

Preventing Fraud in Your Congregation

Matt Huntington

March 30, 2019

Our insurance serves you so you can serve God.
Serve God



Who We Are

We are a property and casualty insurance program serving the churches and related ministries of the:

Alliance of Baptists

Evangelical Lutheran Church in America

Christian Church (Disciples of Christ)

Presbyterian Church (USA)

Reformed Church in America

United Church of Christ

Mission

To support and protect churches and church ministries by offering superior property and casualty risk and insurance management services.



Vision

To become the program of choice for the denominations we serve.



Agenda

- Background
- Prevention
- Detection
- Response



Background

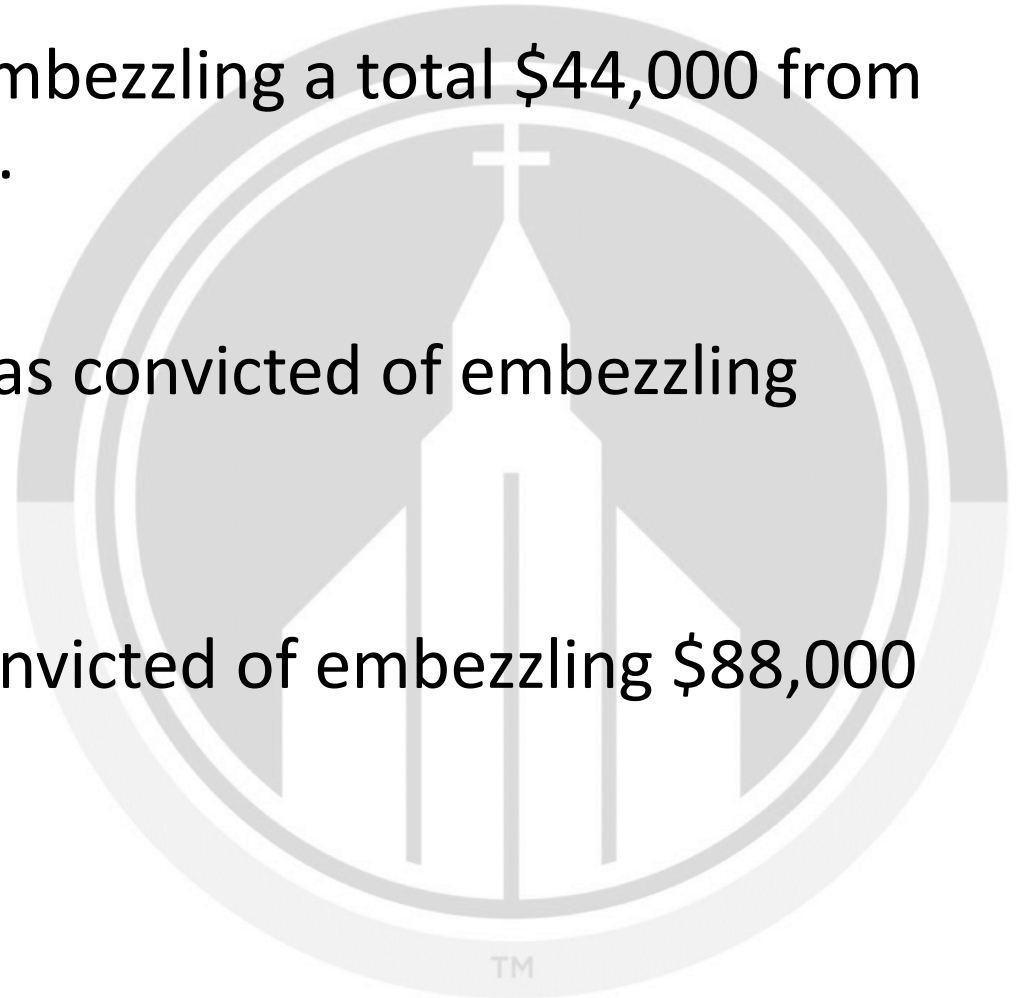


Statistics

- According to a 2017 survey, 1 in 10 churches has had someone embezzle funds.
- In the same study, pastors were asked when the last time a financial audit was conducted.
 - 10% said 5 or more years ago.
 - 14% said they were not sure.
 - 10% said an audit had never been conducted.
- A 2016 study by the Association of Certified Fraud Examiners found that 2.4% of all fraud cases involved churches or charitable groups.
 - Average loss in those cases was \$82,000.

Cases

- In 2018, a treasurer was convicted of embezzling a total \$44,000 from several UCC congregations over 2 years.
- In 2017, a UCC treasurer in Michigan was convicted of embezzling \$42,000 over 2 years.
- In 2013, a UCC church secretary was convicted of embezzling \$88,000 over the course of 10 months.



Common Methods

- Billing schemes.
- Checks payable to cash.
- Misuse of employee credit cards.
- Skimming out of the offering plate.



Why Fraud Occurs?

Most fraud occurs when these items are present:

1. Opportunity

- Unsupervised and unregulated exposure to church finances.

2. Financial Pressure.

- Debt problems.
- Lifestyle.
- Addictions.

3. Rationalization.

- Embezzler may think they are underpaid.
- Embezzler may think they are borrowing.

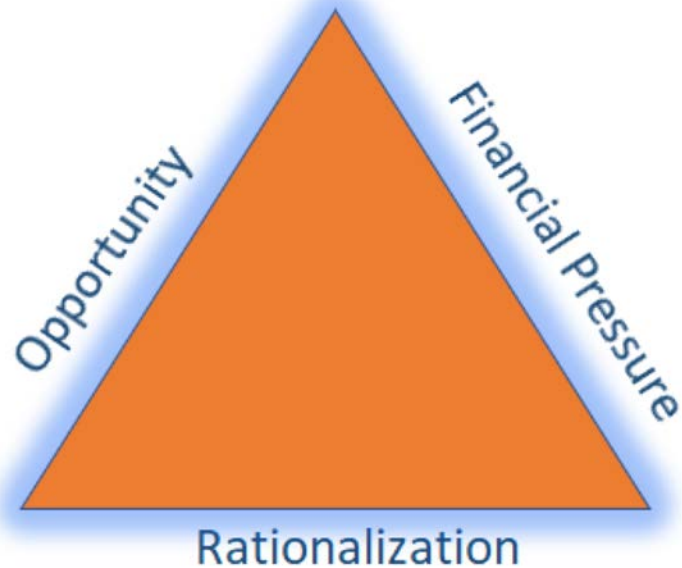


Prevention



Prevention

- Internal Controls should be designed to address each of the three legs of the Fraud Triangle



- To properly safeguard the church's finances, a written financial policy should be adopted that contains:
 - Screening and Supervision
 - Internal Controls
 - Cash Management
 - Yearly Independent Audit

Prevention – Financial Pressure

- Conduct background and credit checks on all staff/volunteers who will handle church funds.
- Look for the warning signs that indicate someone might be feeling financial pressure that could lead to embezzlement.
 - Lifestyle out of line with income. (New cars, vacations, electronics)
 - Addiction (alcohol, drugs, gambling).
 - Increased expenses (divorce, medical, etc).

Prevention - Opportunity

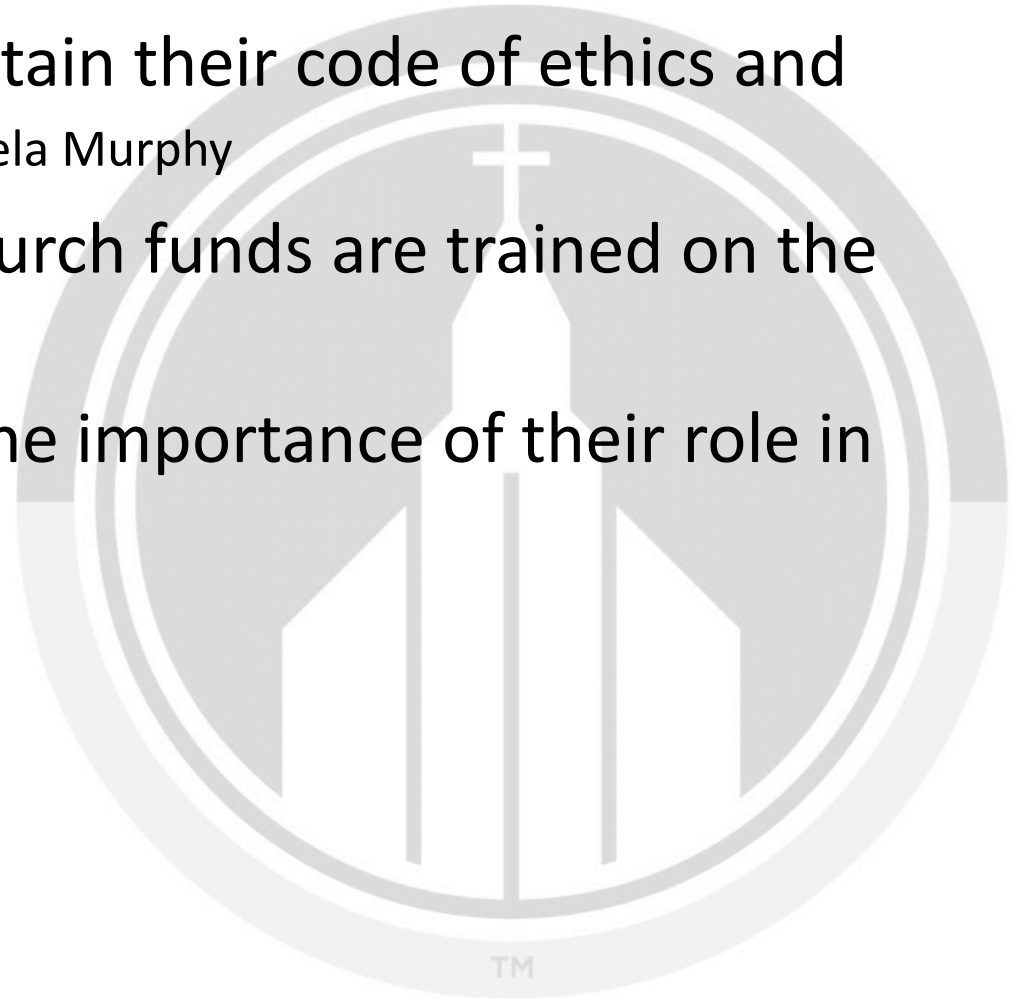
- Internal controls should require:
 - Signers of checks should not be the person authorizing the expense.
 - Two individuals to sign checks that exceed a predetermined amount.
 - All disbursements should be made by prenumbered check.
 - Bank statements should be reconciled by someone not authorized to sign checks or make deposits.
 - All checks should have an invoice or check request that matches the amount disbursed.
 - Blank checks should not be signed in advance.
 - Implementation of a credit card policy that calls for review and reconciliation of purchases.

Prevention - Opportunity

- Cash Management guidelines should require:
 - Distribution of donation envelopes to congregants instead of offering plates.
 - Two unrelated cash counters for every service, with each completing their own tabulation sheet.
 - Rotation of new cash counters on a weekly basis.
 - Counting should be done in a locked room.
 - Installation of a surveillance camera in the counting room.
 - Checks should be stamped “For Deposit Only” immediately upon receipt.
 - Deposits should be done as soon as possible.
 - Use of a night depository is recommended.
 - If necessary, place cash and deposits in a locked safe on church premises until the bank opens.

Prevention - Rationalization

- “Rationalization enables people to maintain their code of ethics and avoid guilt or self-condemnation.” — Pamela Murphy
- Make sure all individuals that handle church funds are trained on the financial policies.
- Ensure that staff and volunteers know the importance of their role in the church and feel valued.



Detection



Audit

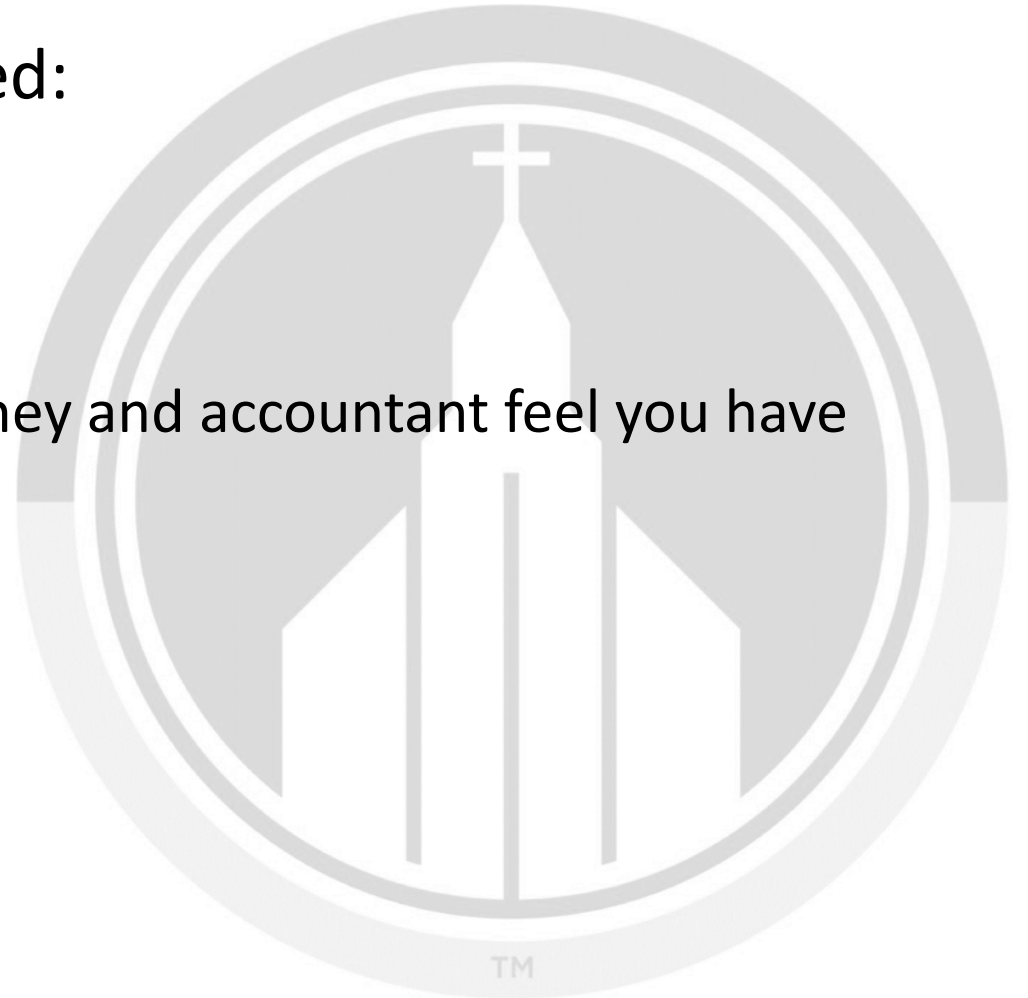
- An audit is an independent evaluation of the financial reports and records and the internal controls of the local church by a qualified third party.
- The financial policy should require an annual audit of the financial statements of the church and all its organizations and accounts.
- The audit may include:
 - a review of the cash and investment reconciliations,
 - interviews with the staff and volunteers that handle church finances,
 - a review of journal entries and authorized check signers for each account
 - other procedures as requested.

Response



Response

- If you suspect fraud might have occurred:
 - Call your attorney immediately.
 - Call your insurance agent.
 - Do not discuss publicly.
 - Contact law enforcement once your attorney and accountant feel you have sufficient evidence.



References

- <https://www.christianitytoday.com/news/2017/august/robbing-god-protestant-churches-embezzlement-audit-reserves.html>
- <https://www.churchlawandtax.com/web/2016/february/internal-control-weaknesses-i-know-someone-who.html?paging=off>

Additional Items

- Cell Tower Leases
- Hold Harmless Agreements and Contracts with Users of Church Facilities
- Your church and Employees as a Small Business
- Church Accounting and Quick Books



• Survey and Inspection

- IB has partnered with the ACS Group to offer a survey and inspection service that is geared to churches and their missions. Surveys include an onsite visit, consultation and follow-up.
- Industrial Appraisal Company (IAC), a specialist in church appraisal, provides a discount to Insurance Board program participant.
- IB offers access to jurisdictional boiler inspections services. These inspections are required by law and are conducted by licensed engineers of your insurance company.

- **Abuse Prevention**

- IB has partnered with Praesidium to offer abuse prevention resources to our Participants that include;
 - Policy Templates and Self Assessment Tools.
 - Online Training.
 - Subsidized Background Checks.

- **Educational Resources:**

- The Insurance Board offers relevant reference materials including church-specific Loss Control Manuals in a form easily digested by a committee or individual. We provide a seasonal publication, The Steward, and our booklet, Your Church: Employer & Small Business, to keep you up to date on church management issues.
- Regular webinars covering important topics presented by the Insurance Board or one of its partners.

Questions?





Insurance Board

Loss Control

losscontrol@InsuranceBoard.org

Tel. 216 736 3248

Our insurance serves you so you can serve God.

Serve God