



Arkansas – Louisiana Conference of SDA

Fraud Control Policy for Churches

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1. Introduction

About 15 percent of all churches have been, are being, or will be victimized by an unscrupulous employee or member. Further, all denominations and churches, regardless of size, are susceptible and have suffered and/or will incur losses.

Recognizing that addressing fraud risk is a normal requirement for the conduct of business by all organizations, the Arkansas – Louisiana Conference of SDA (ARKLAC) has strengthened its churches' risk management practices, internal controls and standards.

The aim of this Fraud Control Policy is to safeguard the reputation and financial viability of ARKLAC's local churches through improved management of fraud risk. It sets out explicit steps to be taken in response to reported or suspected fraud, as well as measures that will be taken to prevent or minimize the risk of fraud. The Policy has been developed based on good practice examples of fraud risk control strategies and of fraud response plans found in the public and not-for-profit sectors, and on the specific needs and requirements of ARKLAC's local churches.

This Policy applies to all the local churches of ARKLAC. It is an integral part of the local church internal control policy framework and should be read and applied in conjunction with the Seventh Day Adventist Church Manual (Church Manual), and NAD Church and School Accounting Manual. In addition, the definitions that appear in the Glossary are to be interpreted within the context of this Policy.

2. What is Fraud?

For purposes of this Policy, fraud is defined as the use of deception by an individual with the intention of obtaining an advantage for himself or herself or for a third party or parties, avoiding an obligation, or causing loss to another party. The term fraud is used to describe offences such as, but not limited to, deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, and collusion. This Policy is intended to apply to both internal and external fraud as defined in the Glossary.

3. How Fraud Occurs

Some frauds arise because of lack of proper internal control policies and procedures. Other frauds may be the result of failures to follow proper control procedures, carelessness in carrying out checks, inadequate separation of duties of church members or management override of internal controls.

Four basic elements are usually present when fraud occurs:

- Individual(s) to carry out the fraud – inside or outside of the organization
- Assets to be acquired used or disposed of fraudulently
- Intent to commit the fraud
- Opportunity to do so

Management must ensure that the opportunities for fraud are minimized. A high probability of being caught will deter those who might otherwise engage in fraud. Opportunities to commit fraud may be reduced by ensuring that a sound system of internal control, proportional to risk, has been designed and implemented and is functioning as intended.

4. Fraud Prevention

Every church leader has a responsibility as well as obligation to contribute to the management of fraud risk.

- Local Church Pastor (Pastor), Local Church Elders (Elders), and Departmental Directors all set the tone and lead in the promotion of risk management, internal controls and an anti-fraud culture throughout the local church.
- The Church Board (Board) designs, implements and operates the control actions, and ensures that physical and IT services promote computer and data security.
- Pastor, Elders, Departmental Directors and the Board should reinforce the existing preventive controls like background checks, local church training and segregation of duties.

- Church leaders and workers conduct themselves with integrity and demonstrate awareness of the importance of ethical practices in their day-to-day work.
- Fundamental to sound management are governance structures that demonstrate and reinforce leadership, stewardship, ethical behavior, transparency, accountability and performance. In the local church this refers to the specific role of the Board to oversee the local church's internal controls and risk management practices.

The local church will not tolerate any level of fraud or corruption. Any detected case will be thoroughly investigated, with disciplinary or criminal sanctions pursued where appropriate and possible, and losses recovered by any lawful means. The local church is also committed to ensuring that opportunities for fraud are reduced to the lowest possible level of risk; that effective controls are maintained to prevent fraud, and that systems and procedures are reviewed and improved following detected cases of fraud.

There are four major facets of the local church's strategy for effective fraud prevention:

4.1 A Culture of Honesty and Ethics

The most persuasive and effective method of preventing fraud is the promotion by the local church Pastor of an ethical and transparent environment that encourages church members at all levels to actively participate in protecting the Church's reputation and resources.

This involves:

- Establishing, disseminating and enforcing a clear fraud control policy, including sanctions for wrongdoing.
- Clarifying and addressing conflict of interest cases.
- Promoting church leaders awareness of fraud and training church leaders in anti-fraud and corruption strategies.
- Establishing and applying personnel policies (Locally Funded) that focus on the honesty and integrity of employment candidates and require background checks sufficient to the level and sensitivity of the position.
- Maintaining staff morale, reasonable working hours, and common basic standards in local working conditions (Locally Funded).

4.2 Risk Management and Internal Control

Risk management is at the heart of effective fraud control, especially through the development of risk criteria and implementation of effective controls. The local church will undertake a comprehensive evaluation of its overall vulnerability to fraud as well as the scope and magnitude of fraud risk in specific areas yearly or more frequently as part of an ongoing rolling risk assessment process.

Findings will be reported to the Board and ARKLAC Administrators.

The Board and the ARKLAC Administrators:

- Expect the Pastor to exercise proactively its responsibility for the overall management of fraud risk and for the management of specific fraud risks.
- The Board will monitor the implementation of actions designed to reduce fraud risk.
- Where there is insufficient or lack of response to fraud, report the matter to the Board or to the ARKLAC Administrators with recommendations for appropriate action.

The Pastor and the Board will:

- Establish internal controls to detect, report and deter fraud that are cost effective and commensurate with the magnitude of identified risks.
- Ensure that the church leaders are comfortable reporting fraud without fear of reprisal.
- Initiate and facilitate fraud detection and reporting.
- Determine whether each risk, judged according to its probability and severity, should be prevented, mitigated, transferred, or accepted.
- Report on the implementation of actions designed to reduce fraud risk.

Further roles and responsibilities are set out in Section 6.

4.3 Awareness Raising and Training

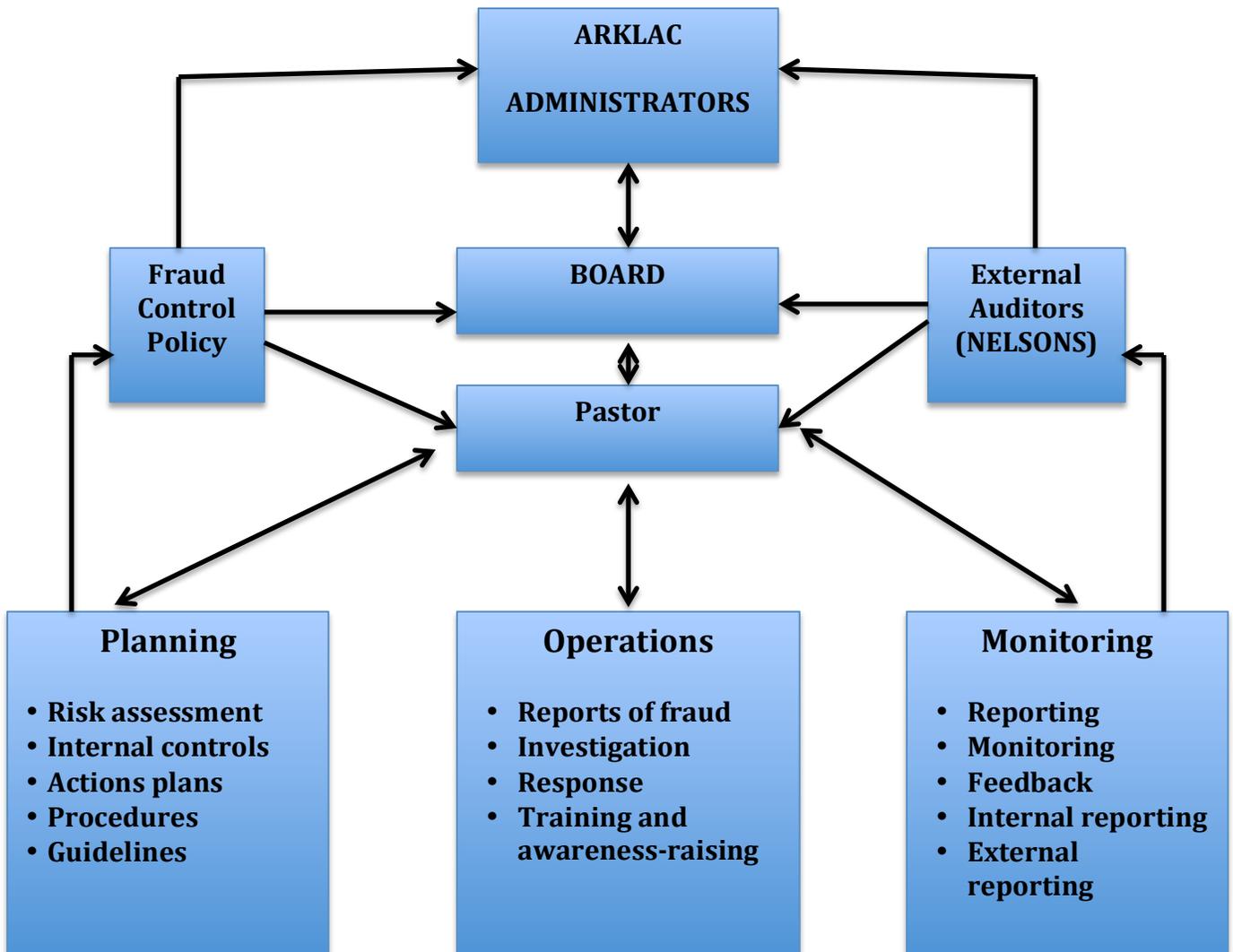
Fraud awareness raising and training reinforces fraud prevention and detection. The local church will ensure that all church leaders are aware of their responsibilities for fraud control and ethical behavior. Training will be provided for all new leaders and review training for current new leaders and employees. Training will include the following subject areas:

- Definition of fraud – illustrate the breadth of fraud and the fact that it can involve the pursuit of tangible and intangible benefits.
- Need for ethical behavior and the fact that fraud avoidance is everyone’s responsibility.
- Education on what things to look for that could indicate that fraud may have been committed.
- Steps to take if fraud is reasonably suspected.
- Responsibilities for handling allegations and inquiries into cases of fraud in the local church.
- The role of the External Auditors (Nelsons), the Board and the ARKLAC Administrators.
- Available remedies and measures to be applied when fraud is established.
- Measures to ensure that third parties are aware of the local church’s Fraud Control Policy.

4.4 Oversight Process

Independent reviews by external auditors will examine the effectiveness of internal controls and review operations for evidence of fraud. The results of such reviews will be reported directly to the Board and ARKLAC Administrators and will be followed-up by Board.

Figure 1: Internal Fraud Prevention Responsibilities



5. Fraud Response

5.1 Delegation Structure

The Board has overall responsibility for the organizational response in the case of a reported or suspected fraud. Authority for the response can be delegated to the local pastor, as appropriate, though overall management of the response to suspected fraud would be maintained at least at the level of a Departmental Director. Care should be taken to ensure that those involved in overseeing fraud response do not have managerial responsibilities in the area(s) affected. If the Board is involved in fraud, The ARKLAC Administrators will have the responsibility for the organizational response.

5.2 Reporting Allegations of Fraud

Local Church Members Responsibility

Local church members should be aware of the potential for fraud, and should report any reasonably suspected fraud. Concerns that should be reported include, but are not limited to, local church members committing or attempting to commit:

- Any dishonest or fraudulent act
- Forgery or alteration of documents or accounts
- Misappropriation of funds, supplies or other assets
- Impropriety in the handling or reporting of money or financial transactions
- Profiting personally from an official position or enabling family members or others to do so
- Disclosure of official activities or information for advantage
- Accepting or seeking value from third parties by virtue of official position or authority
- Theft or misuse of property, facilities or services

External party actions, which should be reported, include:

- Being offered a bribe or inducement by a supplier
- Receiving fraudulent (i.e., intentionally inaccurate, rather than erroneous) invoices from a supplier
- Known instances of corruption, deception or misuse by a supplier

If a local church member becomes aware of a suspected fraud he/she should take note in writing of any pertinent details, including what was said or done by whom, the date, the time, the location and the names of the individual(s) involved. Local church members ***should not***:

- Contact the suspected perpetrator to get facts or demand restitution

- Discuss the case facts or allegations with anyone outside of the organization
- Attempt to personally conduct investigations or interviews

Reporting process

Depending on the circumstances of who is thought to be involved in the suspected fraud, church members should report the suspected fraud to one of the following, in order of preference:

- The Pastor or Elders. If a church member reports to an Elder, the Elder should report the fraud allegations to the local church pastor if the Pastor is not involved in the fraud allegations.
- The Pastor is required to report the concern to the External Auditors, or to the ARKLAC Administrators, who will report the details to the External Auditors. If the local church pastor is not present during this emergency the local church elders should report to the ARKLAC Administrators, who will report the details to the External Auditors.
- If the Pastor or Elders is a potential suspect, then local church members should report the concern directly to the ARKLAC Administrators, or to the External Auditors.
- If local church members prefer to report anonymously they can do so through the ARKLAC's treasurer phone number or by the ARKLAC's treasurer email address account or by fax, or email or letter to the External Auditors.
- Reports of fraud should include all known details, including all individuals alleged to be involved, the location, the time, and any relevant actions or statements.
- All information provided to the External Auditors and Legal Adviser will be treated confidentially. All reasonable allegations will be treated seriously and systematically, and will be properly investigated. Confidentiality, in so far as possible, will be maintained for all reports made in good faith, and where reports are made anonymously, such anonymity will be respected.

However, if criminal activity is to be reported to the police, the identity of the person reporting may eventually have to be disclosed to enable external investigators or the police to pursue criminal investigation effectively.

If an allegation is determined to have been made frivolously, in bad faith, maliciously, for personal gain or for revenge, disciplinary action may be taken against the person making such an allegation.

Elders' and Local Pastor Responsibility

If informed of a fraud, Elders and the Pastor should listen carefully and with respect to church members, ensure that every report is treated seriously and sensitively, and give every allegation a fair hearing. Elders and the local church Pastor should obtain as much documentation and information as possible regarding the alleged fraud, including any notes or evidence, and they should reassure church members that they will be protected and will not suffer any reprisal for having reported allegations made in good faith. Elders

and the local church Pastor are required to prepare a written report of the details of any suspected fraud that has been reported to them, and provide it to the External Auditors.

Elders and the Pastor should not confront the alleged perpetrator or carry out an investigation themselves. Instead, the matter should be reported immediately to the External Auditors. If the External Auditor is not available, then the Elders and the local church Pastor should report to the ARKLAC treasurer or ARKLAC President in the absence of the ARKLAC Treasurer. All suspected fraud should be reported immediately or in a timely manner.

5.3 Initial Reaction to Allegations of Fraud

- The Pastor or ARKLAC Administrators will notify the External Auditors.
- The Pastors will act promptly to determine a course of action appropriate to the seriousness of the alleged offence. Appropriate actions could range from taking the individual out of his/her position into another position during the investigation, or leave with pay, leave without pay, or suspension. In all cases the course of action will be determined in consultation with the ARKLAC Legal Adviser. If the suspected person(s) are allowed to remain on the premises and/or continue with their employment duties, arrangements must be made to keep the person(s) under close surveillance.
- The Pastor or ARKLAC Administrators will inform the individual(s) concerned of the allegations against him or her, and the course of action to be taken.
- Simultaneously the Local Church Pastor or ARKLAC Administrators will ensure that all information in the possession of the individual suspected is secured for investigation.
- The Pastor or ARKLAC Administrators, in consultation with the External Auditors, will mitigate the risk of future losses by immediately adjusting procedures in order to protect assets and to preserve evidence, including, if necessary, suspending payments (such as of salary or invoices).
- Adventist Risk Management (ARM) will be notified immediately of any loss or damage to the local church insured property.
- Depending on the legal status of the local church, the local church may have a legal obligation to report the case to the appropriate government body in order to protect the local church's reputation or legal status.
- The local church may have a legal obligation to provide early notification to parties such as donors and church members who may potentially suffer losses that a concern is under investigation.

5.4. Investigation Procedure

Depending on the magnitude and the complexity of the fraud, investigations will be carried out either in-house or by external auditors (Nelsons). The decision whether to use internal or external investigation services, or a combination of both, will be made by the Board and the ARKLAC Administrators on the advice of the Legal Adviser. Investigations will be conducted without regard to any person's relationship to the organization, position or length of service. The External Auditors will keep records of all

actions in the investigation, to ensure success in any future criminal, civil or disciplinary action.

The External Auditors will determine who should not be involved in the investigation to avoid a conflict of interest situation for church members and Departmental Directors with close working relationships with the individual(s) in question.

Elders and the local church Pastor will ensure that full access is given to the External Auditors and any external body requested to assist them to immediately search the work area in question, including any files and computers. All searches are to be conducted in a lawful manner, to ensure that evidence is admissible in court, if required. The External Auditors will keep records of any action or handling of evidence.

Interviews, if necessary, will be structured and documented as much as possible. The External Auditors will develop the procedure, in consultation with the Legal Adviser. The External Auditors will issue a report detailing the findings and conclusions of every concluded investigation, including recommendations for future action. Results of investigations will not be disclosed to or discussed with any person apart from the External Auditors, Legal Adviser, ARKLAC Treasurer, ARKLAC President, the Board, and anyone with a legitimate need to be involved. This is important to avoid damaging the reputation of those suspected of wrongdoing and subsequently found innocent, and to protect the local church and the ARKLAC from potential civil liability and loss of reputation and goodwill.

5.5 Managing External Relations

In the case of substantiated fraud, the local church will take immediate steps to mitigate potential loss of the local church's reputation and credibility with donors and members who are involved in funding or delivering work in the particular context in question.

Where an investigation confirms that an act of fraud was committed, the Local Church Pastor will disclose the details of the fraud, the assets/resources affected, and the efforts being made to remedy the situation to any member, vendor or donors with an interest in the affected area. This must be done in a timely manner and with great care to be transparent and responsible while at the same time not unduly alarming donors or members.

It is worthwhile noting that in some cases donors and members who interact closely with ARKLAC office and field employees may be aware of the issues and they will be looking to ARKLAC Administrators to remedy the situation swiftly and with integrity and transparency.

In high profile cases of fraud, the Local Church Pastor will manage and monitor any media response. He can release information only when the ARKLAC Administrators, in consultation with the Legal Adviser, approves it. The Local Church Pastor will retain a complete record of any information released, including the content and the recipient.

5.6 Recovering Assets

Where the local church has suffered financial loss or loss of other material assets, efforts will be made to seek restitution from the individual(s) responsible for the fraud. This can be done through the following methods:

- Making arrangements for voluntary payment
- Making deductions from benefit payments or a pension scheme if permitted by law
- Considering an insurance claim
- Taking civil action to obtain a judgment for the loss
- Obtaining compensation orders in criminal cases
- Considering any other appropriate means of recovery

5.7 Disciplinary Action

Where the External Auditors' investigation reveals that a local church member or The Local Church Pastor has committed a fraud, the Board, in consultation with the Legal Adviser, the ARKLAC Administrators and Executive Committee (if the local pastor is involved), will pursue disciplinary or legal action. Where appropriate, criminal prosecution should be pursued. Otherwise, depending on the nature of the case, one or more of the following options may be applied, consistent with the perpetrator's relationship with the local church and the rights and obligations therein under applicable law:

- Counseling
- Loss of privileges
- Greater scrutiny or increased controls
- Transfer to another institution
- Demotion
- Suspension
- Termination
- Immediate dismissal
- Disciplinary action could also be brought against Elders or the Local Church Pastor whose failures have contributed to the commission of fraud or a local church member deliberately making an allegation in bad faith.

5.8 Follow-up Action

Following a case of fraud, the Local Church Pastor will ensure that all the church leaders and members in the affected area are debriefed on the process and outcome of the investigation. There should also be a follow-up with the individual(s) who reported the initial suspicion of fraud, to provide assurance that their claims have been taken seriously.

Depending on the circumstances, the Local Church Pastor will consider the need for communication with church members and donors on a larger scale. The Pastor will ensure that the organization conducts a thorough review of operating procedures in the areas affected by the fraud and that improvements are made where necessary.

Lessons learned will be disseminated throughout the organization, where applicable, to strengthen the system of internal control and to foster an anti-fraud culture. A report on actions taken will be submitted to the Board.

6. Roles and Responsibilities in Fraud Response and Control

In summary, the specific roles and responsibilities for preventing and responding to fraud in local churches are the following:

6.1 The Board

- Requires regular reporting from the Pastor on the assessment of fraud risk and measures being taken to prevent fraud in the local church.
- Requires External Audit reports from Nelsons.
- Requires management responses and follow-up actions to all external audit reports which identify weaknesses in internal control policies and procedures.

6.2 The Pastor

- Sets the overall tone to reinforce the message that fraud will not be tolerated in the local church.
- Establishes an internal control system designed to eliminate or mitigate the risks faced by the local church. The Pastor will be accountable for the adequacy and effectiveness of the controls designed and implemented. Managing fraud risk should be seen in the context of the management of a wider range of risks. This includes:
 - Development of an organizational risk profile, including consideration of fraud risks, and regular review of the risks associated with organizational objectives.
 - Establishment and review of a fraud control policy, including an appropriate control environment and a fraud response plan.
- Provides strong support for the External Auditors.
- Establishes mechanisms for reporting suspected fraud and issues with fraud risk management.
- Ensures that church leaders and employees knowledge of fraud control policies is sufficient and that appropriate training is provided.
- Ensures that swift action is taken to respond to allegations and substantiated cases of fraud.
- Makes arrangements for investigating allegations of fraud, and ensure that vigorous and prompt investigations are carried out without delay.
- Upon receiving an investigation report, determine the appropriate disciplinary and/or legal action to be taken against perpetrators of fraud and supervisors whose failures have contributed to the commission of fraud, and ensure that appropriate action is taken

to recover assets.

- If necessary, communicate with major donors, church members affected by the fraud to reassure them that all necessary steps are being taken.
- Ensures timely follow-up and strengthening of preventive measures.
- Takes appropriate measures in case of frivolous or bad faith allegations.
- Takes appropriate measures if an employee is cleared of allegations made in good faith.

6.3 Church Leaders

- Assess the risks, including but not limited to fraud risks, involved in their area of responsibility and ensure that an adequate system of internal control exists and functions to address these risks.
- Encourage church members to report reasonable suspicions of fraud, treating all allegations seriously, and promptly reporting allegations to the Pastor, Elders or ARKLAC administrators.
- Keep records of any allegations as well as any subsequent actions taken.

6.4 The Legal Adviser

- Provides guidance to the Pastor, ARKLAC Administrators and the External Auditors on the course of action to be taken, the involvement of external experts or legal authorities, and the conduct of investigations.
- Provides guidance to the Pastor, ARKLAC Administrators and the External Auditors regarding the potential legal avenues or consequences once a fraud has been established through investigation, and the means available to recover assets and to restore Local Church's reputation and goodwill.
- Communicates with and manage external criminal lawyers engaged in the particular jurisdictions in which cases of fraud arise.

6.5 Church Members

- Conduct themselves lawfully and properly in the use of the local church's resources.
- Remain alert to the possibility of fraud and report suspicious behavior to their Elder, Pastor or the External Auditors, or ARKLAC Treasurer.
- If the church member prefer to report anonymously they can do so through the ARKLAC's treasurer phone number or by the ARKLAC's email address account or by fax, or email or letter to the External Auditors.
- Attend in-house training courses on Risk Management and Fraud Prevention.
- Sign and accept the Fraud Control Policy as an integral part of their membership requirement with the local church.

7. Contact Details

The following contact details are provided:

ARKLAC Treasurer

Rodney Dyke

Email: rdyke@arklac.org

Cellphone: 318-773-2730

Office: 318-631-6240 Ext. 204

ARKLAC President

Richard Dye

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ARKLAC Secretary Executive

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Nelsons

Art Nelson

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Office: 217-626-2615

8. Glossary

Allegation	A statement or accusation by a person that an act of fraud has or may have been committed. This does not require evidence of the offence or identification of suspects, but there is usually some stated basis for the accusation.
Conflict of interest	A situation in which the impartiality of an employee in discharging his/her duties could be called into question because of the potential, perceived or actual improper and impermissible influence of personal considerations, financial or other.
External fraud	Fraud committed against the local church by an external party, for example the church members, employees of a bank institution or supplier.
External party	Any legal entity or individual other than the local church.
Fraud	The use of deception by an individual with the intention of obtaining an Advantage for himself or herself or for a third party or parties, avoiding an obligation, or causing loss to another party. Fraud includes offences such as, but not limited to, deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, and collusion.
Fraud Prevention	Strategies designed to proactively reduce or eliminate internal and external fraud.
Immediate dismissal	The cessation of a term of employment by the local church immediately upon notice and without any separation benefits that may be provided by local conditions of service, on the basis of the employee's breach of certain terms of ARKLAC working policy of employment.
Internal control	A process, effected by the governing body, management and other employees, designed to provide reasonable assurance that risks are managed so as to ensure the achievement of the organization's objectives.
Internal fraud	Fraud committed directly against the local church by a member or an employee.
Investigation	A search for or collation of evidence connecting or tending to connect a person or body with conduct that infringes the law or local church working policies, procedures and guidelines.
Risk assessment	A process that analyses the risks, including fraud risks, that may prejudice or prevent achievement of organizational objectives, and that determines whether those risks are to be prevented, mitigated, transferred or accepted.
Employee	For purposes of this policy, any individual who work as full time o part-time within the organization.