

# Temptation or Fate?

## *A Lesson in Financial Controls for Churches*

**By: Carl J. Kotheimer**

Fidelity – fe-‘del-et-ee – a: the quality or state of being *faithful*. Fidelity implies *strict* and *continuing* faithfulness to an *obligation*. – Webster’s

We usually associate the word “fidelity” with marriage. But the word has a broader meaning that includes faithfulness to business or social obligations. It has been adopted in the insurance world to identify a type of financial loss different than burglary or robbery. On TV it would be referred to as the “inside job”. The key element of a fidelity loss is the use of a position of trust, or power to steal.

The use of power to steal suggests a certain amount of arrogance, which is more difficult to forgive, or prevent. The use of trust to steal is more common and more easily prevented. It is often driven by personal financial problems, or just plain temptation. It’s ironic that the “red flags” are behaviors we otherwise revere from people we hold in high regard: always present and always helpful.

Churches, along with their ministry, also are businesses with objectives and financial obligations. Therefore, it is prudent to adopt business processes that are proven to protect institutional assets and individual reputations. Here, we will outline some business practices that are essential to your stewardship, not because people can’t be trusted, but rather, to be able to have trust - without reservations.

Even before the Enron meltdown, separation of duties has been a bedrock principle of accounting practices - applying to every transaction: cash, checks, purchases, sales, receivables, payables, payroll, internal accounting and banking. The re-

sult is a system of approvals, and the breakdown of routine processes, so that no one individual has total authority over, or access to, a transaction. This is especially critical in the handling of cash.

Adequate controls require discipline and consistent application. Fidelity losses do not usually occur all at once. Small sums disappear over a long time, often without any notice. Recently, your IB Program paid a claim exceeding \$75,000 which was a direct result of theft perpetrated over years. This claim has one thing in common with the other theft claims we have experienced: a lack of adequate financial controls.

Each church has different needs, staffing and parishioner skills to draw upon, so the method of controls can’t be dictated. If in doubt, discuss it with a qualified accountant.

The brief embarrassment over a fidelity claim is bad enough for a church. The immediate financial loss can be devastating. But even worse is the spoiled reputation brought by the news, which can sour membership growth and future giving for years to come. Such an outcome is easily prevented with well defined routines and discipline.



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### Claims Corner

Carl Kotheimer, Director Loss Control & Claims	216.736.3244
Richard Livingston, Manager Claims Administration	410.788.8297
Yvette Johnson, Claims Analyst	410.788.8298
United Church of Christ Insurance Board	800.437.8830
You May Phone In A Claim	800.437.8830
You May File A Claim On-Line	<a href="http://www.InsuranceBoard.org">www.InsuranceBoard.org</a>

# Having a Conversation About Controls

**By: Carl J. Kotheimer**

As parents we have had to initiate sensitive conversations with our children as we guide them on their path. Initiating a conversation about financial controls with people we have placed in positions of trust can be equally as difficult. We worry about the backlash: “What? You don’t trust me!”

This is a topic best taken up as a group. When it is time for the next meeting of Trustees, prepare a formal agenda and include the subject: “Review of Financial Controls.”

List, in advance, what processes are to be reviewed. At the meeting review each

process; that is, the series of transactions that occur, from start to finish. Give attention to the role of each person who touches the process. Some processes may overlap, such as purchasing and review of bank statements. Seek the input of everyone in the room, and try to flowchart the process on a board so that everyone can see what actually happens.

If you find situations in which a single person has exclusive control with no oversight or approval by others, then you must recommend implementing additional controls. You might expect push-back simply on the grounds that it’s inconvenient. Seek consensus from

the group. Focus on the “financial integrity of the church.” Focus on roles rather than individuals. You may need to create new roles and should consider defining them in your By-Laws. You should find the process enlightening, maybe difficult, but in the end rewarding.



## Annual Audit—An Absolute Minimum

Some congregations, particularly those with smaller congregations, may have difficulty securing enough volunteer help to provide the financial controls detailed.



Creating the appropriate separation of duties and oversights may be cumbersome, but it is essential. A critical starting point to provide a baseline, is an audit of past activity. This is something that should be done annually.

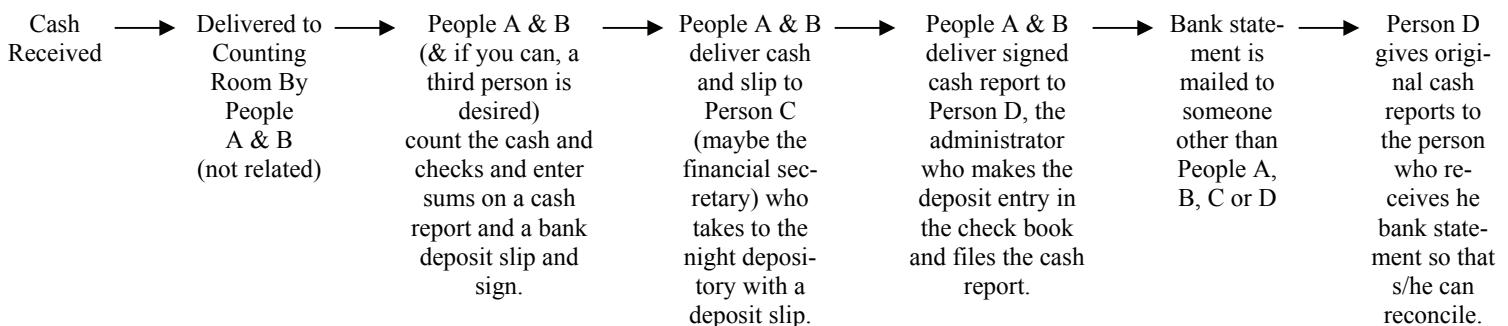
At the most basic level, an audit consists of reconciling bank statements with supporting documentation, such as invoices, cash reports, payroll documents, leases, etc. Very often, it is an audit that first reveals suspicious activity. In a best case scenario, this would simply provide the assur-

ance of a clean audit for incoming volunteers.

The audit should be conducted by someone who is not normally involved in the financial dealings of the church. For a small congregation, this requires another willing volunteer for a short term project. A detail-oriented person is a good choice for this job. For a larger congregation with more varied activities and payroll, an outside accounting firm is the best solution. If you already suspect fidelity issues, contact a professional for an audit and to assist in establishing new policies.

## Financial Controls Flow Chart (example)

Cash through offerings is one way a church can find itself a victim of theft, so let’s follow the flow of cash with appropriate controls.



More detailed information about financial controls can be found here: <http://www.churchextension.org/upload/treasurers-handbook-2007.pdf>

# Ceiling Collapse Helps Church to Count its Blessings

**By: Elizabeth A. Vance**

Do you remember the tale of Henny Penny and her dramatic call: "The sky is falling?" Henny Penny embarks on a quest to warn the king of the impending barnyard Armageddon after an acorn falls on her head and she reaches her now famous conclusion. Along the way she persuades some friends to join her. In the end, they are served a la carte to Foxy Loxy and his family.

Over the years the story has come to serve purpose for many people as they twist the tale to suit their needs. For one church in New Hampshire though, Henny Penny's cry resonated when their sky (church ceiling) actually did fall - in one huge piece! Grateful for a little warning, Henny Penny's acorn manifested as a bulge in the ceiling and plaster on the floor in the days leading up to the tragedy, the church ad-

ministrators had shut down the sanctuary prior to the cave in. That warning proved to be a blessing because nobody was in the sanctuary at the time of the collapse and nobody was hurt.

Over the years the 150 year old United Church of Christ Orford, New Hampshire church has shouldered hurricanes, earthquakes, severe winter and ice storms, wildfires, tornadoes, lightning strikes, and more along with the rest of the state. However, a storm with winds peaking at 53 mph on April 16, 2007 proved to be the ultimate culprit. The church suffered enough unseen damage to begin the gradual weakening that ultimately resulted in the ceiling's collapse less than 30 days later.

On Sunday, May 13, 2007 Reverend Jane Wilson received a phone call from one of the church's neighbors who had noticed

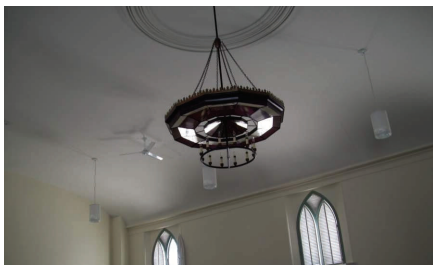
something in the window of the church. A closer look set the woman's heart racing as she noticed that, indeed, the ceiling had collapsed. In addition to the loss of the ceiling, the church endured damage to

the pews, a chandelier, the organ and the piano, the pulpit, flooring and windows.

As the church counted its blessings: nobody hurt, church building intact, etc., it included: insured with the United Church of Christ Insurance Board. "We feel very blessed, to have had a warning so that nobody was hurt," said Reverend Jane Wilson. "And knowing we were being taken care of by our own denominational insurance company was very reassuring as well."

The church is now ready to unveil the completed renovations after months of meetings and planning with architects, engineers and designers. Maintaining the historic aesthetics was as important as reinforcing the structural stability and bringing the church current to the 2008 building standards.

The pews have been restored, two have been rebuilt. The ceiling is once again a ceiling. The church, being the people, has remained whole, but now they have a sanctuary that is whole as well. Reverend Wilson has championed this enterprise in true leader style and the church is a better ministry for it. The congregation begins service in the sanctuary this month. "We are extremely anxious and excited to return," said Reverend Wilson. "This truly is a blessing!"



*Upper left: ceiling down after demolition. Upper right: restored pews and windows. Left: new ceiling and chandelier. Photos courtesy of Reverend Jane Wilson.*

## Another Ceiling Collapses, This One Due to Age

(WPRI.com) - Pawtucket's building inspector investigated what may have caused the ceiling collapse that injured six people during a meeting at Rhode Island's Park Place Congregational Church in late December.

John Hanley, the city's building inspector, arrived on scene shortly after the accident. "It appears that it was the age of the ceiling that caused the collapse," Hanley said. The building is roughly between 70 and 80 years old.

Hanley said his office didn't previously inspect the church. "We would only inspect if new work was done or if someone called us because they had concerns. We don't routinely go into existing buildings and perform inspections," Hanley said.

Whether or not a professional inspection would have identified the problem in order to prevent the collapse is not 100% certain, but the purpose of an inspection is to identify such issues in order to prevent the fail-

ures and related injuries. And in this case, it may have done just that.

*There are various types of inspections that churches should do regularly, one is a general building inspection by a qualified building inspector (not the same as a residential inspector). Another is an electrical inspection. Read about the IB's new electrical inspection program, and how your church can participate, on page 4.*



## Lessons from Losses

*In the insurance industry we refer to a client's history of claims as the "loss experience." Luckily, to most, there is no "experience" at all, since losses are rare events. As your insurance program manager, we see all of your incidents combined! Some are very expensive, and some very tragic. We thought you should have the benefit of **your** group "experience." The intent of this area of the newsletter is to let you know what we are seeing in the Claims Department, and provide some advice that you can apply in order to avoid having an "experience."*

# Lessons from a Loss: Ceiling Collapse

**By: Carl J. Kotheimer**

In this issue, you read two stories of ceiling collapse, one which ended happily after some inconvenience. The other resulted in injuries and may cost a good deal more than the repairs.

Did you ever think about what is holding up your ceiling, especially if it is a large area of plaster? Older public buildings usually have large areas of plaster in the large meeting spaces.

Buildings from the early 20<sup>th</sup> century commonly use wooden lath nailed to the ceiling joists to hold the plaster. Later, a "rock lath" was used, a sort of thin dry-wall, also nailed to the joists. In both kinds of plaster installation, the weak link is the nails – and you cannot see or inspect them! You can, however, look for clues that something is going on!

Several things can happen to the connection between the nails and wooden joists:

- Nails may gradually lose their grips due to rusting under wet or humid conditions.
- Wood may wet or dry rot so that nails lose "traction" in soft wood.
- Water may accumulate suddenly due to a plumbing break or outside storm damage, so the ceiling becomes too heavy for the nails to hold the weight.
- Water may soak into the plaster due to a leak, gradually making the plaster too heavy for the nails to hold.

The nails lose their grip one at a time, and transfer the load to the adjacent nails. Suddenly too many nails are overloaded and a chain reaction occurs accelerated by gravity. All of the same can happen when dry-wall is used, even if installed with screws.

Where large numbers of people meet, it is important to conduct regular inspections. This may take special skills to evaluate — you should pay attention to: corner separations and surface cracks; water stains; bulging or undulating surfaces; blistering paint; rusted light fixtures; mold stains; and plaster powdering on the floor — all of which can be clues that something is going on.

A thorough building inspection performed by a professional is a good place to start in setting priorities for maintenance and improvements. You may not be able to afford to fix everything at once, but you could address critical issues. If you don't know a good building inspector, let your fingers do the walking to find qualified building inspectors in your area.

Don't wait one more week.

## IB Offers New Electrical System Loss Prevention Program

In our ongoing mission to make churches safer places for ministry, the Insurance Board is coordinating a value-added service for our participants with the goal of reducing fires and equipment damage due to lightning, electrical surges, and other electrical equipment failures.



If you elect to participate, **your cost for the professional inspection is only \$225.**

A specially trained, licensed electrician will inspect the electrical systems within your building(s). The inspection may

identify conditions which will be classified as either **Critical, Severe, or Alert.**

The results of the inspection will be provided to you in a detailed report, delivered after the inspection.

The IB is committed to helping churches keep their properties safe. If any **Critical or Severe** conditions are identified during the inspection,

**the IB will pay up to \$500 for the cost of repairs.** For complete information on the electrical inspection program visit us at [www.InsuranceBoard.org](http://www.InsuranceBoard.org) or call us at 800.437.8830.

Please visit our website [www.InsuranceBoard.org](http://www.InsuranceBoard.org) to subscribe to our electronic newsletter.



Insurance Board  
700 Prospect Ave  
Cleveland, OH 44115  
800.437.8830

[www.InsuranceBoard.org](http://www.InsuranceBoard.org)

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