

## Fraud in Non-profit Organisations: Cases in Singapore.

Tan Wei Sze and Ameen Talib<sup>1</sup>

### Abstract

There has been a number of fraud cases in non-profit organisations in Singapore, such as National Kidney Foundation (NKF) in 2005, Ren Ci Community Hospital in 2007, and City Harvest Church in 2017. The purpose of this paper is to analyse these fraud cases in the non-profit organisations to have a better understanding. The common factor was found to be excessive power in the hands of the CEO or the founder.

Keywords: NPO, Fraud, Governance

### **Introduction.**

The essential objective of corporate governance is the protection of the interest of stakeholders. Corporate governance is required to monitor the operations of the organisation, and it is to avoid the mismanagement of the organisation. Corporate governance in Non-Profit Organisation (NPO) is of utmost significance as the stakeholders include the general public including donors and volunteers. The Board of Directors or the Management committee (for associations) for NPOs are entrusted with the responsibilities of ensuring that the organisation performs to its best ability to achieving their goals. The board of directors in a commercial company are elected by the shareholders to maximise shareholders wealth in the long term. In the case of NPOs; the directors are elected by the members to maximise the benefits received by benefactors within the constraints. The benefactors in many cases are different from the members electing the board.

One of the Board's responsibility is to safeguard the organisation assets and prevent fraud. Board of directors would be assisted by an audit committee and other board committees. The board will set rules and regulations for the organization to implement and the staffs to follow. The table below shows some fraud reducing activities:

<b><u>Fraud Reduce Activities</u></b>	<b><u>How</u></b>
Conduct External Audit	Ongoing Annual Process
Conduct Internal Audit	Periodic Internal Audit
Create a Compliant Environment	Culture of compliance with law and ethics
Educating Responsible Parties	Conduct Fraud Training
Anti-Fraud Policy	Reporting of potential fraud
Review records	Board to familiarize themselves with records

Table 1: How does board help in reducing fraud activities

Creating a compliant environment requires a development of values of compliance with law and high morals. It would also require a code of ethics; including whistle-blowing process. Management also required to keep accurate records and proper internal fiscal controls that will help in protecting the assets and prevention of fraud cases. For a good internal control in non-profit organisation, it will

<sup>1</sup> Corresponding author: head Applied Projects, Singapore University of Social Sciences, Singapore, [ameentalib@suss.edu.sg](mailto:ameentalib@suss.edu.sg)

require alignment of performance of organisation with overall objectives. This paper looks at 3 cases of fraud in NPOs to have better understanding and obtain lessons from them.

**Case Study**

<b><u>Case Study</u></b>	<b><u>Problems</u></b>	<b><u>Punishment</u></b>
National Kidney Foundation	Misuse earnings that was meant for the patients	Jailed for 3 months for misconduct and to repay NKF the money he owed
Ren Ci Community Hospital	Mismanaging the funds	Jailed 10 months
City Harvest Church	Misuse funds for the founder's wife album production	3.6 years jailed for founder

Table 2: Overview of each case study

**National Kidney Foundation (NKF)**

National Kidney Foundation (NKF) was founded in 1969 as a charitable organisation, and the main objective is to provide help to needy Singaporeans to cope with the expensive fee of kidney dialysis. The main activities of NKF was greatly funded by the public through donations and the organisation also hold annual television fund raising from the public. In the late 1990s, there were suggestions that the CEO (Durai) was misusing the charity funds. NKF was also liable for receiving S\$5 million over five years from a British insurer Aviva for allowing the company to send marketing materials to different donors based on NKF database, and this was also resulted in an invasion of donors’ privacy, however, NKF did not admit on this issue, and sued Singapore Press Holdings (SPH) for defamations, and filed a claim for S\$3.24 million from SPH on the misreporting (National library board, Singapore, 2017).

During the trial, it was reported that Durai has earned a monthly salary of S\$25,000, with an annual bonus amounted to S\$1.8 million between 2002 and 2004. Durai has admitted that he has been using the funds to maintain his personal cars, and he is also traveling frequently on first-class flights and finance a fleet of eight chauffeured cars which was used for both personal and official purposes. Furthermore, Durai has also reported more amount of funds required to fund the organisations and help the donors, he stated that at least S\$62.4 was required to help the donors, and encourage the public to donate more generously. However, the exact amount that was required was half of what is reported, S\$31.6 million required. There was an online petition to request Durai to resign due to the fraud issues of misusing the funds for his personal matters, and several regular donors has also called up the organisation to cancel their donations to NKF. Following the fraud case, and ongoing banned of NKF’s annual fund raising on television (National library board, Singapore, 2017).

Durai was also jailed for 3 months for deceiving the NKF into paying S\$20,000 to his interior designer between 2003 to 2004 and he also must repay the amount of S\$4.05 million that was owed to NKF.

This case is a classic extreme powers in hand of the CEO and show that even if the non-profit organisation has been in the country for a very long time would still commit fraud cases due to temptation of the founder or the CEO of the non-profit organisation, and through committing of fraud in non-profit organisation also shows that the public do not have any trust with the non-profit organisation therefore, withdrawing their donations from the non-profit organisation as they feel like the money they have donated to the needy Singaporeans who are unable to afford kidney dialysis, has been misused for other purpose and not helping the needy. Also, it was mainly used at the luxury of the CEO of the non-profit organisation.

### **Ren Ci Community Hospital (RCCH)**

Ren Ci Community Hospital (RCCH) is one of the healthcare facilities that was under the voluntary welfare organisations, and it provides rehabilitative and recuperative care for patients who required extended hospital stays. Originally, it was a few refurbished blocks of hospital wards within Tan Tock Seng Hospital (TTSH), however it was later return back to TTSH due to SARS outbreak in 2003, to make way for the patients. RCCH has moved out of TTSH, to a new building which is located next to TTSH, and it has included more services for the patients mainly due to the large space constraints, not only they are a rehabilitation centre, it has a therapy garden, training facilities for caregivers, employees and volunteers (National library board, Singapore, 2017).

Financial scandal has been surfaced up in late 2007, where the founder of RCCH, Venerable Shi Ming Yi has been arrested and charged with several financial offences which includes fraud, forgery, and falsifying the charity's accounts. He was also jailed for 10 months due to the misconduct of fraud within the non-profit organisation. This incident has also caused Ren Ci to lose its Institution of Public Character (IPC) status and Ren Ci was also banned to do any annual fund raising from the public through television, in which part of it was contributed to his salary and the other half is to Ren Ci's income to fund the community hospital. However, Ren Ci has regained their fund raising in 2008, however on a smaller scale, due to not being able to do a huge fund raising on the television. With a change of a new CEO, the non-profit organisation has again held their annual fund raising on the television in 2010, donation box was also placed at NTUC Fairprice supermarket in the whole of Singapore during the first quarter of 2010, this is to aid Ren Ci's fundraising efforts that year (National library board, Singapore, 2017).

RCCH has also go into a partnership with the Agency for Integrated Care (AIC) and SingHealth Group Procurement Office (SingHealth GPO) to participate in the shared procurement services pilot together with other thirty voluntary welfare organisations for bulk purchases of medical supplies, the main objectives are to reduce the amount of money spend on medical supplies through consolidated purchases. RCCH is a one-stop rehabilitation centre for the elderly, and senior citizens can check in at the centre for a two-hour programme before heading home via the provided transportation by the hospital.

Again power in one person. RCCH fraud case may not be a well-known fraud case in non-profit organisation, but it does impact on the non-profit organisation, as it shows that even though they are tapped on to a government hospital, fraud case will still be happening due to mismanaging of funding within the organisation. This may due to greediness and selfish of one person behaviour which resulted in the organisation reputation being damaged and regaining back the reputation may not be as easy, it required a lot of efforts and also gaining back trust from the public.

### **City Harvest Church (CHC)**

In late 2015, six City Harvest Church leaders were found guilty of misappropriating about S\$50 million of church funds, which includes S\$24 million in CHC's building funds through bond investment in music production of the founder's wife, Sun Ho, and they have also misused a further S\$26 million to cover up the initial misuse and to fool the auditors and to conceal the fact that money from the church's building funds (Claire huang, 2017). The six leaders face a count of criminal breach of trust and falsifying accounts, which may include a life sentence, or up to twenty years in prison and a fine for first offence, and a maximum of ten years in jail, a fine or both for second offence. CHC mentioned that they wanted to use Sun Ho's music to spread the (Gospel Vanessa paige chelvan, 2017).

High court has proposed to increase the punishment of the six leaders on 6<sup>th</sup> April 2017, with a maximum of eleven to twelve years for the main founders, and three others, whereas the other two leaders the high court propose to increase the punishment from three years to eight to nine years and twenty-one months to five to six years of jail. However, on 8<sup>th</sup> April 2017, the trial begins, and the founder of CHC, jail terms has decrease tremendously from eight years to 3.5 years, which is almost half of what it was initially proposed. Law and Home Affairs Minister K. Shanmugam mentioned that

the sentence for the six CHC leaders was too low. As the founder jail terms was decrease by half, and the other five church leaders had their jail terms decreased as well, in a split of 2-1 decision, by founding them guilty of a less serious charge of criminal breach of trust (Selina lum, 2017). He also mentioned that from government point of view, this legal reasoning has serious implications in other cases, including corruption cases and zero-tolerance approach for the future. Directors taking bribes, and Mr K. Shanmugam states that “We will have to consider as a matter of policy what other steps to take because we cannot take relax our stand on that”. In which, the Attorney General of Singapore will consider if they will want to look in to this case (Charissa yong, 2017). Five leaders have started serving their jail terms from 21<sup>st</sup> April 2017.

**Concluding remarks**

With all the case studies on fraud cases happened in non-profit organisations, the common fraud was misusing of funds for their personal needs. This also shows that with a frequency for fraud cases in non-profit organisation, when in need government will require stepping in to ensure that the punishment is equally taken care and what the offenders required to bear. Of course, reducing huge punishment does not helps. It will only worsen the number of fraud cases in Singapore in the future, offenders might take Singapore’s law as easy, they might think that they are able to pass through the rules and regulations of Singapore.

NKF is a good example of fraud cases in non-profit organisation as it has conducted annual donations through television programme and public donate generously due to them having a mind-set that donation will helps the needy patients for their kidney dialysis, but in fact the money was used for other personal purpose and this disappoint the public which have also withdraw their regular donation to the non-profit organisations. Not only the reputation of the non-profit organisation was damaged, the ability of people who are able to provide regular donations become lesser and this will eventually lead to patients not being able to afford the expensive kidney dialysis. NKF’s CEO has refunded the amount owe to the non-profit organisations hopefully this will continue to help the patients in the expensive healthcare.

RCCH is also another example of fraud in non-profit organisations. As fraud in non-profit organisation should be minimum or rather not exist at all, as non-profit organisations is supposed to help the needy patients to afford healthcare service or CHC cases, the funds are supposed to fund the church daily operations or activities. Hence, a good governance or a constant monitoring is required to help to reduce the fraud cases in non-profit organisations.

In summary, non-profit organisation should focus on governance, as per below:

<b><u>Key Areas</u></b>	<b><u>How</u></b>
Catalyst Required	Embed risk management elements
Responsibilities and structures	Establish governance structure
Engage and Educate	Trainings for all employees
Dynamic risk assessments	Priority rankings

Catalyst required refers to non-profit organisations require a high-ranking guarantor get fraud risk management off the ground. The management team should decide if the organisation’s fraud risk management will be combined into the existing risk management functions or it will be a totally separate risk management. The goal is to embed risk management element into the daily goings-on of all the staffs in the organisation. Responsibilities and structures refers to a good management process in place, and establishing a governance structure such as an audit committee. Non-profit organisations should limit both the scope and existing resources and it is also unbearable to be totally “fraud-proof” in any

organisation, hence the main thing is to understand the weak points in the infrastructure and the non-profit organisations and work backwards to implement. Fraud prevention is the ideal way, however, many non-profit organisations tends to consider the costs and practicality of precautionary processes against private eye measures. Non-profit organisations must think of the outcome when fraud happened, fraud happened will cause more than the measures that is required for safeguard the property of the non-profit organisations. Non-profit organisations also required to engaged and educate the employees through workshops or trainings which provides information on why people commit fraud, what are the cons to look out for, and what are the current resources that is available for them such as whistle blower policies, reporting systems as well as the hotlines. Alertness throughout the non-profit organisations will be the most effective fraud warning and automobile for detection and it should start from the beginning. When the non-profit organisations faced with resources restrictions, they should completely employ all their employees in an current systems of fraud prevention and hence, it is important for the non-profit organisations to ensure that their employees are all well trained in this area (Gerry zack and laurie de armond, 2015).

The board of directors of the non-profit organisations could also be changed regularly instead of having the same person as the board for many years. Board of directors of the non-profit organisations should have limitation clauses such that board members do not serve more than a number of terms. This is essential for board renewal and succession. Apart from the board of directors, there is also the danger of having the CEO and/or the chairman/founder having extensive power as was the case in the 3 examples mentioned above.

The costs of fraud in NPOs is very high. Most of these organisations rely on donors support; hence the NPO reputation is critical. We saw how NKF had experienced a drop in donations as an immediate aftermath of the fraud case. Anecdotal evidence suggests that a number of NPOs would try to 'cover up' any discovered fraud to avoid damage to reputation.

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