

You Can't Eliminate All

FRAUD

By John Van Drunen



“Fraud and falsehood only dread examination. Truth invites it.” This quote by Samuel Johnson almost 300 years ago illustrates that while our society has progressed in many ways, there are some things that have not changed.

Fraud involving a church or ministry causes a diminished witness of the Gospel in the sight of skeptics. When broadly attributed to the Christian community (all churches and ministries), fraud can even lead to skepticism among believers about Christian organizations and a reluctance to give as freely as the Lord has provided. During the week I was writing this article, I took a call from a donor who informed me that he was going to stop giving to ministries because of what he perceived to be widespread abuse and fraud.

Fraud in your church or ministry is not impossible; in fact, there is a pretty high probability that fraud will occur unless certain preventive steps are taken. While nonprofit fraud cases tend to be lower in dollar amount compared to the corporate world, a fraud within a church or ministry can be devastating because of a general expectation that Christian organizations are free of fraud.

Why don't we eliminate the possibility of any fraud involving churches and ministries? *The simple answer is that we just cannot.* The processes necessary to eliminate all fraud are nothing short of having a small army of employees rotate through different jobs as they separately review each transaction, with checks and balances that would bring any ministry to a grinding halt. This would not be effective stewardship. Therefore, our goal is not to eliminate all fraud but

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rather to find a reasonable balance between preventive efforts and risk.

• **The basic elements of fraud.** Fraud occurs when one or more of the following elements are present:

Pressure – what motivates a person to commit fraud. For example, emergency medical needs, a spouse losing a job, or trying to keep up with the neighbors' standard of living.

Rationalization – the ability of a person to reconcile their actions to some standard of acceptable behavior. This is evidenced by statements like: “I will repay it and no one will know;” “It's such a small amount that

nobody will miss this” or “I have worked so hard that I deserve a little bonus.” Once rationalization is satisfied, the person usually doesn't even think they are committing fraud.

Opportunity – the circumstance that arises in which a person believes there is a good chance that they can commit fraud without anyone noticing. The perpetrator has to feel like they can get away with the fraud.

Out of these three elements, opportunity is the only element that a third party can effectively control. Therefore, this is where fraud prevention efforts must focus.

• **The role of ministry leaders.** It is important to remember the Romans 3 requirement for leaders to be above reproach so as to not to give Satan a foothold from which to attack the Gospel.

Next, board members and officers of organizations need to remember that they have fiduciary duties in their roles that they must take seriously.

I heard a story of an administrator walking into a colleague's office and discovering a stack of blank purchase requisition forms signed by a trustee in advance for convenience sake. The administrator proceeded to shred these forms on the spot. This breach of a board member's fiduciary duty could have caused a temptation to an otherwise trustworthy staff member.

• **Steps to avoid fraud.** Follow these basic steps to avoid fraud:

1. Establish an atmosphere of accountability and transparency starting from the top of the organization and working

down. This means encouraging staff members to ask a question when they perceive something that does not seem right. This also means that managers must be open to receiving this type of questioning. Additionally, a whistle-blower policy can help encourage staff members to report issues without fear of retribution.

2. Identify the fraud prevention steps currently taken and the potential steps that could be taken to remove gaps in internal controls. Weigh the costs of completing each step against how much the risk of fraud might be reduced.

Focus first on the steps that reduce fraud risk greatly with little cost and then review which additional internal control steps can be strengthened.

3. Remember that fraud prevention is a process, not just a one-time event. Many internal controls start out in what may be perceived as eliminating fraud opportunities. However, if a staff member makes an error and the controls do not discover this

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error, the opportunity element of fraud is present. This is why it is important to review internal controls and check for inconsistencies on a regular basis.

4. While not a sure preventive, be alert for factors that might indicate that a person might be susceptible to fraud pressures. Such factors might include: living beyond one's means, refusal to take vacations,

control issues, financial difficulties, and answering to a higher law alone.

5. Prepare to respond properly if fraud is ever detected. This is important, as Christian organizations can in some ways be more vulnerable to fraud because of blind trust among believers. Therefore, a leader should think about the response in advance so as to not make a bad situation worse by making a wrong decision while under pressure.

When Fraud Is Discovered

1. Make the issue a priority.
2. Start an investigation.
3. Notify appropriate parties including the board and legal counsel.
4. Don't use the press as a first resort.
5. Take action.
6. Maintain a Christian witness.

Some may be adverse to take action against a Christian who committed fraud. Matthew 18 can still be followed in confronting the perpetrator; however, this is not an excuse to do nothing. It is generally important to at least report fraud to the proper authorities so as to prevent any further organizations from being defrauded by this individual, since many fraud investigations reveal earlier unreported frauds.

Leaders have a duty. It is important to understand that not all fraud can be prevented but that leaders have spiritual and legal duties to take appropriate preventive measures and to encourage an environment of accountability and transparency.

For further resources please visit ECFA.org/FraudPrevention.



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