

Minimizing the risk of fraud in nonprofit organizations: a practice case

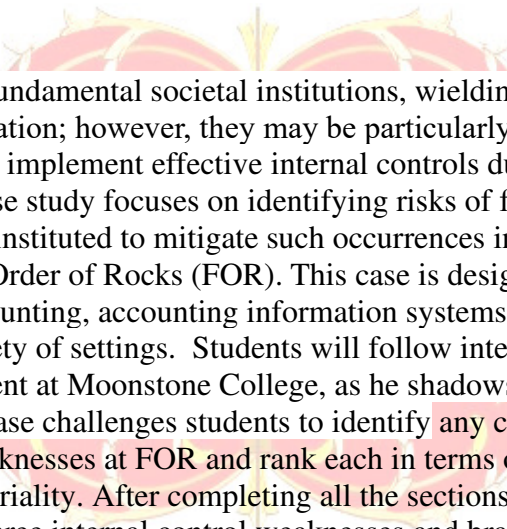
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ABSTRACT



Nonprofits stand as fundamental societal institutions, wielding an indispensable impact on communities across the nation; however, they may be particularly susceptible to occupational fraud due to their inability to implement effective internal controls due to limited monetary and employee resources. This case study focuses on identifying risks of fraud and explores the internal controls that can be instituted to mitigate such occurrences in a fictitious nonprofit organization, The Fraternal Order of Rocks (FOR). This case is designed for students in governmental/nonprofit accounting, accounting information systems, and audit courses, but could be used in a wide variety of settings. Students will follow intern Alex Quartz, a senior studying business management at Moonstone College, as he shadows employees and board members of the FOR. This case challenges students to identify any concerns, behavioral red flags, or internal control weaknesses at FOR and rank each in terms of the likelihood of fraud occurrence and level of materiality. After completing all the sections, the case challenges students to identify the top three internal control weaknesses and brainstorm suggestions for best steps to take for each issue.

Keywords: Fraud, Internal controls, Nonprofits, Fraud risks, Occupational fraud

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INTRODUCTION

Nonprofit Entity Classification Criteria

Under the provisions of IRS Code 501(c)(3), entities have the opportunity to attain tax-exempt status by adhering to specific organizational requirements. The following provides an overview of the criteria essential for an entity to achieve and maintain the 501(c)(3) status. The regulatory framework encompasses five distinct organizational types, each subject to nuanced prerequisites for compliance:

- Charitable Organizations,
- Churches and Religious Organizations,
- Private Foundations,
- Political Organizations, and
- Other Nonprofits.

All 501(c)(3) organizations are subject to general requirements. First, these entities must be organized and operated exclusively for exempt-purposes; these classifications are charitable, religious, education, scientific, literary, testing for public safety, fostering national or international amateur competition, and preventing cruelty to children or animals (Internal Revenue Service, 2023a). Second, none of the entity's earnings should benefit a private shareholder or individual (Internal Revenue Service, 2023b). Third, the entity may not be an action organization, meaning they "may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates." (Internal Revenue Service, 2024).

A Fundamental Societal Institution: The Indispensable Impact of Nonprofits

Nonprofits stand as a fundamental societal institution, wielding an indispensable impact on communities across the nation. They serve as beacons of hope, significantly impacting both the societies and economies around them. Nonprofits contribute to various areas, including education, health, youth nutrition, medical research, and poverty alleviation. For example,

- Feeding America (n.d.) distributed 5.3 billion meals in 2023;
- St Jude Children's Research Hospital (n.d.) has invented treatments that have helped push the overall childhood cancer survival rate from 20% to over 80% since 1962 all while never billing a single family because: "All a family should have to worry about is helping their child live;" and
- Salvation Army (n.d.) assists over 20 million Americans each year overcome poverty, addiction, and economic hardships.

The 1.5 million nonprofit organizations in the United States employ roughly 10% of the US workforce making it the third largest sector in terms of employment. During a recent fiscal quarter, the nonprofit sector contributed nearly \$1.5 trillion to the US economy and accounted for 5.7% of the US Gross Domestic Product ("26 incredible nonprofit," 2023). These figures underscore the profound importance of these organizations in shaping a functional and flourishing society. Nonprofits embody the collective spirit of generosity, empathy, and communal responsibility, reminding us that our shared humanity thrives when we come together to uplift those in need.

A Suffering Victim of Fraud

Occupational fraud, characterized by employees engaging in fraudulent activities against their employers for personal gain, represents a highly detrimental form of misconduct within the nonprofit sector (ACFE, 2022). This case study focuses on occupational fraud and explores the internal controls that can be instituted to mitigate such occurrences. As reported in the Association of Certified Fraud Examiners (ACFE) Occupational Fraud: Report to the Nations (2020), the average financial loss attributed to occupational fraud cases involving nonprofits amounted to \$639,000. Given the substantial magnitude of this figure, nonprofit organizations face severe repercussions, experience potentially irreparable damage, and may misallocate public donations thus decreasing donor trust. An illustrative example is found in the Feeding Our Future program, where Aimee Bock and numerous accomplices orchestrated a fraud scheme involving counterfeit documentation, money laundering, establishment of shell companies, and other tactics, resulting in the misappropriation of a quarter of a billion dollars (United States Department of Justice, 2022). The Feeding Our Future scandal exemplifies a broader challenge faced by nonprofits, underscoring the critical need for effective preventative measures.

Nonprofits are particularly susceptible to occupational fraud due to their constrained resources, limited oversight capabilities, and higher opportunity cost associated with implementing internal controls compared to other entities (ACFE, 2020). Notably, Donald R. Cressey's contribution to fraud detection through the development of the "fraud triangle" provides a valuable tool for identifying potential fraudulent situations. The triangle is comprised of three elements: opportunity (circumstances or situations that may allow an individual to commit fraud without being detected), rationalization (the mindset of the individual committing fraud, where they justify their actions to themselves as being acceptable or necessary), and pressure (the financial or emotional pressure that an individual may experience, which drives them to commit fraud) (Cressey, 1953). Within nonprofit organizations, the scarcity of resources often renders 'opportunity' prevalent in various operational procedures. When combined with the presence of rationalization or pressure, the likelihood of fraudulent activities occurring increases.

Effective Internal Controls to Counteract Fraud

Internal controls are processes designed to provide reasonable assurance regarding the achievement of objectives in:

1. Reliability of financial reporting,
2. Compliance with laws and regulations, and
3. Effectiveness and efficiency of operations.

As previously noted, nonprofit organizations often face resource constraints when implementing internal controls. Hence, it is imperative for them to optimize efficiency and effectiveness while doing so. To identify the most significant fraud vulnerabilities, organizations should conduct a comprehensive assessment that evaluates several key factors: materiality (a fundamental concept in financial reporting; determines the significance of an item or transaction, with higher materiality indicating a greater impact on the organization), likelihood of occurrence (understanding the probability of a fraud vulnerability being exploited), and cost-benefit analysis (weighing the costs associated with implementing countermeasures against the potential losses that would be incurred as a result of the vulnerability).

To further enhance the effective implementation of internal controls, nonprofits should consider using The COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control Framework. It is a widely recognized framework used by organizations to design, implement, and evaluate internal control systems. It provides a structured approach to managing and monitoring an organization's activities to ensure that its objectives are achieved effectively and efficiently. At its core, the COSO framework is comprised of five interrelated components, each contributing to the establishment and assessment of internal controls as shown in Figure 1 (Appendix) (Kollberg, 2024).

Control Environment

The control environment forms the foundation, setting the tone for ethical behavior and integrity within the organization. This is exemplified through activities such as implementing a code of conduct and conducting ethics training sessions to foster a culture of compliance and accountability.

Risk Assessment

Risk assessment plays a crucial role in identifying and managing risks that may impede the achievement of organizational objectives. Internal control activities related to risk assessment involve regular risk assessments, implementation of controls to mitigate identified risks, and monitoring changes in the risk landscape to adapt controls accordingly.

Control Activities

Control activities encompass the policies, procedures, and practices established to ensure that management directives are effectively carried out. Examples of internal control activities aimed at ensuring operational effectiveness and reliability are:

1. Segregation of Duties: This recommends that authorization, recording, and physical custody of an asset should be separated.
2. Authorization Policies: These can be varied and broad. It is important that they are documented and consistently followed.
3. Adequate Documentation: Ensure that all documents such as checks and invoices are sequentially numbered and that all are accounted for, including voided documents.
4. Physical Controls: This is as simple as locking up valuable items. But, while simple, it is a control that is often ignored because people find inconvenience in repetitive tasks that do not have immediate positive effects.
5. Reconciliations: These are activities such as cash counts, audits, physical inventory counts, and bank reconciliations.
6. Competent and Trustworthy Employees: Mandatory vacations, rotation of duties, bonding, and background checks.

If any one of these control activities are not in place, the opportunity to commit fraud arises. Inadequate segregation of duties, absence of monitoring controls/oversight, unauthorized access to physical assets, and poor reconciliations of key accounts, are all examples of how the opportunity to commit fraud can become so large in a nonprofit organization that is unable to devote mass resources to employing sufficient internal controls.

Information and Communication

Information and communication processes facilitate the flow of relevant information throughout the organization, ensuring timely and accurate communication of control responsibilities and deficiencies. Internal control activities in this component may include implementing information systems controls to protect data integrity and confidentiality and establishing reporting channels for control-related issues.

Monitoring Activities

Monitoring activities form the final component of the COSO framework, involving ongoing evaluations of the effectiveness of internal controls. Management reviews, internal audits, and periodic assessments of control effectiveness are examples of monitoring activities aimed at ensuring that internal controls operate as intended and promptly identifying and addressing any deficiencies.

Behavioral Red Flags

In conjunction with the COSO framework, considering “behavioral red flags” exhibited by potential fraudsters can further enhance fraud detection efforts. Identifying these red flags can help organizations proactively mitigate risks and safeguard against occupational fraud. Several significant behavioral red flags worth emphasizing are:

1. Living beyond means: Approximately 39% of perpetrators of occupational fraud exhibit signs of living beyond their reported means (Association of Certified Fraud Examiners [ACFE], 2024). This behavior may manifest as unexplained wealth, extravagant spending, or a lifestyle incongruent with their reported income.
2. Financial difficulties: Approximately 27% of perpetrators of occupational fraud exhibit financial difficulties (ACFE, 2024). These difficulties may include personal debt, gambling problems, or other financial pressures. Employees facing financial strain may be more susceptible to rationalizing fraudulent actions as a means of alleviating their financial burdens.
3. Unusually close association with vendor/customer: Approximately 20% of perpetrators of occupational fraud exhibit an unusually close relationship with vendors or customers (ACFE, 2024). These relationships could lead to receiving kickbacks, engaging in collusion, or providing preferential treatment.
4. Other red flags include having no behavioral red flags, unwillingness to share duties, and/or irritability, suspiciousness, or defensiveness.

By incorporating the consideration of these behavioral red flags into their fraud detection efforts alongside the COSO framework, nonprofit organizations can strengthen their internal control systems and effectively mitigate the risk of occupational fraud. Vigilance in monitoring employee behavior for these warning signs can contribute to a proactive approach to fraud prevention and uphold the integrity of nonprofit operations.

IDENTIFYING AND MITIGATING FRAUD RISK FOR THE FRATERNAL ORDER OF ROCKS

The Fraternal Order of Rocks (FOR) was founded in the United States in 1903 in Milwaukee, Wisconsin. Originally founded as a men's social club, it greatly expanded its purview throughout the 20th Century to become a place for families and friends to gather, and to pursue a large number of community-based service events. FOR is organized and operated exclusively as a charitable organization and has a 501(c)(3) filing status with the Internal Revenue Service (IRS).

The local lodge in Moonstone, Kansas was established more than 80 years ago and is an integral part of the community. The original building, which houses office space and a large event space, remains its home to this day. The Moonstone lodge is governed by an executive director and a volunteer board of directors, and it relies heavily on member volunteers to carry out its various initiatives.

The Moonstone lodge employs a small staff on a full-time, permanent basis:

- Shay Agate, Executive Director and primary administrator
- Kelly Sapphire, Office Manager and bookkeeper
- Indigo Topaz, Outreach Director
- Quinn Ruby, Stores Manager and primary bartender

The Moonstone lodge volunteer board of directors numbers nine in total, three of whom serve as officers:

- Toni Diamond, Board President
- Jess Emerald, Board Treasurer
- Bo Onyx, Board Secretary

Now that Shay has been in the executive director position for a few years, she has a strong grasp of the parameters and duties and finds that she is far busier than she would like to be. Particularly since she is salaried, she has been considering how to lighten her load and work less hours.

At the board of directors' meeting two months ago, she presented a plan to the board that involved the eventual hire of a full-time assistant to help her with some of the more tactical duties, such as ensuring their insurance policies are up to date. This will provide her with more time to dedicate to the more strategic elements of her job, such as meeting with local legislators and grant writing. The board agreed to her plan and the timeline, starting with approval to hire an intern.

Shay hired Alex Quartz. Alex, a senior studying business management at Moonstone College, will spend time shadowing each full-time employee and meeting with each of the board officers of the Moonstone lodge so that he can learn all the lodge's operations. Shay also wants a set of fresh eyes on the employees and board officers along with their duties as she has an uneasy feeling that some things are not as they should be. As such, she decided to leave Alex's meeting with her to the very last, after he has seen all the operations and governance in action.

Shay provides Alex with directions for interacting with each person: "Observe, learn what each person does in their role, and take careful notes of any concerns, behavioral red flags, or internal control weaknesses that come to your attention. Also, keep a list of questions for me so that when we meet, we can go over them." Alex remembers learning about internal controls and behavioral red flags for occupational fraud in his accounting courses. He is glad that he kept

the textbooks as reference resources so that he can review internal controls, what constitutes internal control weaknesses, and what sorts of behavioral red flags to be on the lookout for.

Alex was excited about the opportunity this internship presented him with. He knew that if all went well, he would be hired full-time soon after graduation. The idea of working for a prominent nonprofit organization involved with a great many community-based service events appealed greatly.

1. Alex shadows Quinn Ruby

Alex shadows Quinn Ruby, the Stores Manager and primary bartender. Quinn has been in his current role for eight years and earns \$18 per hour (\$36,000 per year). He has worked at the Moonstone lodge for 14 years, starting off as a bartender. He is responsible for overseeing the procurement of liquor, beer, wine, liqueur, fruit, and mixers, and inventory control and management. He also trains and supervises all part-time and volunteer bartenders.

The first person Alex was to shadow was Quinn Ruby. Quinn greeted Alex warmly, welcoming him, and asked questions about Alex's classes. Alex could see how Quinn would make an excellent bartender, the way he instantly made him feel at home.

Quinn started off with a complete tour of the event space and the bar. As Alex took it all in, he was impressed by the apparent complexities of operating a bar with all the different sorts of alcohol, mixers, glassware, and related accoutrements.

"How do you keep it all straight?" he asked Quinn.

"Ah, I've been doing this for years! It's all second nature to me," Quinn replied with a smile. "Let's take a look at the storeroom."

Quinn took a ring of keys from his pocket and unlocked a door to the left of the bar. He opened the door and switched on the lights. Alex was amazed at the sheer size of the space, which was filled floor to ceiling with large shelves holding boxes, cans, bottles, and crates. Immediately to the right was apparently a walk-in cooler.

"Wow! This place is huge!" Alex was nearly shouting.

"It's something, right?" Quinn agreed.

"I've never seen anything like it!"

Alex started to walk down one of the aisles, looking up and down at all of the various items of inventory. "How do you keep all of this straight?" A troubled look crossed Quinn's face.

"Well, I'm actually having some issues with the inventory. I mean, I keep good records, and I know how much to order and all, but..." Quinn trailed off. "It's the darndest thing."

Alex waited. After a long pause Quinn continued, "I don't know why or how, but some of the inventory seems to just disappear sometimes. I'll swear that I've ordered enough alcohol for a special event, but then we come close to running out during the event. I simply don't understand what's going on."

Alex felt uncertain, not sure what to say next. Then he asked, "Can I see how you keep the inventory records?"

Quinn brightened. "Yes! Over the years I have perfected a good record keeping system for all of this inventory." He proceeded to show Alex the ledgers he kept for the various inventory items. The ledgers were kept on a shelf near the door of the storeroom, and each ledger was for a specific class of inventory, such as for alcohol. As Alex looked through one of the ledgers, he could see that they were meticulously kept in black ink with places for dates, purchases, dispatches to the bar or to events held off premises, amounts, etc. On one page Alex

noticed a neat line crossing through an entry, with an apparent correction below it. He asked Quinn about it.

“When I track down a discrepancy in the inventory, I correct it,” Quinn said. “I figure I’ve made a mistake somewhere, and I don’t want to appear incompetent with my inventory recordkeeping.”

Alex nodded in an understanding way. “Okay. Hey! Can you show me how to make an Old Fashioned?”

“You’ve got it,” laughed Quinn. As they made their way back to the bar, Quinn carefully locked the storeroom door, then checked it to ensure that it was secure.

- After Alex meets with Quinn Ruby, the Stores Manager and primary bartender, he reflects on his observations.
- Identify any concerns, behavioral red flags, or internal control weaknesses Alex may have noticed at this time. How serious is each concern? Rank each concern on a 1-to-10 scale (10 is the most serious). For each item identified, also include notes on likelihood of fraud occurrence and level of materiality.
- For example, a concern Alex identifies is that Quinn mentioned that some of the inventory seems to just disappear sometimes. Alex might rank the seriousness of this as 8, he thinks that it is fairly likely that fraud is taking place, and it could be very material depending on how much inventory is disappearing and how expensive it is.
- These notes will prove helpful at the end of the case when Alex will need to choose the three most serious issues for discussion with Shay.
- Also start a list of questions for Alex to ask Shay.

2. Alex shadows Indigo Topaz

Alex shadows Indigo Topaz, the Outreach Director. Indigo has been the outreach director for seven years and earns \$17 per hour (\$34,000 per year). Indigo’s duties include fundraising, volunteer coordination, and event planning, and he is a longtime member of FOR.

Alex first met with Indigo Topaz, a soft-spoken person, on the morning of a large special event FOR was hosting at the Moonstone lodge. Indigo shared the genesis of the event with Alex. “Not long ago, Shay became aware of a local child battling cancer. The child was not doing well on traditional treatments, so his doctors wanted to try an experimental procedure. Unfortunately, insurance would not cover the treatment and the child’s family cannot afford it. Shay shared the information with me, so I organized this fundraiser this evening to benefit the family.

“Tonight’s event will charge \$10 per person for a chili dinner, donated by the local restaurant Charoite’s Chili and More, and live music, also donated. One of our members is in the band that is playing tonight. Once inside, we will auction off several donated items and encourage cash donations in various ways. While checks are accepted, cash is preferred as it can be passed on to the family tomorrow. Credit cards are not accepted to avoid fees and maximize the donation to the family. All this information was heavily advertised, so attendees are expected to come prepared.”

“This all sounds great,” Alex said. “I am looking very forward to attending this evening. Is there anything I can do to help?”

“Definitely,” replied Indigo, “you can help Binh with the auction. She’s a longtime member and volunteer, but the auction itself will probably be pretty busy. I imagine she would appreciate your help.”

That evening, Alex wanted to take in as much information as possible so that he could understand how a fundraising event was orchestrated. He arrived on the early side, but Dawson, a member-volunteer was already stationed, ready to take admission fees. Alex noted that Dawson was equipped with a cash box and a clipboard with paper, presumably to take a tally of attendees. Alex asked if admittance tickets were to be issued, but Dawson said, “no, folks can just help themselves to the dinner once they’ve paid their admission fee to me.”

Alex paid the \$10 in cash for his admittance and went inside. The space was completely transformed from its state early this morning, and Alex was impressed. The lighting, music, and ambiance were perfect. He felt a sense of pride as he headed over to the bar to say hello to Quinn. Quinn greeted him warmly and they exchanged “good lucks” for the evening. It was due to be a full house tonight.

Alex next went over to the stage where the band, the Lawn Flamingoes, was setting up. He introduced himself to Marlo, the FOR member who played the bass. Marlo was dressed in a very loud Hawaiian shirt, cargo shorts, and flip-flops. He was setting up a large donation jar at the front of the stage. A sign accompanied it: “\$25: We’ll play any request; \$50: We’ll stop playing any song; All donations appreciated!”

Then Alex caught sight of a woman carrying a large wooden box with a slot in the top. He waved at Marlo and went to see if he could lend a hand. The woman introduced herself as Trinidad, an FOR member and volunteer, and politely declined his offer of help. She explained that she and her family were setting up the boxes around the space to collect other cash donations for the evening. They were planning to monitor the boxes throughout the evening to ensure security. Alex then noticed three other similar boxes; all being similarly placed. He left Trinidad and made his way to the auction area near the back of the room.

Alex introduced himself to Binh and her husband Bay, who were running the auction. Both were very appreciative of Alex’s offer of help for the evening. Long tables were set up with various donated items up for auction. Alex was impressed with the array, everything from small household appliances to framed paintings to gift certificates to local stores were on display. Binh explained the plan: Periodically throughout the evening, while the band was on a break, Bay would auction off a specified group of items. As an item was sold, the buyer would come up to Binh’s table to pay for that item in cash. Binh had a cash box and a clipboard with paper to take notes or to make calculations. Alex would help people find their purchased items from the tables and direct them to Binh to pay.

The event was a tremendous success, and everyone was exhausted by the time everyone cleared out, and they cleaned up after the event. Since it was so late, they agreed to have the respective volunteers take their donations home, count them, and meet back at the lodge at 9:00 the next morning. At the lodge, they would combine the cash and deliver it to the family along with a big card signed by everyone during the event.

As scheduled, Indigo, Alex, Dawson, Binh, Marlo, and Trinidad met at 9:00.

- Dawson said he forgot to count attendees but estimated that around 150 people attended. He turned in \$1,320 in cash, and checks totaling \$200 written out to Fraternal Order of Rocks.
- Binh turned in \$2,275 in cash collected from the auction.

- Marlo turned in \$300 from song requests.
- Trinidad, whose family managed the donation boxes, brought in \$3,890 (\$2,100 in checks written out to Fraternal Order of Rocks and \$1,790 in cash).

After the sorting and organizing, Indigo thanked the member-volunteers for their hard work and dedication.

“I’ll be right back, Alex,” Indigo said as he went up the stairs. He returned shortly with a large binder. As he opened it, Alex could see that it was a set of business checks. Indigo took the set of checks written out to Fraternal Order of Rocks, recounted the amounts, and wrote a check for \$2,300 for the family. He then signed it and ripped it out of the binder.

“Let me run these personal checks back up to Kelly’s office so that she can deposit them, and then we’ll go,” Indigo told Alex.

Then, Indigo, along with Alex, who was grinning from ear to ear, took the family the \$2,300 check, \$5,685 in cash, and the card.

“Wow,” Alex said to Indigo as they were headed back to Indigo’s car, “that was amazing!”

Indigo, in his soft-spoken way, simply nodded.

“What’s next?” Alex inquired.

“Well, it’s near the end of the month, why don’t you come along with me to check the donation boxes? Normally I do this on my own, but since you’re here, you can join me.”

“Great!” Alex was aware of these boxes – locked donation stations located throughout the city so that people could make spontaneous donations to FOR. Alex knew there were many of them but wasn’t sure how many there were or where they were all located. He soon found out.

Indigo handed Alex a map with a route and all the locations of the boxes. This was going to take the rest of the day! Alex counted silently to himself, ...19, 20. “There are 20 of them?” he asked.

“Indeed,” came Indigo’s quiet reply. Then he motioned to a plastic box in the backseat of his car. “There you will find a bank bag and a clipboard. We will need them.” Indigo started driving to the first box location on the route.

Alex looked at the paper log on the clipboard. On it were spaces for date, box location, and amount of cash and checks in total per box. “Shall I start filling this out?”

“Yes,” Indigo said, “and write neatly as I will need to transcribe it to an electronic spreadsheet later.”

They soon arrived at the first box’s location. Indigo took a key ring from his pocket, sorted through the keys, and then unlocked the padlock securing the box. Inside was a pile of crumpled bills, some coins, a gum wrapper, and a couple of folded checks. Alex scooped the lot out of the box, Indigo closed and locked the box, and they returned to the car to count and log the cash and checks. This box yielded a total of \$173.68. Alex noted the information carefully in the log and Indigo placed the checks, coins, and currency into the bank bag.

They continued along the route, checking boxes, logging amounts, and accumulating checks and cash in the bank bag. They enjoyed lunch at the local restaurant Sedimental Value where Box 8 was located. After logging the final amounts after Box 20, they had \$3,491.92. Alex was amazed at the clear level of generosity of Moonstone’s residents.

“What happens next?” Alex inquired, as they pulled into the lot at the lodge.

“Next, I transcribe all the information you recorded today into an electronic spreadsheet, then I email this to Kelly Sapphire, the bookkeeper. I will take care of this today. Then she and I will make arrangements to meet to hand off the full bank bag and replace it with an empty one. At times, this can take up to a week, as she is busy and often not at the lodge. Then she will make the deposit to the bank.”

“Great,” said Alex. “Well, thank you so much for your time over these past couple of days, Indigo. I really enjoyed working with you.”

“You are most welcome,” Indigo replied.

- After Alex meets with Indigo Topaz, the Outreach Director, he reflects on his observations.
- Identify any concerns, behavioral red flags, or internal control weaknesses Alex may have noticed at this time. How serious is each concern? Rank each concern on a 1-to-10 scale (10 is the most serious). For each item identified, also include notes on likelihood of fraud occurrence and level of materiality.
- Continue the list of questions for Alex to ask Shay.

3. Alex shadows Kelly Sapphire

Alex shadows Kelly Sapphire, the Office Manager and bookkeeper. Kelly has been in her role for 26 years and is considered a cornerstone of the lodge. She earns \$21.50 per hour (\$43,000 per year).

Alex knocked on Kelly Sapphire’s door at the appointed time, 10:00 on Tuesday morning, and when it opened, he was greeted, along with subtle scents of cinnamon and nutmeg, by a small beaming woman who immediately welcomed him in. “Hello, hello!” she exclaimed,

“I am so happy to meet you, Alex!”

“Thank you so much, Kelly. I appreciate your time in working with me while I learn all about the operations here,” Alex replied.

“Oh, it’s nothing,” she replied. “I’m happy to hear that Shay may be getting a wonderful new assistant. She works way too hard! Would you like a cookie?”

Alex took a cookie from the offered plate and quietly munched on it while listening to Kelly explain her daily routines and duties. Wow, he thought to himself, she really does a lot around here. She not only keeps all of the accounting records, but she also checks the mail at the main post office, collects all cash receipts from Indigo and Quinn and makes all of the bank deposits at the bank, does the payroll, acts as the office manager for any part-time clerical and volunteer workers, creates all month-end financial reports for the board, reconciles all accounts, and pays all the bills.

“My goodness,” said Alex, “how on earth do you keep up with all of that?”

“I’ve been doing this for years and years,” Kelly replied. “I have great systems in place, and honestly, some of the work just does itself. Everyone seems to think my systems are complicated, but they work perfectly for me.”

“Really?” Alex asked, wondering how any sort of work could do itself. “Tell me about your systems.”

Kelly showed him the various programs on her computer (quite a nice computer setup, thought Alex, as he observed the crystal-clear images on the gigantic, curved monitor) while she explained her systems.

“I use spreadsheets that I developed years ago to log all incoming cash and checks, whether they come in the mail or from Indigo or Quinn. I log the date received, the name of the individual or other entity if available – oftentimes we receive cash anonymously, such as with the donation boxes; the amount, and the account number for the receipt of cash.”

“If any amounts received are from donations or grant proceeds, I log them into DonorsRock!, the donor management software. This enables Shay to send timely acknowledgements to named donors, and to keep track of grant proceeds.

“Then I prepare the checks and cash for deposit at the bank and make the deposit, usually the next day. Finally, I log everything into ChalkBooks, the accounting software.”

“So, your spreadsheets help you log everything into the other systems?” Alex asked.

“Yes,” Kelly replied. “The accounting software is a giant pain, but it is needed in order to create the month-end financial reports that the board wants.”

She continued, “I have similar systems set up to pay bills, which I do on a weekly basis, and for payroll, which I do every other week. A time saver is that I can sign the checks myself. Then, once a month, I prepare the bank reconciliation.”

“Is the bank reconciliation run through ChalkBooks?” Alex asked.

“No,” Kelly replied, “ChalkBooks is independent of everything. Really, the only thing I do use it for is the monthly financial reports for the Board. If I didn’t have to use it, I wouldn’t. And then to make matters worse, the treasurer breathes down my neck at the beginning of every month, demanding her reports.”

Alex was quiet for a moment while trying to understand how the work was ‘doing itself’ when all of these systems were separate. But then, he sure wasn’t trained in accounting, so who knows. Maybe a question for Shay, later.

While contemplating, he noticed a large key ring on Kelly’s desk. “That’s sure a lot of keys!”

“Oh yes,” Kelly replied, patting them possessively. “I have a key to everything at the Moonstone lodge. It’s very helpful for those times when people forget or lose their own keys.”

“Makes sense,” Alex agreed. Then he wondered, “You mentioned part-time and volunteer help. What do they do to help you?”

“Oh, typically small jobs such as filing, or transcribing information from my spreadsheets into ChalkBooks,” Kelly said.

“Well, I am impressed that you run such a tight ship here,” Alex said, meaning it. Everything in Kelly’s office was clearly well organized, and it was neat as a pin.

“Thank you, Alex,” Kelly replied with a kind smile, “I appreciate it. And now,” Kelly glanced at her watch, “I need to get going. I believe we are set up to meet again later this week?”

“Yes,” Alex replied. “I will see you on Friday.”

Alex walked out with Kelly to the parking lot. Alex was feeling content and looking forward to this evening. He and his girlfriend had plans to check out the riverboat casinos and have dinner down by the Moonstone River. As he got into his car, a 12-year-old Toyota Corolla, he was astonished when he realized which vehicle was Kelly’s. It looked like a brand-new Lincoln Navigator, and she looked like she was climbing a ladder just to get into the huge thing. She caught his look, waved, and smiled at him. Alex waved back, still feeling a bit of shock. Maybe I’m going into the wrong field, he thought. It looks like accountants have it made!

Later that evening, Alex was surprised to see Kelly again. She was clearly focused on the game of blackjack she was playing as she didn't notice him. Wow, Alex thought, maybe accountants really do have it made! Just look at the stacks of chips on the table next to her. Maybe she's so good with numbers that she's also very good at blackjack, and that's how she can afford such an expensive car.

When Alex arrived at Kelly's office on Friday morning, she was not nearly as cheerful as she was the last time. "What's wrong?" Alex asked. His mind immediately went to the memory of her at the casino Tuesday evening. Had something gone wrong after he saw her?

"Oh, I'm just feeling frustrated," she replied. "The board wants us to implement another system! They said we need an updated point-of-sale system so that they can prepare reports for the national office of Fraternal Order of Rocks. Honestly, the last thing I need is another system to keep up with! I know nothing about these point-of-sale systems... Wait!" she interrupted herself, "My brother Reed knows all sorts of stuff about technology. Maybe he can help!"

"Sounds promising," Alex said. "What does he do?"

"Oh, I don't know," Kelly said dismissively, "something tech-ish. I'll send him an email after our meeting today."

"Well, then, where were we?" Kelly returned her attention to Alex.

"I think we were going to look at vendor files and how you pay the various bills," Alex offered.

"Ah, yes," Kelly's smile returned. "We have a lot of vendors, and even more now since we are having significant lodge renovations starting." Alex nodded. Outside of Kelly's immaculate and up-to-date office, the building was clearly showing its age.

Kelly launched into her lesson for Alex. "ChalkBooks is actually a useful tool for creating new vendors, even though I still pay all our bills with paper checks. Here," she paused, rummaging through a file box on her credenza, "ah, yes, this is what I was looking for. This is a new vendor that was hired to update the electrical."

Alex glanced at the invoice, and then did a double take. What caused Alex to pause was the name of the vendor, 'Kelleigh's Handywork' as it did not seem a likely name for an electrician. Then he shrugged it off as Kelly continued.

"Here is where we add new vendors in ChalkBooks," she continued. Alex followed along as Kelly added the information into the system from the invoice. It struck him that Kelly must be very sharp as she barely glanced at the invoice as she entered the information into the various fields.

"Okay, now we are ready to pay this vendor," Kelly said as she reached for a large binder that Alex recognized from when Indigo wrote a check for the family after the fundraising event. Kelly deftly wrote out the check (made out for an even \$2,000), signed it, then carefully ripped it out of the binder.

She folded the invoice into thirds and was reaching for an envelope when Alex interrupted, "Don't you need to make a copy of the invoice? For your records?"

"Oh, no. No need," she replied as she stuffed the envelope, stamped it, and added it to a similar pile of envelopes nearby.

"Alright, Alex," she said, gathering up the stack of envelopes, "I need to run to the post office and on some other errands. When are we due to meet again?"

"Next Tuesday morning at 10:00," Alex replied, gathering his things to leave.

“Wonderful. See you then, dear,” Kelly said with a smile. “Oh, and don’t forget to get a cookie on your way out!”

As Alex walked to his car munching on his cookie, he felt something tugging at his brain. Something wasn’t quite right, but he couldn’t figure out what. Oh well, he thought to himself, I need to study for my leadership exam tomorrow.

When Alex arrived at Kelly’s office on Tuesday morning, Kelly greeted him with a broad grin. “Guess what?” she queried.

“What?” asked Alex, locating the cookie plate.

“It turns out that my brother is in the exact sort of business that the lodge needs!” She was clearly nearly bursting with enthusiasm.

“Oh!” said Alex, “So he does point-of-sale systems? That’s amazing!”

“I know!” Kelly replied. “It’s perfect. He the vice-president for Stony Stark Industries, which specializes in various software system development, including all-in-one point-of-sale systems. He said he will put the proposal together for me to present to the board. One thing off my plate!”

“That’s such good news, Kelly,” Alex agreed. “Okay, what tasks do you have for me today?”

“Here, you can sit here,” Kelly gestured toward her chair and workstation. “I’ve opened the most recent spreadsheets for cash receipts and cash disbursements. Some of these are ones that I’ve made, and there is one from Indigo as well. I need you to log everything into ChalkBooks.”

“Sounds good,” said Alex, clicking on the first cash receipts spreadsheet.

“I’ll be back later,” Kelly said. “If I’m not back by the time you are done, I will see you next time, okay?”

“Okay,” Alex replied, clicking on the appropriate tab in ChalkBooks.

“Remember to close the door behind you, but don’t lock it. Other employees sometimes need access for office supplies or to access the petty cash drawer.”

“Got it. See you later!” Alex focused in on his task at hand.

When Alex finished the cash receipts, he brought up the cash disbursements spreadsheet. As he was going through the various checks that were written, according to the spreadsheet, he recognized one: ‘Kelleigh’s Handywork,’ except that the amount didn’t match with what he remembered when he watched Kelly write the check. The line on the spreadsheet indicated an amount of \$200, but he could have sworn it was \$2,000 when she wrote the check. Hmm, he thought. I’ll have to ask her about it the next time I see her. Alex entered the information as indicated on the spreadsheet and continued until the task was complete.

When he was done, he got up, stretched, and looked around Kelly’s office. It was such a nice space, he thought. He wondered why she didn’t spend more time here, but then decided that she likely always had a lot of errands to run for the lodge since she had so many responsibilities.

Alex turned to go, then noticed something shiny out of the corner of his eye. He turned to look and noticed a partially open cabinet door near the back corner of the office. The cabinet reached floor to ceiling, with three doors along its length. The bottom door was the one that was slightly ajar. Alex moved closer and saw what had caught his attention: an unopened bottle of Johnnie Walker Blue Label Scotch. Alex opened the cabinet door more fully and gasped. The cabinet was filled with very expensive-looking alcohol, all unopened. He was afraid to look in

the other cabinets; this all felt very wrong. He closed the cabinet and hurried out the door, pulling it closed behind him. He left the lodge as quickly as he could, his heart pounding. His mind was whirring a million miles a second, trying to figure it all out. What did this mean? He kept seeing Quinn in his mind's eye, talking about inventory seemingly going missing from the storeroom. What did this all mean??

By the time Alex arrived at his home, he decided that it, whatever it was, was none of his business. He was an intern, and he was there to learn. Nothing more. This made him feel a bit better.

- After Alex meets with Kelly Sapphire, the Office Manager and bookkeeper, he reflects on his observations.
- Identify any concerns, behavioral red flags, or internal control weaknesses Alex may have noticed at this time. How serious is each concern? Rank each concern on a 1-to-10 scale (10 is the most serious). For each item identified, also include notes on likelihood of fraud occurrence and level of materiality.
- Continue the list of questions for Alex to ask Shay.

4. Alex meets with Toni Diamond

Alex meets with Toni Diamond, Board President. Toni has been in her current role for two years but has served on the board as a director at large for the past eight years. Her education and experience make her ideal in this role, and she is expected to stay in the presidential role for the foreseeable future. She has the strong backing of both the board and the local FOR membership.

Alex's time with Toni Diamond was much more informal and was intended more as a time for Q and A. They met at the local coffee shop downtown, Igneous is Bliss, and sat in comfy chairs. Toni immediately made Alex feel at ease with her casual demeanor, and also let him know that the lodge was paying and to order anything.

Toni first brought Alex up to speed with the major projects the organization was working on, starting with the updated point-of-sale system soon to be implemented. "This system will enable us to prepare reports for the national office of Fraternal Order of Rocks," Toni explained. "The lodge's office manager, Kelly Sapphire, located a great resource for this – Stony Stark Industries. The system will meet all our requirements along with being just within the established budget.

"Our next big project consists of priority-one renovations on our 80-year-old building," Toni continued. "The board met with Shay and her team to prioritize what needs to be done immediately, if not sooner. Upgrades to the antiquated plumbing, for example, are a top priority, while updates to door locks and a new security system are lower priorities." Alex wondered where upgraded electrical systems fit into the priority list but didn't feel comfortable enough to ask. He made a mental note to ask Shay about it later.

"The building renovations have been prioritized as such to buy us at least a few years," said Toni. We have an amazing opportunity to have a new building built, but wow," she paused reflectively, "it's already become a monster project and we haven't even broken ground yet." Toni went on to explain to Alex that the new building project had been nicknamed the Lawsonite Lodge due to the endless delays on the project, thus making its eventuality akin to the extremely rare gemstone lawsonite.

“It started with a donation of \$1 million from a donor who wishes to remain anonymous. You’d think a million dollars would go a long way,” Toni sighed, “but it just doesn’t. If it’s not one thing it’s six others, from zoning issues on the property we’ve acquired, to constantly rising building supply costs, to an apparent inability on the architect’s part to design a building that is within our budget parameters.”

“Wow,” said Alex, “there is really a lot going on!”

“Yes, yes, there is,” Toni agreed, “never a dull moment! What questions may I answer for you, Alex?”

“This may sound silly,” Alex said, “but why would you want to be president of a board of directors for a nonprofit organization? It’s volunteer work, right?”

“It’s not at all a silly question, Alex. Sometimes people look for opportunities to share their skills and experience in ways that don’t involve money, fame, or fortune. I genuinely believe in the mission and vision of the Fraternal order of Rocks, and I am passionate about being able to give back in a meaningful way,” Toni answered.

“That’s so cool,” said Alex. He went on to ask Toni more about her experience over the years and her fairly recent decision to step up to the position of board president. They chatted easily for the next half hour. Alex felt inspired by Toni’s leadership and thought that he would look for similar opportunities for himself down the road once he was established in a good position after graduation. Maybe this is something he could ask Shay about as well.

- After Alex meets with Toni Diamond, Board President, he reflects on his observations.
- Identify any concerns, behavioral red flags, or internal control weaknesses Alex may have noticed at this time. How serious is each concern? Rank each concern on a 1-to-10 scale (10 is the most serious). For each item identified, also include notes on likelihood of fraud occurrence and level of materiality.
- Continue the list of questions for Alex to ask Shay.

5. Alex meets with Jess Emerald

Alex meets with Jess Emerald, Board Treasurer. Jess has been the treasurer for four years and was specifically recruited to the position due to her accounting background. She is a licensed CPA in Kansas and has over 15 years’ experience. She keeps to herself and comes across as ‘business is business.’

Alex met with Jess Emerald at her downtown office at the accounting firm where she worked. As Jess took a few moments to neaten her desk, piled high with stacks of papers and folders, to find a notepad and pen, Alex glanced around her office. It was severely plain, with nothing on the walls and no plants near the window.

Jess asked, “How can I help you, Alex?”

Alex replied, “Thank you for taking the time to meet with me today. I am meeting with all the board officers to learn a little bit about what they do in their role, along with any information about the organization you would like to share with me.”

“Alright. I have been on the board for four years and two months,” Jess stated matter-of-factly. “As you are aware, I am the treasurer. I provide the monthly financial reports to the other board members, provide formal financial statements to Shay Agate, the executive director, to accompany any grant applications, and take care of other tasks as they come up.

“Kelly Sapphire, the bookkeeper, provides me with the financial information each month. Sometimes getting it from her is like pulling teeth; I often need to remind her to provide the information in a timely manner.” Jess scowled while reflecting on this. “It’s irritating because I already have a full-time job. I don’t have time to babysit people to get the information I need.”

“That does sound annoying,” Alex offered.

“Yes. Well. What else?” Jess asked.

“Um, you mentioned other tasks you take care of. I am interested in learning about these,” said Alex.

“Well, an interesting task that has been ongoing is taking care of the investments for the building project. Someone donated \$1 million for a new building and other donations and grants have doubled that figure. But the project has been delayed over and over again. In the meantime, I take care of investing the funds.”

“Oh, that sounds interesting,” Alex said, “please tell me more.”

“I work with Shiloh Sham at ShamRock Investments. They are actually located in this same building, two floors up. The investments, about \$2.1 million in total, are in certificates of deposits, CDs, of varying maturities, from 3 to 18 months. Rates right now are very good, ranging from 3.8 to 5.6 percent. Annual interest proceeds from the investments have averaged \$98,000 each year over the past two years.

“The total is divided up into smaller amounts, typically in increments between \$50,000, and \$150,000 invested in different banks through ShamRock. The only catch is that when the CDs mature, only amounts in even quantities of \$10,000 can be reinvested. Since the building project keeps getting delayed, the CDs get reinvested repeatedly.

“I signed an agreement with ShamRock on behalf of the Moonstone lodge to divert all interest amounts less than \$10,000 from maturing investments to a money market account at Granite Bank & Trust, the bank where the lodge holds their accounts. I bank there as well. I didn’t have the lodge’s specific banking information available when the agreement was drawn up, so the amounts are deposited into my personal account. I then do an electronic transfer from my account to the lodge’s money market account.”

“I see,” said Alex. “It all sounds pretty complicated. Do you keep records of all of this?”

“Of course I do,” Jess snapped. “I’m a professional.”

“Oh, yes,” said Alex, “I can see that you are.”

Jess glared at Alex.

“Well, um, I should really be going,” said Alex. “Thank you again for your time.”

Jess showed Alex to the door and then shut it abruptly. Feeling a bit shocked that the meeting ended so suddenly, Alex headed down and out of the building. Well, at least the next person he planned to meet with would be more friendly. Alex knew this as he had already met the Moonstone lodge’s board secretary.

- After Alex meets with Jess Emerald, Board Treasurer, he reflects on his observations.
- Identify any concerns, behavioral red flags, or internal control weaknesses Alex may have noticed at this time. How serious is each concern? Rank each concern on a 1-to-10 scale (10 is the most serious). For each item identified, also include notes on likelihood of fraud occurrence and level of materiality.
- Continue the list of questions for Alex to ask Shay.

6. Alex meets with Bo Onyx

Alex meets with Bo Onyx, Board Secretary. Bo has been the board secretary for 18 years. He is well liked by his fellow board members and is popular with FOR members. He can always be counted on to attend any FOR event.

Alex was very much looking forward to meeting with Bo Onyx for a couple of reasons. One, Alex already knew that Bo was friendly and outgoing from seeing him at a few of the Moonstone Lodge's events. Two, Bo was a motorcycle enthusiast like Alex. Alex couldn't wait to talk to Bo about his Harley he'd seen parked by the lodge.

Alex met Bo at the popular restaurant Pyrites of the Caribbean during the late afternoon lull. Bo told Alex that the lodge was paying since they were here on business. They shared some appetizers while they talked. Bo's light-hearted energy was infectious, and Alex soon forgot all about his unpleasant encounter with Jess. Alex learned that Bo has been involved with the board of directors for more than 25 years; the last 18 as secretary.

"Tell me about one of your favorite events over the years," invited Alex.

"Hands down, the annual holiday toy run is my favorite," Bo replied. "We are pretty tight with the local motorcycle club, the Rockin' Riders. Each December we jointly host the toy run event, and it's a big deal."

"Oh, I know!" Alex interjected. "I haven't missed it since I moved here for school."

"Cool, kid! So, you already know a lot about it – the parade, the toy donations, and the live event for toy distribution that the Moonstone Lodge hosts. We literally collect thousands of toys each year. The event has grown year over year, with more donations than ever coming in. That part is all great," Bo paused.

"However, last year's event had some issues," Bo continued. "I'm actually not quite sure what to do about it," he admitted.

"What happened?" Alex asked.

"Well, there were some indications, but no real proof, that some of the FOR members along with some of the Rockin' Riders got together to siphon off some of the high-end items to fund their personal holidays."

"Oh no!" Alex exclaimed. "That's just awful!"

"I know, kid," Bo sighed, "but I sure don't know what to do about it. Like I said, there's no actual proof. I just noticed that some of the real nice stuff, particularly for older kids, was absent during the live event. And to make things more complicated," Bo continued, "we can't just go around making accusations. A lot of people donate their time and money – a lot of it – to this event. The last thing I want to be is the person responsible for their loss of trust and withdrawing of support."

Yikes, Alex thought to himself. Maybe something else to mention to Shay?

"Man, I'm really sorry," Alex said. "Do you have plans for this year's event to help ensure it doesn't happen again?"

"No, not really," Bo replied. "I guess I'll figure it out then. Well, let's talk about something a little lighter, huh, kid?"

"Oh, sure, Bo, what else are you working on?" Alex inquired.

"Well, there is a State of Kansas grant that we can apply for that will provide funding to expand our public outreach," said Bo. "It's a highly lucrative grant and I think our chances of getting it are very strong. I know it's Shay's responsibility to apply for grants, but I want to do this for her since she's just been swamped lately."

“Cool,” said Alex, “tell me more about it.”

“This grant has been on our radar for some time now, but everyone’s been so busy. The deadline is tight – it’s due tomorrow actually,” said Bo. “But I think I can pull it all together. They want three years of financial statements prepared by a CPA, a formal budget detailing how the funds are to be utilized, and a lengthy narrative that describes how the grant will further the goals of our lodge and align with the grant’s goals.”

“That seems like...” started Alex.

“A lot, I know, kid,” Bo replied.

“But how are you going to get the CPA prepared financial statements by tomorrow?” asked Alex.

“Oh, I have most of the information saved from previous monthly board meetings,” Bo replied. “I’m certainly not going to ask the treasurer for a set of financial statements, even though she’s a CPA. I’m pretty sure she’d bite my head off and hand it to me.”

Alex laughed. “Understood,” he said. “And the rest?”

“Ah, I can put a budget together,” Bo said. “How hard can it be? Here’s the money received; here’s how I’ll spend it. As for the narrative, I’ll just promise to do everything they ask for, and everything will magically align to the lodge’s goals. Piece of cake,” Bo concluded with a smile.

“Sounds like a plan,” Alex said. Then, changing the subject, “Tell me about your Harley, Bo.”

And with that, all talk of business ended as the two talked about motorcycles.

- After Alex meets with Bo Onyx, Board Secretary, he reflects on his observations.
- Identify any concerns, behavioral red flags, or internal control weaknesses Alex may have noticed at this time. How serious is each concern? Rank each concern on a 1-to-10 scale (10 is the most serious). For each item identified, also include notes on the likelihood of fraud occurrence and level of materiality.
- Continue the list of questions for Alex to ask Shay.

7. Alex prepares to meet with Shay Agate

Alex prepares for his meeting with Shay Agate, Executive Director. Alex kept notes as he shadowed each full-time employee and met with each board officer. Utilizing the following outline, prepare a concise write-up for Alex so that he can keep related issues together and organized.

I. A list of concerns, behavioral red flags, or internal control weaknesses, including level of seriousness on a 1-to-10 scale (10 is the most serious). For each item identified, also include notes on likelihood of fraud occurrence and level of materiality.

A. For example, a concern Alex identifies is that Quinn mentioned that some of the inventory seems to just disappear sometimes. Alex might rank the seriousness of this as 8, he thinks that it is fairly likely that fraud is taking place, and it could be very material depending on how much inventory is disappearing and how expensive it is.

B. Can any of these items be combined into one item? If so, consolidate them.

1. For example, Alex noticed that Kelly had a cabinet full of unopened alcohol. Could this be related?

II. A list of questions for Alex to ask Shay

A. For example, from Alex’s meeting with Toni (Board President):

1. What is the priority level of upgraded electrical systems for the building renovation project?

Because Alex knows how busy Shay is, he wants to focus first on the most serious items he has identified. Help Alex with this process. Use your seriousness ratings and your notes on likelihood of fraud and materiality to help narrow down your list to the top three most serious issues.

8. Alex meets with Shay Agate

Alex meets with Shay Agate, Executive Director. Shay has been the executive director for three years, but also served on the volunteer board of directors for several years. Her annual salary is \$65,000. Shay is a longtime member of FOR.

Alex met with Shay Agate in her office at the lodge. “Hello, Alex,” she greeted him, “how have these past several weeks gone for you?”

“Hello, Shay,” Alex replied, “it has been a very interesting few months and I have learned so much. I have a good understanding of the lodge operations and I look forward to helping you with some issues I’ve uncovered.”

“Ah, so you did notice that some things are not as they should be?” Shay asked.

“I did,” Alex replied, “but in the interest of time, I’ve narrowed things down to discuss the three most serious with you at this time.”

“Smart thinking, Alex,” said Shay. “After you outline these top three issues, let’s brainstorm a bit to come up with some next best steps to take, keeping in mind a balance between costs and benefits.”

“That sounds great,” Alex replied, “and if there is time, I have a list of questions for you as well.”

- What are the top three most serious issues that Alex identified?
- Have a brainstorming session to come up with some suggestions for the next best steps to take for each issue.
- Identify a top three to five questions for Alex to ask Shay.

Teaching Suggestions

- Have classroom/online discussion board discussions on various internal controls, internal control weaknesses, elements of the fraud triangle, behavioral red flags for occupational fraud, etc.
- Have students act out various parts of the scenarios.
- Have students come up with background stories for each of the characters. For example, how do the case elements change if Kelly was recently divorced? Had an addiction to gambling? Had a serious health condition?
- Have classroom/online discussion board brainstorming sessions to have students identify all concerns and/or questions to ask Shay.
- Have classroom/online discussion board brainstorming sessions on each of the selected top three most serious issues.

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APPENDIX

Figure 1: COSO Components

