

As you might be aware, there is a corruption trial occurring in Vatican City. A cardinal is on trial for the alleged misappropriation of over \$200 million in contributions on a failed real estate investment in London. The details of this sad affair can be obtained elsewhere. Today I want to focus on some key points about how the trial came to be, and the lessons that can be drawn gleaned from that.

When asked about how the whole matter had come to light, the Pope responded, "...two complaints from people who work in the Vatican and who saw an irregularity in their functions. They made a complaint and asked me what to do. " The Pope not only sent them to the prosecutors but signed the complaint with them, "...to say: This is the way, I am not afraid of transparency or truth. Sometimes it hurts, and a lot, but the truth is what sets us free.""

Some of the lessons to be learned here are:

- **Almost half of all frauds are discovered by tips.** That is why in the United States Congress required whistleblower lines at all public companies with the Sarbanes Oxley Act of 2002. NFP organizations should always make provisions for and protect whistleblowers from retaliation.
- **Credible leads must be run down.** The Pope and the whistleblowers are to be commended for their diligence in running down the lead. Too many times the red flags of fraud ( another topic for another day!) are simply dismissed as aberrations. You can't make assumptions when dealing with potential fraud--you need to follow the evidence to its conclusion.
- **The alleged perpetrators were turned over for prosecutors.** In many cases management feels embarrassed when confronted with potential fraud. Other common excuses are it takes too much time and energy to support a prosecution or that internal discipline is sufficient. The latter point is certainly debatable as it dilutes the deterrence of future fraud.
- **Your most trusted associate is the one that can beat you big time.** In this case, the alleged fraudster was one of the most trusted associates of the Pope. The cardinal in question had served as the Pope's chief of staff, the person who directs the operations of the Vatican on a day to day basis.
- **Transparency is important..** Eventually news of a large fraud will leak out. The reputation of a management complicit in covering up a fraud will be damaged, often beyond repair. This can be deadly to a NFP organization. Donations may dry up as donors may begin to mistrust management. Remember, in many cases the coverup becomes more consequential than the actual fraud. As the Pope noted, "the truth will make us free".
- **Corrective action was taken.** The Pope took corrective action for the situation. That is covered in another blog. When faced with such events you need to close the barn door so the next batch of horses can't escape as well. Effective corrective action is one way to build credibility with the stakeholders of the NFP.

How will the trial end? Stay tuned.