

WHEN THE NUMBERS DON'T ADD UP

BOB SMIETANA

Some Covenant churches have learned the hard way that embezzlement can happen anywhere.

Editors' note: In the following story, the names of people who were guilty of embezzling church funds have been changed.

Sandra had a problem—an overdue Visa bill for \$672 and no cash to pay it. And the Visa bill wasn't the only problem. Sandra was behind on a number of other bills and her creditors were calling. And calling.

Then Sandra, the bookkeeper at a small manufacturing company in Kansas, came up with a desperate plan. She would use one of the company's checks to pay her bill. "I thought, just this one time, just to get back on my feet," she told *Fortune Small Business (FSB)* magazine. "No one will know."

To disguise her actions, Sandra recorded the check under the name of one of the company's vendors. When the bank statement came, she removed the canceled check, leaving no trace of the theft.

But it wasn't just one time. From 1992 to 1999, Sandra, a former small town cheerleader and mother of two,

wrote out eighty-eight checks to pay her bills and made eighty-eight false entries. The total, according to *FSB*, was \$248,383—all of it going to pay living expenses. Since her employers at the small, family-run business trusted her, they never checked her work.

The embezzlement was discovered when Sandra went on vacation. While she was gone, one of the canceled checks was found and her boss discovered what she had done. Sandra was convicted of embezzlement and sentenced to eighteen months in prison.

While fraud at major companies like WorldCom and Enron have made headlines in recent years, small businesses, nonprofits, and churches are particularly vulnerable to embezzlement because of the level of trust given to employees and volunteers and the lack of sophisticated financial controls and oversight.

In the past three years, GuideOne, which insures 45,000 churches in the United States, paid 3,845 claims to churches for losses from theft (by people outside the church) or embezzle-

ment (by people inside the church). Those claims total over \$8 million, with an average claim of \$2,106.

In the past ten years, at least eleven Covenant churches have reported being victims of embezzlement, with anywhere from "just over" \$10,000 to more than \$300,000 taken by people they trusted—volunteer treasurers, church staff, even a pastor. At least one major embezzlement at a Covenant church was discovered in 2002. And the actual number of embezzlements is likely higher because many churches are reluctant to report when a member of the church has embezzled money.

Kent Egging, interim pastor of Bethany Covenant Church in Mount Vernon, Washington, has studied embezzlement in churches as part of a doctor of ministry degree program. Egging also knows the effects of embezzlement on a church firsthand—while he was co-pastor of a Covenant church in Portland, Oregon, the church's treasurer embezzled more than \$45,000.

The embezzlement began in 1992, soon after Jim, a member of the church,



became treasurer. His main qualification, Egging says, was not formal training in business or accounting—“he was willing to do the job.”

Soon after starting, Jim learned that the church had a separate account to handle funds for a campaign to build a Christian education (CE) wing. Since the funds were not needed immediately, there seemed to be no need to closely monitor the account.

That separate account gave Jim two things that an embezzler needs to succeed—access and no accountability. “He found he could transfer funds into this CE account and then withdraw them,” says Egging, “and absolutely nobody knew.”

The transfers were made by phone, leaving no paper trail, and then the treasurer would create a false financial statement, which made it appear that the transactions had never taken place.

When the building committee began asking for access to the CE funds, they had a hard time getting Jim to write them a check. In April 1993, he admitted—at first—taking \$20,000. After

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learning about the embezzlement, the church discussed whether or not to call the police. In the process, Egging talked with a friend who worked in the local district attorney’s office.

“You call the police now,” his friend told him. “You call them now. Here’s what I can tell you—if he says it’s twenty, it’s probably forty. If he says he’ll do anything you want right now to repay it, two months from now he won’t be willing to do anything.”

Much of what Egging’s friend said was accurate. A thorough investigation revealed that \$45,000 was missing. While the church filed a police report,

they did not press charges. Instead, they reached a binding agreement with their former treasurer to repay the money.

“We ended up having a stipulated statement of judgment,” says Egging, “which is a combination of a legally binding confession to a crime, so there is no need for prosecution, and a contract for repayment.” The agreement for repayment was for about \$50,000. The church only received about \$300.

Restoring trust after an embezzlement at a church is a long process. The first step is getting an accurate picture of what was lost. “It was very important for us to do a proper accounting,” says Egging. “The biggest issue in all of this is trust, the violation of trust. It’s not about the money so much. It’s about the trust. He violated our trust. The trust of leaders in the congregation was in question because of this.”

To prevent any embezzlement from happening in the future, the church revamped its entire financial system. They hired a CPA to set up and mon-

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itor new accounting procedures. The church changed its bank accounts so that telephone transfers were no longer allowed. All financial statements were kept at the church, and all accounting work was done on the church's office computer rather than on a volunteer's home computer. That's an area of vulnerability in most churches, says Egging.

"I would bet that most churches in America have some or a significant number of financial records at somebody's house in a box or on somebody's home computer," he says, "because home computers are generally better than church computers. A church wants to make it easy for a volunteer who's working on church finances."

Embezzlement can happen even when a church has taken steps to prevent financial losses. That was the case at Highland Covenant Church in Bellevue, Washington, during the mid-1990s. The church had a number of common financial safeguards in place—two signatures were required on every check, two people were present whenever collections were counted, and the church did an internal audit of its books each year. Highland also practiced a "segregation of duties." One person,

the financial secretary, deposited funds; another person, the bookkeeper, prepared checks. Neither the bookkeeper nor the financial secretary was allowed to sign checks.

For the most part, Beth, the church's bookkeeper, generated Highland's

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checks on her computer. "But every few months, she would call up and say her printer wasn't working," says Dave Kersten, who was pastor of Highland Covenant from 1986 to 1997.

When this happened, Beth would prepare all of the payroll checks by hand and then send them to the church office to be signed. After they were signed, she would alter the checks, adding just a single digit to increase the amount,

sometimes by several thousand dollars.

"She would write herself a check and her husband a check, because he was the part-time janitor," says Kersten. "Instead of it being a check for \$700—it could become a check for \$4,700." Over a seven-year period, Beth took more than \$300,000.

The embezzlement was not detected because the church's bookkeeper had control of the bank statements. Early on, she had asked that all of the church's bank statements be sent to her home. "And in a very trusting environment," says Kersten, "that was the big mistake."

When the first altered check was discovered, Kersten called the Bellevue police and spoke to a fraud detective.

"As soon as he heard that she had control of the bank statements, he knew that he had a real case," Kersten says. "Invariably, when an organization allows a person who is writing the checks to control the bank statements, they are very vulnerable."

While the church's financial reports indicated that it had money in savings and other discretionary funds, that proved to be false as well. All of those funds had been folded into the church's checking account. And because the



Should You Call the Police?

When he talks with churches that have experienced embezzlement, Kent Egging suggests that they call the police and press charges. That seems a harsh stance for a church to take—church members often have trouble seeing embezzlement as a crime because it's not violent. But if it's not reported, there's nothing to stop an embezzler from stealing from another church or business.

Egging, a Covenant pastor who has studied embezzlement at church-

es, cautions against being too quick to offer forgiveness without consequences. Egging speaks from experience—a church treasurer once took \$45,000 from a church he served. "It all sounds so loving at the time, but this guy was a criminal and he stole the money and wasn't intending to pay it back," Egging says.

Steve Dawson, director of technical services for the Department of Church Growth and Evangelism, also advocates that churches report embezzlement to the police. That's

based in part on his own experience as a former bank president. If a bank employee was discharged for theft, Dawson was required to report it to the bank's insurance company and to the FBI. That would prevent them from working at a bank again.

"Even if there was no intent to prosecute—say someone stole \$500, and you didn't want to send them to jail for twenty years for stealing it—which was a possibility," Dawson says, "you want to prevent it from happening again." □

Preventing Embezzlement at Your Church

People steal—even Christians. And as long as a church needs money to operate, there is a risk that some of it will be stolen. While there is no way to make a church completely embezzlement proof, there are a number of ways to cut down on the risks. Here are a few suggestions.

Know your vulnerable points.

Steve Dawson, director of technical services for the Department of Church Growth and Evangelism, says that there are three common characteristics in most church embezzlement cases:

- 1) There is no rotation of duties of the church's financial secretary and treasurer. Someone has been in the position a long time.
- 2) A volunteer is trusted explicitly with church finances.
- 3) There is no yearly audit of the books, and no one is regularly checking the work of the treasurer, bookkeeper, or financial secretary.

Check the books. A yearly audit of the books is one of the most effective ways of preventing embezzlement. An annual audit by a CPA would cost "about \$6,000 to \$7,000 for a small local church," says Dawson, which could be prohibitive.

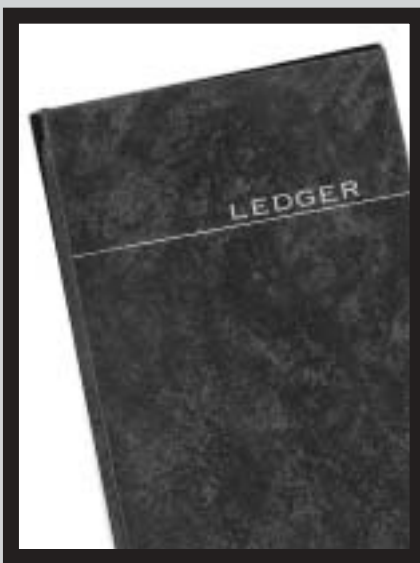
But Dawson says there are ways for a church to do a self-audit. One suggestion comes from *The Church Financial Leader's Manual* (available online at www.covchurch.org). "You can have the treasurers from two different churches check each other's work," says Dawson. "The odds of two people in that trusted role going bad is very small."

Have two people check the bank statements. A regular review of statements and canceled checks can spot any discrepancies in the books. Embezzlers often cover their tracks by removing and destroy-

ing original checks returned by the bank.

Make volunteers/employees who handle finances take an annual vacation. During the vacation, have someone else perform their duties. Often embezzlement is discovered during a vacation.

Be suspicious of any unusual transactions. If something seems not to add up, dig deeper until you have a satisfactory explanation.



Never sign checks in advance. Checks should not be signed unless the payee is typed or written in indelible ink on the payee line and the amount filled in. Church leaders who are going to be out of town should never sign blank checks before they leave.

Keep financial records at church. Many churches allow volunteers to keep financial records on their home computers. While "it's difficult to get past that with computerization," says Dawson, "there's no reason why those files can't be uploaded to the church's computer." That's a wise practice for a couple of reasons. It provides a back-

up in case a volunteer's computer crashes. And more importantly, "you have a second set of records that can be verified," says Dawson.

Kent Egging, a Covenant pastor who has studied church embezzlement, says that churches sometimes confuse confidentiality with secrecy.

"There there are very few things that really need to be secret," he says. "Financial records for the most part don't need to be. Our giving records need to be confidential—but nothing on the other end [about how a church spends money] needs to be a secret."

Have two people count cash.

When funds are collected during the offering on Sundays or at church events, the funds should be counted immediately by more than one person. "If you have two people immediately count the cash, agree on it, and sign a deposit slip," Dawson says, "that cuts down on the possibility that cash will go missing."

Tampering with donors' checks is more difficult, because it requires an embezzler to open a new account in the church's name to access the funds.

Examine your insurance policy.

Even if a church has insurance coverage to protect against theft, those policies often require the church to take preventive measures. If the church has a pattern of operating that contributes to a loss by embezzlement, the insurance company will probably not cover all the losses.

Check and double check. One Covenant pastor, whose church lost more than \$10,000 to an embezzler, suggests that every financial report submitted to the church be verified—especially account balances.

"You can put two and two together and make six on a financial report," he says. "The real amount of money is what the bank says it is." □

embezzlement had taken place slowly, over a long period of time, it was easier to hide even during internal audits.

Each year, two members were appointed to audit the books. They would call up Beth and ask her to send three months of statements, picked at random. “She would pick months she didn’t embezzle any funds and send them those accounts,” says Kersten. “The books balanced and that was the end of the story.”

The embezzlement came to light in April 1995, after the church let Beth go as bookkeeper because of suspicions that something was wrong with the church’s finances. She was arrested, tried, convicted, and sentenced to forty months in jail. The decision to turn the matter over to the police had been fairly straightforward, because of the amount of money involved.

Because their policy limited the amount of losses due to embezzlement or fraud, Highland received less than \$20,000 from their insurance company. But the church was able to recover from the embezzlement, and by the time Kersten left in 1997, had rebuilt their savings and completed a major fundraising campaign.

Most churches, charities, and businesses that are victims of embezzlement are never able to recover the funds they lost. Often their insurance policies have clauses that limit liability due to fraud. Many embezzlers have financial problems and, despite stealing large sums of money, have no assets left when they are caught. And while embezzlers often make restitution plans, it is difficult to enforce them.

Remember Sandra, the accountant from Kansas? She was released from prison two months early so she could start repaying what she stole. According to FSB, she makes a monthly payment of \$100—at that rate, it will take twenty years to pay it all back. She said she told her story because she wanted to help prevent other people from making the same mistakes she did.

“I’m not a bad person,” Sandra told FSB. “But I did a really bad thing.” □

HOW VULNERABLE IS YOUR CHURCH?

Enter points for each question in the boxes and then total for your score.

How many employees handle administration in your church?

- 1 — 10 points
 2 or 3 — 6 points
 4 or more — 0 points

How many employees handle/review accounting functions?

- 1 — 10 points
 2 (1 for payables/receivables) — 7 points
 2 (share functions) — 5 points
 4 or more — 0 points

Are employees/volunteers that handle church finances required to take an annual vacation?

- No — 8 points
 Yes — 0 points

Does one person handle all bank deposits?

- Yes — 10 points
 No — 0 points

How many people are involved in reconciling the bank statement?

- 1 — 10 points
 (add 3 more points if checks are returned to that employee)
 2 — 3 points

Does someone periodically check the work of those who handle church account/funds?

- No — 10 points
 Yes — 0 points

Do you check references and criminal background of those who handle accounts/funds?

- No — 10 points
 Yes — 0 points



Are blank checks signed before church leaders go on vacation?

- Yes — 8 points
 No — 0 points

Does an independent accountant review or audit your books at least annually?

- No — 6 points
 Yes — 0 points

Do you have an employee fidelity bond policy?

- No — 5 points
 Yes — 0 points

SCORE

A score of 45 points or more probably signifies vulnerability to a significant loss from employee theft.

EDITORS’ NOTE: This test for vulnerability to embezzlement was adapted from a test developed by the Denver, Colorado, district attorney’s office (www.denverda.com) in response to a dramatic increase in embezzlement in small businesses (including churches). A few days before we contacted the DA’s office about using the test, they had opened an investigation into major embezzlement at a local synagogue.