Fraud and Cybersecurity in Your Church and Remote Workplaces
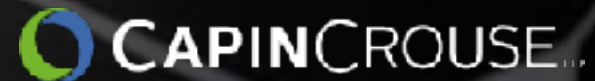
Kenneth Q. Tan, Principal, CapinCrouse
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5.4.21

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Objectives

At the end of this session, you will be able to:

- Understand the anatomy of fraud and its financial impact on a church

- Identify ways fraud could occur at your church

- Discuss fraud risks in a remote environment

- Review 2020's impact on current church risks

The Cost of Fraud

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Organization Type – Frequency

- Not-For-Profit (NFP) makes up 9% of all fraud reported

- 26% within organizations of 100 or fewer employees

- 2% – 3% of fraud cases come from religious, charitable or social services organizations
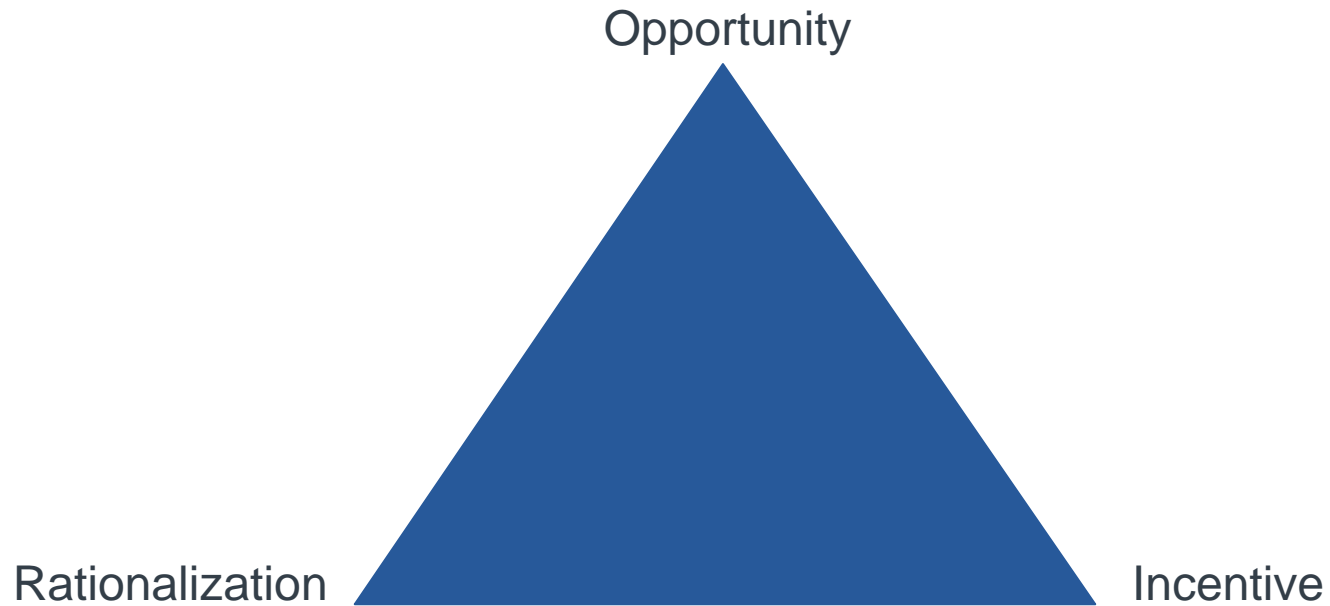
Median Loss Due to Fraud

- $75,000 in nonprofits and churches

- $100,000 in government

- $150,000 in private companies

- $150,000 in public companies

- Generally, as a percentage of total cash reserves, NFP losses are much higher (and therefore harder to recover from) than those at public companies

How Fraud is Committed

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Fraud Triangle

Types of Fraud Committed

Larcen...

Check Tam...

False Refunds

Mischaracterized Expenses

Personal Purchases

Payroll Schemes

Receivables

Billing Schemes

Unrecorded

Refunds

us Expenses

Write-Off Schemes

Asset Requisitions and Transfers

Understated

Schemes

Unconcealed

Forged Endorsem...
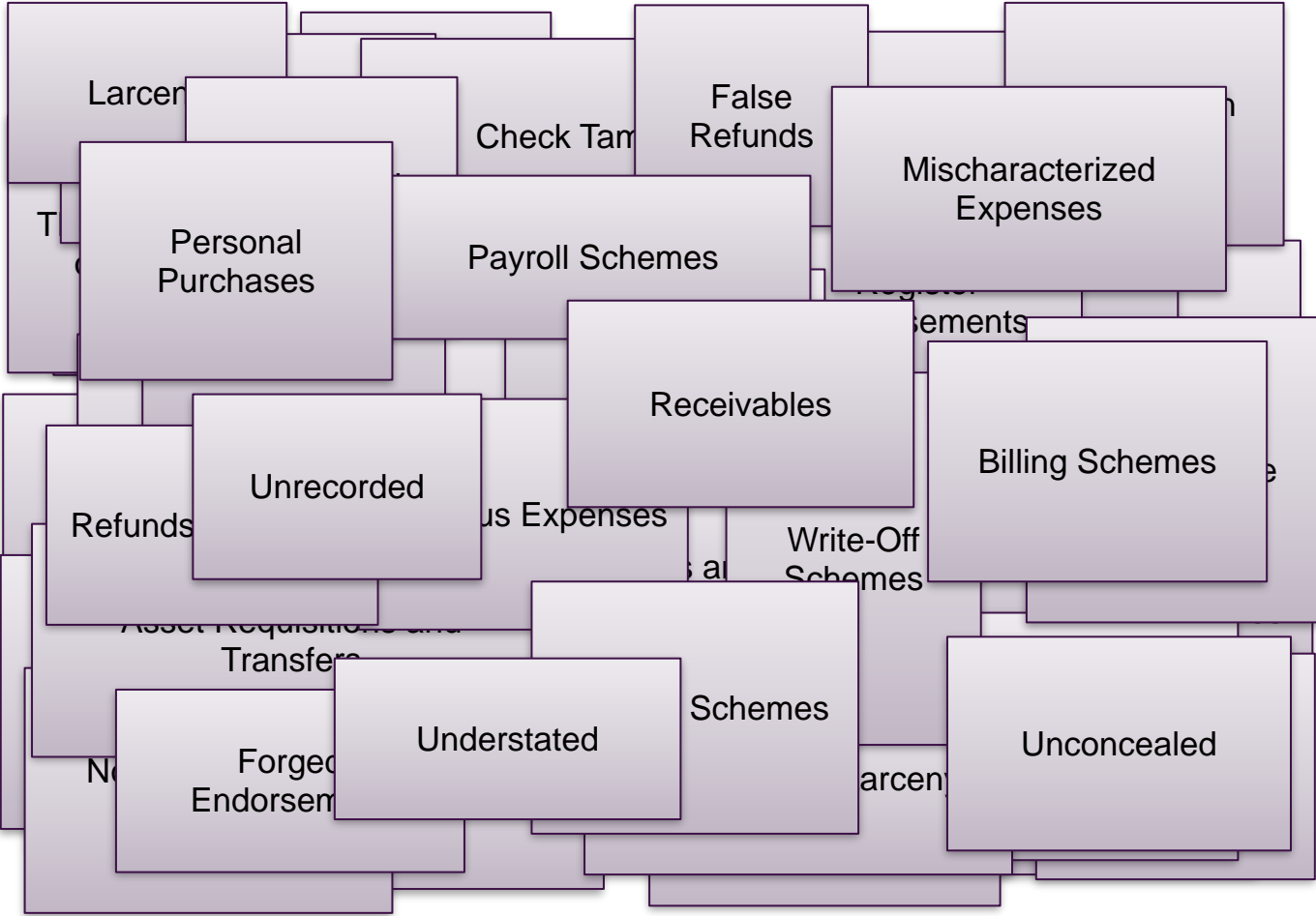
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Types of Fraud Committed

Not-for-Profit 191 Cases	
Scheme	**Percent of Cases**
Corruption	41%
Cash Larceny & Petty Cash	32%
Billing	30%
Expense Reimbursements	23%
Skimming	15%
Check Tampering	14%
Payroll	12%

Source: 2020 Report to the Nations – ACFE

Primary Internal Control Weaknesses

Source: 2020 Report to the Nations – ACFE
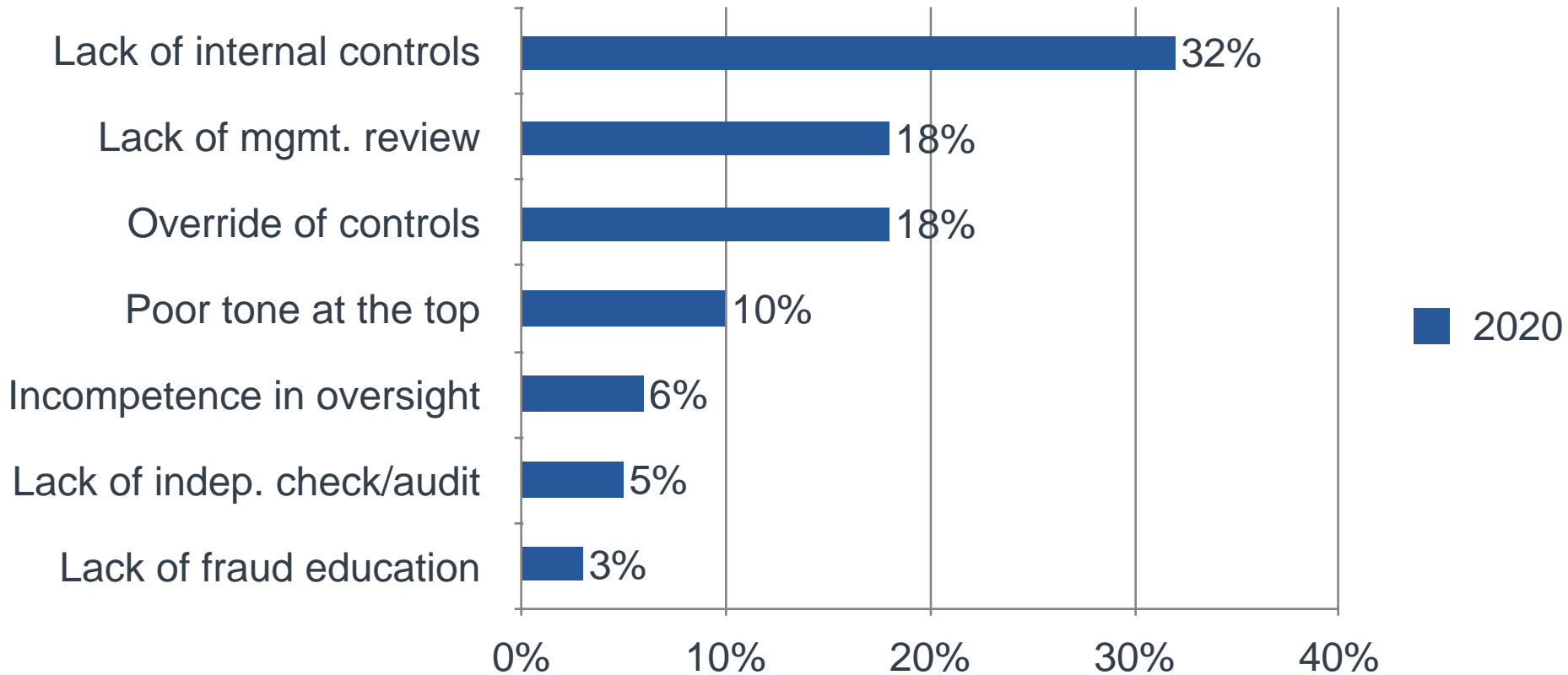
Remote Work Is Our "~~New~~ Normal"

Does Not Negate Need for Controls

- Remote work leads to decentralization of data, people, networks, management, processes

- Decentralization leads to heightened and evolving risks

  - Fraud risks

  - Cybersecurity challenges

Decentralization: Two Examples

Church 1

No cloud applications

Only internal network

No remote office work

Straightforward management

Church 2

Many cloud applications

Data outside network

Remote and in-office staff

Multiple layers required to achieve same results

Challenges in Remote Networks

- Church-owned vs. personal devices

- Shared infrastructure (e.g., virtual schooling)

- Unmanaged devices connecting to same network

- Listening devices ("Hey Alexa…")

- Shadow IT

What Can We Do?

You can't manage what you can't measure.

Establish Culture of Security

- One size does not fit all

- Policies and acceptable use standards

- Management support

- End-user awareness

Configure Controls to Support Policy

- Secure methods for access

- Access restrictions (e.g., limit rights by country)

- Password, lockout, and multi-factor authentication

- Encryption, data loss prevention, and retention

- Anti-malware protection

- Patch management

Empower IT to Effectively Manage

- Endpoint management tools
  - Centrally enforce controls
  - Ability to manage without being physically present
  - Support incident investigation and resolution through reporting and alerting
  - Remotely wipe lost or stolen devices

2020's Impact on Current Church Risks

Impact of 2020 Events

- COVID-19 impacted churches both operationally and financially

- Layoffs, employee turnover, reduced workforce, and skeleton crews

- Remaining employees managing multiple roles

- Termination of non-focal ministries and programs for the church

- Abrupt transitions from in-person operations to remote/limited capacities

Impact of 2020 Events, continued

- Sentiment from employees
  - Overworked
  - Exhausted
  - Burned out
  - Underpaid
  - Isolated
- Perfect combination for fraud to occur

Risks to Consider

- Lack of oversight from remote environment

- Lack of segregation of duties

- Losing focus on internal controls to pivot resources towards sustaining operations

- Employee turnover resulting in faster-than-normal position fillings

- "Just need it done" attitude = sacrificing controls for completion

Prevention Tips to Consider

- Consider automating processes (cash receipts and cash disbursements)

- Use expense management systems to monitor spending

- Outsource back-office processes (Accounting, HR, etc.)

- Supplement support through committee and church members

  - Don't sacrifice controls for convenience

Prevention Tips to Consider, continued

- Always perform due diligence in hiring
    - Background checks
    - References
- Set regular touchpoints with staff
    - Identify red flags
    - Beneficial for mental and social health

Fraud Happened. Now What?

Article on key steps to take and key questions to ask if a church is victimized by fraud…

capincrouse.com/fraud-happened-now

Fraud Risk and Prevention Questionnaire

Designed to provide a simple yet powerful test of an organization's fraud health. It is adapted from the ACFE Fraud Prevention Check-up from the Association of Certified Fraud Examiners (ACFE).

capincrouse.com/fraud-questionnaire

Questions?
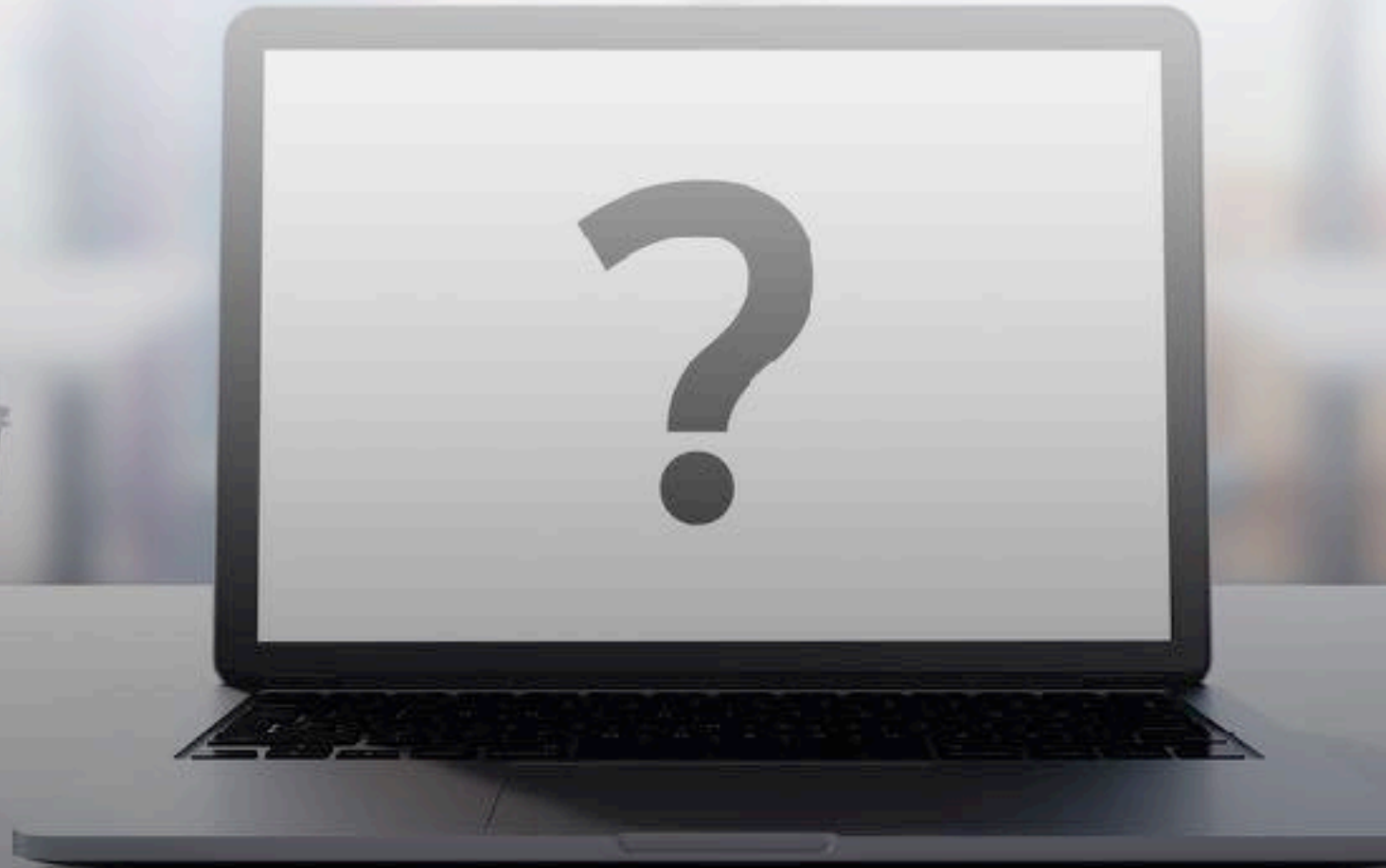
Thanks!

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