

SATURDAY, MARCH 29, 2008

# National Report

The New York Times

## Report Sketches Crime Costing Billions: Theft From Charities

By STEPHANIE STROM

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. "We really need to take a good hard look at what's going on in these organizations."

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.

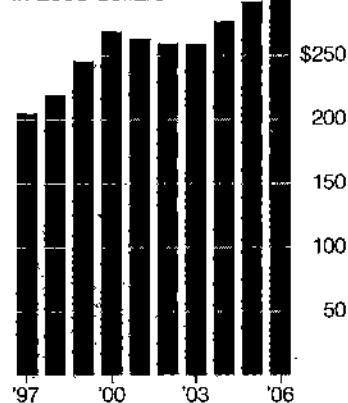
"Determining how much theft and embezzlement takes place has been the holy grail of the sector," said Jack B. Siegel, a tax lawyer who specializes in nonprofit matters.

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.

But Ms. Aviv expressed skepticism about the report, noting that it relied on the fraud examiners association's estimate of overall fraud across all sectors, including government and corporate.

Total U.S. giving, in billions

Adjusted for inflation, in 2006 dollars



Source: Giving USA Foundation

THE NEW YORK TIMES

"They're lumping all those sectors together, and it could be that the for-profit sector experiences a higher level of fraud, while the nonprofit sector and government

experience lower levels," Ms. Aviv said.

Nonetheless, she said, "even if the figure is \$20 billion, that's still a huge amount and needs to be addressed."

The report, published in the 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, with 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

Continued on Following Page