Revenue
Debt Ratio Measures level of assets financed by debt	Total Liabilities / Total Assets What should the number be?
Profitability Ratio Measures by which operating revenues exceed operating expenses	(Total Operating Revenue – Operating Expenses) / Total Operating Revenue
Administrative Ratio Measures administrative expenses as % of total expenses	Administrative expenses / Total operating expenses Why is this ratio important? Who might be interested in this ratio?
Contributed Revenue Ratio Measures contributions as a percentage of total operating revenue	Contribution Revenue/ + Net Earnings from Special Events) / Total Operating Revenue

<p>Fund Raising Efficiency Ratio Measures effectiveness of the fund raising effort</p>	<p>Fund Raising Expenses / Contributions Revenue Why is this important? Items to watch:</p>
<p>Net Asset Mix Ratio Measures the organization's financial flexibility</p>	<p>Calculate each net asset category as % of total net assets</p>

General Observations

1. Watch the trend in the ratios; compare to prior years, comparable organizations (if available).
2. Set internal benchmarks and compare to them; modify as needed in response to changing conditions.

STATEMENT OF ACTIVITIES
 SENIOR MEALS PROGRAM INC.
 FOR THE MONTH ENDED JANUARY 31, 20XX

<u>Revenues and Support:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Contributions	\$ 35,000	\$ 38,000		\$ 73,000
Donated goods and services	83,400			83,400
Meal program revenue	<u>2,385</u>	<u>-</u>	<u>-</u>	<u>2,385</u>
Total Revenues and Support	120,785	38,000	-	158,785
Investment income	425			
Unrealized gain on investments			1,428	
Net Assets Released from Restrictions	<u>38,000</u>	<u>(38,000)</u>	<u>-</u>	<u>-</u>
	159,210	-	1,428	158,785
 <u>Expenses:</u>				
Food	87,305			87,305
Rent	1,500			1,500
Kitchen maintenance	<u>3,400</u>	<u>-</u>	<u>-</u>	<u>3,400</u>
	<u>92,205</u>	<u>-</u>	<u>-</u>	<u>92,205</u>
Increase in net assets	67,005	-	1,428	68,433
Net Assets--Beginning of Period	<u>35,750</u>	<u>-</u>	<u>100,000</u>	<u>135,750</u>
Net Assets--End of Period	<u>\$ 102,755</u>	<u>\$ -</u>	<u>\$ 101,428</u>	<u>\$ 204,183</u>

NON-PROFIT FINANCIAL ANALYSIS EXERCISE

2010

2009

1. Current Ratio
2. Cash on Hand
3. Operating Reserves Ratio %
4. Government Revenue Dependency
5. Contribution Revenue Dependency
6. Debt Ratio
7. Profitability Ratio
8. Administrative Ratio
9. Fund Raising Efficiency Ratio
10. Net Asset Mix %

STATEMENT OF FINANCIAL POSITION
ANYTOWN MEAL PROGRAM
JUNE 30, 20XX

ASSETS

Current Assets

Cash	\$ 412,540
Accounts Receivable	2,590
Pledges Receivable	215,943
Less: Allowance for Uncollectible Pledges	<u>(80,000)</u>
	135,943
Food Inventory	<u>42,285</u>
Total Current Assets	593,358
Buildings	<u>320,000</u>
TOTAL ASSETS	<u><u>\$ 913,358.00</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Unearned Revenue	\$ -
------------------	------

Net Assets

Unrestricted	437,415
Temporarily Restricted	125,943
Permanently Restricted	<u>350,000</u>
	<u>913,358</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 913,358</u></u>



DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL
3101 PARK CENTER DRIVE
ALEXANDRIA, VA 22302-1596

A-2011-0011-FFR

26 October 2010

Independent Auditor's Report

This report presents the results of our review of the independent certified public accountant's audit of the American Red Cross consolidated financial statements for the fiscal year ended 30 June 2010. In the auditor's opinion, the American Red Cross statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

The American Red Cross is the instrument chosen by an act of Congress, approved 5 January 1905, to help carry out obligations assumed by the United States under certain international treaties known as the Geneva or Red Cross Conventions. Its congressional charter imposes on the American Red Cross the duties to act as the medium of voluntary relief and communications between the American people and the Armed Forces and to carry on a system of national and international relief to prevent and mitigate suffering caused by disasters.

The Act of Congress that incorporates the American Red Cross, as implemented by DOD Directive 1000.26E (Support for Non-Federal Entities Authorized to Operate on DOD Installations) and AR 930-5 (American National Red Cross Service Program and Army Utilization), requires U.S. Army Audit Agency to perform an annual audit of the consolidated financial statements of the American Red Cross. The American Red Cross contracted with the certified public accounting firm of KPMG LLP as the principal auditor to perform a financial audit of its 2010 consolidated financial statements. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and best use our available resources, we reviewed the principal auditor's work and reports.

We conducted our review of the principal auditor's work in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. To determine the reasonableness of the principal auditor's work and the extent to which we could rely on it, we:

- Reviewed the principal auditor's approach and planning of the audit.
- Evaluated the qualifications and independence of the audit staff.

- Reviewed the consolidated financial statements and principal auditor's report to evaluate compliance with generally accepted accounting principles
- Reviewed and tested the principal auditor's working papers to determine (i) the nature, timing, and extent of the audit work performed; (ii) the extent of audit quality control methods the auditor used; (iii) whether a study and evaluation were conducted of the entity's internal accounting controls; and (iv) whether the evidence in the working papers supported the principal auditor's opinion on the consolidated financial statements.

In the opinion of KPMG LLP, the consolidated financial statements present fairly, in all material respects, the financial position of the American Red Cross, as of 30 June 2010, and the changes in its net assets and cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During our review, we found nothing to indicate KPMG LLP's opinion on the American Red Cross 2010 consolidated financial statements is inappropriate or cannot be relied upon.

We believe the consolidated financial statements, together with the KPMG LLP opinion and our review of that work, provide Congress with a dependable basis for evaluating the financial position of the American Red Cross. This report presents the American Red Cross consolidated financial statements and the auditor's opinion thereon.

We are sending copies of this report to the American Red Cross Board of Governors.



RANDALL L. EXLEY, CPA
The Auditor General



THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

The Board of Governors
The American National Red Cross:

We have audited the accompanying consolidated statement of financial position of the American National Red Cross (the Organization) as of June 30, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of certain chapters, which statements reflect total assets constituting 25% and total operating revenues and gains constituting 17% of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for such chapters, is based solely on the reports of the other auditors. The prior year summarized comparative information has been derived from the Organization's 2009 consolidated financial statements and, in our report dated October 15, 2009, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American National Red Cross as of June 30, 2010, and the changes in its net assets, its cash flows and its functional expenses for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 13, 2010

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Financial Position

June 30, 2010
(with comparative information as of June 30, 2009)
(In thousands)

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 407,204	\$ 214,606
Investments (Note 8)	798,060	590,759
Trade receivables, including grants, net of allowance for doubtful accounts of \$3,713 in 2010 and \$3,576 in 2009	81,473	130,969
Contributions receivable (Note 3)	75,955	78,464
Inventories, net of allowance for obsolescence of \$2,217 in 2010 and \$1,922 in 2009	129,756	149,897
Other current assets	16,068	21,062
Total current assets	1,508,516	1,185,757
Investments (Note 8)	1,076,601	1,003,962
Contributions receivable (Note 3)	23,944	20,438
Land, buildings, and other property, net (Note 4)	1,090,532	1,143,697
Other assets (Note 9)	161,769	164,371
Total assets	3,861,362	3,518,225
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	371,044	323,585
Current portion of debt (Note 5)	39,812	115,613
Postretirement benefits (Note 10)	4,616	4,777
Other current liabilities (Note 9)	26,165	28,377
Total current liabilities	441,637	472,352
Debt (Note 5)	552,245	497,681
Pension and postretirement benefits (Note 10)	757,676	724,237
Other liabilities (Notes 5 and 9)	150,917	151,489
Total liabilities	1,902,475	1,845,759
Net assets (Notes 2 and 7):		
Unrestricted net assets	448,142	459,983
Temporarily restricted net assets	884,910	620,214
Permanently restricted net assets	625,835	592,269
Total net assets	1,958,887	1,672,466
Commitments and contingencies (Notes 5, 6, 10, 11, and 13)		
Total liabilities and net assets	\$ 3,861,362	\$ 3,518,225

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Activities

Year ended June 30, 2010

(with summarized information for the year ended June 30, 2009)

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2010	2009
Operating revenues and gains:					
Contributions:					
Corporate, foundation and individual giving	\$ 199,226	\$ 561,890	\$ -	\$ 761,116	\$ 384,085
United Way and other federated	40,177	79,648	-	119,825	129,913
Legacies and bequests	52,555	12,820	27,121	92,496	92,364
Services and materials	16,514	18,374	-	34,888	49,783
Grants	13,659	39,153	-	52,812	81,646
Products and services:					
Biomedical	2,219,162	-	-	2,219,162	2,213,961
Program materials	145,190	136	-	145,326	149,608
Contracts, including federal government	89,282	-	-	89,282	129,778
Investment income (Note 8)	18,843	29,752	-	48,595	75,501
Other revenues	41,206	(273)	-	40,933	13,630
Net assets released from restrictions	526,240	(526,240)	-	-	-
Total operating revenues and gains	3,362,054	215,260	27,121	3,604,435	3,320,269
Operating expenses:					
Program services:					
Services to the Armed Forces	65,300	-	-	65,300	56,511
Biomedical services (Note 13)	2,194,789	-	-	2,194,789	2,216,730
Community services	105,278	-	-	105,278	113,846
Domestic disaster services	268,864	-	-	268,864	402,372
Health and safety services	216,946	-	-	216,946	215,492
International relief and development services	250,993	-	-	250,993	156,042
Total program services	3,102,170	-	-	3,102,170	3,160,993
Supporting services:					
Fund raising (Note 12)	130,193	-	-	130,193	126,580
Management and general	138,472	-	-	138,472	152,473
Total supporting services	268,665	-	-	268,665	279,053
Total operating expenses	3,370,835	-	-	3,370,835	3,440,046
Change in net assets from operations	(8,781)	215,260	27,121	233,600	(119,777)
Nonoperating gains (losses) (Notes 5 and 7)	82,616	49,436	6,445	138,497	(359,064)
Pension-related changes other than net periodic benefit cost (Note 10)	(85,676)	-	-	(85,676)	(408,330)
Change in net assets	(11,841)	264,696	33,566	286,421	(887,171)
Net assets, beginning of year	459,983	620,214	592,269	1,672,466	2,559,637
Net assets, end of year	\$ 448,142	\$ 884,910	\$ 625,835	\$ 1,958,887	\$ 1,672,466

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Statement of Functional Expenses

Year ended June 30, 2010
(with summarized information for the year ended June 30, 2009)
(In thousands)

	Program Services						Total Program Services
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	International Relief and Development Services	
Salaries and wages	\$ 31,069	\$ 973,465	\$ 43,830	\$ 89,999	\$ 97,821	\$ 20,169	\$ 1,256,353
Employee benefits	7,627	239,379	11,294	23,110	24,819	4,988	311,217
Subtotal	38,696	1,212,844	55,124	113,109	122,640	25,157	1,567,570
Travel and maintenance	1,449	28,971	1,801	9,589	2,670	3,981	48,461
Equipment maintenance and rental	1,487	69,356	4,034	7,975	3,894	2,234	88,980
Supplies and materials	4,342	523,633	12,516	11,120	36,945	935	589,491
Contractual services	12,639	305,411	15,783	54,511	39,659	33,787	461,790
Financial and material assistance	5,358	3,431	12,129	59,916	3,227	183,894	267,955
Depreciation and amortization	1,329	51,143	3,891	12,644	7,911	1,005	77,923
Total expenses	\$ 65,300	\$ 2,194,789	\$ 105,278	\$ 268,864	\$ 216,946	\$ 250,993	\$ 3,102,170
Supporting Services							
	Management and General		Total Supporting Services		Total Expenses		
	Fund Raising	2010	2009	2010	2009		
Salaries and wages	\$ 55,104	\$ 68,220	\$ 123,324	\$ 1,379,677	\$ 1,378,901		
Employee benefits	13,633	17,329	30,962	342,179	357,662		
Subtotal	68,737	85,549	154,286	1,721,856	1,736,563		
Travel and maintenance	2,742	2,592	5,334	53,795	77,584		
Equipment maintenance and rental	1,458	3,379	4,837	93,817	99,595		
Supplies and materials	12,684	3,572	16,256	605,747	616,929		
Contractual services	39,386	34,099	73,485	535,275	567,617		
Financial and material assistance	1,926	1,071	2,997	270,952	242,884		
Depreciation and amortization	3,260	8,210	11,470	89,393	98,874		
Total expenses	\$ 130,193	\$ 138,472	\$ 268,665	\$ 3,370,835	\$ 3,440,046		

See accompanying notes to the consolidated financial statements.