THE PARISH PAPER

IDEAS AND INSIGHTS FOR ACTIVE CONGREGATIONS

Coeditors: Herb Miller, Lyle E. Schaller, Cynthia Woolever - www.TheParishPaper.com

October 2012 - Volume 20, Number 10

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

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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.

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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).