

Common Examples of Poor Internal Control

HOW EMBEZZLEMENT OCCURS

Poor internal control	How embezzlement may occur	Preventive action
(1) One person counts church offerings.	This person may remove cash, especially if not in an offering envelope	Have more than one person count each offering. The more persons that are involved, the lower the risk of embezzlement.
(2) There is not regular turnover or rotation among the persons who count church offerings.	The same two persons count church offerings every week. After a number of years, they agree to remove cash and divide it between them.	A pool of counters should be identified, and each offering should be counted by a randomly selected number of persons from this pool.
(3) One person collects the offerings.	An usher collects offerings in the church balcony during each service, and while carrying offerings down a stairway to a counting room he pockets all loose bills.	There should be at least two persons who collect the offering in the balcony, and they should together carry the offering down the stairs to the counting room. Further, these persons should be rotated.
(4) Offering counts are submitted to the person who deposits the offering.	The counters provide the individual who deposits the offering with a count. This individual disregards the count, withholds several bills unaccompanied by offering envelopes, and then deposits the lower amount.	Different persons should count and deposit church offerings. A person who neither counts offerings nor deposits them with a bank should be assigned the responsibility of reconciling offering counts with the bank deposit slips.
(5) Offering counts and bank deposit slips are not regularly reconciled.	A church only assigns an employee to reconcile the first offering of each month with a bank deposit slip. The person who deposits offerings is aware of this practice, and embezzles loose cash before depositing offerings from the remaining services of each month.	Offering counts and bank deposit slips should be reconciled for every service. Or, reconcile offering counts with monthly bank statements.
(6) Only one signature is needed to write a check	A church employee is given sole signature authority on the church's checking account. The employee pays for a number of personal expenses with this checking account.	At least two signatures should be required for all checks above a nominal amount.
(7) Members who contribute coins and currency (not checks) do not use offering envelopes.	This is one of the major causes of embezzlement. Persons who embezzle church funds often restrict their activities to cash that was not contributed in an offering envelope. Embezzlers assume that it will be more difficult to detect their behavior under these circumstances, since the church cannot provide these donors with a receipt for their contributions (that will reveal discrepancies).	Churches should provide offering envelopes to all members for each week, and also place them in church pews for easy access. Members should be encouraged periodically to use offering envelopes. While they are not required to substantiate charitable contributions, they do reduce the risk of embezzlement. Also, offering counts should note (as a subtotal) loose cash unaccompanied by offering envelopes. This practice will reveal fluctuations that may indicate embezzlement, and will serve as a deterrent.
(8) Contributions receipts are not issued to members, or they are issued but members are not encouraged to report discrepancies to the church board.	A church does not provide members with receipts of their contributions. A church employee embezzles cash (whether or not accompanied by an offering envelope), knowing that the risk of discovery is remote. The same risk exists if a church issues contribution receipts but does not actively encourage members to verify the accuracy of these receipts.	Churches should issue a contribution receipt to each donor, and encourage donors to immediately call to the attention of church leaders any discrepancies between their own records and the amount reflected on the church receipt. Discrepancies should not be reported to the person who prepares contribution receipts.
(9) Offerings are not deposited immediately	When offerings are not promptly deposited, the risk of embezzlement increases since funds are accessible longer. Further, some persons may claim they "reimbursed" themselves out of church funds for unauthorized expenses.	Offerings should be deposited promptly with a bank.
(10) Monthly bank statements are not reviewed by someone having no responsibility for handling cash.	A church bookkeeper writes a check to a fictitious company, then cashes it. The bookkeeper is responsible for reconciling bank statements, and does not disclose the embezzlement.	Monthly bank statements should be reviewed by a church official or employee having no responsibility for handling cash or writing checks (ideally, the statements should be sent to this person's residence). This form of embezzlement also can be avoided by requiring two signatures on all checks.
(11) Reimbursing employees for travel expenses or purchases of church equipment or supplies without requiring adequate substantiation.	A church employee claims to have purchased equipment for church use, and is reimbursed without substantiation. In fact, the purchase was solely for personal use.	Do not reimburse any employee's purchase of church supplies or equipment without first obtaining proof that the purchase was duly authorized; also insist on seeing a receipt documenting what was purchased and its price.