

Defending Against Fraud This Holiday Season: A Guide For Charities And Not-For-Profits

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As we head into the holiday season, charities benefit from an inflow of donations as the majority of Canadians plan to give back to their communities by donating or volunteering their time to charities over the winter holidays.^[1] But amidst the festive season and holiday appeals for donations, charities also need to stay alert to the risk that fraudsters and scammers present at this time of year. Canadian charities – like other businesses and individuals – can fall victim to ‘imposter fraud’^[2], to misuse of their name and brand in a ‘charity fraud’^[3], and even to fraud perpetrated by a rogue employee, contractor, or volunteer of the charity.^[4] These risks are often heightened by the holiday season, but can be guarded against with strong staff training, effective anti-fraud policies and procedures, and a swift investigation and response if an issue is detected.

Knowing the risks

Fraud within charities and not-for-profits can take place in many different ways. One common example is a bad actor impersonating the executive (or a manager) of a not-for-profit and asking employees to send money or gift cards (known as spear phishing). Usually, these requests involve an *urgent* request to wire a large sum of money or to purchase large numbers of gifts cards.^[5] We often see holidays as part of the narrative fraudsters use, including to create:

- urgency that a wire transfer needs to take place *before* the office or the banks are closed for the holidays;
- an excuse about why the imposter is using an unfamiliar email address (i.e. the executive is using what is claimed to be a ‘personal email account’ because they are away on holiday); or
- a reason why a large number of gifts cards might be purchased (on a seemingly legitimate basis) as holiday gifts for staff or service users of the charity.

Another variant of this type of fraud, is where the bad actor impersonates a vendor or service provider to intercept their valid payment. For example, in 2023 a Mississauga man was reportedly charged with possession of property obtained by crime for defrauding the Good Shephard of \$94,000 that was intended for a contractor.^[6] There, it was reported that the legitimate contractor’s email had been compromised and the scammer used a spoofed email address (pretending to be the contractor) to request that a payment owed to the contractor be paid into a different bank account.

The risk of spear phishing for charities is significant as Canadian losses to this type of fraud are high. The Canadian Anti-Fraud Centre (the “CAFC”) received reports of more than 58 million in spear phishing losses to Canadians in 2022, with the CAFC assisting in the recovery of \$1.7 million (less than 3% of the losses).^[7] Holidays are a popular time for fraudsters to target charities (and other businesses) with imposter frauds and spear phishing scams because staff can be distracted by holiday events and plans. Additionally, many employees, including those with accounting and finance responsibilities, may be using vacation days, which can leave an employee with less experience (or less familiarity with the normal processes) covering those responsibilities and potentially making a request to change the usual payment method seem less suspicious.

Charity frauds or donation scams target individuals using high pressure tactics to seek donations for fraudsters, but can use a real charity's name to solicit those donations, which ultimately never reach the genuine charity.^[8] As an example, earlier this year, it was reported that the Toronto Police arrested an individual who was impersonating a canvasser for SickKids Foundation in November and December 2023 and who reportedly became aggressive and intimidating when seeking cash donations.^[9] A similar incident was reported about two individuals purporting to be canvassers for the Red Cross, which occurred in North Bay last December.^[10]

These types of donation frauds do not always get detected or reported by donors and pose a risk that funds that donors planned to give to the legitimate charity are being diverted to a scammer. These scams can also affect community perception of the organization where the illegitimate canvasser behaves in a manner that negatively impacts the charity's reputation and can cost charities significant amounts of time (and money) as they need to investigate or warn the public of a donation scam using the charity's name.

Like all businesses, charities too face the possibility of insider threats from employees, volunteers, and directors. Most commonly, insider threats involve 'asset misappropriation', which is where an employee steals or misuses the charity's resources and can include skimming of cash, personal purchases, fictitious expenses, and false refunds (amongst other thefts).^[11] The estimated losses from occupational fraud to a not-for-profit organization are \$76,000 USD (~\$106,000 CAD) when looking at *median* losses, but those losses jump to \$611,000 USD (~\$863,000 CAD) when considering the *average* loss for non-profits. When looking specifically at the charitable, social services, and religious sectors, the *median* loss is estimated at \$85,000 USD (~\$120,000 CAD) with an *average* loss of more than \$1 million CAD (i.e. \$718,000 USD).^[12] These loss figures are particularly staggering when considering that most Canadian charities have annual revenues below \$500,000 CAD.^[13]

As an example of a significant occupational fraud affecting a charity, earlier this year, it was reported that a former employee of the United Way pled guilty to a criminal charge of fraud relating to \$302,341.37 of fraudulent expenses paid to her own bank account. The payments went via email transfers that purported to be going to a vendor of the charity, but instead led to the employee's personal account.^[14] Similarly (but with an even more staggering amount), earlier this year, the Toronto Star reported on a lawsuit that the YMCA of Greater Toronto is pursuing against a former employee and companies related to that employee, alleging that they conspired to defraud the charity of more than \$2.2 million. The scheme allegedly worked by the employee arranging for companies to invoice the charity for training that was reimbursed through the Canada-Ontario Job Grant, but that no training ever took place.^[15]

It is also important to remember that the risk of occupational fraud is not limited to paid employees, as members of the board of directors and other volunteers with access to the charity's funds or accounts can also pose a risk of theft and misappropriation. This year, it was reported that the South Asian Centre of Windsor brought a lawsuit against its former president of the board of directors alleging that he had wrongfully withdrawn \$850,000 meant for the charity. The charity's claim further alleges that the president of the board had opened back accounts in the charity's name and applied for grants on behalf of the charity, but that he withdrew that grant money for his own purposes, as well using the charity's credit cards.^[16] The former director has also reportedly been charged with fraud, laundering the proceeds of crime, and possession of property obtained by crime.^[17]

Frauds perpetrated by insider threats – whether by employees, volunteers, or members of the board – can undermine public trust in charities and are, unfortunately, not time limited to the holiday season (often spanning multiple months or even years). Nonetheless, holidays can be an exacerbating factor for many fraudsters because of the costs of attending festive events, gift giving, and winter vacations or travel. After all, the most common red flag for a perpetrator of occupational fraud is an employee living the 'high life' or at least living beyond their known sources of income.^[18]

Best practices to avoid losses

While there are many risks to be aware of and guard against, the good news is that there are steps that charities can employ to defend against fraudsters, and organizations that have robust anti-fraud protocols have significantly lower losses.[\[19\]](#) Make sure that your charity follows best practices in avoiding fraud losses, which include the following:

- creating and using a detailed procedure for payments being made by the charity, including verbal confirmations with the person requesting the funds especially when there are urgent requests or changes to the manner of payment;
- keeping a list of companies that provide goods or services to your charity including the name of the charity's contact at each company and their phone number and email. Make sure payment requests from vendors come from the people on this list or are confirmed with contact information on this list (if they come from someone else);
- ensuring clear communications with your donors and the public about whether you use canvassers (during the holidays or at any time). If you do, let them know when and where your canvassers will be located, what identification genuine canvassers will have, and the type of donations they will request (i.e. whether monthly donations, cash, etc.);
- creating and using a whistle-blowing or internal tips policy with a hotline or reporting email so staff (and volunteers) are encouraged to and know how to report concerns including inconsistencies and suspicions about financial wrong-doing;
- having the charity's financial statements audited and conducting surprise audits internally; and
- creating and using an anti-fraud policy setting out your charity's systems, procedures, and controls for preventing, detecting, and responding to fraud from all sources and, most importantly, ensuring that staff and volunteers are trained on the policy when they are hired and continue to re-review the policy and the responsibilities under it at regular intervals.[\[20\]](#)

Notably, merely having an anti-fraud policy in place reduces the median financial losses from internal fraud by 50% and the use of a reporting hotline (which could be a phone number or even an email address for staff to report suspicious activities) reduces median financial losses and the duration until detection of fraud by 50%.[\[21\]](#) With the majority of Canadians giving back to charities over the holidays, it is important for charities to ensure that effective anti-fraud practices and procedures are in place, in order to instill public trust and to protect the important missions and visions of the charities. If not already doing so, charities should prioritize investing in training and development of anti-fraud policies and procedures for staff, volunteers, and board members as a goal for the 2025 new year.

When you detect a problem

There are numerous considerations to take into account when you suspect wrong-doing or detect a problem, including the possibility and/or timing of:

- reporting to your board of directors, the police, and/or your financial institution;
- conducting an internal investigation and/or a forensic audit; and
- engaging a lawyer to assist in the investigation, urgently seeking to recover lost funds, and/or updating anti-fraud policies after an incident.

Whatever the circumstances that a charity finds itself in, even if a problem is detected over the holidays, it is best to seek the advice of a lawyer when a fraud is first suspected to decide what steps need to be taken to stop further losses, to understand the totality of the fraud, and to urgently recover any funds that have been diverted.

The information and comments herein are for the general information of the reader and are not intended as advice or opinion to be relied upon in relation to any particular circumstances. For particular application of the law to specific situations, the reader should seek professional advice.

- [1] According to the BMO Real Financial Progress Index, 63% of Canadians plan to 'give back', which includes 33% of Canadians planning to do so through donations of money or stocks, and 17% of Canadians planning to do so through volunteering their time, see: BMO Financial Group, "BMO Survey: Canadians Plan to Spend Less This Holiday Season" (October 24, 2024), <https://www.newswire.ca/news-releases/bmo-survey-canadians-plan-to-spend-less-this-holiday-season-836048347.html>.
- [2] The Globe and Mail, "How fraudsters are targeting Canadians in 2024" (September 19, 2024), <https://www.theglobeandmail.com/investing/adv/article-how-fraudsters-are-targeting-canadians-in-2024/>.
- [3] Canadian Anti-Fraud Centre, "Charity and donation" (March 30, 2022), <https://antifraudcentre-centreantifraude.ca/scams-fraudes/charity-donation-charite-eng.htm>.
- [4] Association of Certified Fraud Examiners, "Occupational Fraud 2024: A Report To The Nations" (2024), <https://legacy.acfe.com/report-to-the-nations/2024/>.
- [5] Canadian Anti-Fraud Centre, "Spear phishing" (May 29, 2023), <https://antifraudcentre-centreantifraude.ca/scams-fraudes/spear-phishing-harponnage-eng.htm#a1>.
- [6] Joanna Lavoie, "Mississauga man charged after allegedly defrauded charity \$94k" (October 3, 2023), <https://toronto.ctvnews.ca/mississauga-man-charged-after-allegedly-defrauded-charity-94k-1.6587805>.
- [7] Canadian Anti-Fraud Centre, "Annual Report 2022" (2022), https://publications.gc.ca/collections/collection_2024/grc-rcmp/PS61-46-2022-eng.pdf, pg. 10, 14 & 31.
- [8] Canadian Anti-Fraud Centre, "Charity and donation" (March 30, 2022), <https://antifraudcentre-centreantifraude.ca/scams-fraudes/charity-donation-charite-eng.htm>.
- [9] Phil Tsekouras, "Suspect who allegedly posed as SickKids canvasser charged" (February 8, 2024), <https://toronto.ctvnews.ca/suspect-who-allegedly-posed-as-sickkids-canvasser-charged-1.6761080>.
- [10] Darren MacDonald, "Fake Red Cross reps going door-to-door seeking cash, North Bay police warn" (December 6, 2023), <https://northernontario.ctvnews.ca/fake-red-cross-reps-going-door-to-door-seeking-cash-north-bay-police-warn-1.6676083>.
- [11] Asset misappropriation makes up 89% of cases of occupational fraud for all types of organizations, see: Association of Certified Fraud Examiners, "Occupational Fraud 2024: A Report To The Nations" (2024), <https://legacy.acfe.com/report-to-the-nations/2024/> at pg. 11-13.
- [12] Association of Certified Fraud Examiners, "Occupational Fraud 2024: A Report To The Nations" (2024), <https://legacy.acfe.com/report-to-the-nations/2024/> at pg. 30 & 51.
- [13] Canada Helps, "The Giving Report 2024" (2024), <https://www.canadahelps.org/en/the-giving-report/>, pg. 5.
- [14] Ellwood Shreve, "Ex-employee pleads guilty to defrauding United Way of \$300K" (October 14, 2024), <https://lfpres.com/news/local-news/ex-employee-pleads-guilty-to-defrauding-united-way-of-300k>.
- [15] Brendan Kennedy, "More than \$2 million in government grant money was allegedly stolen from the YMCA. The charity says it was an inside job" (June 28, 2024), <https://www.thestar.com/news/investigations/more-than-2-million-in-government-grant-money-was-allegedly-stolen-from-the->

ymca-the/article_f8bfaa62-13a4-11ef-8a8a-2beb33197c46.html.

[16] Taylor Campbell, "Former Windsor councillor included in \$850K South Asian Centre fraud lawsuit" (July 17, 2024), <https://windsorstar.com/news/local-news/former-windsor-councillor-included-in-850k-south-asian-centre-fraud-lawsuit>.

[17] Melanie Kentner, "Windsor senior charged with defrauding charity of over \$362,000" (February 14, 2024), <https://windsor.ctvnews.ca/windsor-senior-charged-with-defrauding-charity-of-over-362-000-1.6768716>.

[18] Association of Certified Fraud Examiners, "Occupational Fraud 2024: A Report to The Nations" (2024), <https://legacy.acfe.com/report-to-the-nations/2024/>, pg. 66.

[19] In the case of occupational fraud, use of robust anti-fraud controls can reduced the amount of funds lost and the duration for which the fraud takes place by 50%, see: Association of Certified Fraud Examiners, "Occupational Fraud 2024: A Report to The Nations" (2024), <https://legacy.acfe.com/report-to-the-nations/2024/>, at pg. 39.

[20] More tips and resources on how to prevent and detect fraud in your charity can be found on the CAFC's website (<https://antifraudcentre-centreantifraude.ca/scams-fraudes/frauds-business-fraudes-enterprises-eng.htm> and <https://antifraudcentre-centreantifraude.ca/protect-protegez-eng.htm#b1>), the Preventing Charity Fraud initiative published by the Fraud Advisory Panel in the United Kingdom (https://preventcharityfraud.org.uk/documents/?document_category=helpsheets), and the Association of Certified Fraud Examiners' "Occupations Fraud 2024: A Report to the Nations" (<https://legacy.acfe.com/report-to-the-nations/2024/>).

[21] Association of Certified Fraud Examiners, "Occupational Fraud 2024: A Report to The Nations" (2024), <https://legacy.acfe.com/report-to-the-nations/2024/>, at pg. 42.

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