

# riskreporter

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## Steps to help protect your religious organization against fraud

Fraud in the workplace isn't limited to huge corporations such as Enron and WorldCom. In fact, small businesses, including religious organizations, are all-too-easy targets for occupational fraud.

And the damages are greater for small businesses, where the average loss from employee theft is \$127,500, vs. \$97,000 for large companies.

Fraudulent crimes perpetrated against religious institutions are on the rise and on the front pages of newspapers across the country.

- 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 Tampa, Fla., church authorized its minister to withdraw church funds on his signature only. He did just that, pocketing \$6 million of the congregation's funds.

"Any non-profit organization, like a religious organization, that tends to place a lot of financial control with one person with little or no oversight and little



**One way to help prevent fraud** is to have at least two people count the offering.

or no separation of financial duties is going to be significantly more susceptible to internal fraud," said John Warren, associate general council of the Association of Certified Fraud Examiners.

So who perpetrates such crimes? All too often, it's an individual so trusted that he or she has a high level of access to the worship center's funds and financial dealings. The FBI describes the profile of an embezzler as a bright person who has been on the job five to six years, provides above-average performance and is highly motivated, valued and trusted.

Embezzlement occurs at worship centers of all

denominations and sizes, in large cities and small towns. The underwriters of accountants' professional liability insurance attributes the increasing number of embezzlement claims in recent months to the tough economy and rising unemployment.

"Religious organizations are particularly vulnerable because they handle a lot of cash, which provides easy access and opportunity for abuse," said Nick Hodson, partner, Global Investigations and Dispute Advisory Services of the accounting firm Ernst & Young. "There's probably a higher level of trust and that tends to mean

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# A PERSPECTIVE

As part of your fiduciary responsibility, it is imperative that you are alert to the warning signs that fraud might be occurring at your religious institution.

Risk Reporter spoke with Nick Hodson, partner, Global Investigations and Dispute Advisory Services of Ernst & Young, regarding conditions and situations worship centers should watch for that might predispose an employee to commit an act of fraud.

**Risk Reporter:** In your experience, are there common conditions or risks that typically exacerbate fraudulent acts among employees?

**Nick Hodson:** Yes — the three most common conditions are motivation, opportunity and the ability to rationalize the act itself.

Often, a financial or health crisis in an employee's family, substance abuse or gambling addiction provides motivation for employee theft.



**Nick Hodson**

Another common motivator is an employee who feels he or she is being treated unfairly or whose job is in jeopardy.

There is oftentimes a greater opportunity for fraud at smaller churches because they often do not have sophisticated

business systems. There's a lack of control and supervision and objective governance functions that deter fraudulent activity. That, combined with easy access to cash, provides the temptation and opportunity for employee theft.

**RR:** What about rationalization?

**NH:** Most people can rationalize just about anything. An elderly relative might need medical care, or a family member in another country might need funds in order to survive.

In one case I investigated, a minister took money out of the offerings to buy items such as a car. His rationalization was that the car and other goods enabled him to "extend God's influence."

Many in this minister's parish recognized that his income and lifestyle didn't add up, but it took someone courageous enough to speak out before the problem was addressed.

Those who shrugged off the signs meant well, but their silence increased losses incurred by the church.

**RR:** Are there other things congregations can be on the lookout for that might indicate a higher risk of employee theft?

**NH:** Absolutely. Personnel situations that might raise a red flag include an employee's lifestyle that suddenly changes in a way that is incongruent with his or her income. Or if an employee is overwhelmed with a personal crisis, such as a divorce, illness or is experiencing a gambling or substance-abuse problem.

Disgruntled employees also can be a risk, especially if they feel they're being treated unfairly or as though they're underpaid or are generally dissatisfied with their job. Fiduciary situations that should cause alarm include banking activities that are out of the norm or that don't make sense, checks that are used out of sequence or filed receipts and documents that are copies rather than the originals. Congregations also should note when inventory is low and there is no corresponding reduction in operating expenses.

**RR:** Are there specific things religious organizations can do to prevent employee theft?

**NH:** The single, most effective thing worship centers can do to alleviate the risk of theft is to not put too much trust in one person. In a typical scenario, a small church counts on a trusted member of the congregation — someone who has no criminal background. This person is put in charge of managing the books, and no one checks his or her work. Usually it starts small; they take the collections or write themselves a check to cover a problem, saying to themselves that they'll do it just once. When they see how easy it is, the fraud just escalates.

Unfortunately, fraud is mostly committed by the person who has been trusted and involved in the religious organization for years and years. It's the one people invariably say, "I never thought it would be him." ■



## seasonal spotlight

### *Congregations breathe easier with adequate indoor air quality*

Most people think holding activities indoors protects participants from the elements. This isn't always true. Your buildings might actually be making members ill with poor levels of indoor air quality.

According to the Environmental Protection Agency's Indoor Environments Division, indoor levels of air pollutants can be two to five times higher, and occasionally 100 times higher, than outdoor levels. The National Academy of Science estimates these high levels of air pollution cause 15 percent of Americans to suffer symptoms such as headaches, breathing problems, allergies and asthmatic attacks.

"Churches and places of worship present unique and challenging air environments as they periodically occupy a high density of people, almost all within one central room," said Marilyn Black, chief scientist of Air Quality Sciences. "With that in mind, it is important to pay close attention to several factors which can directly influence the quality of air within the building."


Common culprits of air contamination may include moisture, building materials or chemicals. Each has the potential to produce harmful indoor air pollutants such as volatile organic compounds (VOCs), including pesticides or solvents and biological pollutants frequently responsible for mold, bacteria, viruses and dust.

Controlling or eliminating these common air pollutants begins with adequate air ventilation specific to the size and occupancy of a building. Ventilation can be provided by natural air movement through open windows or doors or with a heating or air conditioning system equipped with fans to bring fresh outdoor air inside.

"The American Society of Heating, Refrigerating and Air-Conditioning Engineers provides guidelines for building owners concerning proper ventilation," Black said. "The general guideline for a church or congregational building is 15-20 cfm (cubic feet per minute) per person of clean air flowing through a space."

Indoor airflow can be measured with the help of instruments such as a flowhood or Pitot tube. Contact a local HVAC industry member for a professional airflow evaluation or for information on purchasing or renting airflow measurement equipment.

Indoor air quality also is affected by excess humidity levels and moisture within the building that helps promote the growth of mold. It is important to keep relative humidity levels at less than 70 percent and prevent excess moisture from forming inside by promptly fixing leaks, repairing roofs and removing standing water.

"Churches and places of worship often face the biggest threat to indoor air quality with new building construction and building renovations," Black said. "Building materials, such as paints, adhesives, sealants, carpet and furniture, all emit harmful VOCs that result in a temporary reduction of indoor air quality." 



## IN THE HEADLINES

### *Ten Commandments challenges spread*

August 2003 — Officials in many states across the country are scrambling to defend the placement of the Ten Commandments in government buildings and on public land. The placement of these monuments and plaques is being challenged by groups who say that such displays violate the U.S. constitution-mandated separation of church and state. Disputes are under way in roughly 13 states and it remains unclear whether the U.S. Supreme Court will enter the debate.

Source: *The Christian Science Monitor*

### *CASE program helps seniors avoid fraud*

July 2003 — The Clergy Against Senior Exploitation partnership is currently working with 170 faith communities to help recognize and prevent fraud, and in particular, identity theft against senior citizens. Funded by a three-year, \$200,000 grant from the U.S. Department of Justice, the program trains clergy and lay leaders, runs fraud prevention seminars in churches, synagogues and mosques, and sends out regular "fraud alerts" to an e-mail database of 40,000. For more information, visit [www.denverda.org/html\\_website/denver\\_da/CASE%20who.html](http://www.denverda.org/html_website/denver_da/CASE%20who.html).

Source: *Chicago Tribune*

### *Internet screening tools help churches*

June 2003 — New Internet-based screening tools make it quick and inexpensive to search backgrounds of prospective employees. With the increase in lawsuits surrounding youth programs, pressure is being placed on the importance of screening, making it necessary for clergy, employees and adult volunteers who work with children. Many insurance companies that sell policies to churches and youth groups are also recommending the screenings. The searches often return results in minutes, finding crimes associated with 2 percent to 10 percent of those screened.

Source: *The Miami Herald*

### *Church Mutual recommends ScreenNow*

Church Mutual customers receive a discount when they use ScreenNow for their Internet-based background screening needs. For more information, see the Church Mutual Web site at [www.churchmutual.com](http://www.churchmutual.com), under Risk Management Help.



there are less intrusive controls that would help safeguard the worship center.”

### Prevention is key

Although it's impossible to create an environment that's entirely risk-free, you can minimize the potential for fraud through planning and diligent execution of good business practices that remove temptation and opportunity for fraudulent activities. Let's review the basic steps every business should take to safeguard assets.

### Personnel

- Check the references of potential employees very carefully. When in doubt, conduct a credit check and criminal background check.
- Develop a policy that establishes high standards for conduct and clearly outlines duties. Make sure that the appropriate people have read the policy, understand it and sign off on it. Keep one copy for your files and give a copy to employees for their files.
- Establish exacting personnel and volunteer procedures for access to and management of organization assets.

### Risk assessment

Risk assessment is a first step toward developing a sound plan that will address the needs and systems specific to your worship center.

- On a regular basis, conduct an audit of existing financial systems and practices to identify weak areas that could invite deception.
- Track the flow of assets in and out of your organization to determine control points.
- Analyze financial data in your books and records to make sure that all transactions reconcile. It's best to use a computer program to track finances. These programs allow records to easily be reviewed and tracked.
- If you don't have the resources to assess risk and develop a preventative program, hire an accountant with experience in workplace theft or a fraud investigator. Fraud studies published by the *Journal of Accountancy* show that up to 80 percent of fraud cases can be detected simply by asking the right questions — the questions a professional will ask.

### Loss prevention program

Your loss prevention program comprises primarily the development of safeguards and processes to strengthen weaknesses in your system. The key is to keep bookkeeping processes as simple as possible to help reduce error and confusion.

- Your loss prevention program should be compatible with your worship center's financial goals and plans. For instance, the

goal for the growth and scope of your youth ministry might necessitate making funds for that program available to the youth minister. However, he or she will need to be accountable for appropriate record keeping and documentation of 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.
- Transfer of large sums of money into or out of different accounts should not be permitted without written consent of two persons.
- Checks should be pre-numbered but not pre-signed 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 names and dates recorded on the outer envelope.
- When checks or cash arrive via the offering plate or by mail, 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.
- Limit the number of worship center keys made available to staff or parishioners and record the names of people who have keys. Keys should be marked "Do Not Duplicate."

Should you suspect fraud is being perpetrated, don't try to handle it yourself.

"Call an accountant with fraud experience, a fraud examiner or a lawyer," Warren said. "It can be a delicate process; you may not want to tip off the person under suspicion early in the investigation. You need an expert who knows how to investigate fraud and how to preserve evidence, if there will be legal action. Plus, you don't want to violate the legal rights of the person being investigated."

For assistance, contact the Association of Certified Fraud Examiners at 800-245-3321, your state Board of Accountancy or seek a referral from your accountant or attorney. ■

## FOR MORE INFORMATION

*For more information on indoor air quality, visit the American Society of Heating, Refrigerating and Air-Conditioning Engineers Web site at [www.ashrae.com](http://www.ashrae.com).*



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