

Fire Prevention Week is Oct 6-12, 2013

Learn to Keep Your Church Safe

Every year Fire Prevention Week falls in October, about the time *The Steward* shows up in your mail and e-mail. This summer, thinking ahead to our 2014 calendar, we sponsored an art contest with a Fire Prevention theme. We extend our congratulations to the soon-to-be famous artists who will have a place in our calendar next year. There were three age group winners and nine other runners-up who will appear monthly along with a collage of other participant art. Churches sponsoring age group winners each received \$1,000 from the Insurance Board. Congratulations to: Meredith Rizek, 7, UCC Annapolis in MD; Noah Rogers, 11, Foothill Presbyterian Church in Porterville, CA; and Jessica and Edward Cardona, 13 and 11, Downtown Presbyterian Church in Nashville, TN.

Though relatively rare, fires are the most devastating cause of loss to our churches. Even with insurance, it often takes years for a church to fully recover. Time lines are extended because leaders are volunteers with regular jobs and families. Pastors are stressed. Parishioners leave to greener pastures. To avoid this real misery, we hope you are taking fire prevention seriously, especially as you are now into the season of great activity at your church.

We have a simple strategy for you: make it cold. That is, on a daily basis make sure that your church is shut down with a minimum of appliances and lighting operating. Shut down all non-essentials. Having in

mind how some seasonal fires get started, how about appointing a **Candle Czar (s)**? We are suggesting assigning specific responsibility based on Murphy's Management Principle Number 6: When everybody is in charge, no body is in charge.



Candle Czar Duties

- Be the last one out of the building after events/meetings.
- Turn off all non-essential lighting (security excepted).
- Pull the plug on all kitchen and bath appliances (fridge excepted).
- Close hallway doors connecting building parts.
- Unplug extension cords from temporary or seasonal installations.
- Be sure that every candle is out cold.
- Assure all exterior exits are locked.
- Set building alarms.
- Sign the inspection log. (It's a commitment, after all.)
- Report conditions that need fixing. (Example: Storage in stairwells.)
- Lock up.



Congratulations Noah Rogers, 11 Foothill Presbyterian Church in Porterville, CA.

Claims Corner

Carl Kotheimer, Director Loss Control & Claims	216.736.3244
Cy McFarlin, Manager Claims Administration	216.736.3265
Alison Hanna, Claims Analyst	216.736.3250
Mark Zimmerman, Claims Analyst	216.736.3276
You May File A Claim On-Line	www.InsuranceBoard.org

Consigned, Borrowed and Owned Fine Arts

You've heard it many times before: "beauty is in the eye of the beholder." Taste in art varies and one person's opinion of what is "fine" art can vary greatly from the next. First impressions of value will be highly unreliable, since the artist's reputation will have a bearing, regardless of the apparent skill or vintage reflected in the art.

It is common for churches to display the artwork of others, especially in public places. It may be done to support the art community, or the art may be consigned for sale. That is, the church may receive a percentage of the sale. Perhaps it is on display for a short time, or for an auction for a fund raising event. Given the variety of circumstances and the variety of value, it is important to understand the part played by property and liability insurance in such displays.

One of the key insurance terms is "care, custody and control." General liability insurance will not respond to claims in such cases. Special forms of "bailment" insurance are required. Otherwise, it is intended that "care, custody and control" situations be reserved for property insurance.

Even so, property policies place limitations on "fine arts" particularly because establishing value after loss can be contentious, whether or not an item can be repaired. In general, "fine arts" may be excluded, with coverage given back at a low dollar limit for example, \$25,000 in the aggregate.

The best way to insure "fine arts," whether the church's or that of others, is to schedule it on a "fine arts" endorsement (to the IB program) or a separate "inland marine" policy. It is critical that the value be determined in advance on either a "not to exceed" basis for each item or as documented by a *bona fide* appraisal.

Contact your agent. In our meanderings, apart from stained glass, we have seen "fine arts" of substantial value (17th century oil paintings) and are surprised they are not scheduled. These are significant church assets, and should be properly protected.

Claims Made vs. Occurrence?

One of the most difficult concepts in insurance to explain to a lay person is the difference between "occurrence" form and "claims made" policies. Our objective here is: (1) to have you understand the importance of knowing which kind of coverage you have and (2) to make you aware of the problems that come with changing from one form to the other. If you are making this critical change, be sure that your agent explains it to you and that you understand the possible coverage gap you are creating.

Occurrence form insurance covers events that occur within the policy year. It's that simple. The policy is generally considered "evergreen" because you can report a claim that occurred many years ago under the policy that was in-force at that time. For this reason it is important to keep a good record of occurrence form liability policies to address events from long ago, such as sexual misconduct. There are two shortcomings to occurrence form: (1) insurance companies may no longer exist when you need them, and (2) coverage such as sexual misconduct may not be available with high limits on an occurrence form, an important consideration especially for day care/camps.

Market conditions required many commercial policy holders to switch from occurrence to claims made coverage years ago. This applied to coverages where there would be long latent exposures, usually environmental and professional coverages with high claim values and high defense costs. For churches that means coverages for pastoral counseling, sexual misconduct, directors & officers, and employment practices, to name a few.

Claims made insurance covers claims that are reported during a policy term. It sounds

simple on its face but it's a bit more complicated. Claims made insurance expires – it is not evergreen. Last year's claims made policy is expired for all time. However, this year's policy covers claims reported this year which may have occurred last year. The inception date of the first claims made policy is called the "retroactive date." Successive claims

made policies cover all claims back to the retroactive date. And so it goes for years and years in a relationship with the insurance company. The retroactive date for the IB program goes back to 1993! (for those who have been in the program since then or who have had previous

claims made coverage.) That means the current policy may cover events from over twenty years ago though just discovered and reported this year!

Now here comes the problem: you decide to change coverage for sexual misconduct to an occurrence form program. When your claims made policy expires, it will expire for all time back to your retroactive date. If a claim is reported two months into your occurrence form coverage for a sexual misconduct event that occurred in 2003, you will have NO coverage for this earlier event. The occurrence form covers only events since policy inception. This problem does not exist when changing from occurrence form to claims made.

When leaving a claims made program, you have a limited ability to extend the claims reporting period, usually for one or more years. You may do so by purchasing "extended reporting period" coverage for a premium which will be in addition to your new occurrence form premium. It is critical that you do so.



By-Laws are Just Not Enough, You Should Know

The Insurance Board employs a loss control engineering company to conduct surveys at churches around the country. Along with a property value estimate and review of conditions, there is also an operational review. We inquire about management of tenants, sexual abuse prevention programs, and financial controls.

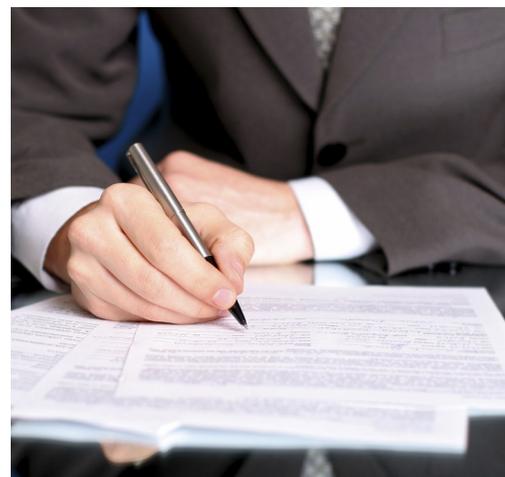
When we ask about financial controls, the church contact sometimes makes reference to the church's by-laws as the management document. PCUSA church contacts also reference their Book of Order. While these documents may broadly state the responsibilities of the treasurer, neither by-laws nor the Book of Order provide sufficient guidance for the day-to-day management of money. In fact, to get too specific in these documents would be cumbersome, since a vote of the congregation is likely needed to

make any revisions in procedures.

Therefore, our expectation is that you have more specific procedures apart from your by-laws. Our current new business application asks the following questions: Do you have an annual independent audit by a CPA firm or an independent committee of the church? Do you have a written procedure for financial controls? Are two persons involved in all financial transactions?

If you do not have these procedures, we have links on our website to samples from Disciples, PCUSA and UCC resources.

You will find them at **Safety Solutions/ Church Management**. There is no need to re-invent the wheel. The major areas to be concerned about are cash collections; purchasing, credit cards and electronic payments. A simple, and very important exam-



ple of the controls we look for are keeping the bank statement away from the person who is writing checks. If you do not have adequate controls centering around the principle of "separation of duties" then you are subject to experience the kind of real life embezzlements described in the Lessons from Loss article in this issue.



Armed Security—Our Position

Recently, the author was reading a detective novel in which the protagonist was hired to provide a level of security at a wedding on an exclusive private island estate. Attired in a tuxedo, he carried his small revolver in an ankle holster and sat near the front of the chapel with his companion. As multiple killings and a kidnapping commenced, I wondered: "what will he do now?" The detective, a former police officer, chose to do nothing rather than engage the bad guy at a distance in a crowded room with his short barreled revolver. He chose instead to get out alive with his beloved in tow. Surprise!

Since the tragic events of Sandy Hook Elementary School, we have received several inquiries regarding our position on the matter of armed security. Special interest groups have kept the issue alive and some states and school districts have taken controversial steps in regard to school security.

It is our position to discourage arming individuals as a solution to perceived threats of a general or unspecified nature. If it is the consensus of congregational leadership that a security threat rises to the level of requiring armed guards, then we recommend hiring only off duty police officers to address such a threat. We wish to **discourage** an informal arming of members or clergy who are qualified only by the requirements of variable state concealed carry standards in the handling of guns. Hand guns are intended for personal close-in defense and not tactical pursuit of an active shooter.

Our reading of a personal account of armed teachers responding to an active shooter indicated things almost went very badly when police arrived. It was not clear whether a defender/teacher was a "good guy" or a "bad guy." Private security services (in malls, for example) are unarmed for the specific reason that proper armed response in a public setting requires an extraordinary amount of specialized training which comes at a high cost. We do not believe that any church is in a position to fully vet and train individuals who purport to provide such security. It is much less possible for insurers to verify such qualifications.

Recently some school districts have taken steps to arm individuals to provide a level of security. The response of the insurance industry has been negative, resulting in policy exclusions or policy cancellation. Were this found to be a trend among churches, we are certain that our underwriters would do the same.

Lessons from a Loss: ~~50~~³ Ways To Learn

50 Ways to Steal from Your Church

Do you remember the lyrics from Paul Simon's song, "Fifty Ways to Leave Your Lover"? "Slip out the back, Jack; Make a new plan, Stan; You don't need to be coy, Roy; Just get yourself free." The song came to mind as we reviewed a recent claim because of the variety of methods the church employee had used to steal.

Using multiple means is typical and can occur when there are no financial controls; a long term employee or volunteer is trusted absolutely and is tempted by the lack of supervision. The "forensic accountant" investigating the matter found:

- There was unauthorized payroll of nearly \$18,000. This is done commonly by creating phantom employees or so-called independent contractors. Paystubs should go to a person not processing payroll.
- The employee took wage advances with approval, but never adjusted hours to reflect the advances.
- Checks were misappropriated or issued without authority with charges of nearly \$5,800. Checks are serial numbered for a reason. This is why the check writer should not get the bank statement.
- Unauthorized credit card charges near \$3,200. Once again, the statement was "managed" by the card holder.

These thefts do not occur at once. Generally they occur over a long period, over years. Once discovered, they are difficult to trace and amounts are usually large.

We recommend an annual independent audit, and a new treasurer not accept responsibilities until done. We suggest an audit be conducted when there is a change of companies providing Crime Insurance (Employee Dishonesty). There are reporting time limitations in crime insurance that are critically important if coverage is cancelled or interrupted for any reason.

Why Audit??

A common practice is to vest in the church treasurer a great deal of authority and responsibility. After all, Jim is a retired "businessman" and he likes doing this sort of thing. So let Jim do it.

Returning to the "50 ways" theme, another creative way to steal money is to not pay the bills. In a recent case, a treasurer covered thefts by failing to pay insurance premiums, and most critically for Crime Insurance (Employee Dishonesty Coverage). As a consequence of not paying, coverage was cancelled. After a gap in time, coverage was purchased again, but it, too, was cancelled for non-payment. The timing of gaps and cancellations meant that there was no coverage available for other embezzlement losses exceeding \$60,000.

An annual independent audit would have found the payment discrepancies. It is likely the loss would never have occurred because of the supervision provided.

While we are on the subject of not paying the bills, another bill that might not be paid to cover a theft is employment taxes (FICA) and similar obligations. This could go undiscovered for some time. We point out with considerable emphasis that church fiduciaries are individually liable for payment of taxes.

The special problem with taxes is that if they were not paid to cover a theft, they are still due, perhaps with penalties and interest. If there is no insurance coverage because of policy cancellation for non-payment you will have two losses, the original theft and the ongoing tax obligation.



Protect Your Church's Money

Credit Card Fraud

One of the simplest ways to steal money is with the church's credit card. The most common credit card loss is purchasing goods for the personal benefit of the credit card holder. Typically a church may have several cards in the custody of staff or officers – church administrator, pastor, sexton, etc. The critical error is permitting any of the credit card holders to receive the monthly statement. This permits the card holder to purchase freely while manufacturing false expenses for the records.

Proper separation would require that the monthly statement go unopened to the treasurer, who does not have a church credit card. Each holder must be required to submit an expense report detailing the charges, providing receipts and prior authorization when the amount requires higher approval. The treasurer can then check these documents against the statement.

Remember, the role of the treasurer is not to handle the money, but to manage the money.

At a time when "electronic fund transfer" (EFT) is becoming the norm, where no checks require a signature, a similar procedure is required. We recommend reviewing with your bank how you can best create adequate controls in this environment.

On our website, under **Safety Solutions/Church Management** we provide flow charts describing separation of duties to assist you in protecting your church.

The Steward is the joint effort of:

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www.InsuranceBoard.org

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The Insurance Board is a non-profit property and casualty insurance program serving the United Church of Christ, the Disciples of Christ (Christian Church), and Presbyterian Church (USA).