

Fidelity Loss Prevention Duty Through Stewardship and Love

This information, in conjunction with the DVD *Fidelity Loss Prevention, Duty Through Stewardship and Love*, is designed to provide guidelines on fiduciary¹ and liability issues facing church treasurers. The brochure is intended to provide only a general review of risk control approaches to preventing fidelity losses. The recommendations must be tailored to individual circumstances based on established accounting principles and fiduciary responsibilities. Experts should be consulted for specific information.

Responsibility

The work of the treasurer is one of the most important jobs in a church. It is a job that entails spiritual, moral and legal responsibilities, as well as accountability for the way money is handled and distributed.

Opportunity and Motivation

No one wants to admit that theft and cover-ups occur in a Christian environment; yet, insider theft does occur in our churches (as well as our schools and other church organizations). Around the world, treasurers have succumbed to the temptation of financial infidelity, resulting not so much from bad intentions, as from opportunity and motivation.

Individuals faced with heavy personal financial problems (debt, unexpected emergencies, etc.) are often motivated to ease their personal financial burden by “borrowing” from the funds that they handle on a daily basis. Sometimes greed plays a part. The money is there. It is accessible. Without good controls, the theft of church funds can go on for a considerable length of time.

Opportunity is provided when:

- Too much trust is placed in treasurers, elders, deacons and other key individuals;
- There are too few individuals to share duties and responsibilities;
- Access to cash is too easy;
- Fiduciary controls are not established; and
- Audits are done too infrequently.

Motivation is provided when:

- There is a lack of standards or integrity within the church organization;
- Employees or volunteers face personal financial challenges;
- Employees or volunteers rationalize that they are only “borrowing” or that the organization “owes me;” and
- Church organizations refrain from prosecuting in theft cases.

Risk Management 101

Good financial risk management entails identifying exposures to loss and finding ways to prevent these losses from occurring. Loss exposures involving fraud can come in many forms. Some include:

- Unauthorized borrowing;
- Reallocation of funds;
- Embezzlement;
- Creative receipting;
- Unexplained decreases in tithes and other revenue; and
- Inflated expenses, to name a few.

Utilizing knowledge of some of the exposures, the next step is to put the proper controls in place. Effective financial risk management controls will not only help protect the organization from potential financial loss, but will also help to avoid misunderstandings and protect the integrity of individuals who handle money.

¹ See definitions at end of document.

Establishing Controls

The following risk management steps can make a positive difference in a church's financial operations and will help prevent fraud losses:

Careful Selection—Failure to properly screen individuals who are given financial responsibility can create opportunities for those individuals to have easy access to large amounts of cash, which could lead to theft of church funds or create liability for failure to maintain donor's records and information in an appropriate manner. Individuals asked to serve in treasury positions must be:

- a. Trustworthy and dependable;
- b. Able to keep records in an organized manner;
- c. Able to maintain donor confidentiality;
- d. Able to meet financial obligations in a timely fashion; and
- e. Knowledgeable about the information they present to boards, auditors and others.

Verifying Cash Received—Regardless of how money is received (Sabbath morning collections, sales from a church function, Pathfinder dues, etc.) prudent risk management calls for double counting of these funds.

- a. Wherever possible, two or more people should be present to count money collected and a written record of the count should be kept with the funds until it is properly deposited in the church's bank account.
- b. The group or individual who delivers the counted money to the treasurer should maintain a copy of the counting record for future verification if necessary. Double recordkeeping can help prevent false accusations, or verify cash receipts in the event a loss occurs.

Security of Funds – Upon completion of the counting process, funds must be adequately secured. When funds are in transit and during temporary storage it is easier for someone to steal contributions. Some recommended controls include the following:

- a. Use bags with tamper-proof seals to store and transfer funds. If the seal is broken it will be obvious that security of funds has been compromised.
- b. Until funds can be transferred to the local bank, they should be stored in a safe at the church. Taking offerings home until banks open increases the risk of assault and robbery of the church pastor, staff, or volunteers.
- c. It is recognized that many rural churches do not have safes and are located in areas where there are no local banks. In these cases, a creative means of transporting and securing funds is required. Funds will need to be kept stored in the best possible secure and inaccessible location.
- d. Periodically change the safe's combination particularly if an employee with previous access leaves or is given different responsibilities.
- e. When transferring funds to another location vary the routes of travel and the time of day, and use different people with different types of bags.

Bank Statement Review—Having monthly bank statements sent to an individual other than the treasurer (pastor, trusted board member, etc.) provides a good tool for the internal control process. This process involves:

- a. A quick review of the cancelled checks and the amounts to determine whether transactions seem reasonable before passing the statement on to the treasurer for reconciliation; and
- b. Having inconsistencies, missing checks or questions immediately verified with accounting records.

Safeguarding Checks—To prevent dishonest individuals from writing unauthorized checks for high dollar amounts, a church needs to:

- a. Establish signature limits on the amount that a single individual can write; and
- b. Require a second signature on checks above the established limit.

Checks received in offerings and from other sources should be stamped on the back with the words “For Deposit Only” to help prevent misappropriation of those funds.

Timely Financial Reports—Church boards should require that financial statements be produced in accordance with established policy and rendered to the controlling committee or board on a timely basis. The treasurer should be able to present the financial statement and answer questions concerning transactions that occurred during the fiscal period. Dishonest transactions can be easily hidden if timely financial reports are not reviewed by other individuals who can evaluate them for reasonableness and accuracy.

New Bank Accounts—All bank and investment accounts should be authorized by action of the controlling committee or board. Separate accounts established in the name of the church and without proper authorization provide dishonest individuals with unlimited opportunity to commit fraud or to steal from the church.

Authorization should include full approval of all authorized signers for the account and require signature limits. The controlling committee or board should also review and approve all forms of bank and investment accounts used by the organization.

Purchasing Procedures – Establish purchasing procedures and train staff regarding the process, authorization needed and what limits have been established. The use of purchase requisitions or a purchase order system will help prevent unauthorized purchases of materials and services.

Church Credit Accounts – Control and audits of credit accounts is crucial and will generally include:

- a. Types of credit purchases allowed;
- b. Procedures for making credit purchases;
- c. A list of who is authorized to make credit purchases; and

- d. Payment of all outstanding balances to avoid finance charges.

Petty Cash – If a petty cash fund is maintained, establish effective controls:

- a. Set limits;
- b. Budget appropriately;
- c. Utilize receipts for disbursements;
- d. Keep in secure, locked drawer or area; and
- e. Audit periodically

Fund Raising Projects – The same attention given to tithes and other church finances must be given to church fundraisers. Care must again be given to careful receipting, secure handling, counting, deposits and auditing of these funds.

Investigating Questionable Transactions—It is normal for financial questions to arise that cannot be answered immediately by the treasurer. When questions arise, they should be noted by the controlling committee or board and a report provided at the next meeting or specified time. Any failure to obtain answers to financial questions from the treasurer on a timely basis should be carefully investigated until satisfactory answers are received.

Financial Audits—Some of the largest dollar amounts ever stolen from the church have occurred in situations where audits were not performed on a regular basis. It is the responsibility of the Union or Division to conduct these audits of local church financial records.

- a. Audits should be completed at a minimum of every two years and a written report should be presented to the controlling committee or board; and
- b. If local audits are not being conducted on a regular basis, ask the Union or Division to schedule an audit for your church.

NOTE: Audits can also be conducted by a dependable private accounting firm or by the treasurer from another local church. Trading auditing services with a nearby local church provides a less expensive alternative to hiring a professional auditor.

In Case of a Suspected Loss

Mishandling God's funds is morally wrong and could also be considered a criminal act. The treasury post is an important position and individuals will be held accountable for misusing the Lord's money. In the event of a loss (or suspected loss), it is important that we respond quickly and properly. If a church board has reason to suspect that funds are being taken or misused by an individual, they should take the following actions:

Maintain Confidentiality—Every effort must be made to keep fidelity issues from becoming common knowledge or “table talk.” Idle talk may give rise to potential defamation charges. The problem may simply be a matter of poor recordkeeping or other causes.

Remove the Individual(s)—When it is confirmed that a potential fidelity problem has occurred and the person(s) responsible are identified, they must be immediately removed from their position of trust.

Report Promptly—Immediately report incidents to both the Union or Division Administration and local authorities (police). Leave criminal investigations to the police department.

Summary

How does your organization rate?

- What is your selection process? Are background checks included?
- Do two or more people count collections, sales income, dues, etc.?
- Is a copy of the counting record maintained by those who tally funds and deliver them to the treasurer?
- Are funds secure when in transit and before they are deposited in the local bank?
- Does an individual other than the treasurer review bank statements before they are passed on to the treasurer?

- Have signature limits on checks been established, requiring a second signature when a set amount is reached?
- Are fidelity controls in place for purchasing procedures, the use of church credit accounts and petty cash?
- Are timely financial reports/statements received during the applicable fiscal period?
- Are bank and investment accounts authorized by the action of a controlling committee or board?
- Are questionable transactions thoroughly investigated?
- Are financial audits performed on a regular basis?
- Are procedures established on how to respond to possible fidelity losses (verification of loss, notification to Union/Division Administration, notification of police department, confidentiality, removal of the individual from their position, etc)?

How we construct our internal control program is crucial in preventing destructive losses. Losses can take both a financial and a debilitating spiritual toll on a congregation or institution. We must carefully evaluate how funds are received and handled at our churches. A review of the controls found in this document and the DVD listed previously can help us evaluate the strength of our program.

Seek guidance from your Union or Division auditors and treasury personnel on how to improve internal systems, or share ideas with other treasurers in your local area on how you can build a strong system of financial controls. Adventist Risk Management, Inc. also has resources available at www.adventistrisk.org, and has a professional staff available to conduct educational workshops on this topic.

Definitions

(As they would apply in church finances and accounting practices.)

Creative Receipting – The writing of receipts to people or businesses that do not exist to embezzle (steal) church funds.

Disbursement – The act of spending or paying out money.

Embezzlement – The crime of stealing church funds or property or misappropriating money or assets held in trust.

Fiduciary – Activities that relate to the collection or receipt, management, protection, accounting, investment and disposition of cash or other church assets.

Reallocation of Funds – The act of removing funds from one account and putting them in a different account in an effort to hide shortages due to embezzlement.



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