



Rising to the Challenge: Fighting Fraud with Humentum

Background

No organization can afford to lose money through fraud, and that's true in a unique way for non-governmental organizations (NGOs). Fraud not only puts your current revenue in jeopardy but also future funding — what donor organization would provide funding that might be misappropriated? The Association of Certified Fraud Examiners found that organizations lose 5% of revenue each year to fraud, with the median loss being \$125,000 and the average loss being \$1.5M per case.

For many reasons, fraud needs to be prevented, and when it occurs, quickly identified and investigated. Even though all leaders would agree on that, taking the first step — admitting someone in your organization could deliberately be costing the organization money — is often the hardest. As difficult as that can be, it's crucial to pay attention to the signs and investigate objectively.

This is the story of how one organization rose to the challenges of admitting fraud might be happening, worked with Humentum to track it to the source, and identified how to prevent it in future, all while being transparent with leadership, donors, and government agencies.

About the client

In fraud investigation cases, Humentum does not share names to preserve anonymity. The client was a global development organization with a budget of between \$50M-\$100M operating in dozens of countries.

Their Challenge

More than 40% of fraud cases are detected by a tip, half of which come from employees. That was the case here. An employee noticed some financial discrepancies. They did a little investigating to verify, and then reported it to senior leadership. After a month of internal investigation to make sure they understood the facts, and the risks and scope of the potential damage (financial and reputational), the team determined they needed external, professional help.

"The magnitude of the risk is what prompted us to look for outside help," said the CFO. "In any situation with fraud, you have to weight the size of the fraud compared to your overall budget, and you have to weigh the risks. Who else will be looking at how you handled it? What reporting will you have to do to donors, for example."

Like any organization, the financial team was fully occupied with day-to-day operations. Beyond the capacity issue, financial leadership knew:

- they needed independent, certified fraud examiners with forensic accounting expertise.
- they would have to prove to executive leadership, the board, and donors they had been thorough, objective, and professional.

All of that, plus the size of the potential fraud, led the organization to look for outside help. They asked multiple firms to bid on the project and selected Humentum based on the consulting team, including CFEs, CPAs, and a former deputy inspector general, plus the comprehensive thinking displayed in the proposal.

The Approach

The first step was to decide how to scope the work outlined in the proposal within budget. "There's never an inexhaustible supply of money to pay for a perfect solution," points out the CFO. With fraud, of course, in addition to expertise and availability, you have to maintain objectivity, which leads to a certain division of labor between internal resources and consultants.

One of the key differences in a fraud investigation versus creating policies and systems to prevent fraud, is the need for discretion. When implementing anything new, leadership can conduct an assessment with full knowledge and participation of all employees. In the case of an investigation, the team needs to play detective, to a certain extent. The Humentum team, the client's team, and external counsel developed a collaborative work plan and responsibilities that maximized discretion, thoroughness, and budget.

Humentum's approach consisted of a series of checkpoints after each stage of the investigation. Using this ongoing information-sharing, the investigative team could confirm what was still needed, determine next steps, and make any changes in light of new findings. This kept the work laser-focused and cost-effective.

Humentum employed an investigative methodology based on best practice and experience:

- Assessment: Gain an in-depth knowledge of key factors and requirements; agree on the approach and expertise best suited to the needs of the investigation.
- Investigation
 - (a) Planning: collaboratively develop and agree on a detailed work plan and timetable for the fieldwork and milestones
 - (b) Analysis: using forensic accounting and other techniques, review and assess the information
 - (c) Draft findings: draw insights from the analysis to detail the current fraud and prevent it in future
 - (d) Confirmation: make sure the final report meets the client's needs
- Debrief: Make sure all outcomes of the investigation were met, answer any final questions, and discuss next steps.

Lessons Learned

Although no organization wants to deal with fraud, confronting it can lead to improvements, whether with internal policies and procedures, donor relationships, or future consulting projects.

- **Process improvement.** Through the course of the investigation, the team uncovered gaps in processes. For example, they found opportunities when the fraud could have been caught but wasn't. They also found times when fraud was unknowingly uncovered, but no one took action. Humentum recommended solutions ranging from moving certain processes from HR to finance; to organization-wide training on certain topics; to reconfiguring how oversight was handled.
- **Phase the work.** Given that the whole point of the project is an investigation, it can be hard to fully scope the work at the outset. You can't know what you haven't investigated. Humentum set up a variety of checkpoints to make sure their approach was working. At each checkpoint, the team confirmed the next area of focus, based on what had been learned to date. "It was good to focus on one area at a time," said the CFO, "instead of being hit with all the findings at once, or going down a path that was no longer needed, just because it was in-scope to begin with."
- **Don't wait.** Fortunately, this organization didn't have to learn this the hard way. Because they acted as soon as they had assessed the potential damage, they were able to contain it and put preventive measures in place as well.

They also didn't hide the issue from funders; instead, they immediately notified them of the issue and the steps they were taking to address it.

"The job that Humentum did on this is just outstanding," said the CFO. "We're glad we partnered with them. The potential issues you could face by not handling it well are worse than taking action right away – even if you uncover fraud bigger or deeper than you first realized. In our sector, your reputation is vital to your funding sources. If you can't show your competence and trustworthiness, you risk losing far more than the amount of the fraud."

About Humentum

We are the leading global nonprofit working with humanitarian and development organizations to improve how they operate and to make the community more equitable, accountable, and resilient. We have staff based across the United States, United Kingdom, Africa, Latin America, Europe, and India. We also work with over 100 expert associates and trainers based in a range of countries around the world to deliver our consultancy projects and trainings for members and clients.

Top Tips: Warning Signs of Fraud

Remember that prevention of fraud at your organization is better than having to diagnose and cure! The following signs may be an indication of fraud or abuse at your organization. [Check out these top tips.](#)

Additional Support

Consultancy

Not only does Humentum have expertise in undertaking fraud/misconduct investigations of nonprofit organizations, but also offers a variety of follow-up support, as organizations think through next steps after an investigation. Humentum's offerings include: organizational financial management and subaward assessments, due diligence processes, and audits. We can provide these services both remotely and locally across the world through our network of 120 expert consultants.

Learn more about our consulting [here](#).

Training

Humentum offers a Fighting Fraud in NGOs workshop to build the skills and confidence of NGO staff to prevent fraud before it happens, detect fraud when it does, and manage incidences effectively.

By the end of this workshop, learners will be able to:

- Describe the five elements of a holistic Anti-Fraud framework
- Identify the required content of key anti-fraud policies and processes
- Assess fraud risk in your programs, and develop controls to respond to the risks
- Set up and provide guidance for a Fraud Response Team in your organization
- Effectively manage incidences of fraud, or allegations of fraud, taking actions which are appropriate, fair and firm

Find out [more](#).

Case Study Authors



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