

# Temptation or Fate?

## *Another Lesson in Financial Controls for Churches*

**By: Carl J. Kotheimer**

Two years ago, we launched the first issue of The Steward with articles on establishing financial controls. We selected the subject based on Insurance Board claim history that included theft claims that were “huge” by anybody’s standard. In my own experience working in corporate America, I had never seen such large, six and seven figure embezzlement claims, and I was now seeing them in churches!

Since the original publication we have begun to survey a number of churches across the country, looking at a variety of issues including value, conditions and operations. These surveys provide valuable insights into actual conditions in our participating churches, and they continually reflect a conspicuous pattern of inadequate financial controls, so we decided to once again emphasize the significance of prudent financial management for churches.

Too often when a theft has occurred there are no written procedures, and responsibilities have been delegated to a single person. I have answered too many phone calls from pastors and leaders who are concerned about the financial controls within their churches.

We have in the past, and continue to offer MANY free resources to churches on this subject. Visit



our website:

[www.InsuranceBoard.org](http://www.InsuranceBoard.org) and click on **Safety Solutions**, then **Church Management**.

Free information includes checklists, flowcharts and links to other resources. The original articles on financial controls can be found via the drop-down menu at **Safety Solutions Overview**, and a recorded webinar can be found at **Webinar Information**.

January is a time when church leadership changes. It also is a time when new church leadership

should set its agenda, which should include:

- Review of by-laws/constitution to include authority structure. (By-laws can become so outdated the church is unable to function within them.)
- An independent audit of financial condition and procedures
- Proposed revisions of by-laws and procedures to the congregation for approval

As church leaders you have fiduciary responsibilities to your congregants who rely on you and expect you to guard the assets and reputation of their (your) church.

Remember, nobody wants to be the church that finds itself on the six o’clock news one night.

Please note: Discrepancies found during an audit do not necessarily indicate fraud. Errors can occur. Part of your audit objective is to discover problems and continually improve your financial process. These conscientious steps help protect those who manage finances and provide confidence to your congregation that you are competent managers.

### **Claims Corner**

Carl Kotheimer, Director Loss Control & Claims	216.736.3244
Joe Boyd, Manager Claims Administration	216.736.3251
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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>

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# Winter is Here! For (almost) everyone this year!

With the start of a new year, comes the all too familiar resolutions: quit smoking, lose weight, start exercising, begin winter precautions? Yes.

The December storms on both the east and west coasts should still be fresh in our minds, and cold temperatures in the south tell us that residents in those states are not immune to winter's fury either. In fact, today I heard on National Public Radio that 49 of the 50 states have snow on the ground. The lone hold out, Florida.

A common winter calamity is frozen pipes followed by burst plumbing. This may be caused by a loss of heat, a failure to heat a vacant building or an undiscovered opening (a crack in a wall, a broken window or a



door ajar). Especially after a major storm, when church programs are cancelled and buildings stand unoccupied for days, **someone must check your church and other buildings.**

Oil heating systems are especially cantankerous. They need to be checked frequently, especially in vacant buildings. Did you know that your IB policy requires adequate efforts be made to heat vacant buildings or drain plumbing as a condition of coverage for broken pipes?

Have a plan for piling snow! You don't want lots and walks to turn into sheets of ice during thaw-freeze cycles. You must think about where melting snow will flow, downhill of course. Which way is that at your church?

For more information, go to: [www.InsuranceBoard.org](http://www.InsuranceBoard.org). Click on **Safety Solutions**, then **Church Property**, and you can review the documents.

## More To Understand About Workers' Compensation Insurance

Since early in the 20<sup>th</sup> century, each State has a Workers' Compensation (WC) statute mandating benefits for injured workers. In some cases, benefits must/may be provided to volunteers.

If your church has a WC policy, it is the "primary" benefit, meaning, the first recourse for workers. It is unlawful to by-pass the policy or to refuse to report or acknowledge a claim.

Ultimately, the State decides whether a claim is "compensable", not the employer. WC investigators and nurse case managers are well trained in the laws of the States with which they work.

A well-established principle is **prompt reporting** and early referral to **medical management**. You must report injuries promptly, cooperate in investigation and stay active in the claim to get the best result.

Your goal for the injured party is a quick return to work.

Contact your IB agent if you are unsure of anything.

## IB Offers Boundary Training Funds

While the Insurance Board provides free abuse prevention training and subsidized background checks to our participants, aimed at employees and volunteers who work with children, the training needs for clergy run deeper. When we refer to "boundary training" we refer specifically to training for clergy that covers a variety of issues and takes into account their various roles as pastors, counselors, teachers, managers and friends. Material for clergy includes such subjects as sexual harassment and ethics in personal relationships.

We are pleased to let you know that The Insurance Board, as part of its ministry, provides financial support for middle judicatories wishing to organize boundary training for their clergy in two different ways:

- **The IB will reimburse tuition expense** to middle judicatories for an individual to attend the Faith Trust Institute's "train the trainer" program entitled, "**Healthy Boundaries for Religious Leaders**". The program prepares individuals to present half-day or longer interactive seminars to larger groups of clergy. The program is presented by FTI at various times/places around the country each year. See [www.faithtrustinstitute.org](http://www.faithtrustinstitute.org).
- **The IB will pay a stipend and travel expenses** for a trainer at a regional training event organized for clergy at which 20 or more clergy can be expected to attend. **An ideal utilization of a trainer is at the Conference, Region or Presbytery level.** The IB can identify clergy who have been trained and are willing to train your group.

To get more information on this subsidized program that is FREE to IB participants, go to our website, [www.InsuranceBoard.org](http://www.InsuranceBoard.org). Click on Safety Solutions, then "Have a Question?" in the drop down menu to contact Carl Kotheimer.

# Safe Church Policy One Leg at a Time: Element 4

We continue our series with the fourth of six elements of a Safe Church policy.

Safe Church policy fits together a little like a puzzle. Previously we have outlined the process of screening and selection, largely an administrative process. Then we outlined rules of behavior in the interaction between adults and children. This is a matter of culture and expectations. Then we reviewed the necessity of monitoring, a management process. Now, we will review “ensuring a safe environment”, that is, creating a safe place for children.

**Visibility** -- Because a predator first needs “privacy” and “isolation”, it is important to create a physical place with “visibility” where concealment is not possible. At the same time other areas in which a child might become isolated must be locked. That would include closets and storage and other parts of the building that are “out of program”. Achieving openness may require building modifications such as windows in doors and brighter lighting. Where modifications are not practical, a “no closed door” policy may be necessary.

**Privacy** – Toileting, showering and changing clothes are a source or risk, both for



employee/volunteer abuse and contact among children. The challenge is to provide both privacy and oversight. How this is accomplished will depend on the nature of facilities, the numbers of children, and supervision available.

**Access Control** – Access to children in program areas must be controlled as if all visitors are strangers. Visitors should sense that all staff is engaged in security, and staff must know that security is part of their job. Considering the complexity of modern families and custody, there must be clear procedures regarding who may pick up a child. Other strategies to control access/oversight include monitored closed circuit television and making staff conspic-

uous through the use of name tags.

**Off-site Activity** – A child becomes more vulnerable the more isolated (s)he is from home and family. Mission trips and camp may be especially isolating. There must be clear understanding of when your church is responsible and procedures rehearsed for accounting for children. Imagine, eighty pre-teens step off of two buses at an interstate rest stop. Or they will “camp” in a church hall at your destination. How will you manage that with the adults you have?

**Transportation** – Whether on buses, vans or private cars, when your church is responsible must be clear to parents and caregivers. While a group on a bus is one challenge, transportation of individual children in special situations is not to be ignored. May an employee/volunteer acting in official capacity transport a child in a private car?

While as a general rule we may wish to keep our sanctuaries open, parents expect a fortress for their children, so provide a segregated, secure environment for them. If the space cannot be segregated and secured, then the day care standard becomes the standard for the whole building.

## Upgrade to Green Endorsement

By: Alison Hanna

Did you know that the Insurance Board has an Upgrade to Green Endorsement in its property policy? The endorsement is provided to all of our participants at no additional cost, and it is something you will not find with many insurance companies.

Here is a summary of the coverage: Automatically included in your policy is an Upgrade to Green Endorsement that provides up to \$50,000 for the increased cost of using “green” products and practices for the repairs (if applicable). For example, energy efficient light bulbs, low VOC paint, Energy Star appliances, debris recycling, water-free urinals, bamboo flooring, etc. . . .

We are pleased that some of our churches have used this Upgrade to Green Endorsement. Specifically, one church had damage to its boiler, and the adjuster advised the church that the boiler could be replaced with a boiler, that was the same like, kind, and quality. The church looked into replacement boilers, but spoke with the adjuster about green options. The adjuster was happy to report back to the church that they could accomplish their goal by purchasing a new Energy Star rated unit. Because the Upgrade to Green Endorsement was utilized the church incurred no extra cost for the upgraded green appliance.

If you have a claim, and you are looking to incorporate a green option, ask your adjuster if you can take advantage of the Upgrade to Green Endorsement. The Insurance Board is hopeful and excited to see more and more churches take advantage of the Endorsement.



# Lessons from a Loss: Church Embezzlement

The facts below are true and drawn from court records, but are not IB claims. Names have been changed to disguise the parties. The circumstances are typical of the claims we have seen at the IB, and demonstrate the severity that is possible.

**Example 1:** John Jones was the Administrator for The Lord's Church (Church), who kept the books and controlled the church's bank account. He wrote unauthorized checks to himself and others from Church accounts for years, and used the church's credit card on 300 occasions for personal items. At the same time, John was financially solvent and did not NEED the money to meet his daily requirements.

John went to great lengths to conceal his activities: he destroyed checks and credit card statements, falsified records and reports to church leaders, liquidated assets and shifted money. Things finally began to unravel when an employee discovered that her health insurance had lapsed during the course of her pregnancy. Ultimate-

ly, the church paid the employee's health care expenses out-of-pocket, but over the course of working through this, the employee's credit rating was ruined.

The church incurred additional financial loss in the form of interest, delinquency fees, and finance charges. Jones failed to pay tax bills resulting in 12 tax liens against the church. The financial losses to the church were almost \$1 million.

"The congregation has experienced great turmoil, with the reputation of the pastor and that of the congregation called into question. The Church has been forced to curtail its work and faces uncertainty about its future," read the Court records.

Jones' sentence is now sixteen years in jail for convictions on forgery, felony theft, and corrupt business influence. In addition, the courts expect restitution, but it is not likely it will amount to anything.

**Example 2:** A woman was accused of embezzlement after an audit revealed that the

beloved 20-year employee had written checks for herself totaling \$364,418.12. The employee had access to six church bank accounts and was responsible for monitoring church funds (without any supervision or checks and balances).

For a lay leader assuming responsibility as Treasurer, **duty number one** is to initiate an audit by an independent party. Ideally, that is an accounting firm. Otherwise, the audit should be conducted by a person who does not normally work with church accounts OR have a relationship with the person who handles the accounts. An audit should be conducted every year.

If those in control of church accounts "push back" or refuse to cooperate in an audit ... well, you have a serious problem.

**These losses could have been prevented** by adhering to basic accounting principles of "separation of duties". Visit our website at for information you can use to protect your church.

## Hear Ye! Hear Ye! Calling All Photographers!

Each year the Insurance Board publishes and distributes a safety calendar for its participants. Currently, we use stock photographs. Next year, we want our **2012 calendar to feature our participating churches**. We will be searching for high quality seasonal photographs of church buildings or church and camp activities.

To enter you will need to follow the instructions on our website:

[www.InsuranceBoard.org](http://www.InsuranceBoard.org). They are located under **Safety Solutions**. That is, they are hidden within **Safety Solutions**

within the **Related Documents** for one of the major topics. Look for the title "**Photo Contest, 2012 Calendar**" for details and photo submission guidelines! If one of your photos is chosen, you will receive credit for the photo. Contest ends August 1, 2011.

2011 LOSS PREVENTION CALENDAR  
52 WEEKS/52 WAYS WE CARE ABOUT YOUR CHURCH



We Care As Much About  
Your Church As You Do

*Photos that you take of your church can be featured here in 2012. Go to our website to find out more!*



*The Steward* is the joint effort of:

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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), and Presbyterian Church (USA).