

# Educating Yourself about Church Vendor Fraud

by Jason Anderson



Jason Anderson

The well-known “Lord’s Prayer” that Jesus teaches us includes the phrase, “Lead us not into temptation.”

We must avoid temptation when possible. This wisdom reminds us of our humanity—our weaknesses. If an individual can see an easy way to embezzle, and that idea is staring him in the face daily, he may succumb. Even Adam and Eve, who walked with God, ate of the fruit. Here, the “fruit” we’re discussing is vendor fraud.

According to a study by the Association of Certified Fraud Examiners, U.S. businesses suffered losses due to fraud of \$600 billion, representing five percent of the total U.S. GDP.

Vendor fraud has been on the rise in the last ten years, but can be averted by instituting some sound systems. And vendor fraud is not confined to businesses—it is also a concern for churches.

Let’s begin by defining the problem. Vendor fraud constitutes a vast array of fraudulent activity, all targeting Accounts Payable and Purchasing—this is where the money is. Following are five of the most commonly used schemes:

**1. Bogus invoices.** A vendor purposefully sends out invoices hoping that an inattentive church business administrator will pay them. These can be in the form of over-billing, inflated shipping charges, or invoices for a product or service they don’t even provide for the organization.

**2. Redirecting payments to bogus companies.** In this scheme, an employee creates a company and then writes checks to that company in modest amounts for products or services that the church typically buys. For instance, Jill is a clerk in the church business office and opens a company called “Madison Printing and Design.” The church doesn’t have any printing or design work done by the company. Jill begins to write checks payable to her company. The church administrator, as signer of the checks, doesn’t notice a problem since checks written for printing and design work are common.

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**3. Paying real vendors at the wrong address.** It is relatively easy for a church employee or volunteer to change a commonly used vendor’s address, directing payment to a personal post office box. The employee has a company with a similar name and is able to deposit the checks in their own company’s account. The employee attempts to cover his tracks with look-alike, but bogus, invoices placed in the file.

**4. Collusion between an employee and vendors for purposeful over-billing/purchasing.** In this situation, a vendor who sells a product, let’s say toner, for example, contacts the

church and offers the employee personal incentives for buying toner. The vendor inflates the price of the toner and then sends a “commission” check to the employee’s personal address.

**5. Disqualified purchases.** In this scheme, a purchasing agent creates a legitimate company to sell products that are normally used by the church, but charges inflated prices for personal profit. For instance, Tim creates a book company and sells books to the church at tremendously high prices. He, of course, doesn’t inform anyone at the church that the book company belongs to him.

## Solutions:

It is vitally important to develop strong system controls and communicate those controls to the staff. When an employee knows that there are strong controls in place and that they are being checked and checked again, he will be far less likely to heed temptation’s call. Even good people with good intentions can give ear to wrong thoughts for too long, and in a moment of weakness, do the wrong thing. Here is a list of solutions that address vendor fraud, especially for larger churches:

**1. Institute a purchase order system.** In this case, no bill may be paid without an attached and signed order from another authorized employee showing what was purchased. Furthermore, this order cannot be paid until the product is received, and another employee, one who is not the purchaser or Accounts Payable, must sign acknowledging that he has seen the physical product received on the premises. This would, of course, exclude common monthly bills, such as debt servicing and utilities.

**2. Institute a new vendor or vendor change approval system.** In this case, the Accounts Payable Clerk is not allowed to update existing vendor information or enter a new vendor into the system. An existing employee, unrelated to the accounting department, is given the responsibility of verifying vendor information. For instance, a new bill comes in for Madison Printing and Design, which is not in the system as a vendor. The vendor verification employee investigates this company, collects a completed W-9, calls the phone numbers, and visits the website looking for anything strange about the vendor, the bill or the product. In one story, an employee verifying a vendor called the company to find out about their product only to have a co-worker, the organization's Purchasing Agent, answer the phone. Oops!

**3. Implement a monthly budget variance review.** A good

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way to identify church fraud is to set budgets and review the variances monthly. An employee buying too much toner at an inflated price will quickly send the printing supplies expense account over budget, sending up the necessary red flag. In one instance, a budget variance review saw a supply expense account double over a six-month period. Upon further investigation, a purchasing employee was receiving kickbacks from a vendor and had begun to order more supplies than were being used.

**4. Audit supply vendors monthly.** Have an employee audit the supplies that should be on-hand for a single vendor. This can be done by gathering one month's invoices and finding where the supplies are stored. There isn't enough time to audit all vendors, every month, but employees are less likely to engage in questionable behavior involving vendors, when an organization makes a habit of performing random vendor audits. In one case, a media department purchaser was ordering 40 Beta tapes per week. When questioned, he said these tapes were being shipped out every week. Upon further investigation, it was found that only about 20 tapes were being shipped each week; several hundred tapes were found selling on eBay, under the employee's fictitious company name.

**5. Do not allow the accounts payable clerk to sign checks or reconcile bank statements.** Either situation gives a single person far too much power over the dollars.

**6. Educate all employees about disqualified persons and disqualified transactions.** Most of all, regular communication of these systems, and a quarterly reminder that the systems are in place to insure good stewardship for the church, can avert temptation. A person who sets out to defraud the church is one thing, but wherever possible, we need to help guard the hearts of those whose intentions are good. Let's keep the tempting fruit high up in the tree, not sitting out on the desk. We do all that we know to do; God will, of course, deal with the rest. ☉

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