

Split the Tasks: How to Keep Money-Handling Above Board

Every church relies on donations and tithes. The people who give their money do so in good faith; they believe that the funds will go toward projects and ministries that will benefit the church community. But what happens if embezzlement occurs?

Even the slightest misuse of funds can ruin the reputation of a church and erode the trust of its community. It can cause division among parishioners and prevent a church from performing as much good as it's capable of. Those are just some of the reasons that church leaders have a fiduciary duty to act as good stewards of the funds they receive.

When is embezzlement likely to occur, and what can you do about it?

Steve Follos, Vice President and Manager of Church Insurance Agency Corporation (CIAC), says that embezzlement can occur whenever money is handled, and is more likely to happen when one person controls the finances. That's why dividing and even doubling up on tasks can help to prevent mishandling of funds.

"The person counting the money and making the deposit shouldn't be the same person who is reconciling the statements," he says. "There should be a separate auditor at the very least. Monthly account statements should be reviewed by a church official. This kind of work can be designated to the deacon."

Steve also recommends that more than one person be present for each stage of money processing, so that no one is unnecessarily tempted. "It can be difficult for small churches to find people who can or want to do this kind of work," he acknowledges. Because of that, it may seem easier for the church treasurer to perform all tasks related to money-handling, but that can lead to trouble. If one person does all the work, it's much easier for that person to embezzle, and usually takes much longer to detect.

Rotation of duties is another key to theft prevention. "Maybe someone acts as the treasurer for two years and then switches places with another vestry member," Steve says. Using those types of controls sends the message that your organization is paying attention to the way funds are handled.

Profile of an embezzler

People steal money for different reasons, so there's no one single profile of an embezzler to look out for. "Often, the person who embezzles is the one you'd least suspect," Steve says. "Many times, they're well-liked and capable." However, there are certain warning signs that can indicate that someone's taking money.

For example, someone who handles church money may be living beyond their means. "If you know someone who has a modestly-paying job and also works with church funds, and you see them pull up in a brand-new expensive car or talk about their boat, that could be a red flag," Steve says.

Other indicators include someone not wanting to rotate duties, share information, or undergo the “hassle” of an audit.

Because embezzlers don’t fit a set profile, theft can go on for several years. “It’s rare that we catch someone during their first three months of absconding with money,” Steve says. “This kind of activity can go undetected for a long time if controls aren’t in place.”

Conduct an investigation and press charges

Steve says that church leaders will occasionally find what appears to be evidence of embezzlement and make a public accusation. But if they are incorrect, it can lead to reputational damage for the accused or even a defamation suit. “Church leaders should quietly and respectfully question the person they suspect and seek an explanation first,” Steve says. “Bring in a CPA to perform a forensic audit and find out if the explanation matches what the CPA finds.”

If it turns out that embezzlement has occurred, the perpetrator will often confess and act contrite, claiming that they were intending to pay it back. But Steve stresses that church leaders must press charges in order for the theft to be covered by insurance. “They make the claim on the crime section of the policy,” Steve says. “Church leaders have obligations as stewards of the church’s resources to press charges.”

Most churches carry \$25,000 to \$50,000 of coverage. “This essentially bonds the individuals who are in charge of the contributions,” Steve says. He suggests that larger churches review their policy with CIAC to make sure they’re carrying adequate coverage. “If a church has endowments and foundations, they need to be carrying more.” Coverage is offered at a flat rate for \$50,000 and the rate decreases as the coverage limits get higher.

Embezzlement has serious consequences for churches. But having the right controls in place not only can prevent theft from occurring, or make it easier to discover, it can help make sure that donations go to the right cause.