Fraudcast: stories of tricks & treachery

Episode 4: A charity for me

Jazz Clemente:

Hello everyone and welcome to the KPMG Fraudcast, where we unravel fraud cases in the news to uncover what happened and explore lessons learned. My name is Jazz Clemente.

Frédéric LeBlond:

And I'm Frédéric LeBlond.

Jazz Clemente:

We are both senior consultants within the KPMG in Canada's Forensic practice.

Frédéric LeBlond:

The stories we will cover in this series are true events, but the names have been changed to aliases for the privacy of everyone involved. Although KPMG was not involved in these cases, we often work on cases similar to the ones of public knowledge we discuss.

Jazz Clemente:

In this episode, we will be discussing the story of a man who took advantage of an organization built to help those in need. A former executive director of a charity in Ontario is wanted by police in connection to allegations that he misappropriated as much as $365,000 in public funds and donations. This is the story of Patrick Yasin.

The offense committed is known as uttering. Fred, can you please explain to our listeners what this means?

Frédéric LeBlond:

Sure thing. Uttering happens when a person knowingly publishes or uses a forged document, be it a financial document, a legal document, or any other document with the intention to misrepresented it as genuine or to defraud others.

Jazz Clemente:

Thanks Fred. Southbank Community Services, SCS for short, runs a refugee sponsorship program that holds millions of dollars in trust from family sponsors. They also provide settlement services for newcomers and support for seniors in the community. The registered charity was founded 40 years ago and receives most of its million-dollar annual funding from a combination of other charities, the city and the government.

When Yasin was the executive director, he allegedly used the charity's funds to purchase an SUV in his own name and make service payments to his wife. On top of these, he also allegedly loaned the company some money to buy a condo. Yasin used more than $54,000 in SCS funds to buy a 2018 Toyota 4-Runner in his own name in December 2020. Falsified check requisition documents for the purchase claimed that the SUV was paid for through a grant provided to SCS for a vehicle to deliver food.

The charity who allegedly provided the grant later stated that they had never agreed to fund the purchase of a vehicle. Yasin signed off on two checks to his wife for over $12,000 and $8000 each, in July and December 2020, respectively. These were supported by falsified corresponding service agreements for her to provide women's entrepreneurship trainings and mental health workshops.

Staff, along with an internal report, say that those services were never provided. Corporation records show Yasin is a director and shareholder of Corner Canadian Investment Corporation, CCIC for short. It is alleged that Yasin's brother was also a director and shareholder of the company, and the $290,000 provided to CCIC was used to buy a condo in Ontario in Yasin's brother's name. This was all done under the guise of it being a real estate investment of SCS.

Here, we see a series of documents used to cover up where the money was actually going.

Frédéric LeBlond:

I just want to highlight the fact that he didn't simply misuse the funds he had access to, that would be embezzlement, which is bad enough on its own. In reality, not only did he misuse the funds, he also went as far as to provide false evidence that the funds were being used properly in order to hide his trail. This is a much worse offense, as the effort put into the fraud is much greater.

Jazz Clemente:

This definitely makes the case a lot worse, but more interesting. Yasin was terminated in January 2021 after the board found out about his alleged misconduct. After his termination, the charity sued the former executive director and his company and recovered $305,000, which related to the loan plus interest. The stakeholders were only made aware of the situation eight months later, when staff at SCS took it upon themselves to report their concerns and request an independent investigation last September.

A group of employees told the news that they reported what happened to funders as a last resort, because their internal efforts to push for a third-party investigation had gone nowhere. They say that they were particularly worried about the chair of the board of directors, Adam Taleb, who took over as the new executive director replacing Yasin. This was despite the fact that he was the one signing off on the checks in question, and the loan Yasin allegedly misappropriated.

Frédéric LeBlond:

It sure does sound like there was some collusion involved.

Jazz Clemente:

Yes. However, since the investigations had gone nowhere, there was no proof. Taleb said he signed the checks to the Toyota dealership and Yasin's wife because they had the necessary supporting documentation.

Frédéric LeBlond:

I wonder, did he even read them?

Jazz Clemente:

If he did, he probably did not look close enough. Francis Saad was one of those whistleblowers. He worked for SCS as a refugee settlement counselor for over 16 years, until he was fired in January 2022 for breaching confidentiality. He sent a series of emails to management, staff and former board members pushing for an external investigation. Saad noted how this has been providing a lot of emotional distress to the employees, and it has not been an easy fight for them.

Sofia Aballa, a settlement worker at SCS for more than 20 years, has been feeling anger and frustration as well, since these events have been happening for more than two years now. None of the alleged funding problems were reported to the city and the supporting charities until Saad, Aballa and two other employees submitted written complaints to the funders on September 2021.

The employees also reported the allegations of misappropriated charitable funds to the Canada Revenue Agencies charities directory, because they allege that management refused to do so. Adam Taleb, the current executive director, noted at that time that they will report Yasin's actions as part of their 2021 annual return.

Frédéric LeBlond:

Wait, this is the director who the employees are suspicious about, right?

Jazz Clemente:

That's correct.

Frédéric LeBlond:

In that case, we definitely have to take his words with a grain of salt.

Jazz Clemente:

Unfortunately, the CRA said it can't confirm whether or not it received the complaint because of confidentiality provisions in the income tax act. The only actions they make related to registered charities would be when it revokes its charitable status or penalizes the charity. Those confidentiality provisions and fewer annual charity audits by the CRA in recent years mean government oversight of the charity sector in Canada is likened to the Wild West, according to a charity legal advisor.

Given those limitations, donors, funders, and most often the media, would act as the most effective charity sector oversight body in Canada.

At the end of this, Yasin's legal team has been declining to comment further about the police warrant, as they have supposedly settled 98% of all outstanding issues.

As for Saad, Aballa, and the other employees, they just hope that their complaints are resolved so they can focus on helping their community through the various programs run by SCS. They continue to be passionate about helping people and assisting refugees in settling in Canada.

There are two things that need to be discussed in relation to this case. First would be how prone charities are to getting defrauded, and second would be the importance of a whistleblower system. Before that, I want to know what you think about this story, Fred.

Frédéric LeBlond:

This is a very interesting story with a lot of layers and a lot to break down. The fraud committed itself is bad enough, but I find it especially frustrating, the amount of work that staff had to put in just to get an investigation going, and the retaliation they had to endure rather than having their honesty and integrity be rewarded. Losing your job should never be a concern when doing what is right.

Honestly, it's not just about not having to deal with retaliation. Executives need to realize that fraud will ultimately hurt them and their organization even when it could be to their short-term benefit. They should value these individuals that speak up when something is wrong.

Jazz Clemente:

You're absolutely right in saying that and I agree with you. As I mentioned earlier, charities are prone to getting defrauded. Not-for-profit organizations, NPOs for short, face a lot of unique and significant challenges, which puts them more at risk of suffering from fraudulent schemes. They are more susceptible to fraud due to having limited resources.

In an effort to minimize costs, a lot of NPOs are understaffed and unilateral power is given to whoever is in charge. With fewer controls in place, this leaves NPOs more vulnerable to fraud. According to a 2020 publication by the Association of Certified Fraud Examiners, or ACFE, the top three control weaknesses are lack of internal controls, lack of management review, and override of existing controls.

39% of NPO perpetrators are comprised of the owner or the executive, with the median loss at $250,000. This is closely followed by the manager or the supervisor, which should be seen in 35% of cases, but with a lower median loss of $95,000. Only 23% of cases are caused by the employee, with a median loss of $21,000.

Frédéric LeBlond:

You know what they say, when you point a finger at someone, there are three other fingers pointing at you. Not only is the median loss much higher, but the rate at which NPO executives commit fraud is also higher. There's really no other way of looking at this. Fraud management programs have to adequately assess and respond to the risk of fraud at the executive level, not just point fingers at staff. In my opinion, it's also why it's so important to have executives champion the ethical culture of the organization and set an appropriate tone at the top.

Jazz Clemente:

Common fraud schemes include reimbursement of personal items, personally using the NPO service providers, and providing checks to themselves or their family members. Similar to the case discussed today, detection of fraud at an NPO is quite difficult, only 6% by the examination of documents, 7% by accident, 13% by management review and 17% by internal audit. The largest share of discovered cases at 40% are through tips or complaints. This brings us to our next discussion point, the importance of a whistleblower system.

Fred, please explain to our listeners what the whistleblower system is.

Frédéric LeBlond:

Sure. A whistleblower system is a process where employees could reveal information about inappropriate activities occurring within their organization. This could be a confidential phone line, messaging system, or other reporting system, and can also be externalized to a third-party provider. The identity of the reporter is usually hidden.

Jazz Clemente:

Thanks, Fred. That's right. In the case of SCS, the employees really tried to make an effort to report Yasin's misconduct. However, this was met by retaliation with one of the employees, Saad, being fired. As seen in the data gathered by ACFE, fraud in NPOs are mostly discovered via tips or complaints. Having a whistleblower system where employees could report concerns anonymously could really help prevent fraud in NPOs. This would encourage employees to bring up their concerns without the fear of retaliation.

This may be difficult to impose, given that NPOs have limited resources. However, it could be necessary if we want to see a decrease in fraud. Other preventative measures include an increase in board oversight, having written policies and procedures and implementing stronger internal controls. I hope that our listeners, especially those involved in the NPO sector, stay vigilant against those who want to take advantage of organizations meant to help those who are in need. This truly shows that fraudsters will stop at nothing to get what they want.

Frédéric LeBlond:

Hopefully, we'll be able to see a decrease in large scale of frauds like these as time goes on, and whistleblowers are seen more and more in a positive light.

Jazz Clemente:

Joining us for this episode as our special guest is Karen Grogan, KPMG Partner in our Forensics practice based in Southwestern Ontario with 30 years of experience focusing on employee and corporate fraud investigations, investment scams, and litigation support. She co-authored the KPMG article, Boards Beware and Be Prepared! Fraud in the Not-For-Profit Sector.

Karen Grogan:

Thanks for having me, Jazz.

Jazz Clemente:

Thank you, Karen. Glad to have you here. I understand that fraud is quite common at not-for-profit and charitable organizations. Why is that?

Karen Grogan:

The unfortunate reality is that they are at greater risk of fraud because of what I consider three main factors. Typically, they're understaffed because they don't have a lot of excess funds, too much power and trust is given to the executive director or management, and there are insufficient or no internal controls in place. These three factors combined provide the opportunity for an employee to commit fraud.

Jazz Clemente:

What kind of fraud happens at these organizations?

Karen Grogan:

I would say the most common fraud schemes I see at non-profit organizations are where employees claim reimbursements for personal items, such as travel, meals and clothing, either through expense reports, or they directly charge these expenses to the organization's credit cards, which are then automatically paid for by the organization. They use the organization's service providers to obtain personal services such as landscaping or maintenance, all paid by the non-profit. They wrote unauthorized checks or direct e-transfers to themselves or family members. They steal cash donations. They approve expenses that are outside of the organization's purpose. They also employ family and friends and pay them excessive wages, and sometimes they award vendor contracts to relatives or friends often at higher than normal prices.

Jazz Clemente:

What are the behaviors of a fraudster, or the key indicators that a fraud might be taking place at a not-for-profit organization?

Karen Grogan:

Let me just take a step back before discussing the behaviors, because that really depends on the role of the person at the organization. No matter the role, the fraudster will be in a position of trust. If, for example, the executive director is a fraudster, we have noted that they are normally long-term employees, possibly since inception of the organization, and some of the characteristics or behaviors we have witnessed include treating an organization as if it's their own, they spend funds in any manner they wish, their actions often appear to be in a gray area of what would be considered unethical, they treat other employees poorly and in a bully-type fashion. They make exceptions to the rules, for example, providing funds to inappropriate individuals or projects that conflict with the nonprofit's mandate, they control who serves as board members on the board of directors, and they don't obtain approval when required from the board.

Now, of course, not all of those behaviors need to be present for fraud to be occurring.

Jazz Clemente:

If it is identified that there is fraud happening, or you have concerns about the fraud is happening, what steps should you take?

Karen Grogan:

You'll want to act quickly but thoughtfully. You'll want to get advice from a lawyer. Typically, what we see happen is that the suspected fraudster is put on a leave with pay while an investigation is carried out. You'll want to ensure that the fraudster's access to the organization and IT systems are cut off in order to ensure the fraud is stopped. Make sure to secure any documents and electronic devices that may contain evidence of the fraud.

You'll want to have a proper investigation take place, and if your concerns are confirmed that a fraud has taken place, you may want to have a Forensic accounting report prepared to quantify the organization's losses. That report may be submitted to recover losses from insurance, pursue civil litigation, or make a criminal complaint.

Jazz Clemente:

Do you have any advice for NPOs on how they could prevent fraud?

Karen Grogan:

Sure. One of the most important things to do to prevent fraud is to have strong internal controls and board oversight. You'll want to set the right tone at the top and provide clear, ethical guidance through written policies and procedures. You'll want to include not only a code of conduct policy that describes what behaviors are acceptable, but those that are not acceptable, and will not be tolerated.

Now, there's no one-fits-all fraud prevention method. An organization may want to consider performing a fraud risk assessment to hone in and target their highest risk areas and mitigate those risks. If you're unable to prevent the fraud, you'll want to make sure to detect it. One of the best ways to detect it is through a whistleblower line, and you'll want to make sure that you have a clear reporting guideline, and that the whistleblower calls are going to the right person that is able to react to their concerns.

The other thing I would highly suggest is that an organization make sure they have employee dishonesty insurance, which can cover fraud losses as well as Forensic accounting fees to quantify those fraud losses, because the last thing you want to do is have to cover the cost of an investigation after your organization has just been defrauded.

Jazz Clemente:

Thank you for all that information, Karen, and thank you so much for joining us today.

Karen Grogan:

Thanks so much, Jazz. Happy to be here.

Jazz Clemente:

Each episode, we'd like to leave you with a little something to help increase fraud awareness. Here's Fred with our fraud scheme of the week: overbilling schemes, a form of corruption.

Frédéric LeBlond:

Thanks Jazz. Is it just you, or has your organization's vendors gotten more and more expensive to keep up with? Must be all that inflation. Hey, wait a minute. Is that your procurement officer driving to work in a new Corvette? I wonder how they do it.

Organizations may sometimes illegally make use of kickback schemes to bribe others into giving them what they want. A kickback scheme is when you promise someone a share of your proceeds from fraud, in exchange for their participation in the scheme. It could be something like, "Hey, if you give me this contract, I'll let you keep 10% of what we make on it."

This commonly occurs as part of overbilling fraud schemes. An overbilling scheme is when a vendor invoices an organization for an inflated amount, in order to receive more funds than what they should get. However, such an invoice might be rejected if the procurement officer does not cooperate. In that case, the vendor might offer to pay off the officer with a kickback.

Jazz Clemente:

How do you manage this?

Frédéric LeBlond:

Unfortunately, these schemes can be very difficult to detect, given that the attack is both internal and external. Payments made as part of overbilling schemes can be traced by obtaining bank account information, backup documentation, and accounting records from the procurement officer who made the payment and the vendor. Certain aspects might indicate that overbilling occurred, such as notes on the invoice that list extra or special charges, especially where no delivery is required, discrepancies between the purchase order and the invoice, or unusually large amounts that break with an otherwise consistent pattern.

Make sure to watch out for the following red flags in your procurement process. Red flags in employees include a high success rate in markets known to bribe, an extravagant lifestyle or extreme personal pressures, a tendency to insert themselves where they're not normally involved, asserting authority where they're not responsible, and making excuses for deficiencies in third parties.

Red flags in third parties include routine offering of inappropriate gifts, providing poor quality work despite continuing to win contracts, charging high prices for common goods or services, handling transactions only in cash, or their address or other personal information being a match to an employee. If you notice these red flags, make sure you act on them early, because you might be in the middle of an overbilling scheme.

KPMG Forensic professionals transform how clients identify, mitigate, and respond to risk, saving time and money. We help individuals and organizations stay on top of fraud, and we would love to help you too. On behalf of the whole KPMG in Canada's Forensic Team, thank you very much for tuning into this episode of the KPMG Fraudcast.

Jazz Clemente:

And we hope you join us again next time.