

Fraud: What Religious Organizations Should Know

September 24, 2014 Webinar



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- A professional services firm with three distinct business lines
 - Accounting and Consulting
 - Outsourcing
 - Wealth Advisory
- 3,600 employees
- Offices coast to coast
- Nonprofit group serves 6,000 clients across the country



Learning Objectives

To provide your religious organization with knowledge related to

- Common schemes employees use to commit fraud against their employer
- Warning signs that may indicate theft or abuse in your religious organization
- Implementation of practical controls, in even the smallest church, to reduce the risk of fraud and the temptation to commit fraud
- What to do when you first suspect fraud

Speaker Introductions

- **Jody Frantz, CFE**

As a Manager in the Forensic Services and Valuation group, Jody performs analysis related to forensic accounting, fraud investigation, and fraud prevention. Her experience includes fraud detection, risk assessment, internal control assessment, financial record reconstruction, asset searches, data extraction, validation and analysis.

- **Jim Davidson**

As a Principal with CliftonLarsonAllen, Jim spends a significant amount of time in the litigation support and claims area. Jim has extensive experience in audit, accounting, tax and consulting for clients of all sizes.

WHAT IS OCCUPATIONAL FRAUD?

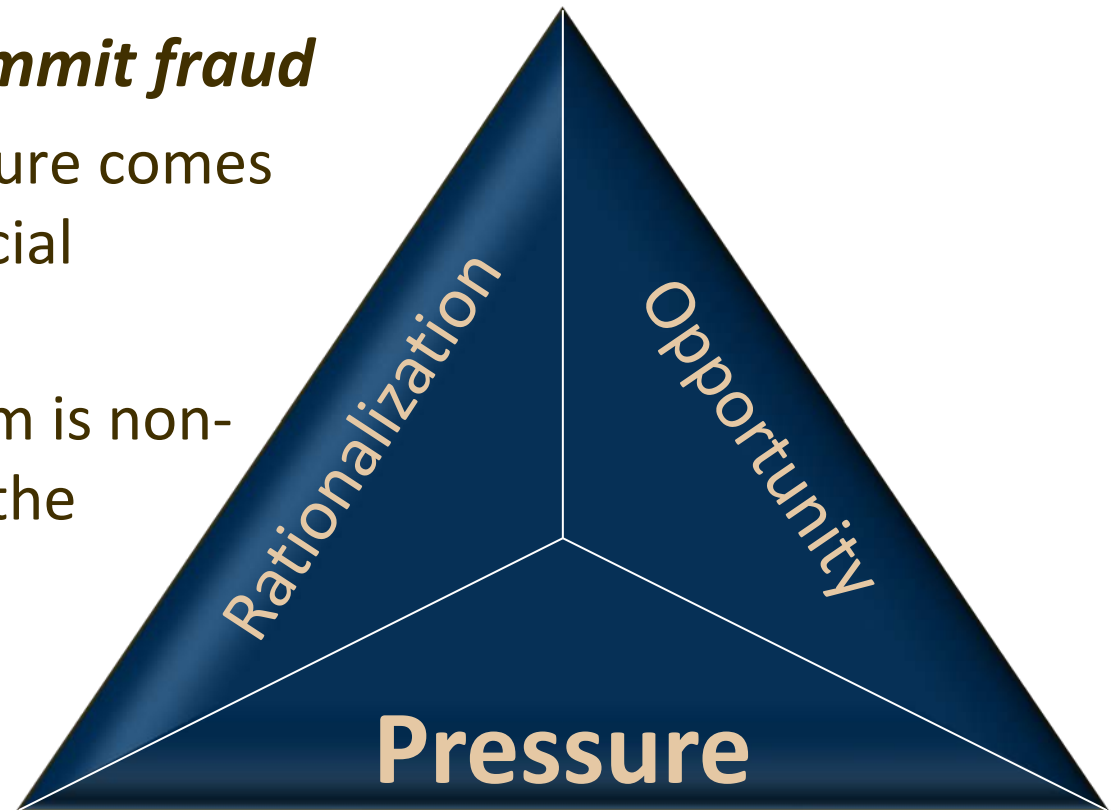
*The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets**

**ACFE's 2014 Report to the Nations*

WHY DO PEOPLE COMMIT FRAUD?

Pressure – reason to commit fraud

- Most of the time, pressure comes from a significant financial need/problem.
- Often this need/problem is non-sharable in the eyes of the fraudster.



WHY DO PEOPLE COMMIT FRAUD?

Opportunity – the ability to commit fraud

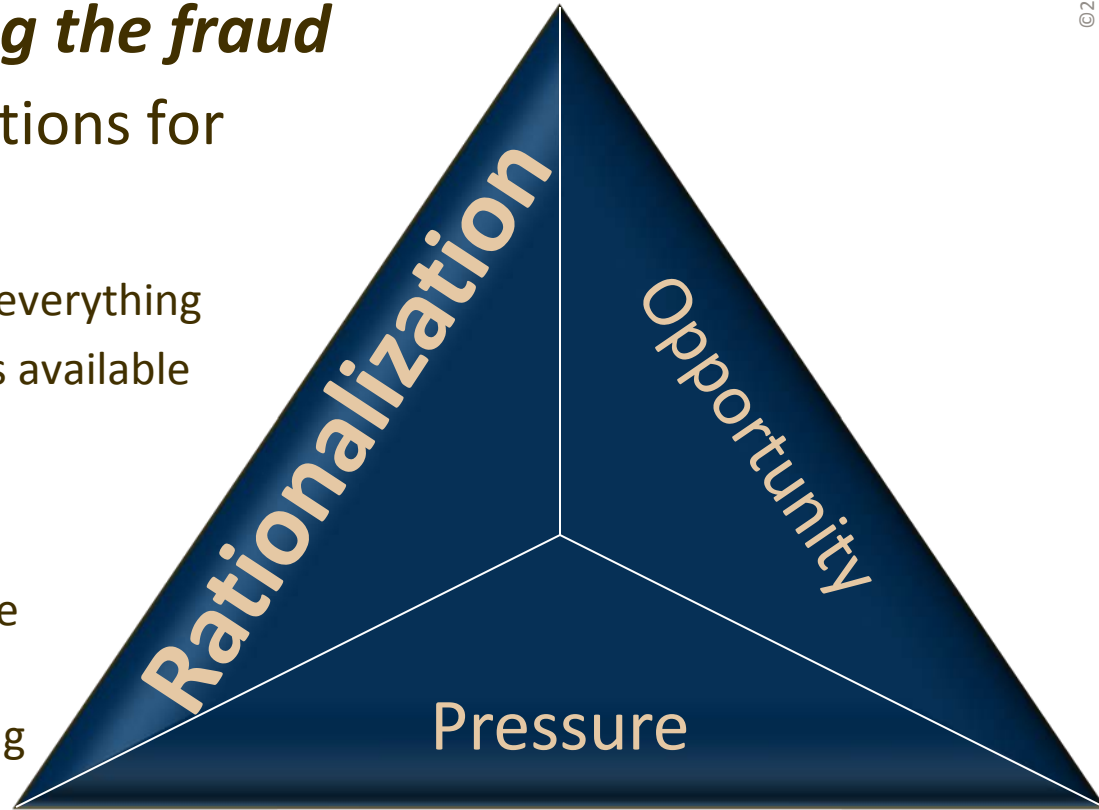
- Opportunity is created by weak internal controls, poor oversight, and/or through use of one's position and authority.
- Opportunity is the leg that organizations have the most control over.



WHY DO PEOPLE COMMIT FRAUD?

Rationalization – justifying the fraud

- Some common rationalizations for committing fraud are:
 - The person believes they will lose everything
 - The person believes that no help is available from outside;
 - The person labels the theft as “borrowing”, and fully intends to pay the stolen money back at some point;
 - The person believes that something is owed to him/her;
 - The person is unable to understand or does not care about the consequence of their actions or of accepted notions of decency and trust.



RED FLAGS

Some commonly seen red flags of fraud...

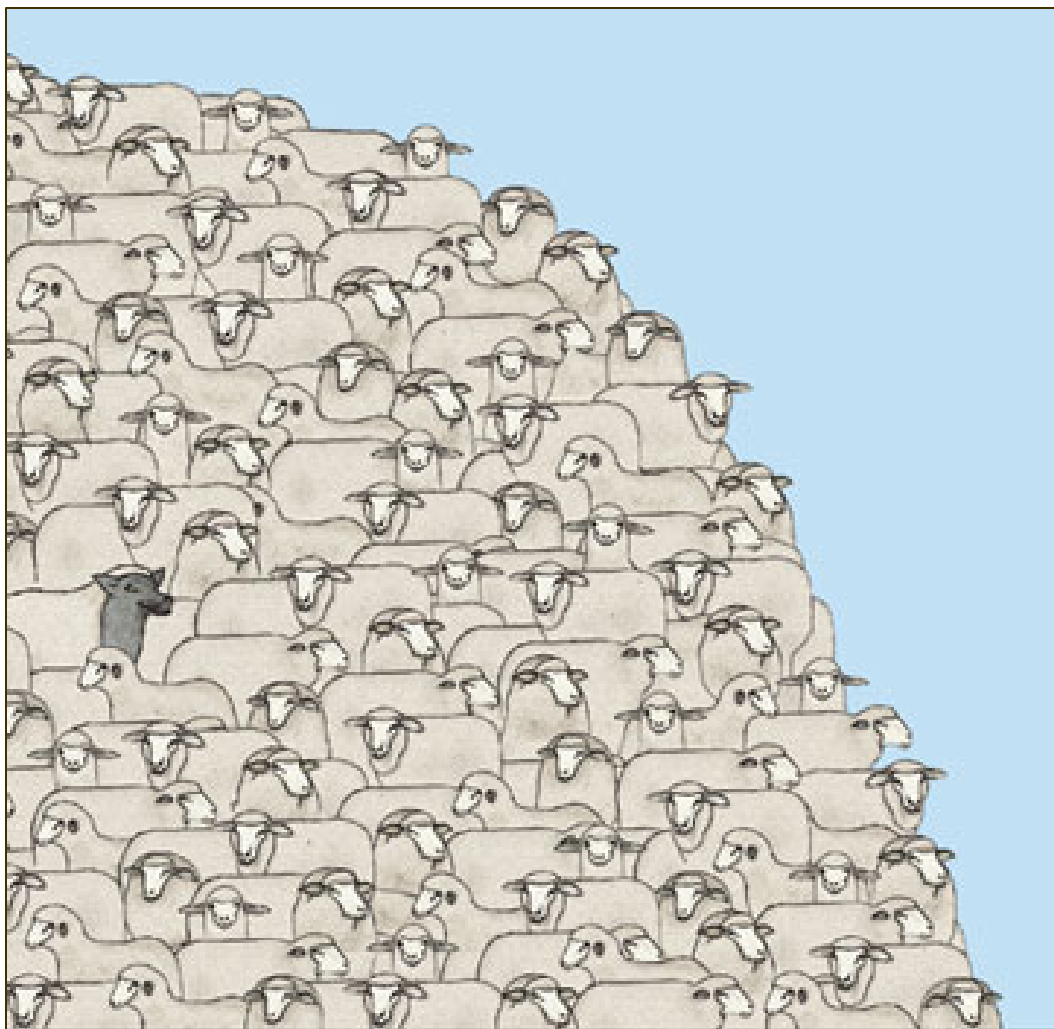
- Significant changes in behavior patterns
- Criminal or questionable background
- High personal debts or financial losses
- Inadequate income for lifestyle
- Addictions (gambling, drugs, etc.)
- Resentment of superiors and frustration with job
- Undue family, company, or community expectations
- Emotional trauma in home or work life
- Exerts control over financial information, refuses assistance, rebukes questions



Examples of Fraud in Religious Institutions

- Senior Pastor Stealing Cash
- Bookkeeper Giving Herself a Raise
- School Maintenance Supervisor Takes to Craigslist
- Bookkeeper Increasing Her Benefits

DETECTING THE “WOLF”



- How do we teach those without formal training to identify fraud?

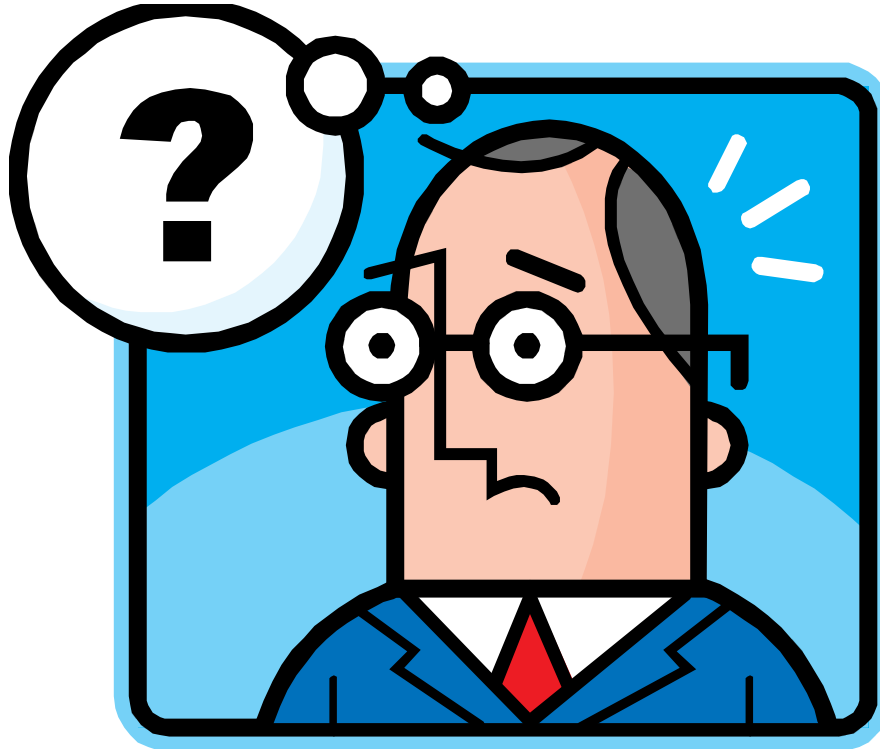
KEY TIPS

- Be aware of the red flags
- Never overlook the obvious
- Be mindful that frauds are often committed by persons in positions of trust exploiting their opportunities
- Ask questions until you receive a satisfactory and substantiated answer
- Maintain a healthy dose of skepticism - Too much trust can be as devastating as no trust

FRAUD PREVENTION

- Does the church know all its sources of revenue?
- Does the church have appropriate control over its expenditures?
- Do written and approved policies and procedures exist and are they are followed?
- Are duties segregated ensuring that no one person can initiate, approve, execute, and reconcile a transaction?
 - If segregation of duties is not possible, can other fraud detection controls be implemented? (e.g. monthly board reviews of account activity and balances/etc.)

QUESTIONS



THANK YOU

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