



PROTECTORSTOOLKIT

The Fraud Triangle

Internal Controls For Churches

The Bible has much to say about fraud.



The Law of Moses contained several ordinances against fraud. Deuteronomy 22:17 condemns moving a landmark, thereby obtaining extra land by fraud. Deuteronomy 25:13-16 condemns having one set of measures for selling and a separate (larger) measure for buying. Leviticus 6:2-5 says one who obtains something wrongly, including by fraud, should return it with interest before asking God's forgiveness. Leviticus 19:13 condemns defrauding a person by promising wages and then not paying them. When Jesus listed commands for the rich, young ruler (Mark 10:19) he includes "do not defraud," probably the same as "thou shalt not steal."

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."

It might be surprising to think of fraud in our churches, but unfortunately, we only need to do a basic search to find many news stories of church fraud. As Christians we are very trusting, we expect other believers to have a higher standard with ministry resources especially over those who manage secular enterprises.

Our trust also promotes complacency especially in legacy positions with-in our church i.e church secretary, money counters/ handlers. This complacency promotes the mentality of "if it ain't broke, don't fix it". In reality what we're experiencing is a form on Normalcy Bias – meaning something is so farfetched or seemingly implausible that we don't or can't believe it when faced with it or when we get signs or signals that it is real. All of this can often lead to a level of trust which can easily be abused.



Consider these real-world examples of fraud with-in churches:

- 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.

The thing is that each of these examples could have been avoided. Trust should not be characterized by the total lack of prudence and care. I fully believe it was the Apostle Paul that Ronald Regan was paraphrasing when he said, “trust but verify”. This is a distillation of 2 Corinthians 8:20“ where Paul said precaution (should be taken) that no one should discredit us in our administration of this generous gift when he implemented the dual custody of a large amount of money he was transporting between churches. Let’s take a quick look at THE FRAUD TRIANGLE then I’ll wrap up with a few simple internal controls you can implement to remove temptations from staff and protect resources from misappropriation



The Fraud Triangle, developed by American Criminologist Donald Cressey, is one of the models that can help us understand all the factors that would cause someone to commit fraud. In short, the Fraud Triangle model postulates that unethical and fraudulent behaviors are very likely to occur if the following 3 factors are present in a given situation:



The first Factor is **PRESSURES**: The person is under very strong financial or work-related pressures (needing money, achieve targets) or it is in his self-interest to break the rules (hiding mistakes, gaining something).



The second factor is **OPPORTUNITIES**: The person has by himself (or with accomplices) the authority and the means to take whatever actions needed to make the cheating possible. The person must also believe that he can conceal his actions to avoid being caught, for example, due to a weak management control system and a permissive organizational culture.



The third factor is **RATIONALIZATION**: Finally, because practically nobody likes to think about himself as a fraudster, he therefore must be able to rationalize his unethical or fraudulent behavior to be somewhat congruent with commonly accepted moral principles.

The Fraud Triangle



The Fraud Triangle has seen countless applications in practical cases and works well to explain the **Why & HOW** people can be tempted to act unethically or even to commit a fraud.

It also provides a framework on how to prevent, detect and manage unethical or fraudulent behaviors in organizations



SIMPLE INTERNAL CONTROLS

As promised, let's look at a few simple internal controls you can implement to remove temptations from staff and protect resources from misappropriation. There is an old ancient axiom that we use in the law enforcement investigations world that applies to a lot of investigations: FOLLOW THE MONEY! Churches need only to have random frequent audits to be vigilant analyzing the steps in their processes of receiving and disbursing funds. These audits should focus not only on the money but also look for internal control weaknesses. Are there points in the process where a single person is given the opportunity to divert funds away from the church to him/herself?

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

- Proper approval of transactions (executive oversight to include dual check signatures)
- Two-person money handling/ counting processes (under a camera is the best)
- Timely reconciliations of all asset and liability accounts

Additionally, good policies and procedures are a great stopgap or prevention tool but if they aren't followed, measured and audited frequently, then they are worth less than the paper they are written on.

When the church fails to have internal controls in place and does not follow established policies and procedures, ministries become easy prey for staff and volunteers who decide to help themselves to the churches money. There are so many church fraud cases where it was relatively easy for the swindler to perpetrate a crime and remain concealed (sometimes for years) by "blind trust" and missing or ineffective controls.



One final point: RED FLAGS

The fraudster will almost always try to conceal their sin but it is usually discoverable. The key to detection is knowing what to look for. Below are some red flags that could mean that fraud is occurring in a ministry. Remember one of these do not necessarily indicate the fraud is occurring but several of these combined should trigger an audit to help your church suss out where the money is going:

- 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
- Staff or volunteers (that handle money) who appear to be living beyond their means

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