

## FRAUD & EMBEZZLEMENT GUARDRAILS

**“Trust is important, but trust is not an effective internal control.”**

Longevity is no assurance that someone won't be tempted to violate your trust.

### WHAT TO DO AFTER FRAUD OR EMBEZZLEMENT IS SUSPECTED

1. A decision should be made sooner rather than later whether to bring in outside help vs. handling the problem internally.
2. Consider immediately securing the office and computer of the potential offender, not allowing them to clean out their office prior to being escorted off the property.
3. When to hire an attorney? (All of the listed scenarios in the quiz are cases where an attorney may need to be consulted.)  
<https://www.churchlawandtax.com/web/2020/may/do-we-know-when-to-hire-attorney.html>
4. If fraud is suspected, instead of terminating the employee, it was suggested they be suspended, tell them what you suspect and then issue a “preserve evidence” order. The church needs to preserve some things without changes such as electronic media. If the person has a computer, they're not supposed to touch it.
5. You may need to check with vendors directly when fraud is suspected to compare original documents with those turned in by the suspect employee.
6. If you report fraudulent activity to your insurance company, they may require legal authorities to be brought in.

7. You might consider hiring a fraud investigator in addition to the attorney. Another possible professional to contact could be a forensic document examiner. Just because all documents appear to be original and authentic doesn't mean they are. PDF documents can be altered.
  
8. You may need to hire a crisis public relations firm to advise of what you can and cannot say publicly or even to your staff. Also, they can help handle fallout.

## INTERNAL CONTROLS

What internal controls are in place to ensure someone is not accepting personal reimbursements for things already paid with church credit cards?

What verification is made when someone charges a ministry trip to ensure the trip was in fact taken? Who looks over receipts prior to reimbursement? Who looks over credit card statements with vendor receipt documentation?

Are there internal controls which prevent bypassing required signatures and the normal approval processes? Is accounting and finance aware that every rule applies to every transaction and every person, or what exceptions are permitted in writing? When fraud comes to light, those associated or connected to the perpetrator may find themselves being interviewed by the district attorney. Basically, you are presumed guilty instead of innocent. Authorities will assume you were in collusion in order for something like this to happen.

### **How strong is your written code of conduct? How well is it monitored?**

Are all your accounting policies and procedures written? Just because things have always been a certain way doesn't mean they should continue that way. A healthy culture is written, communicated, understood and modeled by every leader.



A healthy accounting system uses one chart of accounts that every department uses, rather than multiple accounts, where information could be hidden. Try to avoid an overabundance of line-by-line information and create one-page reports that show trends. However, to arrive at this document, the entire staff needs to go over transactions line-by-line with supervisors.

**It doesn't matter how many internal controls you have if you don't have an effective manager overseeing those controls.** If you don't have transparency, there's no way for controls to have any impact.

Allow everyone to ask questions in order to drill down with your accounting system to the very core level. In this way, if anything is seen that even remotely looks out of control or odd, it can be reviewed.

Consider using bank software that controls credit card usage and discontinue using American Express (without credit limits).

Discontinue personal reimbursements because purchases can be returned without the church receiving credit (and instead be swapped for personal use).

Train staff to understand and comply with credit card policies and have your system set up to control limits on each issued card.

Financial staff should be transparent and serve as managers performing duties as managers.

Trust is important, but trust is not an effective internal control. **People let these things build up. Good stewards utilize what is there by paying close attention.**

Managers should have an open door and try not to skirt an issue. Let staff know you aren't trying to hide anything. Give them permission to drill down to the to the nth degree if needed.

**Matthew 24:43** "But understand this, if the owner of the house had known at what time of night the thief was coming, he would have kept watch and would have not let his house be broken into."

## Q & A's

Consider switching from personal reimbursements to one church credit card account with individually controlled cards. Historically, people would use their personal cards and get reimbursements. A cohesive policy should cover the entire organization. A recommended practice would be to change to a bank with a credit card program with controls at a granular level.

As an example, nobody may buy liquor or pay for gambling with the credit card. Merchant codes for these types of vendors can be turned off. Have a way to see that any expense is legitimate. Then, there is no worry about whether a receipt is real because it comes through the dashboard to the person who controls income.

### Credit Card Transactions

Even with a document showing how much each type of person can spend, credit card purchases can bypass the limitations if there are no controls set on the credit card. With the new system, an admin card can be limited to a \$300 purchase. They can make one single transaction. If they need more, then their supervisor has to send an email request and it can be change for a 24-hour or 48-hour period. Then it automatically reverts to the previous approved level.

Consider setting up credit card transactions to report directly to your expense reporting system app which flows directly into the accounting system. Using Sage Intacct, you can drill all the way back down to the receipt level from their credit card.

<https://www.sageintacct.com>

With an online portal, spending profiles can be setup and people assigned to different spending profiles with varying levels of what they can spend. As examples, amount might be higher for an executive level pastor. Ministers and directors might have a mid-level limit for spending.

Consider a bank that provides a cash refund at year's end which is better than reward points that are more difficult to spend.

### Church accounting Systems

*We are not endorsing any specific businesses or services. We are simply reporting the experience of an end user during 2020. Sage Intacct saved one church about 30% on the cost of an audit each year because of electronic age capabilities with all the different documents and everything they need. They have full access to it. No documents have to be pulled. No need to keep any hard copies, everything is literally right there.*

### Trust but Verify

**Everyone wins with more transparency.** Supervisors need to look through financials of those who they oversee to include types of expenditures as well as dollar amounts over time.

Another recommended process is **ensuring other organizations your church supports are receiving your donations**. Also, when people are funded to take a mission trip, who verifies each person took the trip?

### More Internal Controls

Some ministry accounts grow around those who take a job or add a ministry. How can we better confirm what is turned in and combine these into one general ledger? People are personally hurt when changes are made from the way they began. We need to stay current with tax law and technology. "Given in time, either the job leaves you, or you leave the job."

***Our job is not to worry about whether we're trustworthy. Our position is to wonder if the next people are trustworthy - John Allison.***

### People don't like to be the enforcer in ministry

It may sound crazy, but changes and processes are not really for the present worker. It's for the next person, so when the controls are left to their successor, it's going to be in good hands.

If someone can't locate a receipt, you have got to be a little mean. Nobody should get away with it. Also, Positive Pay on all checks keeps someone from duplicating a check they receive.



When a situation with an employee comes up, a better plan is to suspend them, saying, "You need to go home. You're suspended with pay." Immediately lock everything down including passwords, their computer and their workspace. That gives you time to take a breath to try to figure everything out. Make a call to your church's attorney and follow their advice.

You need written procedures. If your senior pastor is a good leader, they will agree to abide by those procedures because it protects them and their church at the same time.

Having written procedures are important to protect staff as well as the church. This is our way of making sure that no one can consider you at fault because **we have every receipt. We have every document. We can track everything, and we can see where everything is.**

*A special shout out to the director of finance of a church who provided this information to share but asked to remain anonymous.*

