

# Church Embezzlement Case Study

by Eric Spacek, JD, ARM

*NOTE: This case study is based upon an actual claim. While the fact pattern is real, the names and locations of the church and individuals involved have been fictionalized to protect their identity.*

**“FIRST CHURCH”** was a growing, vibrant community of faith that reported an average attendance of 5,000 worshippers at its multiple services each Sunday. “Bobbi” was hired as a part-time accountant in the church’s finance office and eventually worked her way up to become the finance director of the church. In that position, Bobbi was responsible for oversight of the church’s accounting operation, including all banking activities.

Police reported that, over an 18-month period, Bobbi engaged in a scheme in which she “stole, misused, and misappropriated” over \$500,000 of the church’s funds. A search warrant executed at her home turned up \$250,000 in cash, traveler’s checks, money orders, and gift cards, including \$100,000 in cash in a backpack. In addition, \$150,000 in property including luxury cars, jewelry and high-end electronics were seized. Upon Bobbi’s arrest, local newspapers spotlighted the incident with headlines such as “Embezzling Suspected at Mega-Church.”

After investigation by the police and accounting experts, the church reported that its financial loss from Bobbi’s embezzlement was just over \$519,000; however, the employee dishonesty insur-

ance coverage (fidelity bond) the church had purchased was limited to \$50,000; thus, close to \$470,000 of the church’s loss was not covered by insurance.

## THE SCHEME

Police reported that Bobbi’s primary method of operation was to prepare large checks drawn from the church’s checking account which listed the church’s bank as the payee. The checks were then signed by Bobbi and presented to a minister on staff for dual signature. (The church had a dual signature requirement in place). The minister countersigned the checks without much question. As the minister reported to police, “When she needed a signature she got a signature.” He explained that Bobbi would tell him the money was being moved from one church account to another to pay church expenses.

Bobbi would then take the signed checks to the local branch of the church’s bank and negotiate them into cashier’s checks made payable to a second bank where she had a personal account. She would then take the cashier’s checks to the second bank and endorse them on the back with “For Deposit Only,” listing her personal bank account number below. The checks would then be deposited to her personal bank account at that bank. Police reported that 25 such cashier’s checks totaling in excess of \$442,000 were deposited to Bobbi’s personal account in this manner.

Eventually the embezzlement scheme was discovered when Bobbi was asked about one of the checks and displayed

“resistance and hesitation” when responding to questions. Church leaders went to police but the damage had been done. Bobbi was arrested on suspicion of fraudulent schemes, felony theft, and multiple counts of forgery.

## LESSONS TO BE LEARNED

**1. The Importance of Internal Financial Controls.** Churches raise their risk of embezzlement when they centralize all financial operations within one position and when they blindly trust the financial activities of that person. This case highlights the importance of internal financial controls such as separating financial duties and instituting a system of checks-and-balances. Separate duties by requiring that the person who prepares the checks not have check-signing authority; that the persons involved in check writing do not reconcile the bank statements; and that persons with check-signing authority do not have access to blank checks. Additional checks-and-balances include maintaining a requisition and approval system for church expenditures, requiring dual signatures on checks over a certain amount, having unopened bank statements delivered to and reviewed by a person uninvolved in the check writing process, having monthly financial reports reviewed by a finance committee or team, and having regular audits or financial reviews of the church’s financial records.

## 2. The Responsibility of Dual Signers.

The purpose of a dual signature requirement is to serve as a check-and-balance to make sure that the check is properly authorized and documented. A dual signer who acts as a “rubber stamp” for the other signer without questioning the expenditure defeats the safeguarding purpose of the dual signature requirement. Those with check-signing authority who are requested to dual sign a check should independently assure themselves that the check is a legitimate, properly authorized and documented expenditure of church funds.

## 3. The Importance of Outside Audits/

**Reviews.** In this case, there was no mention of regular outside audits or accounting reviews which could have revealed the ongoing embezzlement scheme. While an outside audit by a CPA can be costly, it is a wise investment in making sure that the church's finances are being handled properly.

It serves as another check-and-balance in a system of financial controls. While annual audits are ideal, some churches opt for a lesser financial review by a CPA in alternating years. At a minimum, a yearly check of the books should be made by an accountant who was not actively involved in the church's finances that year.

## 4. Do Not Rely on the Church's Bank to

**Save You.** While, under the Uniform Commercial Code, the church's bank may (or may not) ultimately be liable for paying on a fraudulent check, relying on the bank to catch suspicious or fraudulent activity on the church's accounts is no substitute for having rigorous financial controls in place. As the saying goes, an ounce of prevention is worth a pound of cure.


## 5. Discuss Your Employee Dishonesty Coverage with Your Insurance Agent.

Most church insurance policies contain a small amount of employee

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dishonesty coverage which the church, at its option, can increase by purchasing higher limits of coverage. It is best to discuss your church's coverage in detail with your insurance agent or broker to make an informed decision on appropriate coverage limits based upon your church's particular circumstances. Still, recognize that insurance cannot prevent an incident taking place and that it is important to have a system of financial controls in place to prevent embezzlement activities from ever happening in the first place. 

## Weeds in the Garden

### The Growing Danger of Fraud Taking Root in the Church

by Verne Hargrave

Auditors have been routinely recommending that their clients implement stronger fraud prevention measures beginning by performing a fraud risk assessment. Because the task is so immense, and the ways a church can be abused are so varied, most business administrators would not even know where to begin, even if they had the time; fraud protection is complicated.

*Weeds in the Garden* helps break this logjam created by common reasons for not taking anti-fraud steps. The book is short and organized in such a way as to take some of the complications out of the process. It is a starting point of a church's fraud prevention measures, the basis on which to perform a fraud risk assessment. After two chapters which define and describe fraud, come ten chapters, each represented by a question every church should ask of itself.

Church fraud prevention is not really about protecting cash and property. Even though the church's people are much more important than its bank accounts, the ultimate purpose is also not the protection of the employees



Available in the NACBA Resource Store

\$17.00 Member Price  
\$18.00 Non Member Price

and volunteers who handle the church's finances. The main function of fraud prevention in the church is protection of the Lord's name and the unimpeded furtherance of His work.

To purchase *Weeds in the Garden* and other resources in the NACBA Resource Store at member pricing, login at [www.nacba.net](http://www.nacba.net).