

# HOW TO HELP YOUR CHURCH AVOID FRAUD

by Vonna Laue, CPA

**T**HIS ARTICLE IS THE RESULT of one of those days where everything kept pointing at one thing I was supposed to do. I finally relented and put together a presentation for a church seminar on fraud in the church. It's my desire that your church is never defrauded; however, I want you to be aware that it can happen to you, and I also want you to be alert of any possible signs that could be present in your staff.

## BACKGROUND

Recently, I was speaking with the president of a ministry and discussing the fraud questions that auditors are required to ask of several people within an organization during the audit process. When we finished, he asked if I had a "Top 10 Warning Signs" list for identifying people committing fraud in an organization. A friend of his had embezzlement take place at a company and said that he had seen such a list one time, and the embezzler displayed all but one of the signs. I didn't have such a list to provide.

I was catching up on some reading that same evening. One article I read was related to fraud and one was on ethics in the workplace. By this time I was starting to notice a theme, and so I

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began some research on fraud. I needed to find a topic for a presentation at a church seminar and decided the topic had found me instead.

One of the comments we often encounter when discussing fraud issues with clients goes something like this, "I completely trust Jane. She's worked here forever and would never do anything improper. I'd trust her with my own finances."

I often want to respond, "I hope you trust her or she shouldn't be working here." We should not, however, let that trust keep us from being aware of situations, watching for warning signs, or maintaining good oversight and effective controls.

## EXAMPLES

In preparation for this topic, I was going to find a few examples over the past couple of years of church fraud. The internet provided six examples from the last three months of 2005 in a matter of minutes. It was more prevalent than I had thought! Here is a brief summary of each (look for commonalities and differences):

- October 2005, Georgia—A bookkeeper of 14 years was found to have stolen \$17,000 to pay bills and buy a septic system for a relative.
- October 2005, Wisconsin—A business manager of 17 years had taken over \$235,000 and used it to purchase boats, vacations, and other luxury items.
- November 2005, Maine—A pastor of 16 years used the church credit card for over \$100,000 of personal items.

- December 2005, Illinois—A business manager of 12 years had spent over \$1 million on gambling over six years. Among other means, he had stolen collections and food certificates to take \$635,000 from the church during that time.
- December 2005, Michigan—A volunteer treasurer stole \$13,000 from the church to pay personal debts.
- December 2005, Arizona—A pastor of a church with approximately 175 people had paid for approximately \$80,000 of personal items on the church credit card over the previous three years.

This information was reported in newspaper articles found on the internet. The occurrence dates will vary from when the information was reported, and none of these cases had been tried so information was preliminary. It gives you an idea of how commonly fraud occurs in the church, especially when you consider that often fraud occurs and is never reported because the church tries to handle it internally and does not want to face the embarrassment of public disclosure.

There are several things that appear to be common factors in each of these scenarios:

- The individuals typically had long tenure.
- The individuals were in trusted positions.
- There was an apparent lack of internal controls.



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There are also several factors that vary among the cases:

- Various locations throughout the United States
- Amount of money stolen
- Size of the congregation—while the congregation size is only noted in one situation, the size of the theft gives some indication of the congregation size in others.

You can add the commonalities and differences that you came up with to the above list. Now look at your staff again, and think about the people you trust and how much you trust them. Again, this article is not trying to make you suspicious of everyone on your team; it serves only to make you cautiously aware of what can happen when an organization and its people are not effectively “protected” by maintaining safeguards.

### TOP 10 LIST

The following is not meant to be an all-inclusive list of signs to be aware of, but rather a list of items to consider periodically:

1. **Bank (or other account) reconciliations**—Are they not done at all, or not done timely? Are they messy or confusing, and are there old reconciling items that should have cleared or been adjusted?
2. **Large amounts of journal entries at year-end**—Is there an unusual number of correcting and clean up journal entries at the end of the

year? This could indicate poor accounting practices on a monthly basis that could allow manipulation or covering something like the theft of cash or receivables?

#### 3. Significant inventory adjustments

—This could indicate that inventory itself was stolen or that personal expenses were paid and debited to the inventory cost account.

#### 4. Numerous voids in a cash register

—If you have a bookstore or a café and a single individual has significantly more voided transactions than others, it could indicate transactions are being rung up, the money stolen, and the transaction voided.

5. **Missing documents**—When documents are requested and not available it may indicate someone didn't want them found.

6. **Lack of vacations taken**—Sometimes people committing fraud are the most faithful employees. They never take vacations and they're always at work. It may be because they don't want someone else to do their jobs and find what they have to hide.

7. **Living beyond means**—Look for individuals that are buying cars, houses, or other items that they couldn't reasonably afford on their family's income.

8. **Changes in personality**—Individuals committing fraud are under a

great deal of stress and often have noticeable changes in behavior.

9. **Financial pressures**—People with significant financial pressures from things such as medical costs or loss of a spouse's job will sometimes take measures they ordinarily would not have done.

10. **Perceived inequities at work**—If an employee doesn't believe he is being paid what he is worth or that he is not being treated fairly he more easily justifies improper actions.

Note that the first five could indicate the person does not want help or ask for it when it may appear needed? For example, he loses a key supporting position, assumes the person's duties, and seems to be doing above and beyond the call but is in a position that controls and performs all aspects of many functions. This person may be commended for hard work and willingness to sacrifice, setting up an opportunity or the justification for stealing.

### SO NOW WHAT?

Pay attention to your employees and the situations they face. Also pay attention to any changes in your church itself. Things such as rapid growth, changes in technology, new personnel, or changes in the organization chart or board structure can result in internal control weaknesses and should result in processes being reviewed carefully.

Here are some suggestions of fraud prevention steps:

- Identify the areas most susceptible to fraud and determine your response. Do you need different procedures? Do you need insurance? Is it a risk worth taking by doing nothing about it right now?
- Decide who is responsible for monitoring risks (executive committee, business administrator, etc).



- Clearly communicate a code of conduct to employees that includes information about fraud and misconduct, informs staff and management about their responsibility to identify, and defines who is responsible and how to respond to suspected or identified misconduct.
- Have a whistleblower policy in place.
- Be certain that adequate segregation of duties exists for all necessary areas.
- Don't pre-sign checks.
- Reconcile all accounts monthly.
- Make sure that all procedures manuals and checklists are up-to-date.
- Do background checks and check references for ALL employees not just those working with children.


## BE AWARE OF WHAT CAN HAPPEN AND UNDERSTAND THAT IT CAN HAPPEN AT YOUR CHURCH. THEN DETERMINE WHAT ACTION STEPS YOU NEED TO TAKE.

This simple step could have saved a number of churches thousands of dollars.

- Have an external audit performed annually.

Your governing board is ultimately responsible for the church. The board members need to be involved in this process. Together you can work to provide an environment where people can continue to be trusted and the church's assets can be protected.

### CONCLUSION

Be aware of what can happen and understand that it can happen at your church. Then determine what action steps you need to take. You have more to do than can possibly be done, but understanding the importance of fraud in the church is critical to the success of ministry. May God bless you and your efforts as you serve Him! 

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