

FACING UP TO FRAUD IN THE FLOCK



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One of three churches falls victim to financial fraud.

Nonprofits lose 5% of their revenue to insider theft. How can organizations protect themselves and their mission?





A MINISTRY PACIFIC INTERVIEW WITH CHRISTIAN SPEAROW OF JITASA

Christian Spearow is vice president of sales for [Jitasa](#), an accounting and bookkeeping firm based in Boise, Idaho, with offices worldwide. Jitasa works exclusively with nonprofit organizations. Before serving as vice president, Christian was the general manager of Jitasa's Bookkeeping and Accounting Services, supervising a team of accountants that deliver services to more than 1,000 clients.



An influential research firm reports that 1 out of 3 churches experiences financial fraud.¹ Studies show all organizations lose 5% of their revenue annually to fraud, equating to billions of dollars.²

With fraud, it's not just the financial loss that matters. Arguably more important, trust is lost. People want to know they can trust an organization's leadership. They may wonder, "Was the pastor in on it? Was the director of development in on it? Is it safe to give now?"

This interview occurred in October 2023.

1 Center for the Study of Global Christianity, <https://tinyurl.com/2s3v9jtb>

2 "A Violation of Trust: Fraud Risk in Nonprofit Organizations," <https://tinyurl.com/5ca9apk6>

DEFINING TERMS

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What is fraud? How does it differ from a cyber attacker from another country infiltrating your email system and depleting your bank accounts? What exactly is it?

CHRISTIAN SPEAROW, JITASA

Fraud is wrongful or criminal deception intended to result in financial or personal gain. It's different from a burglary or cyber attack because it takes in-depth knowledge of the organization and its systems in order to successfully pull off fraudulent activity. You can't just walk in the front door and commit fraud. Unlike with a cyber attack, where it's somebody from outside the organization who is holding your information hostage or hacking your bank account, fraud is generally done over time. It's generally done with an in-depth knowledge of the working systems and processes of the organization. It's usually done by somebody from within – a staff member or a board member who has that access and that knowledge base.

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To use a very non-technical definition, would it be correct to say fraud is an “inside job”?



CHRISTIAN SPEAROW, JITASA

Yes, most of the time. It comes back to someone's opportunity and the knowledge of the organization and the systems they're using to pull it off.

IS CHURCH AND NONPROFIT FRAUD A PARADOX?

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It seems paradoxical that churches and nonprofits – organizations formed around doing good – are so frequently victimized by their own people. Why is there such a high rate of failure when it comes to fraud and embezzlement with churches, ministries and nonprofits?

CHRISTIAN SPEAROW, JITASA

The biggest reason is that people want to trust the organization. They want to trust the employees and the volunteers. And you anticipate that those working at an organization – and especially churches – are going to be good, trustworthy people who want to do good.

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We all want to think that because Tim’s going to church and he’s volunteering at the church, that he is not going to commit fraud. But the data shows that’s not the case. That means we’ve got to take steps to prevent it.

For the vast majority of volunteers and employees, that is exactly the case. They believe in the mission, they want to have a positive impact on their community and on the world, and that’s the driving force behind them.

But people do fall susceptible to situational impacts and they have life



circumstances that can drive them to do things that seem completely out of character. You don’t anticipate the charming senior woman down the hall is going to start taking money, and because of this, you trust her.

In addition, standard checks and balances that would normally be maintained within an organization are ignored or not implemented. A good example is that churches should have two people count the offering every Sunday. But if we instead think, “Volunteer Tim’s been counting the offering for 10 years and Tim’s a good guy. He can do it by himself.” And that turns into a pattern. That’s not saying Tim is absolutely going to commit

fraud, but situations like that open the door to fraudulent activity because you're giving people the opportunity to commit it. And again, we all want to think that because Tim's going to church and he's volunteering at the church, that he is not going to commit fraud. But the data shows that's not the case. That means we've got to take steps to prevent it. We want to trust people, but we do so through a concept of "trust but verify." Trust people, but trust *two* people to count the offering.

It's not just a matter of protecting the organization. It's also a matter of protecting the volunteers and staff. There are certainly circumstances where somebody might do something that they wouldn't otherwise do, like taking money from the offering. But there are also situations where fraud may be perceived but in actuality did not occur. There may have been a mistake, misunderstanding or miscommunication. This can result in someone with right intentions being wrongfully accused. Having sound financial practices in place not only protects the organization from actual fraud, it also protects volunteers and staff from unintentional fraud or misunderstandings.



Having sound financial practices in place not only protects the organization from fraud, it also protects volunteers and staff from false accusations.

THE PROMINENCE OF FRAUD

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A survey of news related to fraud, churches and nonprofits over the last few weeks turned up staggering results. Just a few headlines:

- A former Oklahoma City church employee has been sentenced to pay restitution and serve two years in federal prison for defrauding a church out of more than \$450,000. She used her position as the church's payroll administrator to buy numerous personal items with church funds.³
- In Baltimore, a pastor was fired for paying a secret \$200,000 settlement. The headline says it all: "How did a monk come up with \$200,000?"⁴

3 U.S. Attorneys Office, Western District of Oklahoma, <https://tinyurl.com/3rdntfxy>

4 The Baltimore Banner, <https://tinyurl.com/yc48rn6t>

- A former accountant for Galilee Episcopal in Virginia was sentenced to five years in prison for embezzling more than \$175,000 from Oceanfront Church. He used the church's a credit card and access to the payroll system to increase his salary.⁵

What are the first lines of defense organizations should take to prevent fraud?

CHRISTIAN SPEAROW, JITASA

There are three things any organization can do that are easy to implement and are cost efficient. They can help prevent normal fraudulent activity. **The first and most important action is building in processes of review.** Fraud happens when no one reviews someone's expenditures. The example shared above about someone being able to increase their own salary in the payroll system demonstrates that nobody was reviewing the payroll reports. And that's a very basic thing that should be implemented as a part of your day-to-day operations. This can be further improved by having an involved board that is providing oversight and regularly asking questions.



The first and most important action is building in processes of review. Fraud happens when no one reviews someone's expenditures.

The second thing you can do to help prevent fraud is have standard consistent reporting that is both reviewed and discussed in detail.

Now, I know finances and accounting can be a very dry topic, especially at a board meeting where people just want to know, "Are we keeping the lights on and are our staff getting paid?" But the reality is, if you're able to have in-depth detailed conversations with your board and/or your executive team about the financials, this provides additional oversight and guidance. Having standard, consistent reporting goes a long way as well. Looking at financial data once a quarter or every six months is not frequent enough to get an understanding of the organization and spot patterns that could point toward fraudulent activity.

⁵ The Virginian-Pilot, <https://tinyurl.com/yz6tyswv>



The third thing – and this can be a bit of a controversial – is periodically changing or adjusting responsibilities of your staff and volunteers. This provides an opportunity to look at their processes in depth. We have clients who require staff to take vacation every year specifically so someone else can come in and review their processes. That gives them the opportunity to “check under the hood” and make sure that everything is on the up and up.

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What is an appropriate professional background for a church or nonprofit board member?



CHRISTIAN SPEAROW, JITASA

Our encouragement when it comes to a board is diversity. Each person is going to have a unique skillset or a unique connection. All of these combined backgrounds result in a broad, healthy perspective. When it comes to the financial side of things, obviously if you can get an accountant or a CPA as a part of your board, especially for the treasurer role, that’s a home run. They know what to look for and they speak the language. In addition, anyone who is familiar with financial statements and systems would also be a great candidate for a treasurer or a finance committee role. A strong, contributing board member is someone who’s not afraid to ask questions and is willing to put in the effort to look at the details. Someone like this brings a great skill set for any board.

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I know that your larger nonprofit clients request audits from accountants. Is it common for smaller nonprofits or churches to be audited by their accountants? And is it a good idea?

CHRISTIAN SPEAROW, JITASA

It's a great idea. A lot of times the limitation is the cost. And so that is certainly something to take into consideration. What will be the cost and is it worth it to your organization? You can also do internal audits. Again, if you have an involved board or a finance committee, they can put together a list of items they want to see within the financial system of the organization. So don't let the price tag prevent you from performing a review of the financials and a review of the documentation.

While it is something a finance committee could do, we see a number of organizations complete a financial review using an outside party. Some states require it. New York requires an audit or a review as a part of its state charitable solicitation filing. Most churches are exempt from that filing, but it's still a good idea to go through that. It's common to see churches use a CPA for a financial review every third year. They don't have an annual audit



expenditure, but still receive periodic reviews.

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Are there any lessons we can learn from nonprofit fraud cases that you've dealt with at Jitasa?

CHRISTIAN SPEAROW, JITASA

Yes. Some of the most basic steps you can implement are enough to prevent a lot of the fraudulent cases. I personally was involved in a case where the accountant who was on staff at the organization had been there for more than 10 years. Over the course of that tenure, the accountant had taken on all of the responsibilities with regards to the accounting process. The thing we found immediately upon reviewing their books was that there was a bank account that no one knew the purpose of. It turned

out money was being funneled from it for personal use. This is a very basic form of fraud, and the simplest second step would've been for the organization to be reviewing all bank statements. But this was not being done. This very basic step wouldn't have cost any money to implement. My encouragement here is to not overlook the basic processes and procedures.

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Most people who commit fraud aren't brilliant enough to create some kind of international scheme that is concealed from forensic accountants. They grab that low-hanging fruit in an environment where no one is going to double check.

CHRISTIAN SPEAROW, JITASA

Correct. They're not wiring funds to the Caymans and then rerouting it through some shell company. Often it will start small: "I've got access to tangible cash and I need an extra \$20 this week." And so they slip it in their pocket. Then that \$20 turns into \$50 and then \$100. Over time, they create a process of easily funneling money, whether that is taking cash, rerouting payments or increasing their salary through payroll. All of these could have been easily prevented by having a double check in place.

OVERCOMING OBSTACLES TO FRAUD PREVENTION

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What are some of the obstacles organizations – including smaller organizations – face when they want to raise their financial standards and prevent fraud?

CHRISTIAN SPEAROW, JITASA

The biggest challenge is knowing where to start. There are many directions in which you could proceed. Organizations need to spend a little time upfront doing research and getting education so that their time is well spent.

Another common challenge is not having the financial and personnel resources needed to make the changes you desire. If you have a small staff or a distant board, it can be hard to have two people reviewing or counting donations or to have two people signing off on expenses. We have to determine what is within our means to accomplish.

But again, there are some very basic things that you can do with limited resources to help prevent fraud, as we discussed above. So start small, start simple, and build on that. The second thing that I would say is to get your board involved. Board members

don't need to have a lot of accounting knowledge or be a CPA to be involved. If you can count cash, then you're a board member who can be involved. You can take a look at payroll reports and make sure this month matches previous months. And then third, as I've already stated, rotating responsibilities.

3	10	25.6	12.59	17.98	15.26	129.85
44	20.77	5.86	3.96	5.6	1	0
3	1.5	4			0.5	11
0	0.5	0	0.37	0	0	0
2.7	53.32	2.36	0.3	1.21		22.06
4.9	9964.76	1106	13945.79	14851.18	17625.5	19138.99
99	211.18	54.31	453.65	229.93	59.97	139.96

Apr	May	Jun	Jul	Aug	Sep	Oct
77	14016.76	1494.89	12901.21	12625.01	13686.73	213.05
61	1232.46	1046.6	1152.52	1210.19	2180.86	2100
29	3408.59	445.21	3400	2956.12	3779.39	325.32
83	445.02	491.75	442.9	443.92	603	774.39
85	8323.28	228.76	5744.81	4654.11	6468.39	5983.6
85	1859.25	78.12	1914.77	1830.85	2268.69	165.45
7	860.27	33.35	979.59	847.94	1067.62	1163.01
46	561	5.83	515.79	558.06	645.75	549
47	390.96	39.2	403.78	402.73	329.75	367.56
72	80.6	4	87.88	35.36	74	85.28
24	0.99		17.86	1.88	37	1.3
1	0.75		0.25	3.70	2.5	0
36	313.82	14			710.8	794.06
31	308	22.03	191.87	172.88	153.71	119.41
12		14.44	0	20.7	0.19	0
8		16.55	23.4	30.25	28.35	45.7
33		15.4	15.92	29.29	18.99	44.92

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If an organization is doing those things, it's less likely someone will try to commit fraud. The safeguards serve as a deterrent and barrier.

CHRISTIAN SPEAROW, JITASA

The thing all those pieces have in common is eliminating opportunity. When I think about a lot of the fraudulent cases that I've been involved with or read about, it's often not somebody with a premeditated scheme to defraud. In a lot of cases, it comes down to a life situation



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where they have medical bills they are unable to pay and feel they are not compensated fairly. And so they start to build resentment, and that's what triggers the desire to start pulling funds from the organization.

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Embezzlement is nothing new and has been happening since before the advent of currency. With that said, are there any emerging threats organizations need to be aware that are more sophisticated or less detectable?

CHRISTIAN SPEAROW, JITASA

Technology is a blessing and a curse. When you're thinking about your organization, make sure you have a complete understanding of all the

ways you are receiving funds. Be sure to know who has access to these methods. Can they change where funds are deposited without oversight or authorization?

The second question I would ask is, what happens to the money when it's received? How are physical checks deposited in the bank account? What about electronic gifts? Understand the

process and the people involved in it. And the last thing is, how do we pay vendors, individuals and organizations? What does the authorization process look like? Can somebody issue a payment to themselves?

Sometimes understanding and updating these procedures can be the biggest source of fraud prevention.

“DON'T BE AFRAID TO DO SOMETHING”

I'll close with this: Don't be afraid to do something. Doing something is better than doing nothing. So even if you're not quite sure where to start, take that first step. Google fraud prevention practices, then begin applying those to your organization. That's better than saying, "I don't know where to start, so I'm not going to do anything." Take a look at where your organization is and look for ways to improve. Be humble in taking advice from other people. I think that's a great place to start. The underlying message here is to do something. Make sure you're protecting yourself, your donors,



and your organization, because this is a very real threat. We need to be good stewards of what has been given to us. That's our responsibility.

– *Christian Spearow, VP, Jitasa*

CAN YOU INSURE AGAINST EMBEZZLEMENT?

The first line of defense in preventing fraud is to establish basic financial controls advocated in this e-book. There is no shortcut or substitute for financial checks and balances at churches and nonprofit organizations.

A second line of defense is coverage offered by Ministry Pacific known as Financial Bonding Insurance. This liability coverage compliments financial controls and helps churches and nonprofits recoup financial losses that result from criminal activity.

Some organizations may feel they don't have enough resources for someone to exploit. That, in our view, is an even stronger reason to insure yourself against potential losses. In addition, many of these thefts occur over a period of years, and can easily add up to \$50,000 or \$100,000 before someone notices. In 2021, a church employee was sentenced for stealing \$1 million from her employer over 10 years.¹

Financial bonding insurance is a backstop against fraud. It's important to understand this coverage is not a substitute for fraud prevention practices. Financial Bonding Insurance

¹ "Former Employee Sentenced to 10 Years for Stealing \$1 Million From Ed Young's Church," <https://tinyurl.com/3k5b2d4a>



protects organizations that have been diligent to prevent fraud but were still scammed. In addition, these policies require the organization to press charges against the offender.

If you'd like a free consultation about Financial Bonding Insurance or other policies for your church or nonprofit organization, [please contact us](#).

Watch our 2-minute video from the Insurance Professor on Financial Bonding Insurance.





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