



Mission & Money

Church Vitality 2012

Protecting Your Resources for Mission



FRESNO, Calif. (KFSN) -- A local woman who admitted to stealing from a South Valley church is on her way to prison.

Sandra Arreola was sentenced to 11-years in prison with credit for time served. Earlier this month, she pleaded guilty to 13 counts of felony embezzlement and money laundering.

She was arrested in December for stealing from the "Visalia First Assembly Of God Church" where she worked as a bookkeeper. Investigators say she stole more than \$2-million dollars during a seven-year period.

In court Thursday, Arreola told the judge she is very remorseful.

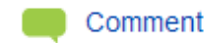
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<http://abclocal.go.com/kfsn/story?section=news/local&id=8408671>

Update in St. Isidore Church Embezzlement Case

The final person charged in the St. Isidore embezzlement cases, Evelyn Peinado of Alamo, will next appear in court on Nov. 17 for a preliminary hearing.

By [Elizabeth Shemaria](#) | [Email the author](#) | September 22, 2011



A former [St. Isidore Catholic Church](#) volunteer charged with taking more than \$90,000 from the church is waiting to find out how much, if any money she must pay back in restitution.

Evelyn Peinado, 64, a longtime church volunteer from Alamo, pleaded not guilty to three counts of embezzlement in connection with the more than \$90,000 missing from the church. She is next scheduled to appear in court in Walnut Creek on Nov. 17 for her preliminary hearing.

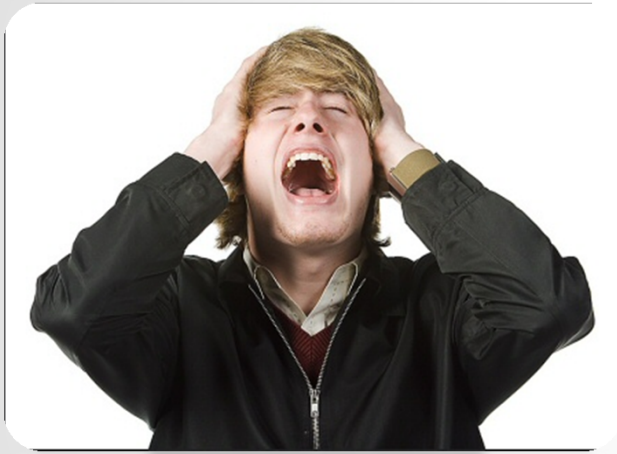
Peinado turned herself in at court for her arraignment in May after she and [two other former church staffers](#) were charged with taking money from the church.

Some of the purchases made by Peinado were from a church credit card to buy groceries, said Supervising Deputy District Attorney Steve Bolen.



[Upload Photos and Videos](#)

It can't happen here!



“As hard as it may be to believe embezzlement is a relatively common occurrence in churches. Even so, many churches refuse to adopt measures that will reduce the risk of embezzlement out of a fear that such measures will reflect a lack of trust in the people who handle church funds.”

Richard Hammar J.D., L.L.M., CPA
Church Law & Tax Resources

Case from our Conference #1

- ▶ Volunteer Church Treasurer
 - Credit Card Transactions
 - Checks to personal business
 - Forgery
 - \$27,232 in less than two years
- ▶ Pastor's summary:
 - No checks and balances
 - Trusted colleague & member of church
 - Establishing oversight committee

Case from our Conference #2

▶ Staff Person

- Reduced staffing
- Primary link with tenants
- Approved contracts
- Collected Rents & Created & Interpreted Reports
- Audits done by close friend – Couldn't ask tough questions
- Over \$50,000 in two years

Fraud is on the Rise

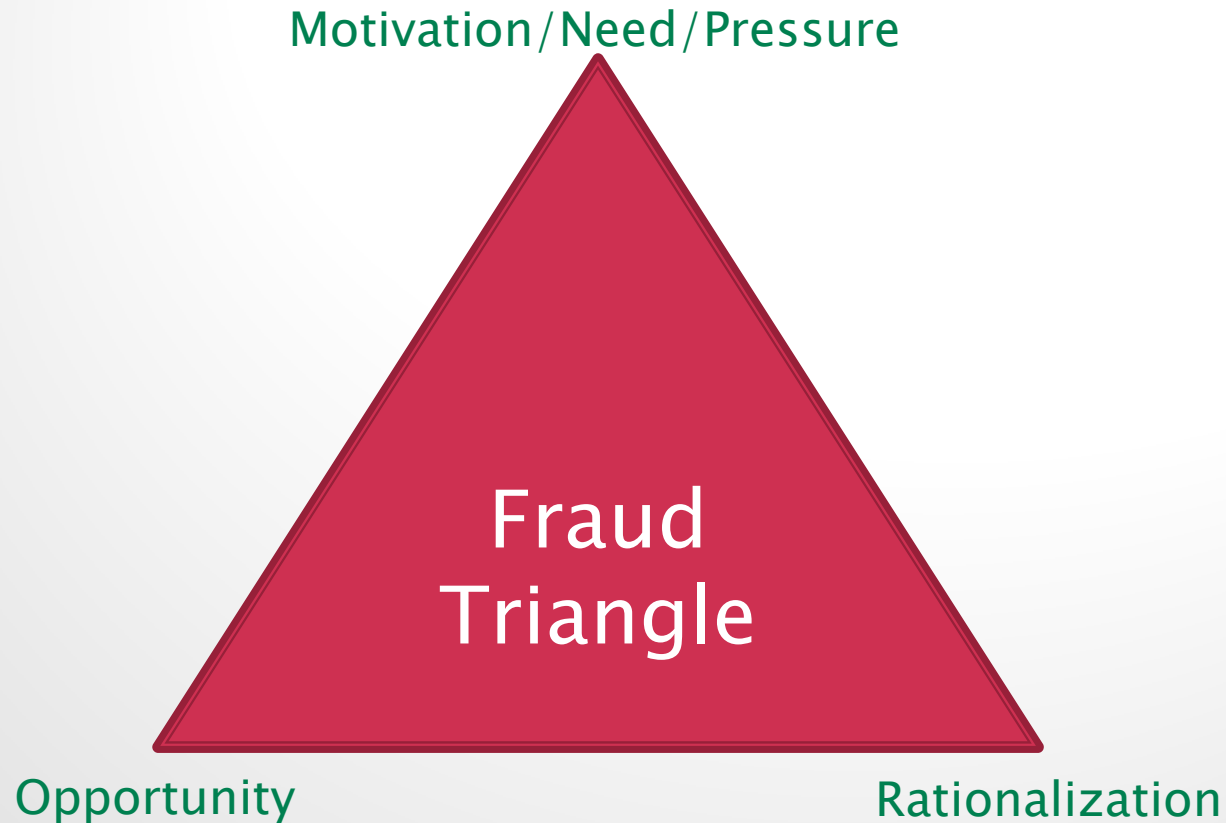
- ▶ 60% of fraud cases are committed by insiders (up from 55% in 2010)
- ▶ Leading Contributor:

Weak Internal Controls!

Unique Issues for Churches

- ▶ No Tangible Services or Product in exchange for their cash
- ▶ High Degree of Trust
- ▶ Willingness to Forgive
- ▶ Lack of Internal Controls
- ▶ Flock Mentality

The Fraud Triangle



The Fraud Triangle

Motivation/Need/Pressure

- Financial
- Revenge
- Ego

The Fraud Triangle

Opportunity

- Access
- Lack of clear rules
- Inadequate separation of duties
- Weak Internal Controls
- Failure to enforce standards and policies or punish offenders

The Fraud Triangle

Rationalization

- “I need it more than the church”
- “They help people like me all the time”
- “They waste this money anyway”
- “No one will miss it”
- “I will pay it back when I can. I am just borrowing it”

Who Commits Church Fraud?

- ▶ Stressed Out Employee
- ▶ Living Above Means
- ▶ Never Takes Vacation
- ▶ Financial Difficulties
- ▶ Drugs /Gambling
- ▶ Others?



How They Get Caught

- ▶ External Audit 2%
- ▶ Internal Audit 18%
- ▶ Whistleblower 30%
- ▶ LUCK! 50%



The Window of Opportunity

- ▶ Weak internal controls
- ▶ Too much trust
- ▶ Poor management oversight
- ▶ Lack of financial audit
- ▶ No background check for key positions
- ▶ Lack of independent review of banks statements and credit card statements



Common Fraud Schemes

- ▶ Cash Theft Schemes
- ▶ Accounts Receivable Schemes
- ▶ Payroll Schemes
- ▶ Accounts Payable Schemes

Measures We Can Take

▶ Hiring Practices:

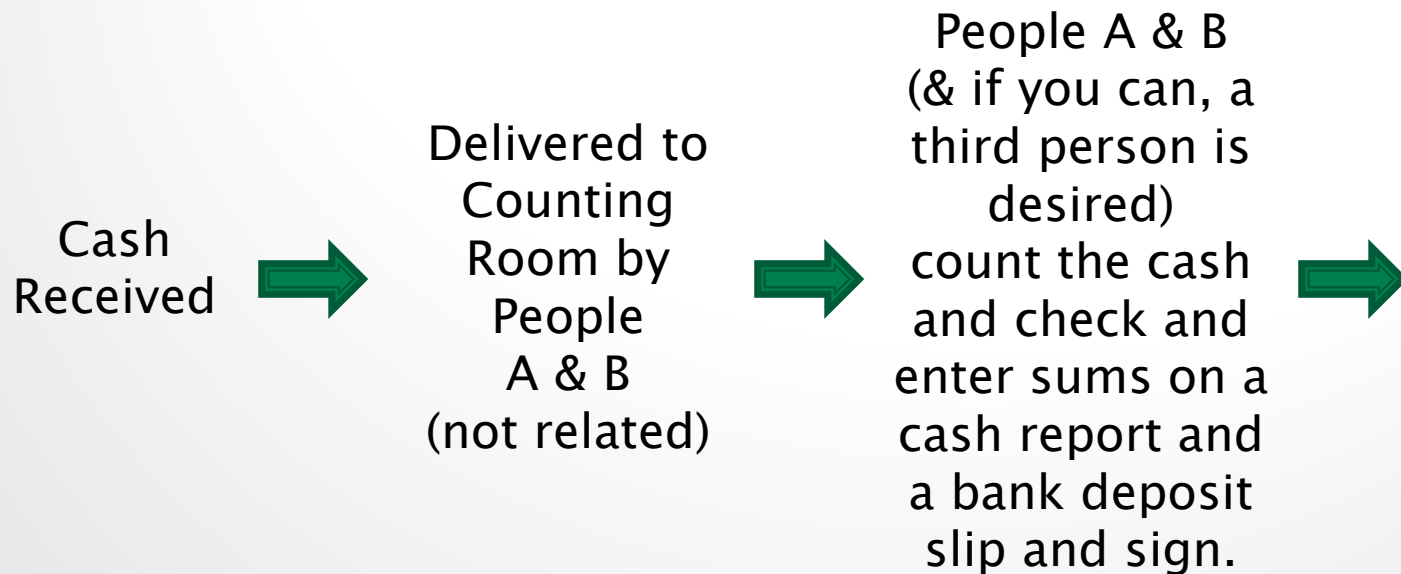
- Do we require completed application?
- Do we review applications completely?
- Do we perform background checks?
- Do we check references?
- Do we clearly state expectations & consequences?
- Do we have a probationary period?
- Do we have adequate insurance?

Measures We Can Take

- ▶ Policies & Procedures:
 - Do we have policies and procedures?
 - Are they current?
 - Who knows where they are?
 - Do they cover the cash flow process?

Financial Controls Flow Chart

Example offered by the Insurance Board:



Financial Controls Flow Chart

Example offered by the Insurance Board:

People A & B deliver signed cash report to Person D, the administrator who makes the deposit entry in the check book and files the cash report



Bank statement is mailed to someone other than People A, B, C or D



Person D gives original cash reports to the person who receives the bank statement so that s/he can reconcile

Weighing Risk vs. Prevention



Challenges in the Local Church

- ▶ Limited Staffing
- ▶ Limited Resources
- ▶ Limited Volunteers

Measures We Can Take

- ▶ Background Check
- ▶ Credit Check
- ▶ References
- ▶ Live Scan
- ▶ Drug Testing
- ▶ Written Employment Agreements
- ▶ Nepotism Policy
- ▶ Segregation of Duties

Out of Control



- ▶ Only one person counting the offering
- ▶ Same person always counts the offering
- ▶ One person accesses safe alone
- ▶ Person preparing the deposit makes the deposit
- ▶ Checking accounts not directed by treasurer

Out of Control



- ▶ Contribution records not reconciled to bank records & accounting records
- ▶ Online Banking Access to same person reconciling accounts
- ▶ Ministry Leaders not reviewing financial statements (budget to actual) Monthly
- ▶ Questions from donors RE receipts handled by person entering donor records

More Measures We Can Take

- ▶ Two Signature Checks
- ▶ Secure Check Stock
- ▶ Church Credit Cards
- ▶ Internal/External Audits

Resources

Handbook For Treasures (from Church Extension):

<http://www.churchextension.org/upload/treasurers-handbook-2007.pdf>

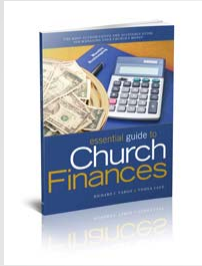
Insurance Board (webinars and newsletter)

<http://www.insuranceboard.org>

Cutler Insurance (Local IB representative)

<http://www.cutlerinsurance.com>

Books



Essential Guide to Church Finances

ISBN: 091746351X

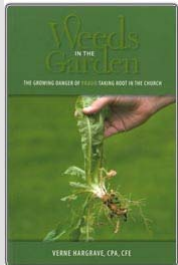
\$85



Preventing Fraud in Nonprofit Organizations

ISBN: 0471733431

\$60



Weeds in the Garden

ISBN: 0970543395

\$18