Every day, churches entrust individuals with cash, checks, and other assets. While the majority of these individuals are honest, under the right circumstances, even the most loyal individual might steal if given
the right motive and opportunity to do so. So what can church congregations do? How can theft be prevented? How can theft be detected?

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Safety Webinar
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Church Media Risks
By David Fournier, Manager of Marketing and Communications at Adventist Risk Management, Inc

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As churches and church organizations look for ways to communicate with membership and reach out to their communities, media can be an effective tool to connect with members and customers. With these opportunities come some inherent risks. In order to succeed with media we need to be prepared to understand and address risks such as cyber security and protecting your organization's reputation.

Title: Church Media Risks
Date: Sunday, August 24, 2014
Time: 2:30 PM - 3:00 PM EDT
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Every day, churches entrust individuals with cash, checks, and other assets. While the majority of these individuals are honest, under the right circumstances, even the most loyal individual might steal if given the right motive and opportunity to do so. So what can church congregations do? How can theft be prevented? How can theft be detected? With some care and attention the risk of fraud and embezzlement can be reduced. There is good news! Not-for-profit/church related organizations have among the lowest fraud incident rates in all industry types at 10.8 percent.[1] This compares to private companies with 37.9 percent (the highest incident rate), public (28.5 percent), and Government (15.1 percent). While that is good news, we are still faced with the reality that 10.8 percent means that it does exist and the claims filed at Adventist Risk Management indicate that it exists in our church, just like other churches.

**What is Fraud?** Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain. Fraud can be difficult to litigate because it can be difficult to produce evidence indicating the fraud was an intentional act, and oftentimes evidence is circumstantial. Frauds are perpetrated to obtain money, property, and services, avoid payment or loss of services, or personal or business advantage. People who have been caught committing fraud tend to have similar habits and behaviors. There is a triangle of elements that are present with fraud schemes:

- **Pressure**
  - Living beyond one’s means
  - Challenge to beat the system
  - High personal debts
  - Financial losses
  - Greed
  - Gambling (or some kind of other addiction)

- **Opportunity**
  - Poor or non-existent church financial controls
  - Employees not aware of these controls
  - Lack of consequences to prior offenders

- **Rationalization**
  - “I am just borrowing.”
  - “No one is getting hurt.”
• “Protecting the church” (Financial Statement Fraud)
• It’s for a good purpose – “I am lying to the church/school board to help save the church.”
• Buy more time for the organization to quietly fix business problems
• Keep from triggering loan covenants or to renew loan refinancing
• Preserve their status in the organization

Recent articles and studies have found that the churches that have experienced fraud had little to no accounting controls and most financial procedures are based on trust. Studies indicate that the best approach to combating fraud, from a cost vs. benefit perspective, is to focus on fraud prevention.

Internal Controls
A control is any action taken by someone (treasury staff, pastor, conference administration) to increase the likelihood that the established goals and objectives of the (church, organization) will be achieved.

The control environment and the tone at the top have proven to be areas of key focus.

"Norms may arise within an organization that gives implicit permission for unethical misconduct. A cheating culture exists when enough people are breaking the rules that there is a perception that "everybody" is corrupt and there is no clear imperative for ethical behavior. In extreme instances, there may be the belief that one cannot be competitive by following formal rules and that cheating is the key to success."
- Journal of Forensic Accounting

So what is the tone at the top in your local church? Is there an explicitly stated value placed on integrity? Are the controls, policies, and procedures carefully documented, communicated, and followed by leadership consistently?

Align controls with risks
Some actions that you will want to consider in preventing fraud, is to align controls with risks. For example, a key risk that may be present in your local church is that significant transactions are cash based and therefore there is high risk due to liquidity, and potential limited/volunteer staffing. Therefore, consider cash handling related entity and activity controls that will reduce this risk to an acceptable level:

• Dual custody
• Segregation of duties
• Authorization (finance committee investment authorizations)
• Approval (dual signatures on checks)
• Physical controls
• Independent checks
• Robust documentation (not just to support the transactions but also documented policies and procedures)
• Sound “hiring” procedures

While resources available for fraud prevention and detection measures may be limited in church congregations, several anti-fraud controls – such as creating and communicating an anti-fraud policy, formal management review procedures and regular anti-fraud training for all staff members – can be enacted with little direct financial outlay and thus provide a cost-effective investment for protecting your church from fraud.

As you work to implement sound fraud prevention and detection entity and activity controls in your local church, don’t hesitate to contact me with any questions you may have at garrityc@gcasconnect.org. May God continue to bless you as you work in His vineyard.

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Adventist Risk Management, Inc.

References: 2014 Report to the Nations, Association of Certified Fraud Examiners