

risk reporter

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A financial pandemic is sweeping the country

There is an employee at your religious organization you have known and trusted for a long time. She is a delight to work with and is an excellent representative of your office to the entire congregation and community. What happens when it is discovered she has been quietly embezzling thousands of dollars from the organization's funds?

"It was absolutely horrible," said the Rev. Larry Scharmann of Oak Meadow United Methodist Church in San Antonio, Texas. Scharmann is all too familiar with that scenario.

"The person was such a wonderful woman with the church. She opened her heart and knew everyone and everything going on," Scharmann said. "I thought her enthusiasm for the church was genuine."

In 2006, an employee of Scharmann's organization was silently writing checks to herself and purchasing items from a national club retailer for her and her husband with Oak Meadow's credit card. In the end, she had bilked the religious organization out of \$30,000.

John Peters from Peters & Associates, a forensic accounting firm in Brookfield, Wis., has witnessed Scharmann's situation time and time again over the years.

"The problem is more frequent than you think it is," Peters said. "It's not an isolated occurrence, and there are many, many church-related institutions that consistently suffer financial losses. It's a pandemic."

Warning signs of embezzlement

A review of fraud claims filed with Church Mutual Insurance Company revealed that 42 percent of the time the treasurer is the person involved in the embezzlement and/or fraud. Accounting experts say there are signs to look for if embezzlement is suspected in a religious organization.

- Excuses by the person in charge of the finances to avoid an audit
- Failure to keep the check register with the checkbook
- Failure to provide financial reports at meetings
- Very protective of his/her job

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Peters also points out that hiring staff at a religious organization should be approached with caution.

"You should be wary in the hiring process — especially if someone seems to be too eager to get the job," Peters said. "Some people apply at churches because they know they'll have easy access to money and the trust of the staff. My advice would be to conduct background checks even if it's a voluntary position."

When Scharmann found out about the embezzled money, he realized that trust is a valued commodity in this world.

"You never know what someone is going through or what they're capable of," Scharmann said.

And speaking from experience, Peters has seen astronomical embezzlement amounts.

"Getting to \$15,000, \$20,000 or even \$100,000 is no problem," Peters said. "I've seen others take well over \$1 million."

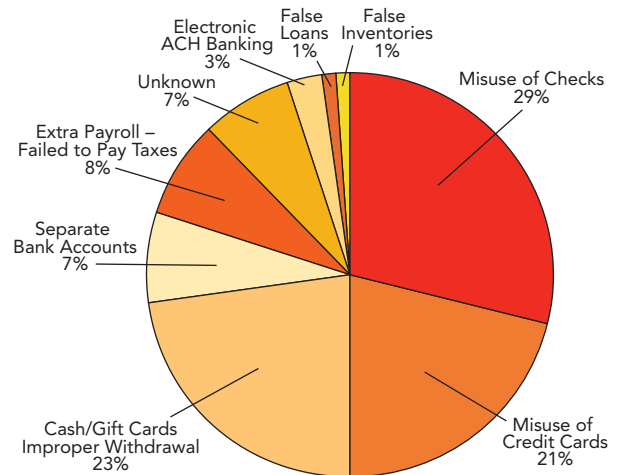
What can be done to prevent employee theft or dishonest practices when it comes to the finances of the organization? Here are 10 prevention steps to take immediately:

1. **Use a check-and-balance system** – Do not allow one person to have control of financial transactions.
2. **Reconcile bank accounts every month** – Examine canceled checks and bank statements.
3. **Restrict credit card use** – Limit the number of credit card users, set account limits and require original receipts for all purchases.
4. **Provide oversight of the financial activity** to be reviewed by a committee.
5. **Create specific policies** for cash disbursements, expense reimbursements and petty cash.
6. **Ensure assets are used only for business purposes** – Vehicles, cell phones and equipment.
7. **Create a standardized document for all cash handling** – Document specific reasons money changes hands.
8. **Protect checks against fraudulent use** – Require two signatures on all checks.
9. **Protect cash and check collections** – Reconcile cash receipts daily.
10. **Restrict online bank account use** – If possible, require all transactions be done with hard copies.

Lessons learned

Scharmann learned many valuable lessons from his experience with a dishonest employee three years ago. In fact, the experience changed the way his entire religious organization conducts business.

Types of fraud



"Now we require two signatures on every check, and we keep closer tabs on the financials," Scharmann said. "We have monthly meetings, and we've set up a separate committee to take a detailed look at everything. It's made us more aware of the policies we need to have in place — and we've strengthened those policies 100 percent."

Consider electing a board of directors to establish financial policies. The board should be responsible for overseeing the following activities:

- Monitor financial activity
- Monitor and review any variation from budgeted amounts
- Review if payroll taxes are paid promptly
- Approve financial procedures
- Work with auditors to explain financial statements annually

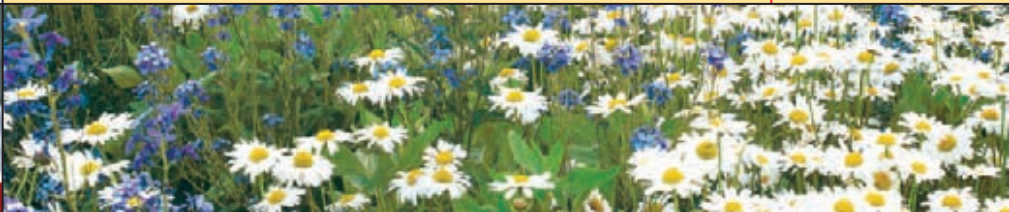
The current poor economic environment has no influence on employee dishonesty and embezzlement.

"Good economy or bad economy; Thursday or Friday — it doesn't matter. It happens all over the country any time of the year or any year. It's a problem that's been around for decades," Peters said.

Trust is such an important part of our social connections to friends, families, communities and congregations. Unfortunately, that trust is broken all too often in religious organizations.

"Trust is nice," Peters said. "But 'trust me' is not a good philosophy when it comes to financials."

- **For more information** about financial safeguards, visit www.churchmutual.com, click on "Safety Resources" and select "Risk Alerts."



Managing Your Risks

Fatality alert

A review of 2009 year-to-date claims activity has identified a troubling statistic — there has been a significant spike in fatal accidents involving employees, volunteers and members of religious organizations.

In 2008, Church Mutual customers experienced accidents resulting in 27 fatalities. Through the first six months of 2009, there have already been 29 fatalities reported.

I've written before about the willing-but-not-able issue religious organizations need to recognize when accepting volunteers. Not everyone is hearing the message.

Recently, a 76-year-old volunteer was killed when he fell off the church roof. He was up there helping remove shingles.

Another volunteer died when he fell off a ladder while performing maintenance at the church. He was 86 years old.

Another accident involved a pastor who fell from a ladder while pruning trees.

It's easy to not take the time to make sure the ladder is on level ground or to elect to reach for something rather than moving the ladder.

An 18-year-old volunteer at a religious camp was riding an ATV and lost control near a bridge and fell to the riverbed below.

There also have been numerous falls where elderly members have sustained fatal injuries on steps or in the parking lot, a number of automobile accidents and multiple deaths from drowning.

Every fatal accident is horrible, but not learning from them is a tragedy.

Take the time today to inspect your facilities for safety hazards and review the safety guidelines for your employees and volunteers as well as the rules you have in place for activities your organization is involved in.

For assistance in this review, visit our Web site at www.churchmutual.com, select "Safety Resources" and click on "Self-Inspection Checklists." You can download, print or order the checklist from the site.

Richard J. Schaber, CPCU, CRM
Risk Control Manager

seasonal spotlight

Ensure a safe ride by selecting safe drivers

Selecting drivers to provide transportation for your congregation is one of the more important hiring decisions you will make. You are putting the lives of the passengers — typically children — in the hands of the drivers. For this reason, it is essential to screen your drivers and enforce safe driving policies.



There are guidelines to keep in mind when hiring a driver for public transportation. In addition to a state issued driver's license, you might consider requesting drivers to obtain a public passenger vehicle driver's license (PPV).

"Our drivers are required to have a PPV," said John McDonnell, general manager of Corporate Limousine Service Inc. based in Milwaukee, Wis. "This license is issued through the city and involves a series of driving related tests."

PPV testing involves a driving exam and a defensive driving course, and if operating a vehicle with handicapped or elderly passengers, drivers must complete a Passenger Assistance Techniques training program. Having a PPV ensures drivers have completed training and are capable of operating a multipassenger vehicle.

In addition to these tests, a PPV calls for the driver to undergo a background check.

"For our company, the Milwaukee Police Department conducts a background check," said McDonnell. "It's a standard criminal background check looking for felonies and any other red flags. I also strongly suggest that you ask for and check references of all drivers."

The following checklist is recommended for interviewing potential drivers:

- Attitude
- Age (minimum age of 25 is recommended)
- Driving record
- Experiences (references)
- Physical condition
- Possession of commercial driver's license

■ **For more information** on selecting safe drivers, visit www.churchmutual.com, click on "Safety Resources," select "Protection Series Booklets" and "The Road to Safer Transportation." There also is a DVD by the same name.

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A Perspective

For many places of worship, extended summer programs, Vacation Bible Schools and other activities require additional staff and volunteers.

Oftentimes, this need is easily filled with younger workers who are out of school and looking for summer jobs. A large



number of young adults 16 and older are well prepared for the responsibility of a job; however, others are not, and it is important to be able to distinguish between the two.

Risk Reporter spoke with Lacie Mayer, the training and development manager of Six Flags Great America in Gurnee, Ill., an amusement park that hires more than 3,000 people each year, many of them teens. With years of experience in hiring and training young workers, Mayer offers insight about the importance of proper training and adult supervision for these types of job candidates.

Risk Reporter: How does your interview process help to identify quality young candidates?

L. Mayer: We require every candidate to complete the same interview procedure. Each candidate must first apply online with basic information and previous work experience. Our call center then calls the candidate to ask them a series of questions about department preference and availability. Availability is key when interviewing young adults because many of them have extracurricular activities during the summer that should be addressed early on in the interview process.

During the face-to-face interview, pay careful attention to personal details. Did the candidate arrive for the interview on time or early? Does it appear that the candidate spent ample time on their appearance and are they appropriately dressed? During the interview, does the candidate make and maintain eye contact with confidence? Lastly, did the candidate complete their application free of mistakes, misspellings and errors?

Risk Reporter: Do you require references?

L. Mayer: No. Instead, we ask candidates to provide a detailed work history, which gives us a good idea of their work background.

We encourage candidates to relate previous work experiences as examples for the questions asked during interviews. These detailed work experiences provide us with a good idea of the responsibility level they can handle and their work ethic.

Risk Reporter: Do you require special training for younger workers?

L. Mayer: At Six Flags, all of our candidates attend an orientation called Discovery. They also attend department training, unit training and refresher trainings.

During Discovery, they begin to learn about company policies, procedures and our business philosophy. In department training, they are introduced to the specific department they have chosen to work in.

All of our departments require candidates to complete and pass tests to check their comprehension in each area. Unit training consists of shadowing and on-the-job training.

Risk Reporter: In terms of maintenance jobs, what are some specific equipment items that should not be used by younger workers?

L. Mayer: Power tools, such as chain saws and other electrical equipment, require proper training and supervision. We do not allow any team member age 17 or younger to operate power tools.

We also ensure that our team members know the child labor laws governing the employment of youth. We inform them of prohibited jobs as determined by the secretary of labor and the hours of limitations.

■ **For more information** on child labor and safety laws, visit www.dol.gov/dol/topic/safety-health/youthworkers.htm.