

Fraud in Ministries: *Real Examples and Red Flags*

by Rufus Harvey



The Association of Certified Fraud Examiners defines fraud as “any intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means.” Many Christians would be surprised and disappointed to learn that such behavior was occurring in their church or favorite ministry. We expect other believers to hold a higher standard with ministry resources than those who manage secular enterprises. Those expectations often lead to a level of trust which can easily be abused.

Some examples of fraud from actual cases I have worked include:

- A pastor who created one set of books to show his board and another set, which reflected the money he had embezzled from his church.
- A church bookstore employee who sold himself merchandise after changing the price on the store computer to \$.05 for \$50.00 books, then changed the price back to \$50.00, then sold the “purchased” books privately to church members for \$25.00.
- A church usher caught on a hidden video camera “palming”

offering money in the counting room and then putting it in his coat pocket as he was the last usher to leave the room.

- A church bookstore patron stealing Bible software from the store and selling it on eBay.
- A church bookkeeper who wrote a series of checks to herself over a two-year period, whereby she embezzled more money than the pastor’s salary.
- A ministry accountant who purchased expensive personal items for his home from a ministry vendor, destroyed the invoice, and created a substitute bogus invoice, which he then paid with ministry funds.

This list could go on. Some of the perpetrators were quite creative. The pastor in the first example “hid” his unlawful gains by understating his income to the IRS and depositing inflated amounts of federal withholding. Thus he was able to “squirrel away” his ill-gotten gains with the government and later recover them in the form of an undeserved large tax refund.

Each of these examples could have been avoided. Trust should not be characterized by the total lack of prudence and care. The Apostle Paul took “precaution that no one should discredit us in

our administration of this generous gift” (2 Corinthians 8:20) when he implemented the dual custody of a large amount of money he was transporting between churches. Centuries later, Ronald Reagan instituted the political axiom, “Trust, but verify.”

Likewise, ministries today can implement a few simple internal controls to remove temptations from employees and protect resources from misappropriation. Most controls are relatively easy and inexpensive to implement.

How have ministries responded to correct the environments that allowed fraud to be perpetrated on their organizations? Each ministry must “follow the money” that the Lord entrusts to them by analyzing the steps in their processes of

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receiving and disbursing funds, looking for internal control weaknesses. Are there points in the process where a single person is given the opportunity to divert the flow of funds away from the organization to himself or herself?

When fraud has happened, usually it is because someone in the chain is allowed to be unaccountable. The solutions are really very simple. They will usually fall into one of three critical categories:

1. Proper approval of transactions (including dual check signatures)

2. Segregation of duties
3. Timely reconciliations of all asset and liability accounts

For example:

- The CEO (Executive Director, President, Senior Pastor) must be required to submit his or her expense reports and credit card statements to the Chairman of the Board for approval (perhaps subsequent to payment), later to be verified by the external auditors during the annual audit field work.
- The CFO (Controller, Senior Accountant) must be required to submit his or her expense reports and credit card statements to the CEO for review, also to be verified by the external auditors.
- Any senior managers with expenditure authority must have their expenses reviewed by someone in authority over them.
- In order to prevent lower level accounting or bookkeeping employees from embezzling funds, bank statements should be received unopened and reviewed by someone independent from the accounting process.
- Most ministries receive contributions and/or sales in the form of cash and checks. The policy of dual custody must be maintained at all times until the funds are safely deposited into the organization's bank account.

Having policies and procedures in place is admirable, but they are ineffective if not followed. For example, a church treasurer who signs a stack of blank checks and hands them to the bookkeeper to use later has just rendered useless the church's policy of having a second check signer to review transactions. Between not having internal controls in place and not following established controls, many ministries are easy prey for employees who decide to help themselves to the organization's

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money. In most of the fraud cases I have worked, it was relatively easy for the fraudster to perpetrate a crime, concealed (sometimes for years) by “blind trust” and missing or ineffective controls.

Red Flags. The act of fraud is almost always concealed but is usually discoverable. The key to detection is knowing what to look for. Here are some red flags that could mean that fraud is occurring in a ministry:

- Shortages of cash or other assets
- Complaints from employees, members, or donors about financial issues
- Inaccurate financial reporting
- Untimely or non-existent financial statements (audited or un-audited)

- Altered or missing documents
- Unusual transactions
- Employees who appear to be living beyond their means

If any of these things are happening in your ministry and/or you have an “uneasy” feeling about the management of the ministry's resources—don't ignore the situation! Take action to detect or deter fraud.

One final point: if your organization has a periodic audit or review by a CPA firm, it is one good deterrent to fraud. But you cannot depend on that process alone to detect fraud if it is occurring. An audit is designed to check the overall effectiveness of your internal controls and the accuracy of your financial statements. Auditors do not perform (and most organizations would not want to pay for) the kind of exhaustive review of all financial transactions needed to potentially uncover fraud. 

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