

A financial pandemic is sweeping the country

There is an employee at your religious organization you have known and trusted for a long time. She is a delight to work with and is an excellent representative of your office to the entire congregation and community. What happens when it is discovered she has been quietly embezzling thousands of dollars from the organization's funds?

"It was absolutely horrible," said the Rev. Larry Scharmann of Oak Meadow United Methodist Church in San Antonio, Texas. Scharmann is all too familiar with that scenario.

"The person was such a wonderful woman with the church. She opened her heart and knew everyone and everything going on," Scharmann said. "I thought her enthusiasm for the church was genuine."

In 2006, an employee of Scharmann's organization was silently writing checks to herself and purchasing items from a national club retailer for her and her husband with Oak Meadow's credit card. In the end, she had bilked the religious organization out of \$30,000.

Embezzlement and employee dishonesty are a harsh reality for the majority of religious entities in the United States. A 2007 study by researchers at Villanova University found 85 percent of religious organizations surveyed had discovered embezzlement activity within the previous year.

John Peters from Peters & Associates, a forensic accounting firm in Brookfield, Wis., has witnessed Scharmann's situation time and time again over the years.

"The problem is more frequent than you think it is," Peters said. "It's not an isolated occurrence, and there are many, many church-related institutions that consistently suffer financial losses. It's a pandemic."

Warning signs of embezzlement

A review of fraud claims filed with Church Mutual Insurance Company revealed that 42 percent of the time the treasurer is the person involved in the embezzlement and/or fraud. Accounting experts say there are signs to look for if embezzlement is suspected in a religious organization.

- - Excuses by the person in charge of the finances to avoid an audit
 - Failure to keep the check register with the checkbook
 - Failure to provide financial reports at meetings

- Very protective of his/her job

Peters also points out that hiring staff at a religious organization should be approached with caution.

"You should be wary in the hiring process — especially if someone seems to be too eager to get the job," Peters said. "Some people apply at churches because they know they'll have easy access to money and the trust of the staff. My advice would be to conduct background checks even if it's a voluntary position."

When Scharmann found out about the embezzled money, he realized that trust is a valued commodity in this world.

"You never know what someone is going through or what they're capable of," Scharmann said.

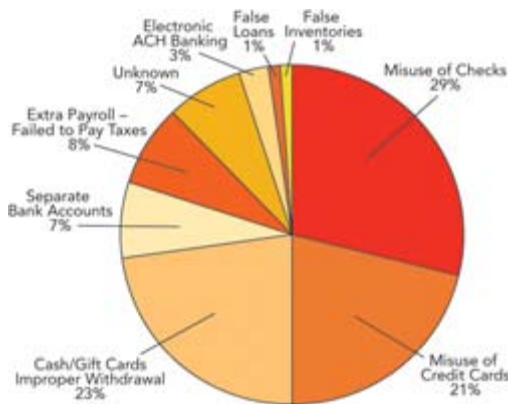
And speaking from experience, Peters has seen astronomical embezzlement amounts.

"Getting to \$15,000, \$20,000 or even \$100,000 is no problem," Peters said. "I've seen others take well over \$1 million."

What can be done to prevent employee theft or dishonest practices when it comes to the finances of the organization? Here are 10 prevention steps to take immediately:

1. **Use a check-and-balance system** – Do not allow one person to have control of financial transactions.
2. **Reconcile bank accounts every month** – Examine canceled checks and bank statements.
3. **Restrict credit card use** – Limit the number of credit card users, set account limits and require original receipts for all purchases.
4. **Provide oversight of the financial activity** to be reviewed by a committee.
5. **Create specific policies** for cash disbursements, expense reimbursements and petty cash.
6. **Ensure assets are used only for business purposes** – Vehicles, cell phones and equipment.
7. **Create a standardized document for all cash handling** – Document specific reasons money changes hands.
8. **Protect checks against fraudulent use** – Require two signatures on all checks.
9. **Protect cash and check collections** – Reconcile cash receipts daily.
10. **Restrict online bank account use** – If possible, require all transactions be done with hard copies.

Lessons learned



Scharmann learned many valuable lessons

from his experience with a dishonest employee three years ago.

In fact, the experience changed the way his entire religious organization conducts business.

“Now we require two signatures on every check, and we keep closer tabs on the financials,” Scharmann said. “We have monthly meetings, and we’ve set up a separate committee to take a detailed look at everything. It’s made us more aware of the policies we need to have in place—and we’ve strengthened those policies 100 percent.”

Consider electing a board of directors to establish financial policies. The board should be responsible for overseeing the following activities:

- - Monitor financial activity
 - Monitor and review any variation from budgeted amounts
 - Review if payroll taxes are paid promptly
 - Approve financial procedures
 - Work with auditors to explain financial statements annually

The current poor economic environment has no influence on employee dishonesty and embezzlement.

“Good economy or bad economy; Thursday or Friday—it doesn’t matter. It happens all over the country any time of the year or any year. It’s a problem that’s been around for decades,” Peters said.

Trust is such an important part of our social connections to friends, families, communities and congregations. Unfortunately, that trust is broken all too often in religious organizations.

“Trust is nice,” Peters said. “But ‘trust me’ is not a good philosophy when it comes to financials.”