In Preventing and Detecting Fraud at Your Church-Part 1, the presence of fraud and how it can be perpetrated was reviewed. As a church or school establishes guidelines to detect fraud some of the more
common techniques that can be used include:

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Preventing and Detecting Fraud At Your Church Part 2 – Adventist Risk Management

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Watch for Red Flags
Symptoms of a fraudster perpetrator existed in 92 percent of all cases:
• Behavior changes
• Personality changes due to pressure (moodiness)
• Lifestyle changes (lavish luxurious living)
• Never takes a vacation
• Likeable and generous
• Trusted employee
• Deceptive/good liars

Implement Internal controls
Consider these internal controls at your church. The practicality of these will vary depending on the size of your church, maturity of finance operations, risk assessments, etc.

Create a Code of Conduct Policy
Whether you call it a Code of Conduct, Code of Ethics, anti-fraud policy, or some other name, it is imperative for conducting the affairs of the church. The Seventh-day Adventist Church Manual should be consulted when drafting such a policy. It contains important guidance considering general worker behavior while conducting church business: conflicts of interest, confidentiality, fraud, and willful misrepresentation. Here is an anti-fraud policy example that should be part of an overall code of conduct:

The local church management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for indication of irregularity. Any irregularity that is detected or suspected must be reported to the appropriate parties, both internal and external.

Regular management review
This is a process conducted by the local church governance and leadership in reviewing organizational controls, processes, accounts, or transactions for adherence to local church and denominational policies and expectations.
Oversight committee
A sound governance structure of a local church includes a finance and/or audit committee, which oversees its ongoing financial operations. The goals and objectives of such an oversight committee vary to a certain degree, but should include risk identification and remediation, review of results of the local church and school audits, and development and review with management adequate internal controls.

Anti-Fraud training
Key local church treasury personnel should be required to engage in anti-fraud training on a regular basis. The anti-fraud training curriculum should include: a review of current fraud schemes in the local church environment and the related anti-fraud tools and techniques to combat them, how to conduct fraud risk assessments and remediation, etc.

Local church and school audits
The local conference shall appoint an individual to audit the church and school financial records on a biannual basis. The audits of the local church and school are exceptionally important as the local church is a significant source of denominational funds and is at the point of origin that reasonable measures of control and supervision must be exercised. In addition, these local church and school audits provide independent oversight of a process that may inherently involve limited segregation of duties.

Job rotation and mandatory vacations
Local church personnel who work in treasury-related positions should be rotated on a regular basis and should be required to take a “vacation”. No one should stay in their roles indefinitely and the use of multiple, unrelated people will make it more difficult to perpetrate a fraud scheme.

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.

Reference: