Post-Deposit Embezzlements

An Overview of Financial Vulnerabilities at the Parish Level

by Michael W. Ryan

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Michael W. Ryan *is a retired federal law enforcement official experienced in the conduct of financial audits and security investigations. Following his retirement, Ryan became interested in Church security and developed comprehensive procedures which, when properly implemented and monitored, virtually guarantee that every dollar placed in the collection basket or plate on Saturday evening or Sunday morning is, in fact, deposited in the parish bank account. Those procedures and more can be downloaded free of charge at his website,* *www.ChurchSecurity.info*.

Just as water and electricity seek the path of least resistance, so too will a thief seek the easiest and safest means of lining his pockets with the wealth of others. In my September 2003 NOR article, "Priests & Lay Leaders Stealing From the Sunday Collection,", I addressed the phenomenon of Sunday collection theft in the Catholic Church in the U.S. At this writing, the Church-wide conditions that allow, indeed encourage, such thefts remain unchanged.

The purpose of this present article is to point out that the establishment of a secure system for handling Sunday collection funds *before* they reach the bank will not ipso facto put an end to church embezzlements. An embezzler would much prefer to strike before the funds have been documented and deposited, but he or she will strike afterward if that is his only option. Indeed, anecdotal evidence concerning past embezzlements clearly establishes that a number of church embezzlers enrich themselves both before and after collection funds reach the parish bank account.

Before we examine various ways an embezzler can exploit a parish's financial operations, it might be helpful to review what the U. S. Conference of Catholic Bishops (USCCB) and its fiscal watchdog, the Diocesan Fiscal Management Conference (DFMC) have done to assist *parishes* in the formidable task of protecting their revenue against theft and misappropriation. To make a long story short, the fact of the matter is they have done *virtually nothing* in that regard. Let me explain.

In 1992, the U. S. Catholic Conference (USCC, now USCCB] Accounting Practices Committee (APC) began a project to study and propose better *diocesan* internal financial controls. Three years later, a document entitled "Diocesan Internal Controls: A Framework" was unanimously approved by the Board of the DFMC, by the NCCB/USCC Committee on Budget and Finance and, in September 1995, by the USCC Administrative Board. Included in the Foreword of that document is a caveat stating that it was written to address concerns at the diocesan level and does not specifically deal with issues at the parish level. (At this writing, anyone who wishes can download the document from the USCCB website, www.usccb.org. Once there, click on "Departments & Activities" in the menu bar and then on "Finance/Accounting" on the next page; that will lead to another page listing several documents including "Diocesan Internal Controls: A Framework".)

Inasmuch as the Church's principal source of revenue originates at the parish level, it seems reasonable to expect that any internal control study initiated for the purpose of alerting the bishops of the United States to the problem of fraud and deceptive financial practices would begin with the Church's principal source of revenue (the Sunday collection) and work its way up. As if to underscore its limited scope, however, the document's coverage of Sunday collection security consists of a somewhat vague and shallow recommendation for correcting an inadequate counting and banking scenario in which one person is responsible for performing all of the counting and banking functions. The recommended solution which (due to copyright restrictions) cannot be quoted in this article, doesn't begin to provide the type of guidance needed to render the Sunday collection secure.

If followed in its entirety, the USCCB document would bring a virtual end to embezzlements at the diocesan level. In addition, many of its recommendations are readily adaptable to financial operations at the parish level and, if implemented, would go a long way toward ending the incidence of *post-deposit* embezzlement at that level as well. I emphasize "post-deposit" because the document's scant coverage of the Sunday collection means the Church's principal source of revenue would remain every bit as vulnerable as it is today. Unfortunately, while the USCCB document states that its recommendations may be useful at the parish level, it is left to each diocese to decide what, if anything, will be distilled from the document and applied at the parish level. Indeed, individual bishops are free to ignore the document altogether. Such is the sacrosanct nature of each bishop's prerogatives.

The Key to Secure Financial Operations

If the essence of effective anti-embezzlement measures could be summarized in a single phrase, it might well be best captured by the words *separation of duties*. To elaborate, the likelihood of a parish falling victim to an undetected embezzlement is directly related to the degree to which control over its financial operations and records rests with one individual. As one individual's degree of control increases, so too does his ability to successfully misappropriate or embezzle parish monies. All things being equal, therefore, it might be said that the smallest parishes - i.e., those having the fewest personnel - are the most at risk for embezzlement.

Based upon the USCCB's apparent aversion to mandating secure procedures at the parish level, however, virtually every Catholic parish (regardless of size) is vulnerable to various embezzlement schemes carried out by both clergy and laymen. The exceptions would be those dioceses (if any) that have developed genuinely secure procedures *and* mandated their implementation diocese-wide, as well as any parishes in other dioceses that had both the foresight and expertise to establish and maintain their own genuinely secure accounting and reporting system. While I know of no statistics on this, the USCCB's well-established disdain for revenue-protection measures suggests that those exceptions represent an extremely small percentage of the whole.

Where to Begin

As previously noted, the key to achieving a secure financial operation lies in the separation of duties to establish a system of checks and balances in which no single person (including the pastor) has total control over or access to a parish's funds. The only element that will necessarily vary is the extent to which those duties and responsibilities can be separated; a large parish, due to its larger and more specialized staff, is able to establish a more complex separation. But the basic principles remain the same for all.

In the absence of detailed guidelines issued by its diocese, it is incumbent upon each parish to determine the maximum extent to which the various financial duties and responsibilities can be separated (based upon the parish's size and structure) and to then implement that separation. Although oriented toward diocesan operations and lacking meaningful coverage of Sunday collection procedures, the USCCB document nevertheless contains much information that would assist in this process.

A Factual Illustration
A January 14, 2005, article in the *Belleville News Democrat* reported that an unnamed "part-time bookkeeper with a gambling problem" embezzled $144,000 from St. Patrick Church in East St. Louis, IL. According to the article, the embezzlement was ongoing for several years; the Vicar General of the Belleville Diocese stated the funds "came from an account funded solely by contributions made by parishioners at Mass." In all likelihood, he was referring to the parish's principal bank account into which the weekly Sunday collection funds are deposited.

The scheme operated in the following manner: The bookkeeper would prepare checks payable to various businesses in amounts of less than $500 each and present them to the pastor for signature. The pastor would sign the checks, presumably believing they were payment for goods or services received, and then return them to the bookkeeper for transmission to the payee businesses. Having obtained the pastor's signature, however, the bookkeeper would then erase the payee's name (using an erasable typewriter film), enter her own name in its place and cash the check herself.

According to the article, the scheme was only discovered because a parishioner who was studying the parish's financial records in response to a diocesan plan to merge some parishes was unable to locate bank statements needed for that study. The parishioner alerted diocesan officials who subsequently determined that "a number of checks were payable to the bookkeeper."

It is worth noting that this embezzlement took place within the diocese headed by Bishop Wilton Gregory, immediate past President of the USCCB and now Archbishop of the Archdiocese of Atlanta. Bishop Gregory's response to the discovery was to secure a repayment agreement from the bookkeeper and "not to inform police of the theft." The bishop's decision to withhold particulars of this crime from the authorities might be seen by some as an act of mercy and forgiveness. But I believe he set a dangerously lenient precedent which might encourage similarly inclined Church employees to support their vices by embezzling parish funds.

The Lessons
Interestingly, this seemingly simple case history actually highlights several key ingredients of an effective post-deposit embezzlement prevention program. In a nutshell and as previously stated, it all revolves around the principle of separation of duties.

To begin with, the pastor obviously allowed himself to become little more than a rubber stamp for whatever the bookkeeper placed in front of him to sign. At some point in the disbursement process, he should have reviewed the invoices that justified the issuance of those checks; clearly, he didn't. Had he required that all checks presented for signature be accompanied by the paperwork justifying their issuance, there's a good chance the bookkeeper would have decided not to embezzle.

Even lacking the supporting papers, however, the scheme would still have been thwarted had the pastor followed the simple precaution of requiring that the bookkeeper present mailing envelopes and (if applicable) payment enclosures with the checks, and then personally placing the checks and enclosures in the mail, or having his secretary or someone other than the bookkeeper place them in the mail. This simple practice alone would have prevented that particular scheme from ever reaching first base. Of course, the bookkeeper could have designed a more complex scheme, using a confederate or a bogus business name and/or mailing address which she controlled - but that would have required a much more daring, inventive and determined embezzler.

Embezzlements involving the issuance of checks that are subsequently diverted or altered often hinge on the embezzler's ability to intercept the monthly bank statement. An independent, objective review of the bank statement and cancelled checks would have revealed the alterations and brought the scheme to an end. It is apparent that was not done in this case; the parishioner who discovered the scheme was unable to locate the bank statements. Obviously, the bookkeeper was intercepting them and either destroying them outright or secreting them to preclude their examination by anyone else. Had the pastor or someone other than the bookkeeper been responsible for reviewing and balancing the monthly bank statement, this embezzlement would have been discovered early on, if not deterred altogether.

Other Scenarios

Other scenarios can involve the use of parish debit or credit cards to cover personal or recreational expenditures, the issuance of parish checks to friends or family members as gifts or for kickback to the issuer, and the purchase of goods or services under the guise of satisfying a parish need when, in fact, it is for the benefit of the individual who initiated the purchase. More elaborate schemes can involve the issuance of checks payable to bogus businesses, ostensibly in payment for goods or services when, in fact, no goods or services were provided and the payment instead becomes illicit income for the perpetrator. This same scheme can be designed to work through the parish payroll system, involving salary inflation or the addition of a person (real or fictitious) who serves as a conduit for payments that ultimately end up in the pocket of the perpetrator.

Other aspects of a parish's financial operations are also subject to abuse. The direct deposit or transfer of parish funds into a bank account controlled by the pastor or a church employee is one. In regard to the previously cited East St. Louis case, for example, the newspaper article also reported "the parish priest, the Rev. Clyde Grogan, is under investigation by the diocese after a financial review . . . found that an additional $75,000 of $85,000 that was spent over several years cannot be accounted for from a charity fund that he alone controlled." While the article didn't specify, this sounds like a so-called *Discretionary Fund*, based upon the fact that the money was spent "over several years." It is likely the diocese was either unaware of its existence or failed to include it in their periodic audit of the parish's finances. Discretionary funds, even where approved, are a veritable Pandora's Box.

Another scenario involves the use of Petty Cash funds for personal expenditures; the larger the Petty Cash fund, the greater the chance for abuse. In that regard, some (perhaps many) pastors have a sum of cash withdrawn from the Sunday collection each week and set aside for their personal use. The amount might be as little as $100 but can be $500 or more depending upon the pastor's self-determined needs. Often, this money is called Petty Cash when, in fact, it's really *walking-around money* which allows the pastor to maintain a lifestyle he would not otherwise be able to afford.

Because the USCCB document devoted only three sentences to the topic of Petty Cash, and in light of that area's great potential for abuse, further elaboration is warranted. (While the topic of bank statements was treated in greater detail, it was oriented toward diocesan operations. Consequently, it too will be given further elaboration here.)

Petty Cash Funds

The purpose of Petty Cash is to fund small, unforeseen purchases that must be made on short notice to meet an immediate need. It is expected that, with proper planning, the need for larger purchases will be foreseen and paid for by check in accordance with established procurement guidelines. In an emergency, purchases which exceed the available Petty Cash reserve should also be paid for by check; increasing a Petty Cash Fund in order to be in a position to cover large, "emergency" purchases is inadvisable from both an internal and external security standpoint.

Petty Cash Funds in small organizations are often highly vulnerable to misappropriation or covert theft. For this reason, it is best if the fund does not contain a large amount of cash at any given time. In the average parish, the Petty Cash Fund should never contain more than $100 or so.

The best way to establish a Petty Cash Fund is to place a fixed amount of money in the custody of the parish secretary or other designee who is most likely to be accessible on a day-to-day basis. The fund should be kept in a lockable container to which only the designee has a key. A duplicate key should be stored in a sealed, dated, and witnessed envelope in a separate locked container accessible to other personnel for use only in emergencies.

When purchases are made from Petty Cash, the withdrawal of cash should be counterbalanced by the placement of a purchase receipt in the lockbox. The receipt should be dated and identify the item(s) purchased; it should also be signed by the individual who made the purchase. To avoid the use of personal funds, the purchasing employee may be given a cash advance as long as he signs for it. At any given time, the cash and receipts should total $100 or whatever amount was initially entrusted to the Petty Cash custodian.

When the Petty Cash Fund goes below $25 or some other predetermined figure, a check in the amount of the accumulated receipts should be drawn on the parish account, cashed, and the proceeds placed in the lockbox. At the same time, the person in charge of disbursement records should take custody of the accumulated receipts; they constitute the supporting documentation for the check issued to replenish the fund. *Under no circumstances should the Petty Cash Fund be replenished by removing cash from the Sunday collection*; regardless of the purpose, the removal of cash from the Sunday collection is a recipe for disaster.

The Petty Cash Fund should be audited periodically on an unannounced basis. The audit should be conducted by the pastor or the person who maintains the disbursement records, and should be done in the presence of the person assigned the Petty Cash Fund. It is recommended that the audit be performed no less frequently than semiannually.

Bank Statements

For any embezzler who steals by means of a scheme involving the issuance of checks drawn on the parish account - either as direct payments to the embezzler and/or his accomplice(s), or in payment for goods or services which they convert to personal use - the monthly bank statement represents his Achilles' heel. Consequently, the embezzler will make every effort to control the bank statement and keep it from anyone who might perform a critical, in-depth review and discover the scheme.

In light of the above, it is imperative that the monthly bank statement be first seen *and* balanced by the pastor or his designee (who cannot be the person who prepares disbursement checks *or* maintains disbursement records). Further, the bank statement must come to the pastor or designee *unopened*; one element of this type of embezzlement involves the surreptitious removal and destruction of those canceled checks that would constitute evidence of the scheme. Once the "unopened" rule has been set, the designated reviewer's receipt of an opened envelope (or one that appears to have been opened and resealed) should set off an alarm in the mind of the recipient, and that bank statement should be given an especially thorough review.

Ordinarily, the pastor or designee should sort the checks into numerical order and then examine each check (front *and* back) to detect inconsistencies. Examples include a check payable to a person or firm the reviewer is not familiar with, a check bearing an endorsement that does not "fit" the payee profile (a business name on the front and a personal signature on the back with no rubber stamp that would indicate the check was being deposited into a business account) or a check payable to a familiar name (individual or business) in an amount that seems out of the ordinary. Any of the above examples as well as other unusual circumstances noted by the reviewer should form the basis for a review of the supporting documentation which formed the basis for the payment; that documentation will ordinarily be in the custody of the person who prepares disbursement checks and/or maintains the disbursement records. In most cases, of course, the supporting documentation (usually, an annotated invoice) will confirm that the disbursement was legitimate. Bear in mind, however, the purpose of this and other verification procedures is to identify those instances in which all is *not* well; it is therefore a vital element of a parish's program to both deter *and* detect embezzlements.

Once the critical review of the canceled checks has been completed, the reviewer should then proceed to balance the statement against the parish records to determine that the two are in agreement. This process will require the reviewer to obtain the parish checkbook and/or check registry to mark off the returned checks and prepare a list of outstanding checks - i.e., checks that have been written but have yet to appear on and be returned with a bank statement. When examining the check registry, the reviewer must be alert to detect breaks in the numerical sequence of checks issued; all checks should be accounted for.

Office copies of bank deposit slips should be compared with the deposits listed on the bank statement; the reviewer must be sure to examine the statement for *missing* deposits - i.e., regular deposits (the Sunday collection, for example) that do not appear on the statement. That, of course, would be a sign that deposits are being diverted. In the same vein, the reviewer must examine the statement for withdrawals or fund transfers that could represent a scheme to siphon funds from the account.

If the parish also maintains one or more savings accounts, those monthly statements must also be handled in accordance with the above guidelines; the only difference is that the guidelines relating to returned checks and issued check records will not apply. Done regularly and properly, the bank statement review procedure constitutes a very powerful deterrent for those who might otherwise be inclined to enrich themselves by diverting funds or manipulating parish bank accounts.

Smaller Parishes

The staff of a small parish might only include a secretary and a custodian, one or both of whom might only be part-time employees. In such cases, and in the absence of any *qualified volunteers* within the parish, it might be necessary for the pastor to assume some of the duties and responsibilities that would ordinarily be performed by other persons. In the smallest parishes (a mission church, for example) the pastor might have to perform all of the financial duties.

Regarding the mention of "qualified volunteers," it goes without saying that the average parish is made up of individuals whose education and employment cover a broad spectrum of the business, blue-collar, and professional communities. More often than not, many of those individuals are only too happy to give of their time and talent to assist the parish whenever and wherever necessary.

In the smaller parishes, therefore, it is not only acceptable but often a good idea to tap into volunteer resources to whatever extent is necessary to establish an appropriate separation of duties and responsibilities. It must be remembered, however, that the pastor is ultimately responsible for ensuring that the duties and responsibilities are separated to the maximum extent feasible, and that all personnel (including any volunteers) are operating in complete conformity with established guidelines.

The Glaring Omission

If you think about it, the discovery of a basis for sounding an alarm in regard to the lack of uniform revenue-protection guidelines within the Catholic Church is really quite amazing. And the amazing part is not that a basis *was* discovered but rather that conditions giving rise to that basis exist.

With some 19,000 parishes spread among nearly 200 dioceses throughout the U.S., the lack of standardized revenue-protection guidelines at the parish level can be likened to discovering that a major retailer such as Sears, Wal-Mart or Home Depot had never instructed its retail outlets on how they must handle their point-of-sale receipts to ensure that all revenue is received, held and disposed of in a uniformly secure and efficient manner. It's unthinkable, of course, for everyone but the Catholic Church. The USCCB went to great lengths to develop detailed guidelines for what can be fairly described as the *executive level* (diocesan offices) while essentially ignoring parishes, the point at which most of the Church's revenue is received and disbursed.

What are we to make of this glaring omission?

We know from my previous NOR article that the USCCB steadfastly maintains that it is powerless to impose standards of security upon individual parishes. In the words of its then-President, Bishop Wilton Gregory, " . . . we are not empowered either canonically or by our Conference statutes and bylaws to address the question of internal controls over offertory collections in such a way as to standardize or require any particular procedures." What he failed to acknowledge, however, is the fact that Canon Law provides conferences such as the USCCB a means of becoming "empowered" to impose such procedures. All they have to do is ask. The following is the text of the relevant Canon as it appears on the Vatican's own website:

> *Canon 455 §1. A conference of bishops can only issue general decrees in cases where universal law has prescribed it or a special mandate of the Apostolic See has established it either motu proprio or at the request of the conference itself.*
>
> *§2. The decrees mentioned in §1, in order to be enacted validly in a plenary meeting, must be passed by at least a two-thirds vote of the prelates who belong to the conference and possess a deliberative vote. They do not obtain binding force unless they have been legitimately promulgated after having been reviewed by the Apostolic See.*

The issue, therefore, is not what the USCCB is or is not "empowered" to do - that's a Red Herring - but rather what its members *wish* to do or not do. And with respect to the protection of Church revenue at its most vulnerable point (the parish level), they do not wish to impose uniform procedures that would go a long way toward eliminating surreptitious theft, embezzlement, and misappropriation of parish funds and assets. In my opinion, the simplest and least damning explanation for this glaring omission is that the USCCB and its members believe that the preservation of their individual authority and prerogatives is paramount and supersedes their legal, ethical, and moral obligations to protect the revenue and assets of the Church. Other explanations that occur to me are less flattering.

Conclusion

In 2004, the Archdiocese of Boston announced plans to close more than eighty (80) parishes for varying reasons, including the inability of a number of parishes to generate sufficient revenue to meet their monthly expenses. Many parishes have already been closed and others will soon follow. Given the hierarchy's inexplicable yet obvious aversion to uniform, mandated revenue-protection measures at the parish level, we can only guess to what extent ongoing, undetected Sunday collection thefts *and* post-deposit embezzlements have contributed to that Archdiocese's fiscal crisis, not to mention fiscal crises faced by other archdioceses and dioceses across the country. My guess, however, is that their long-standing disdain for genuinely secure procedures at the parish level has contributed *greatly* to the current state of affairs. Without a doubt, millions of dollars are lost every year!

Finally, if I have thus far given you the impression that I believe our hierarchy is, *to a man*, disingenuous, allow me to rectify that. In reference to the East St. Louis case, Monsignor James Margason, Vicar General of the Diocese of Belleville, stated "We should be able to oversee what happens in our parishes and institutions in such a way that these kinds of things are prevented." The Monsignor's refreshing candor brings to mind Hans Christian Andersen's fairy tale *The Emperor's New Suit*, with the Monsignor himself in the role of the little child who, upon seeing the king, exclaimed "But he has nothing on at all!" If only the Monsignor's superiors would embrace that same childlike candor, our Church would surely be transformed for the better. □

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