

Steps to Avoid Financial Fraud

Churches hire folks to be bookkeepers and office managers who are responsible for managing finances and financial records. It is a best practice to conduct background checks on all new hires, and congregations should avoid hiring an employee to manage its finances who has a criminal record that includes finance-related crimes. However, a background check is only one step in what should be a number of steps in a process for churches to avoid fraud, embezzlement, and other financial crimes.

Session/Finance Committee

The session should elect a treasurer and appoint a finance committee that includes folks with backgrounds that enable them to review and understand the church's financial records. If you are lucky enough to have folks in your congregation who have a background in finance, such as bookkeepers, certified public accountants, or chief financial officers, ask them to join the finance committee either as session members or adjunct members of a finance committee. It is critical to have experienced folks overseeing the financial records of your church – people who understand balance sheets and can spot unusual entries or irregular transactions. If you do not have members with that expertise, it is of value to engage a reputable outsider to review the church's finances on a regular basis. The *Book of Order* states that sessions, in particular, have responsibilities concerning finances with specific recommendations on best practices:

G-3.0205 Finances

In addition to those responsibilities described in G-3.0113, the session shall prepare and adopt a budget and determine the distribution of the congregation's benevolences. It shall authorize offerings for Christian purposes and shall account for the proceeds of such offerings and their disbursement. It shall provide full information to the congregation concerning its decisions in such matters.

The session shall elect a treasurer for such term as the session shall decide and shall supervise his or her work or delegate that supervision to a board of deacons or trustees. Those in charge of various congregational funds shall report at least annually to the session and more often as requested. Sessions may provide by rule for standard financial practices of the congregation, but shall in no case fail to observe the following procedures:

- a. All offerings shall be counted and recorded by at least two duly appointed persons, or by one fidelity bonded person;
- b. Financial books and records adequate to reflect all financial transactions shall be kept and shall be open to inspection by authorized church officers at reasonable times;
- c. Periodic, and in no case less than annual, reports of all financial activities shall be made to the session or entity vested with financial oversight.

The finance committee should review the church's financial records with the treasurer and church bookkeeper (internal or external) at least quarterly, but preferably more often. If they see anything that raises red flags, the committee should address it immediately with staff and get

answers. If the finance committee needs help it can engage an outside certified public accountant for assistance and guidance.

The finance committee should check issues such as the records of donations made each week against the amounts deposited in the church's bank account. It is critical that the committee can reconcile the flow of funds into the church's bank account with the outflow for expenses. Expenses should be backed up by paperwork. For example, if your church has repairs made to a building, there should be an invoice from the provider showing the work done and a breakdown of costs, and someone should confirm that a request for repairs was made and that the work was done. These practices are consistent with G-3.0205. If a CPA is engaged, seek an agreement for services and detailed invoices. Invoices with vague entries "general services" or "contingency work" should be questioned. What services were provided, by whom, and was the cost reasonable?

Finally, the finance committee should make reports to the session at least annually, but preferably more often. G-3.0205(c).

Annual Audit

The session's finance committee should engage an outside firm to perform an annual audit of the financial records of the church or seek a review by a committee of church members. An audit will be a comprehensive review of the church's finances and should provide a report for the finance committee and the session to review.

G-3.0113 Finances

Each council shall prepare and adopt a budget to support the church's mission within its area.

A full financial review of all financial books and records shall be conducted every year by a public accountant or committee of members versed in accounting procedures. Reviewers should not be related to the treasurer(s). Terminology in this section is meant to provide general guidance and is not intended to require or not require specific audit procedures or practices as understood within the professional accounting community.

Policies and Practices

It is of value to have policies on a variety of issues to avoid theft or loss of funds.

1. Reimbursement policy – Have a clear policy on reimbursement of staff expenses. Include issues such as how much per mile for travel, what types of expenses are permissible (office supplies? computers and devices?) and which are not (personal expenses of staff). Ensure compliance with such a policy to avoid staff seeking to over-reimburse themselves for items that are not legitimate or necessary expenses. For example, lunch with prospective members may be a legitimate expense; lunch with Uncle Joe or friend Jane who is not a member or prospective member, is not.
2. Approved check signers – Have a policy that specifies and limits which staff and session members are permitted to sign checks. Consider requiring at least two people to sign each

check. Train the check signers to review the back-up paperwork on check requests and to ask questions about the purpose of and need for each check. Make it a practice to sign only checks that are fully prepared with the name of the payee included so someone cannot add a different payee or a larger amount after signing.

3. Spread Out Responsibilities – If you have enough staff, different persons should have different responsibilities. The person who handles accounts payable should not also be a check signer, for example. Checks and balances are important.
4. Online banking and account access – Limit who has the ability to conduct banking transactions. Have the finance committee review banking transactions. The chair of the finance committee or someone on the committee should regularly review the accounts and the checks issued and question the purpose of each, the expense paid for, the work done, and so forth.

Collection/Offering

When ushers collect the offering, make sure they have a collection and deposit practice after worship to avoid money or checks going astray. Some churches have a safe and put the offering directly into the safe after worship. Have two ushers make the trip to the safe after worship so that no one person is alone with the collection and both make sure the full collection ends up in the safe. Limit the number of people who can access the contents of the safe and who counts the collection each week. As set out in the *Book of Order* G-3.0205(a), the offering should be counted and recorded by at least two duly appointed persons, or by one fidelity bonded person. The money counters should provide a report to the bookkeeper or whoever handles the cash and checks for deposit. Once the count is complete, deposit the collection in the church's bank account as soon as possible.

If you do not have a safe, make sure there are two people (or one fidelity bonded person) responsible for the collection and how it is gathered after worship and what happens to it. Preferably, it should be documented and locked up or deposited somewhere in the church office as quickly as possible. If there is no safe and lockable space to secure the collection, have two people (or one fidelity bonded person) go to your bank and deposit the collection soon after worship.