

Embezzlement Still! *Lessons From a Loss*

As we survey churches in the field, we find a distinct pattern of churches with no financial controls. We see the consequences far too often as new embezzlement claims arrive. Big claims -- \$75,000 and more! These do not happen necessarily because the employees/treasurer are evil. They may result from personal problems. Sometimes the taking starts out being a "loan" in the borrower's mind with true intentions of paying it back. Three years later, the totals have mounted and the "borrower" is in no position to pay it back.

Once a loss is discovered, it is an absolute requirement to report it to the police in order to present an insurance claim. When the embezzler is a long term member of the church and his/her family is prominent in membership, the requirement to report becomes extremely distressing. We see this scenario again and again. No congregation should have to endure this, and it is absolutely preventable.

Now is the time of year when church leaders are rotating chairs. It is time to set a management agenda. A most important subject to get on the agenda is financial controls, those which meet Generally Accepted Accounting Principles (GAAP), the standards to which a CPA firm will audit any organization, public, private or non-profit. Remember, the purpose is to protect people from being accused of irregularities, and to provide credibility and transparency to your constituents -- your congregation.

While by-laws commonly speak very generally to the broader duties of the treasurer, it is unlikely to find any definition of financial controls and separation of duties. Frankly, you should be unwilling to accept the position of Treasurer in your church unless there are controls in place which protect you and other church staff, and "lead (you) not into temptation but deliver (you) from evil."

While this is a serious chore, it is one that has been undertaken by many before you. Resources are available which provide a standard. There should be no need to engage in discussions about trust. **These are things that simply should be done.**

Help is available on our website: www.InsuranceBoard.org Go to Safety Solutions/Church Management. Several examples of financial handbooks are provided there.

What is a Public Adjuster?

In some parts of the country, it is more likely that our churches will be contacted by a "public adjuster" after a major property loss. Sometimes the church hires the firm before talking to the Insurance Board and is disappointed in the result. Here is an explanation.

There are three kinds of claim adjusters: "company," "independent," and "public." A company adjuster is one employed by the insurance company, usually in a place where there are enough claims to justify having staff. An "independent adjuster" is a subcontractor who may work for an insurance company. A "public adjuster" (PA) is one who works directly for a policy holder to negotiate a property insurance claim, and is compensated directly by the policy holder, usually 10% of the claim proceeds.

The PA's justification for its expense is the premise that it will negotiate a larger settlement than the policy holder may obtain on its own. It is true that a PA may be more thorough about compiling a personal property inventory and researching the value of individual items than a congregation lacking volunteers to do the work.

On the other hand, the terms of recovery for a

building loss are defined by the policy so that the **maximum recovery will be the actual cost** of repair or replacement. The value that the PA can add is to be certain that all of the benefits of the policy are secured, but it will cost you 10% of the final recovery.

The other issue with hiring a PA is that the insurance adjusters (and IB staff) can no longer communicate directly with you. The time line for settlement becomes the PA's, rather than the policy holder's. There are commonly disputes regarding value when the PA pushes the most costly means of repair or replacement. Construction is delayed. The recovery period is prolonged. Ultimately, the insurance company is responsible for business income losses only for a reasonable period of recovery and not for induced delay.

We remind you that the role of the Insurance Board is to be your advocate. Our specific mission is to see that you are provided timely service and receive all the benefits of the policy we have negotiated with the providers. We arrange advance and progress payments, and facilitate negotiations, all while construction is ongoing, until the final check is issued.

Certificate of Insurance Myth

Let's be frank -- Having a Certificate of Insurance (COI) from a lessee or a vendor is almost worthless. (This may be contrary to what your insurance agent has said, so we'll try to explain.) A COI is a document that says the "Insured" (vendor/lessee) has insurance of the kind described on it for the term described. The COI is only an information document and conveys no rights at all to you, the "Certificate Holder."

It's common to ask a vendor/lessee to provide a COI and an "additional insured" endorsement and take comfort if there is mention of it on the COI. Still not much has been done that directly benefits the church because insurers have routinely narrowed the conditions for "additional insured" status. You will never know unless you read their insurance policy.

First, you cannot be sure you have "additional insured" status unless it is specified in a written agreement between you and the other party, such as a construction agreement or lease, no matter what the COI says. Second, the endorsement may provide that it will only defend you with respect to acts of the vendor/lessee. That is, you will still have to defend yourself for what you may have done by way of contributory negligence. Third, the endorsement may provide that it is excess of other insurance you have unless the contract states that the vendor/lessee policy is primary.

You must first have a contract which provides an "indemnity agreement." This will specify that the vendor/lessee will defend you against claims resulting from their activity or even the very presence of their activity on your property. For example, a slip and fall to the lessee's clients on your property. It is most important that such indemnity includes injury to the employees of the vendor/lessee. If a tenant employee is injured, their workers compensation insurance will address the employee's injuries. Then the workers compensation insurer will seek to collect from you if the injury was caused by a defect on your property (torn carpet).

Remember, contract first with an indemnity agreement. The Certificate of Insurance? It makes sure the vendor/lessee will have financial resources to defend you.

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Preventing Church Fraud

Police charged Marilee Smith with embezzling \$230,000 from the Baptist church where she worked as church secretary for twenty-one years.¹ Authorities believe that she issued checks to herself and forged signatures. John Jones, treasurer of a United Church of Christ congregation, embezzled nearly \$300,000 over an eight-year period. He took cash from the collection plate and fraudulently withdrew funds from the congregation's endowment account for his own benefit. Patricia Taylor stole more than \$150,000 from the Catholic church where she served as youth director and as the bookkeeper responsible for payroll. She made unauthorized credit card charges and issued fraudulent church checks to personal vendors. Another church employee stole more than \$130,000 in just fourteen months because she was the only person able to write and sign checks, manage and reconcile the church checking account (including making cash deposits), and authorize the transfer of funds between accounts. Her monthly financial reports to the church board were pure fiction. How do congregations prevent this sort of thing from happening?

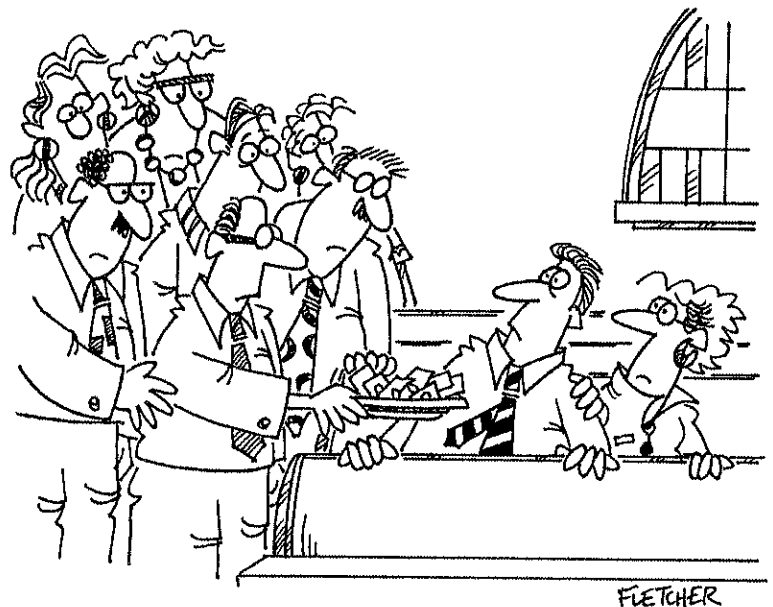
Needed: Checks and Balances

In each of these congregations, leaders, and members expressed disbelief, betrayal, and disgrace. Because they believed "it could never happen here," they failed to put necessary safeguards in place to protect the church's finances and reputation. Every church controls large amounts of money that have been given by others for God's work. Therefore, every church needs practices and procedures for financial transactions, especially for handling cash receipts and disbursements.

Never allow one person to control church finances. When churches fail to segregate financial duties, fraudulent cash disbursements are more common. These include forging or altering checks, submission and payment of fictitious invoices, doctored payroll documents to increase hours worked, falsifying expense reports, and using church credit cards for personal expenses or gas cards for personal travel.²

Church computer software adopted by scores of congregations actually increases the odds of one-person financial management with little oversight. Although such software is a good investment, all the modules should not be in the hands of just one staff member or volunteer. When too much access and control is concentrated in one individual, a good church is asking for bad things to happen.

Always use a team approach when handling cash. After receiving the offering during worship services, ushers should take the offering immediately to a secure place.³ Alternatively, plates can remain at the front of the church until the service ends and then be taken to a secure place for counting. At least two unrelated people who are not church staff and serve rotating terms should be with the offering at *all times* until it is counted, recorded, and secured or deposited. Having two people present protects the funds and reputations of the people handling the funds—they serve as witnesses to each other's honesty. After counting



SINCE THE CHURCH ADOPTED
A TEAM APPROACH TO HANDLING CASH,
GIVING IS UP 57%.

behind locked doors, the team completes a tally sheet and bank deposit slip. The two counters sign both documents and make copies of the documents for the pastor, church secretary, and treasurer. If possible, the team deposits the funds in the bank's night deposit box on Sunday after counting. Use a count-team system whenever the church takes in cash—mid-week offerings, registration fees, or special event sales.

Give monthly written financial reports to the church governing board. The temptation to commit fraud increases when a board chair says in the meeting, "How's our money situation, Joe?" If Joe forgot to bring the financial report that night and says, "We're doing OK," the process of accepting oral treasurer's reports may begin. Eventually, that can lead a treasurer into temptation that he or she cannot withstand.

Leaving information out of reports can do just as much damage as putting phony information in. For instance, a business administrator with something to hide may resort to presenting budget reports generated by electronic spreadsheet software. Because spreadsheets are detached from the church's accounting software, they can easily be manipulated to cover up indiscretions. The monthly detailed written report to the board typically compares actual revenue and expenditures to budget and compares revenue and expenditures to the same period from the previous year. Significant deviations from the budget should be highlighted. The treasurer's report should also show information on all investments and endowment accounts, including the drawdown percentages and year-to-date gains and losses.⁴

Enforce adherence to written church financial policies. The heart of money management—receiving, recording, budgeting, and spending—enables the church to accomplish God's mission. Written church policies should

- address segregation of duties (i.e., the person who prepares checks based on approved vouchers or bills is different from the person who receives and reconciles bank accounts);
- require church checks to have two signatures;
- require background checks on employees and volunteers involved with financial tasks;
- offer guidelines for expense reimbursement and pastor's use of discretionary funds;
- and state the rules for restricted funds and gifts.

The church board exercises responsibility for ongoing financial reviews and audits to identify fraud "soft spots." Strong internal controls make the likelihood of someday needing to tally the total dollars lost through theft—after the fact—much less likely.

The pastor should never handle cash under any circumstances. The reason for this rule is to protect the pastor's reputation. In general, it is also wise if the pastor does not sign checks. The pastor plays a critical role in setting the tone for how church finances are managed—cultivating a culture of transparency and accountability. The pastor reminds others of the church's policies, willingly follows them to the letter, carefully reviews financial reports, and encourages the church board to set responsible policies and guidelines.

The Bottom Line

Churches whose leaders have known their secretary or treasurer for decades begin to trust them totally. Then, a trusted person faces a big personal or family financial crisis and can't resist the temptation. Many of these people say that they planned to "borrow it" and put it back later, but later never came. No one wants to put the congregation or an individual in such a compromising situation.⁵

We all see no-brainer signs such as the sign posted in a valley prone to deep water: "In case of flooding, go to higher ground!" Or the sign posted on the edge of a high cliff: "Do not go beyond this point!" Governing board officers in congregations that experienced the painful results of theft by a trusted church member or employee needed similar signs. Contact your regional or national denomination for organizational instructions that prevent these easy-to-defend-against tragedies.

1. These are actual church fraud incidents but details were altered to protect the church and employee identities.
2. The National Association of Church Business Administration (www.nacba.net) offers additional prevention guidelines; see also Verne Hargrave, *Weeds in the Garden: The Growing Danger of Fraud Taking Root in the Church* (Richardson, TX: NACBA Press, 2009).
3. A secure location means a fireproof safe that is difficult to move or a locking file cabinet chained to a permanent fixture. Keep only receipts and counting sheets in the safe and allow access to only a few trusted individuals.
4. Leaders should know how much the church could withdraw each year from an investment account without depleting the funds in the portfolio. Year-to-date gains and losses provide information about the potential income from the portfolio in the future.
5. Fraud examiners refer to the "fraud triangle" of pressure, opportunity, and rationalization (see Hargrave, 172).