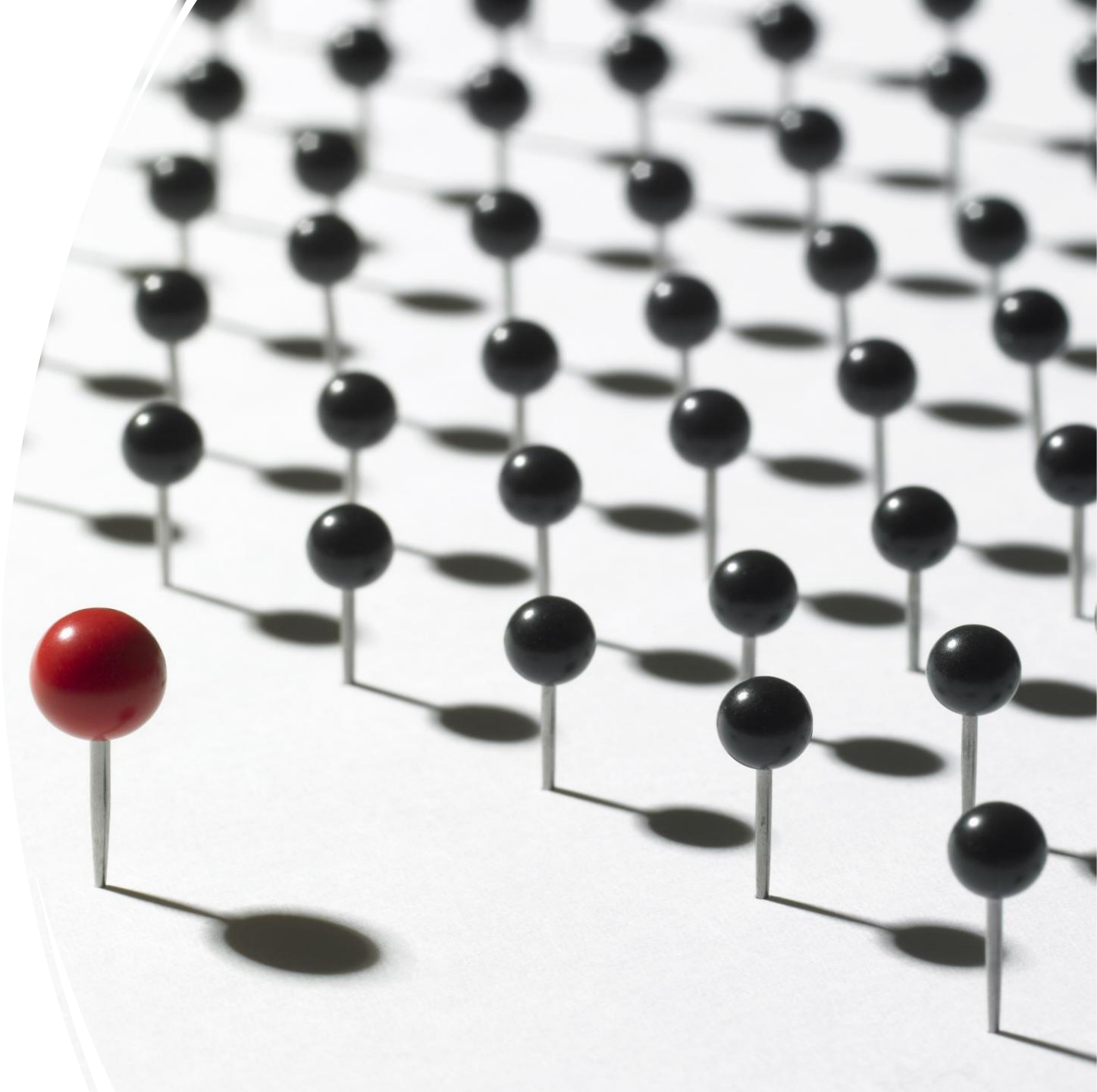
Fraud Prevention and Detection

Guidebook for Charities



SINGAPORE POLICE FORCE
COMMERCIAL AFFAIRS DEPARTMENT

Content

INTRODUCTION 3

CHARITY FRAUD LANDSCAPE 4

KEY FRAUD RISKS FACED BY CHARITIES 5

- ❖ Donation and Fundraising Collections 6
- ❖ Disbursement Process 8
- ❖ Ineffective Board and Management 10

EFFECTIVE PREVENTION AND DETECTION 12

RESPONDING TO FRAUD INCIDENTS 17

CONCLUSION 18

ANNEX: INTERNAL CONTROLS CHECKLIST 19

Introduction

Charities are not immune to fraud, and the likelihood of fraud occurring in charities increases significantly for those with weak internal controls and financial administration practices.

Over the years, there have been several cases involving charities which have suffered substantial losses due to fraud. Fraud, particularly when perpetrated by internal parties, not only has a detrimental impact on the charity's mission and financial stability, but also affects the reputation of the entire charity sector. As such, charities must remain good stewards of the donations they are entrusted with and ensure that public resources are used responsibly towards fulfilling their charitable objectives.

This guidebook is designed to raise fraud awareness among charities, focusing on:

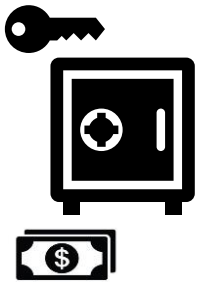
- Key fraud risks faced by charities; and
- Effective controls that charities should implement to prevent and detect fraud.

We hope that this guidebook will serve as a valuable resource to strengthen charities' financial governance to safeguard against fraud.

Charity Fraud Landscape

Fraud in charities usually involves one or more of the following criminal offences, with each offence carrying a maximum punishment of 10 to 20 years of imprisonment. The fraud schemes also vary in scale and complexity, from an employee pocketing cash donations, to board members orchestrating sophisticated schemes to divert a charity's funds for unauthorised purposes.

Criminal Breach of Trust



Examples:

- Pocket charity's cash donations for personal use.
- Make unauthorised withdrawal or transfer of funds from charity's bank account.

Cheating



Examples:

- Submit false expense claims to deceive a charity's signatories into approving payments.
- Solicit donations purportedly on behalf of charities (fake fund-raising appeals).

Forgery



Examples:

- Forge bank signatory's signature on cheques.
- Create fake supplier invoice to deceive charity's authorised bank signatories into approving payments.

Falsification of Accounts



Examples:

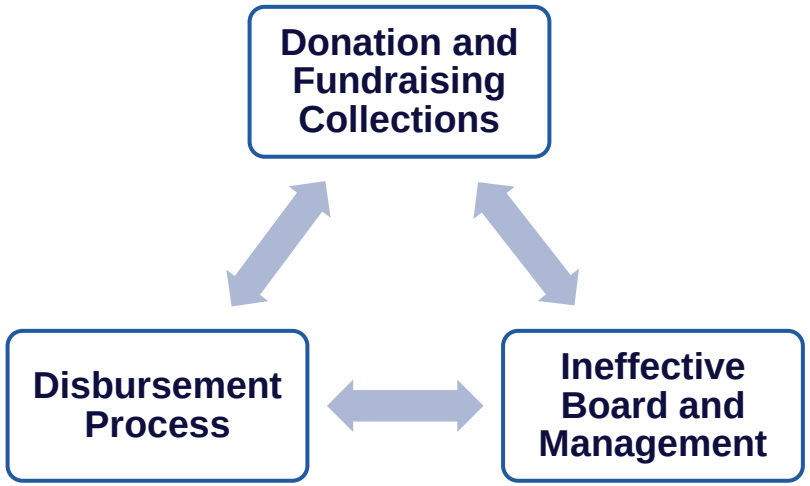
- Make false entries in charity's accounts.
- Create fake payment vouchers or receipts of the charity to conceal other wrongdoings.

Key Fraud Risks Faced By Charities

Fraud Risk Areas

Donation and Fundraising Collections

Charities largely depend on donations and fundraising collections to sustain their organisation financially. It is therefore crucial to establish good governance in handling these donations. If collections are not accurately recorded from the onset, accountability becomes challenging and the risk of misuse increases.



Disbursement Process

The disbursement process can be considered the access point to the charity's funds. It represents the outflow of funds and is where the charity's funds are most vulnerable to fraud.

Ineffective Board[1] and Management

A competent Board and Management are essential in safeguarding a charity's financial governance and internal controls. Without proper oversight of the financial activities and operational processes, opportunities for fraud may arise and allow fraudulent activities to go undetected.

[1] Board refers to the governing body responsible for overseeing and managing a charity. It is also sometimes known as Council or Management Committee.

Key Fraud Risks Faced By Charities

Donation and Fundraising Collections

Poor documentation and record-keeping

- **Poor recording of the collections received** (lacking crucial details like donor name, amount, date and purpose) will make it difficult for the charity to ascertain the existence and completeness of these collections. Incomplete or inaccurate records may also lead to donor disputes on whether their donations were received or used appropriately.

- **Poor retention of donation records** (such as receipts or cash counting forms) will cause difficulties during an audit or when further verification is required.



Inadequate controls in the counting and handling of cash donations

- **Unsupervised cash counting** where cash collections are counted by a single staff without the presence or oversight of others. In such situations, there is a higher risk of misappropriation of the cash collections going undetected.

- **Poorly secured donation boxes** will lead to unauthorised individuals accessing the donations, increasing the likelihood of donations being stolen or misappropriated.

- **Poor cash safekeeping** (e.g., leaving cash on the table unattended instead of in a safe).



Key Fraud Risks Faced By Charities

Donation and Fundraising Collections

Case Study: Clerk pocketed more than $150,000 in cash donations

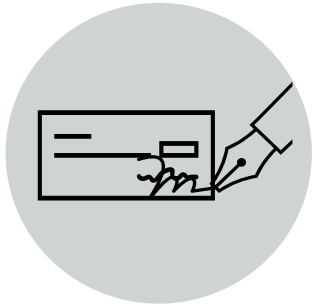
What happened?	An administrative clerk, who had worked for a religious charity for over 25 years, was responsible for the receiving and safekeeping of cash donations in the charity's safe before depositing them into the charity's bank account. The clerk was the only person with the key to the safe, and she took advantage of the situation by taking out monies from the safe for her own use. She pocketed more than $150,000 in less than two years. To avoid detection, she delayed the cash deposit into the charity's bank account until there were sufficient subsequent donations to cover the shortfall caused by her misappropriations.
How was the fraud uncovered?	When the Chairman of the charity suddenly asked the clerk for bank statements to check the amount of donations deposited, the clerk realised there was insufficient cash in the safe for her to deposit into the bank account to make up for the shortfall. She then admitted her wrongdoings to the charity's Board.
Outcome	The clerk was sentenced to **12 months' imprisonment** for criminal breach of trust offences.

Key Fraud Risks Faced By Charities

Disbursement Process

Lack of due diligence in payment approvals

- **Approving payments without checking supporting documents** poses a significant risk. Supporting documents, such as invoices and delivery orders, serve as evidence that the payment is legitimate and justified. Without these documents, approvers/signatories will not be able to verify the purpose and amount of the payment.



- **Fake supporting documents** can be used to cover up fraudulent payments. If approvers do not carry out proper checks, forgeries may go undetected, and money may be wrongly paid out.

- **Pre-signed cheques** increase the risk of misappropriation as they can be used without any review or approval process. If these cheques fall into the wrong hands, they can be used to withdraw funds without proper oversight.

Not securing authentication credentials



- **Improper safekeeping of authentication credentials,** such as bank tokens and login passwords (including Singpass), allows unauthorised individuals access to the charity's funds.

Key Fraud Risks Faced By Charities

Disbursement Process

Case Study: Administrative assistant siphoned over $1.4 million in 3 months

What happened?	A manager for a charity in the health sector had given an administrative assistant the charity's internet banking token and login credentials, as the administrative assistant's responsibilities included performing bank transfers for the charity. The administrative assistant continued to keep the token after performing the bank transfers. When the manager asked her to return the token, she kept giving excuses to delay the return of the token. In a short span of three months, she made over 130 unauthorised fund transfers totaling $1.4 million from the charity's bank accounts to bank accounts belonging to her and various third parties. She used most of the ill-gotten gains to pay a scammer whom she met through an online dating application, and the remaining sum on luxury bags and gold jewellery.
How was the fraud uncovered?	The manager was worried by the administrative assistant's repeated failure to return the bank token. He then contacted the bank and discovered her unauthorised transactions.
Outcome	The administrative assistant was sentenced to **6 years and 7 months' imprisonment** for criminal breach of trust and other offences.

Key Fraud Risks Faced By Charities

Ineffective Board and Management

Conflicts of interest

- **Board members (or managers with decision-making authority) who have personal or financial ties with a vendor** may make decisions that may not be in the charity's best interest. Such conflicts of interest not only undermine a charity's governance but may foster a culture where conflicts of interest are normalised, making it harder to hold individuals accountable for their actions.



Inactive participation from board members

- **Lack of board member involvement and engagement**, especially in the areas of financial oversight and risk management, significantly increases the risk of financial mismanagement.

- **A single individual with dominant influence** over the charity's management and governance may potentially override internal controls and oversight mechanisms. Without strong governance from the board, individuals in trusted roles, who are well-versed in the charity's internal processes, including its weaknesses, could easily manipulate or circumvent the controls without detection.



Key Fraud Risks Faced By Charities

Ineffective Board and Management

Case Study: Chairman jailed for embezzling $370,000 in cash collections

What happened?	A long-serving Chairman, who had been leading a religious charity for close to 10 years, instructed the charity's volunteers and staff to place the donation chests and containers in his office for "safekeeping". He then deposited the cash collections into various bank accounts, one of which was his personal bank account. The Chairman misappropriated $370,000 in cash collections over 7 years. He had used the monies to pay for his own credit card bills, family allowances, and travelling expenses. He also used $18,000 to pay for the expenses of another association where he served as President.
How was the fraud uncovered?	The regular misappropriation of cash donations was only detected when the Chairman left the religious organisation, and a huge spike in cash donations was observed immediately. An internal inquiry was then conducted, and his dishonest actions came to light.
Outcome	The Chairman was sentenced to **2 years and 3 months' imprisonment** for criminal breach of trust offences.

Effective Prevention and Detection

Implementing effective internal controls is crucial for charities to prevent and detect fraud. The internal controls listed in this guidebook help ensure that charities' financial transactions are accurately recorded, reviewed, and properly authorised, in order to safeguard their assets and reputation. New threats can emerge any time. It is therefore important for charities to monitor fraud risks and regularly review the effectiveness of their internal controls.



Effective Prevention and Detection

Segregation of duties

Donation collection process

Segregating the roles of donation collection and recording reduces the risk of misappropriation.

For greater accountability,

- Have at least two staff present for the receipt of donations (one to receive and one to issue receipts and record in the books) and cash counting (one to count and one to record).
- Designate a fixed location for donors to hand over their donations (e.g., the administrative office) which centralises donation collection, making it easier to control and monitor.

Disbursement process

Segregating the roles of payment processing, approval and recording reduces the opportunities for misappropriation or concealment of unauthorised payments.

- Approval of payment requests should be done by a staff who is not involved in the processing of payments (i.e., preparing cheques, fund transfers).
- Recording of disbursements in the charity's accounting ledgers should be done by a staff who is not involved in the payment processing.

Effective Prevention and Detection

Physical safeguards [1]

- Use **lockable containers** to collect cash donations, with the keys and/or combinations only accessible to trusted charity staff to prevent unauthorised access. High value assets (e.g., jewellery) should be tagged and kept in **safes**.

  For enhanced security on safes (and lockable containers),

  i. Implement a **dual control system** that requires both a key and a combination lock; and

  ii. Designate one charity staff to be responsible for the key, and another staff to be responsible for the combination lock.

  The safe should only be opened when both designated staff are present and neither person should share their key or combination with anyone else. This prevents a single person from having sole control of the safe, thereby reducing the risk of misappropriation by the said person.

- Conduct handling or counting of cash in **secure, open, well-lit areas with security cameras installed** to monitor the area. This also applies to the placement of donation chests and safes.

- **Deposit cash collections into the charity's bank account frequently** to enhance accountability and security by reducing the amount of cash on hand, thereby minimising the risk of theft and misappropriation.

- **Restrict the access to cheque books and authentication credentials** (e.g., password and bank tokens) to only individuals in trusted roles and do not pre-sign cheques.

[1] *Please refer to more recommended safeguards for donations collection at https://www.charities.gov.sg/PublishingImages/Resource-and-Training/Guides-Templates-Awards/SOP-and-Templates/Documents/Sample Template of Financial Policies and Procedures (Basic) for Charities.pdf, Section 2.*

Effective Prevention and Detection

Good documentation and verification practices

- **Maintain clear and detailed records of all donations received.** Records should include information such as the donor's name, donation amount and purpose, date of donation received, and name of the person who received the donation.

- **Document the cash counting and transportation processes.** Record the amount, date, time and names of persons involved.

- **Payment approvers/signatories to review payment requests and corresponding supporting documents** (e.g., invoice, delivery note) to ascertain accuracy and legitimacy of the requests. Verify suspicious supporting documents with issuing parties directly, using known contact details.

- **Pay closer attention to high-risk transactions** by requesting for more information and supporting documents for verification. Examples of high-risk transactions include irregular large sum transactions which are not in line with the charity's usual activities and transactions involving new vendors or related parties.

- **Keep accounting records** for a minimum period of 5 years from the end of the financial year (as prescribed in the Charities Act).



QUICK TIPS

Red flag indicators of false supporting documents

- Signs of editing or cut and paste (e.g., unusual formatting, unclear images)
- Resemble generic templates (which can be easily obtained online)
- Grammatical, spelling or arithmetic errors
- (For PDF documents) Same document author for documents issued by different companies

Effective Prevention and Detection

Reconciliation and oversight

- **Conduct monthly reconciliation of accounts** to identify any discrepancies or unusual transactions:
  - **Bank account reconciliation** – Compare the bank statement balance with the ending balance in the accounting ledger and investigate any differences
  - **Donation reconciliation** – Check that the amounts of donations recorded in the receipt book match those recorded in the accounting ledger
  - **Petty cash reconciliation** – Count the physical petty cash and compare it with the accounting ledger

- **Review ledger entries in detail** on a monthly or quarterly basis, focusing on unusual or unexpected transactions.

- **Conduct trend analysis** to compare current ledger entries with historical data to identify any significant deviations (e.g., unusual spikes or drops in donation amounts).

- **Conduct surprise inspections of physical assets** (e.g., jewellery stored in charity's safe).

For a quick self-assessment, charities can refer to the ***Internal Controls Checklist*** at the end of this guidebook (Annex A) to review their existing controls and identify any gaps.

Whistle-blowing channel

- Establish reporting channels for charity employees and members of public to raise concerns or report suspected wrongdoings without fear of adverse consequence.

- Factors to increase effectiveness of the whistle-blowing channel include:

  - Implement policies to protect the identity of whistle-blowers and confidentiality of the information provided.
  - Ensure the designated officer handling the whistle-blowing reports (e.g., Chairman of Board, Head of Internal Audit) operates independently from the charity management to avoid conflicts of interest.

Responding to Suspected Fraud Incidents

Having an internal fraud incident response plan is essential for charities to promptly and effectively address any suspected fraudulent activity within the organisation.

Step 1 Report incident

- Upon detection or receipt of information of a suspected fraud incident, charity staff should immediately report it to one of the following:
  - Supervisor (if the supervisor is suspected to be involved, escalate to the next higher level);
  - Charity's management or board;
  - Whistle-blowing channel.

Step 2 Conduct due diligence

- The charity should perform due diligence checks to establish the veracity and extent of the suspected fraud (e.g. verify transactions and seek clarifications from third parties).
- Any evidence gathered should be documented clearly (e.g., taking proper notes of conversations).

Step 3 Determine next course of action

- Based on findings from the due diligence checks, the charity should assess and decide whether to report the incident to the Police or Commissioner of Charities (COC).
  - Charities should lodge a Police report when there is reasonable suspicion that fraud has been committed.
  - Charities should lodge a complaint with the COC when there is non-compliance with the Charities Act and Regulations, or a serious risk of harm or abuse of a charity (its assets, beneficiaries or reputation) arising from mismanagement/misconduct [1].

Step 4 Reflect and review

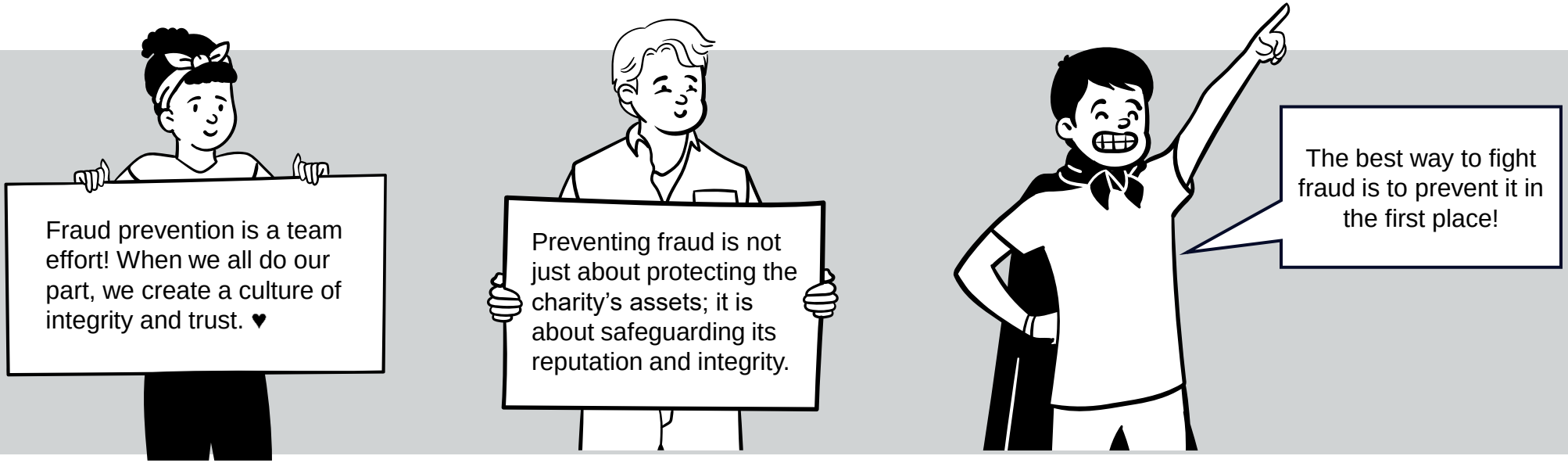
- The charity should review its internal processes to prevent similar fraud incidents. The scope and focus of the review may be adjusted based on the findings from the charity's earlier due diligence checks. If the review discloses any governance lapses, the charity should implement controls and mitigating measures to address the lapses.

[1] *Please refer to COC's website (https://www.charities.gov.sg/Pages/News-and-Notices/Report-a-Concern.aspx) for details.*

Conclusion

This guidebook introduced the common fraud risks faced by charities and the internal controls which charities can adopt to prevent and detect fraud. Fraud in charities carries particularly severe consequences due to its significant impact on the reputation of the entire charity sector. Hence, it is crucial that all charities remain committed to strengthening its financial governance to prevent fraud.

Safeguarding our charities against fraud is a collective responsibility, and every role in a charity contributes to the prevention and detection of fraud. Charities' board members and management team are pivotal in setting the tone from the top and ensuring robust internal controls are in place, while staff members are key to detecting and reporting potential fraud risks.



Annex: Internal Controls Checklist

This checklist categorises controls that are applicable to each risk area – (i) Donation and Fundraising Collections; (ii) Disbursement Process and (iii) Board and Management.

S/N	Internal Controls	Has My Charity Done This?	If No or NA, Why?
Donation and Fundraising Collection Process			**(Page 1 of 4)**
1	Is there segregation of duties for the donation collection process by assigning different individuals to handle (i) donation collection (ii) recording of donation collected (iii) depositing donations into the bank and (iv) reconciliation of donations and bank statements?	☐ Yes ☐ No ☐ NA	
2	Are there at least two individuals present for the donation collection process (one to receive donations and one to issue receipts and record them in the charity's books)?	☐ Yes ☐ No ☐ NA	
3	Are details of donations documented? (Details include donation amount, donation date, purpose of donation and donor information, if available.)	☐ Yes ☐ No ☐ NA	
4	Are the donation collection boxes secured and accessible only to authorised personnel? (Security measures include locks, mounting of boxes to stable structures and surveillance cameras monitoring the boxes.)	☐ Yes ☐ No ☐ NA	
5	Are there at least two individuals present for the cash counting process (one to count and one to record)?	☐ Yes ☐ No ☐ NA	
6	Are details of cash count documented? (Details include amount of cash donations counted, date of cash count, persons involved in the cash count.)	☐ Yes ☐ No ☐ NA	

Annex: Internal Controls Checklist

S/N	Internal Controls	Has My Charity Done This?	If No or NA, Why?
Donation and Fundraising Collection Process (Continued)			**(Page 2 of 4)**
7	Is the cash handling (donation collection and cash counting) process conducted in a designated, well-lit area with security cameras installed?	☐ Yes ☐ No ☐ NA	
8	Are the cash donations frequently deposited into the charity's bank account?	☐ Yes ☐ No ☐ NA	
9	Are there monthly reconciliations of donation records with the actual cash collections and bank statements?	☐ Yes ☐ No ☐ NA	
10	Are assets (cash, jewellery used by religious organisations for ceremonial purposes, etc) secured in safes and accessible only to authorised personnel? (Security measures include locks, dual-lock systems and surveillance cameras monitoring the safes.)	☐ Yes ☐ No ☐ NA	
11	Are asset items uniquely identified and tagged for tracking and record keeping?	☐ Yes ☐ No ☐ NA	
12	Are asset purchases, disposals and transfers documented (e.g. handover/takeover forms to track custodianship of assets)?	☐ Yes ☐ No ☐ NA	
13	Are monthly physical inspections conducted to verify assets and reconcile physical counts with the records?	☐ Yes ☐ No ☐ NA	
14	Is regular trend analysis conducted to identify anomalies in donation records (e.g. sudden drop in collection amounts in recent months)?	☐ Yes ☐ No ☐ NA	

Annex: Internal Controls Checklist

S/N	Internal Controls	Has My Charity Done This?	If No or NA, Why?
Disbursement Process			**(Page 3 of 4)**
15	Is there a segregation of duties in the disbursement process by assigning different individuals to handle (i) payment processing (ii) payment approval and (iii) recording of payments?	☐ Yes ☐ No ☐ NA	
16	Is it mandatory to submit supporting documentation for all payments initiated, such as invoices, receipts and purchase orders?	☐ Yes ☐ No ☐ NA	
17	Are there designated personnel for the approval of different types of payments? (e.g. different approval authorities required for payments exceeding certain amounts or falling under different categories.)	☐ Yes ☐ No ☐ NA	
18	Are there at least two signatories required for the approval of large payments?	☐ Yes ☐ No ☐ NA	
19	Are there procedures implemented for approval of payments, such as requiring the approvers to verify the accuracy and legitimacy of the supporting documentation before approving the payments?	☐ Yes ☐ No ☐ NA	
20	Are there procedures implemented to declare related-party transactions?	☐ Yes ☐ No ☐ NA	
21	Are vendor details documented and regularly updated to verify legitimacy of payments to vendors?	☐ Yes ☐ No ☐ NA	
22	Are physical payment instruments (such as cash and cheques) and authentication credentials (such as password and bank tokens) secured and restricted to only authorised personnel?	☐ Yes ☐ No ☐ NA	

Annex: Internal Controls Checklist

S/N	Internal Controls	Has My Charity Done This?	If No or NA, Why?
Disbursement Process (Continued)			**(Page 4 of 4)**
23	Are the charity's cheques pre-signed?	☐ Yes ☐ No ☐ NA	
24	Are there real-time alerts set for payments from the charity's bank accounts?	☐ Yes ☐ No ☐ NA	
25	Are there monthly reconciliations of payment records with the supporting documents and bank statements?	☐ Yes ☐ No ☐ NA	
26	Is regular trend analysis conducted on payments to identify anomalies (e.g. unusual transaction patterns such as large payments or payments to unknown vendors)?	☐ Yes ☐ No ☐ NA	
Board and Management			
27	Does any individual have sole control over any process in the charity?	☐ Yes ☐ No ☐ NA	
28	Are there procedures implemented to ensure that approvals are required from multiple persons for significant transactions and/or activities?	☐ Yes ☐ No ☐ NA	
29	Are there whistle-blowing mechanisms implemented for staff to report concerns or suspicions of abuse by trusted roles confidentially?	☐ Yes ☐ No ☐ NA	
30	Is the whistleblowing channel managed by individuals (e.g., audit committee) independent from the charity's management?	☐ Yes ☐ No ☐ NA	
31	Is the minimum retention period for documents and records communicated to the charity's management and staff?	☐ Yes ☐ No ☐ NA	