

the Deacon's

Bench

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Fall 2010 | For America's Churches and Related Ministries from Brotherhood Mutual and Its Agents



Financial Defense

Shield Your Church from
Embezzlement

Embezzlement has never been exclusive to the business world, but the risk is a growing concern for churches around the nation. It is an issue that affects churches regardless of their size, denomination, or location. What can you do to protect your ministry?

It doesn't take a hardened criminal to steal money from a church. In fact, those who embezzle are often well-known, well-liked, and completely trusted by fellow church members. They don't set out to steal hundreds, or even thousands, of dollars. But ample opportunity and a lack of financial controls enable them to do just that.

One usher began by taking loose bills from the offering plate to bolster his gas money. He was the sole money counter after each week's collection. By the time he was caught, the usher had taken more than \$10,000. Church leadership thought he

was a trustworthy man, but a lack of financial controls provided ample opportunity—and temptation—for theft.

How is it Possible?

The defining element of embezzlement is the intentional nature of the act. Even if an embezzler's aims are modest, the action is a deceptive taking of church assets by someone who was trusted to handle them properly. Embezzlers gain access to the resources they steal through their position.

Churches that do not treat finances with appropriate caution often do so because they do not see distinctions between their core ministry and how the church business is handled.



Lack of financial controls provide ample opportunity—and temptation—for theft. The right checks and balances can greatly reduce the risk of financial crime.

Brotherhood Mutual handled 20 employee dishonesty (theft) claims in 2009. That is a 40 percent increase over the average of the last nine years.

“When it comes to finances, employment, and other administrative practices, churches should have many of the same standards as any other business,” says Brock Bell, senior manager of loss control at Brotherhood Mutual. “Ministry leaders need to see that the business component of the church supports the ministry of the church, and their business foundation needs to be solid.”

In addition to the financial costs, the loss of trust that comes with a crime like embezzlement is devastating. The broken trust isn't isolated purely to the embezzler. Church leaders need to identify the holes that allowed the problem to develop in the first place, as well as secure those holes and restore trust. The congregation may experience discomfort as the situation unfolds. Embezzlement can leave ripples of hurt and suspicion that need to be dealt with, in addition to the criminal implications of the act.

The first step to reducing the risk of this happening at your church is to put safety measures in place that can help prevent financial crimes from ever being committed.

Launch Your Defense

The risk for embezzlement increases when financial controls are absent or weak. “The issues come up when nobody is looking. A church really has to do very little [to prevent financial crimes],” says Dan Hauser, a property claims adjuster at Brotherhood Mutual. “Most of the time, at least with small-to medium-sized churches, there is no need to hire a large audit firm. Church finances are a relatively easy thing to control with the right checks and balances in place.”

The following practices can protect your church from exposure to theft from within.

- Put the church's policy in writing. This keeps expectations consistent and clear. Access to the policy will remove the option of a plea of ignorance from a dishonest member.
- Perform annual background checks and run annual credit reports on those who have access to church funds. Don't feel bad about doing this; their positions require them to be above reproach.
- Require annual external audits. Hiring someone gives an unbiased perspective on your church's finances.

Tithes and offerings may face the greatest threat of loss.

To protect your offerings:

- Ask the congregation to place financial gifts in envelopes with their information on them before placing them in the offering plate. This makes it more difficult to take cash.
- Always have two people collect the offering and two (different) people present when the offering is counted.

Rotate money counting teams. No team should count money more than once a month.

- Stamp checks "For Deposit Only" with colored ink when endorsing them. This makes it harder to copy or redirect checks anywhere but the church's account.
- Deposit offerings immediately.
- Reconcile offering counts and bank deposit slips often. This will keep each team accountable and discrepancies will be clear soon after they occur.

To avoid concerns about how money is handled once it is in the church account:

- Require all checks above a certain amount to be endorsed by two signatures.
- Have someone who is not responsible for handling cash review the monthly bank statements.

What if you suspect embezzlement?

If you believe someone in your church has embezzled, contact your Brotherhood Mutual insurance agent, who will put you in touch with a claims adjuster. This person knows what questions to ask and can help you through the following steps:

- **Collect evidence** and tell the individual that the church may have to take legal action.
- **Enlist** the help of a certified public accountant (CPA). A CPA can provide an unbiased perspective and help your ministry establish firm financial controls.
- **Consider hiring** a certified fraud examiner (CFE). These professionals act as a CPA would, but they also have specialized training in fraud and embezzlement investigation.
- **Do your homework** before you simply "forgive and forget." A crime was committed and trust has been broken. While it is tough, legal action may need to be taken.

According to church law and tax expert Richard Hammar, church leaders often are unsure how to address suspected cases of embezzlement.

"The suspected embezzler is almost always a trusted member or employee, and church leaders are reluctant to accuse such a person without irrefutable evidence of guilt. Seldom does such evidence exist," says Hammar in "We've Been Embezzled," an article in *Your Church* magazine. "If the evidence clearly indicates that a particular member or employee has embezzled church funds, but this person denies any wrongdoing, inform him or her that the church may be forced to turn the matter over to the police for investigation and prosecution.

"Church leaders owe a fiduciary obligation to the church and are stewards of the church's resources. Viewing the offender with mercy does not necessarily mean that the debt must be forgiven and a criminal act ignored."

Source: www.christianitytoday.com/yc/2008/janfeb/6.10.html

“When it comes to finances, employment, and other administrative practices, churches should have many of the same standards as any other business.”

**—Brock Bell
Senior Manager of Loss Control**

Financial Defense *(continued)*

- Have church leaders meet often to examine financial statements. The more informed people are, the less likely irregularities will go unnoticed.

Best Protection from the Start

Like the church with the usher who stole from the plate, many churches may not change their money-handling practices until a negative experience forces them to do so. However, more and more churches are taking notice of the risks that exist and becoming aware that taking an honest look at their weaknesses can leave them stronger down the road.

“We have seen the attitudes of churches start to change,” Bell says. “Things are being brought to light in discussions that would have been kept hushed before.”

If church leaders find it challenging to set new policies and financial controls around people who have served for a long time in their ministry, they should emphasize that they are not accusing anyone of being untrustworthy. Rather, financial controls provide thorough accountability, for the present and for the future. 🏛️

Setting a High Standard



The people who give to your ministry every Sunday trust that their money will be handled responsibly. Good stewardship and financial integrity are imperative to the business operations of any ministry. That's why some churches belong to an accreditation agency like the Evangelical Council for Financial Accountability (ECFA).

ECFA members include Christian ministries, denominations, churches, and schools. The organization is dedicated to helping Christian ministries earn the public's trust through adherence to what it calls the "Seven Standards of Responsible Stewardship."

The first of these standards is subscribing to a written statement of faith that affirms the ministry's commitment to conducting its financial operations in a way that reflects biblical truths and practices. Other standards address topics like a ministry's board of directors and financial oversight, use of resources and financial controls, financial disclosure, conflicts of interest, and more.

To learn more about the ECFA and its Seven Standards, visit the organization's website at www.ecfa.org.

Resources for Financial Defense



Other helpful websites:

- ChurchSafety.com
- ChristianityToday.com
- ECFA.org

The idea of an employee or volunteer committing a crime against your church is unthinkable. Even so, it's something all ministries should prepare for. Written policies and well-communicated guidelines can help employees and volunteers remain accountable, especially when it comes to church finances. These helpful resources at brotherhoodmutual.com can help you establish or build upon your ministry's financial controls.

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- [Checklist: Financial Controls](#)
 - [Checklist: Offerings and Disbursements](#)
 - [Article: Guard Against Internal Threats](#)
 - [Article: Protect Your Finances with Internal Cash Controls](#)
 - [Article: Spotting Red Flags](#)
 - [Article: Weathering the Recession](#)
 - [Guidebook: Guidelines for Ministry Workers](#)
 - [Guidebook: Working Together](#)



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 financial controls checklist at
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the Deacon's Bench

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FINANCIAL DEFENSE

Embezzlement is a growing concern for churches.

SETTING A HIGH STANDARD

One organization sets high standards to help churches earn trust.

PUT A PLAN IN MOTION

Financial resources to help your ministry.

LegalAssistance

Have a legal question? Get an answer—free—from Brotherhood Mutual's experienced legal staff. Just visit LegalAssistanceSM at BrotherhoodMutual.com to submit your request. While there, learn the answers to common ministry questions, link to other legal resources, or get a referral to a licensed attorney in your state. Our attorneys can provide general information about liability, insurance, risk management, or a potential lawsuit against your ministry. Visit them today!