

NEW SCAM – THE KIND FELLOW WHO MADE AN ERROR IN HIS DONATION AMOUNT MAY BE A CON ARTIST

*By Mike Batts, CPA
& Danny Johnson, CPA*

NONPROFIT SPECIAL ALERT™



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By Mike Batts, CPA & Danny Johnson, CPA

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A very kind but anxious fellow named Tom calls your finance office and informs your team that he just realized he accidentally submitted a donation to your organization in the amount of \$5,000. He meant for it to be \$50. He pleads for an immediate refund of the difference, since he is on a fixed income and a \$5,000 charge to his account would create a terrible hardship for him. Your team wants to help the poor chap immediately. You check the records for your online gifts and sure enough...there it is...an online ACH gift from Tom, a new donor, in the amount of \$5,000. You quickly come to Tom's rescue and issue a refund through the ACH system to him in the amount of \$4,950. Now that you've saved the day, you can move on to more mundane things.

But two days later, you get a notice from your bank that the original \$5,000 gift from Tom was rejected due to insufficient funds in his account. So, his original gift of \$5,000 is debited from your organization's account as a chargeback. You try to call Tom and the number is no longer a working number. After you think about it for a couple of minutes, the reality begins to sink in...you got scammed. You issued a refund for \$4,950 of a \$5,000 contribution you never actually received.

The scenario described above is happening with increasing frequency to nonprofit organizations across the United States.

There are variations on the specific approach (for example, someone puts a check in the offering plate in a worship service, waits until they know the church would have deposited it, and then calls

the church in a "panic" that they accidentally wrote the check for the wrong amount and they need a refund electronically immediately).

Fraudsters attempt to steal funds by taking advantage of the lag time associated with bank processing of payments from deposit accounts (that is, the time between the date the transaction was made and the date it clears the banking system).

What to Do

Refund requests for contributions made should ring alarm bells. A refund of all or part of a charitable contribution is a very unusual occurrence. In fact, the very nature of a contribution involves the relinquishing of ownership and control over the gift. Nonprofit organizations are not at liberty to simply refund contributions upon a donor's request. (Imagine a donor giving a large gift, the organization using the gift to pay for a significant initiative, and the donor subsequently asking for a refund. If such practices were allowed, nonprofit organizations couldn't properly function.)

It is true that if a donor accidentally gave more than he/she intended, a nonprofit organization may have a moral duty (if not a legal one) to rectify the situation. But only if it was genuinely an accident and only if the organization ensures that it is not the victim of a scam in the process. A simple way to avoid being scammed in the manner described in this article is to appoint a special team to handle any donation refund requests and train the team on these types of scams. The organization should never issue a refund for an allegedly erroneous contribution until the organization ensures that the funds originally given have fully cleared the banking system and are settled. Simple awareness and adhering to such a policy can prevent an organization from being flimflammed.

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