

Fraud Happened. Now What?

By Nathan D. Salsbery, Partner

Many churches expect fraud will never happen to them and are caught off-guard when it does. Fundamentally, fraud is a symptom of the fallen human heart, so all churches are exposed to the risk. Even Jesus's ministry was a victim of fraud (John 12:1-6). Unfortunately, the church has a long history of fraud as evidenced by biblical accounts, by two thousand years of church history, and by headlines in today's news. Fraud can occur within any church.

Acknowledging this predicament is the first step to reducing the risks of fraud. You can do this both by developing ways to prevent fraud and by developing a plan to respond to it if your church should ever become the victim.

So what should you do if your church is victimized by fraud? This article discusses key steps to take and key questions to ask for an appropriate and proactive response if fraud should ever occur within your church.

Some key steps to take if there are suspicions or allegations of fraud at your church:

- Notify the appropriate leadership parties in your church. If your church has a formalized whistleblower hotline and fraud response process, use it.
- Consult with your church's attorney to ensure actions taken in response to allegations or suspicions are in line with legal guidelines.
- Determine the possible outcomes of a fraud investigation — termination of employee, fidelity bond claim, legal action, or a combination of these. So an objective starting point is already in place, it is recommended church leadership consider possible outcomes before an allegation of fraud ever occurs.
- Discreetly place the suspected employee on leave and limit his/her access to assets and systems.
- Develop a plan to investigate the issue based on the sophistication, scope, and estimated amount of the suspected fraud. Consider engaging a forensic investigator to lead the investigation.
- Execute and stick to the plan.

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- Gather essential facts about the suspicions or allegations. (See questions below.)
- Plan and conduct interviews with parties deemed to have information helpful to the investigation (possibly the suspect, other employees, witnesses, etc.).
- Secure all items of evidence (electronic and hard copy) and maintain a chain of custody in case legal action transpires.
- If the suspect has confessed to fraud or if irrefutable evidence is obtained regarding the suspect, remove access to the church's accounting system and assets. (Change passwords and locks, collect keys, remove check signing authority and access to bank accounts, etc.)
- Based on the results of the investigation, determine what action is appropriate to take against the suspect, giving consideration to established church policies and all parties involved — the congregation, the staff and leadership, the family of the perpetrator, the community, and potential future employers of the suspect.
- Consider what improvements can be made to the church's internal controls based on the findings of the investigation.
- Develop and execute a plan of communication with key stakeholders of the church, as appropriate based on the findings of the investigation.

Some key questions to ask if there are suspicions or allegations of fraud at your church:

- Who among your church staff or membership knows of the suspicions or allegations? Who on the leadership team or board should be notified?
- Who will investigate the suspicious activity and follow up on allegations?

- What are your policies and what outcomes may come from an investigation — termination of employee, fidelity bond claim, legal action, or a combination of these?
- What transactions are suspicious, or what assets are missing?
- Who has, or had, access to the assets and the accounting system?
- What access does, or did, the suspect have to assets and systems?
- Who is the suspect? Is there more than one?
- Has anyone confessed to committing fraud?
- Are any of the suspects known to be experiencing personal financial difficulties that would provide motivation, such as high debt, bankruptcy, divorce, etc.?
- Have there been any observable behavioral or lifestyle changes among the suspects, such as addictions, living beyond means, a new car, expensive vacations or home improvements, etc.?
- What are the possible ways the suspect could have committed fraud?
- How long has the suspect been employed at the church?
- What is the time period under suspicion?
- Have there been varying levels of access to assets and systems during that time, or have they been the same throughout?
- Are there any checks and balances in place at the church that would limit the amount of possible fraud committed?
- Can you estimate how much cash or how many assets were stolen?

One of the saddest realities of fraud in the church is the damage it inflicts on relationships. The families of the perpetrator are often shocked and humiliated and must endure the consequences of their loved one's immoral actions. Church leadership and members should consider ways they can support the family during this difficult season. A balance of justice and grace is needed.

At the same time, the trust between the congregation, the community, and church leadership is tested when fraud happens in the church. Fraud not only causes financial damage but threatens severe relational and reputational damage, depending on how well leadership responds. A balance of wisdom, transparency, and decisiveness is needed.

While you may expect that fraud will never happen in your church, you are most likely to respond appropriately and

proactively if you develop a planned response you can use if it does.

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