

Risk Alert



Listening. Learning. Leading.®

Identify and prevent embezzlement

Intelligent. Hard working. Motivated. Dedicated. Valued. Trusted.

These are the characteristics you would like for all of your employees and volunteers to possess. Unfortunately, they are also the characteristics the FBI uses when describing the profile of an embezzler.

Embezzlement at worship centers happens at facilities of all sizes, within all denominations and at locations across the country. The sad truth is many religious organizations are easy targets for three main reasons--financial control is often given to one person, there is little oversight as the person is trusted within your organization and a large amount of cash is handled.

Some examples of fraud at religious institutions include:

- The administrator of a church in Pennsylvania stole nearly \$100,000 of church funds over a 14-year period by falsifying vouchers and payments and forging pastors' signatures.
- The former pastor of an independent congregation in Missouri plead guilty to felony fraud when he absconded with funds that may have exceeded \$30,000. More than 100 church envelopes were found in the garbage behind his home.
- A Florida church authorized its minister to withdraw church funds on his signature only. He did just that--pocketing \$6 million of the congregation's funds.

Three common elements of fraud:

- Motivation
- Opportunity
- Ability to rationalize

Create practices to remove temptation and opportunity

The majority of embezzlement can be prevented with the proper risk management steps, including planning and diligent execution of good business practices.

When hiring employees entrusted to handle funds and accounts or assigning these tasks to volunteers, always check references carefully and conduct a credit check and criminal background check.

Develop a policy that establishes high standards for conduct and clearly outlines duties. Review the policy with employees and volunteers and have them sign a copy. Keep this for your records.

(Over)

At least once a year, conduct an audit of your financial systems and practices to identify areas that could invite deception. This should include tracking the flow of assets in and out of your organization to determine control points and analyzing financial data in your books and records to ensure all transactions reconcile.

In addition, at the conclusion of each fiscal year, your treasurer and a number of trustees should review a random sampling of the transactions completed during the year. If problems are discovered, a complete review is warranted.

There are numerous inexpensive computer programs on the market to make this task easy and less time consuming. If you don't have the resources to assess risk and develop a prevention program, hire an accountant with expertise in workplace theft or a fraud investigator.

Loss prevention program should be simple to understand

A loss prevention program for embezzlement requires the development of safeguards and processes to identify and strengthen weaknesses in your system. One key is to keep bookkeeping processes as simple as possible to help reduce the chance of error and confusion. Guidelines for a program are:

- Require documentation for all expenditures.
- Limit the number of bank accounts your organization maintains and the number of people who are authorized to sign checks. Two signatures should be required for checks over a predetermined amount, such as \$1,000.
- If you use a check-printing program, limit the number of people who have access to the program.
- Transfer of large sums of money into or out of different accounts should not be permitted without written consent of two persons.
- Checks should never be presigned or "signed" with a signature stamp. Blank checks or partially completed checks invite confusion and mishandling.
- The original corresponding invoice and a receipt should be provided for each cash withdrawal. Create a standardized form to document any cash handling.
- Ask members to place offerings in a sealed envelope with their name and date written on the outer envelope.
- When checks or cash arrive, a list and tally of the collections should be made and they should be deposited promptly--daily when possible. At least two people should be present when the offering is counted.
- Checks should be stamped "For Deposit Only" to discourage tampering.
- Establish division between people who collect funds, keep books, write checks and manage the bank accounts.
- Bank statements and accounting records should be balanced on a monthly basis.
- Maintain records on assets, equipment and supplies.

Finally, if you suspect fraud is being perpetrated at your organization, don't try to handle it yourself. Hire an accountant, a fraud examiner or an attorney to review your records.

For a complete collection of the *Risk Alert* series, visit our Web site and look in the Safety Resources section.