

ARTICLE

PROTECTING GOD'S MONEY: TIPS TO PREVENT CHURCH EMBEZZLEMENT

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Fraud makes most people think of Wall Street and shady investment figures like Bernie Madoff or Martin Shkreli. Although many frauds are perpetrated at that level, fraudsters normally start closer to home.

Churches and nonprofit organizations are prime targets for fraudsters starting out, mostly because these types of organizations don't want to prosecute someone, especially if they can be viewed as a person "in need." This mindset, though well-intentioned, can make these organizations vulnerable.

Professionals boil the broad array of possible frauds down to three main categories: Financial Statement Fraud, Misappropriation of Assets, and Corruption. Of the three, misappropriation of church funds (or embezzlement) is of the most concern for churches and nonprofits.

What drives people to commit these types of crimes? The "Fraud Triangle" helps illuminate how someone might be tempted. There are three sides to the fraud triangle that create the perfect conditions for fraud to occur.

- **Perceived Pressure:** An individual can feel pressure from themselves, from other people, or from situations. This could come in the form of financial instability in the family, questionable job outlook, or inner greed.
- **Rationalization:** An individual finds a suitable reason for performing the fraudulent act. For example, someone who volunteers with the parish could feel entitled to snagging a \$10 bill for lunch "because he does so much for the parish" or someone who thinks "\$10 won't hurt the parish because it is so wealthy and it'll only be once."
- **Opportunity:** This is where pastors can help prevent fraud. Poor internal controls or a weak culture of accountability provide someone the opportunity to steal from the parish.

Of all of the processes a church conducts throughout the year, taking up the collection is one of the riskiest. Volunteers and elders in the church are typically trusted to count and care for the funds. Here are a few practical steps a pastor and finance committee can take to ensure the entire collection makes it into the church bank account:

- Designate a secure counting room, with a security camera in plain sight, and review the tape periodically.
- Utilize at least two, unrelated counters, and require them to fill out their own count sheet. Require each counter to verify the other's work.

- Have the counters prepare two deposit slips: one for the bank, and one for the parish bookkeeper. Have the bookkeeper reconcile all deposits weekly.
- Church employees and their family members should not be counters.
- Checks should be stamped "For deposit only" immediately upon receipt.
- Rotate cash counters randomly. Observe collection trends with the different counting teams to identify discrepancies.
- Deposit collection into the parish bank account as soon as possible. Utilize different routes and transportation times.
- Perform background checks on anyone who handles money.
- Encourage parishioners to use checks for collection.

Nothing can completely prevent theft from the collection. There are a few pitfalls that even the best of controls can't fully mitigate, including:

- **Collusion:** Two or more individuals agree to work together to perpetrate and conceal a fraudulent activity. This generally leads to greater losses. Because frauds are inherently difficult to find because the fraudster attempts to conceal the effect of the missing or improper disclosure, when two people team up, they can double the original effect. The ACFE 2018 Report to the Nations (the 2018 Report) found that the median loss for a single perpetrator was \$74,000 and for two perpetrators was \$150,000.
- **Management Override:** Those in charge don't take controls seriously, rendering them useless. The best thing pastors can do is maintain a good "Tone at the Top," emphasizing the importance of protecting parish assets.
- **Clean Criminal History:** The 2018 Report found that 89% of perpetrators studied had never been charged or convicted of anything.

Everyone knows about red flags in different situations. There are specific red flags that pastors should be mindful of when selecting counters and others that are to be trusted with parish funds. Some of the top red flags that were prevalent in the cases studied in the 2018 Report include:

- Living beyond one's means
- Financial difficulties
- Unusual close association with vendors

- Wheeler-dealer attitude
- Control issues or unwillingness to share duties

Fraud prevention is an ongoing process; parishes of any size could become victims. The best things for a pastor to do is to pay attention to red flags, be mindful of the ebbs and flows of parish finances, and be ready to ask questions if things don't add up.

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