In God we trust: A case of church financial fraud

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ABSTRACT

This case presents the serious consequences of abused trust and careless administrative practices that have become common in church financial management. It tells the story of a long-term treasurer of a large church with a multi-million dollar budget who becomes embroiled in an international financial scam. A fraud investigator himself, he is duped into believing that he will get millions back in exchange for wiring upfront money to cover administrative costs. Over the course of 19 months, he secretly diverts $1.3 million of church funds to hold up his end of the bargain.

The case is based on an actual situation, and names have been changed for privacy purposes. It draws attention to the need for policies and approaches that limit the blind trust placed in an unquestionably trustworthy personality. Such trust can foster an environment that is primed for fraud.

Keywords: fraud, internal controls, trust, embezzlement, Nigerian advance fee scheme

INSTRUCTOR'S NOTES

The incidence of financial fraud in religious organizations is rapidly increasing. Annually, reported church fraud is growing by almost six percent. Because of the element of trust and forgiveness, the church setting is ideal for would-be thieves.

Churches across the nation have been robbed by treasurers—individuals who are trusted to protect and properly allocate tithe and offering funds contributed weekly by members. In many congregations, a treasurer is the most powerful figure in the church, besides the pastor. This person frequently holds office longer than most church officers—having terms of service that outlast multiple pastors. As a result, congregations grow to respect the judgment and decision making of these treasurers to the point that their actions are rarely questioned and their reports are only lightly studied.

The impact on ministry is significant. Each year the amount embezzled exceeds the amount that churches allocate for world missions. If the estimated 80% of unreported thefts were included in the total, the disparity would be even greater. Researchers project that church financial fraud will reach $60 billion by 2025.

Poor financial controls significantly contribute to this sad state of affairs. If more churches took steps to implement procedures which would require financially responsible behavior by their key leaders, the incidence of church financial fraud would certainly diminish.

The scenario that follows is riddled with weak internal controls, and the reader will be directed to consider procedures and actions that church leadership could have taken to avert the theft.

THE CASE

Introduction

As Tom Beaumont stood before the courtroom awaiting sentencing, he braced himself with the thought that he would awaken from this horrible dream. "This can't be happening to me," he thought as the judge read out the sentence–37 months in prison. From riding the wave's crest of wealth and prestige to drowning in the billows of public humiliation and financial disaster, Tom had lost all that he had, but in the process he had cost the 1,100 member Sardis Community Church (SCC) much, much more—$1.3 million, to be exact.

Tom had lived and breathed Sardis Community Church where he had served as treasurer for more than 25 years. His meticulous work and unblemished reputation drew praise from pastors and members—and for good reason. The church finances flourished under his leadership. The transitions from pastor to pastor ran smoothly because of his consistent financial management. Tom and his wife (the church secretary) were pillars of faithfulness at SCC. They had been members for over 40 years, they knew just about everyone who attended the church, and they were financially prosperous—and generous.

Tom was the kind of man church leadership wanted to direct the financial team tasked with handling large amounts of money on a weekly basis. His personal wealth and professional experience made him less likely to need church funds to meet personal expenses. The leadership team trusted in God and they trusted in Tom Beaumont almost as much.

A Man You Could Trust

During most of Tom's tenure as church treasurer, he was employed in the federal government, holding increasingly responsible positions throughout his career. In the job that he held before retiring from federal employment, he was an administrator tasked with uncovering corruption and waste. He even held certification as a fraud investigator. SCC was pleased to have a treasurer with such stellar credentials handling its funds.

Tom's integrity allowed him to be the only person who wrote checks at the church. In fact, if he had to be away, he left pre-signed checks to be used in his absence. All bank statements were mailed directly to his home, not the church. For Tom and SCC, it made sense. He was treasurer of a wealthy, dynamic congregation and was always on-call to care for complex transactions all while carrying on an active, on the go personal and professional life. He felt that he could provide better service if he wasn't confined to the physical space of the church office, and he made a strong case—citing the increase in productivity and efficiency associated with telecommuting. The bottom-line was that it worked. If you asked, Tom had the answer. If something needed to be paid, he handled it. Tom was the treasury, and the treasury was Tom. The church members were confident that they had a man they could trust to manage the church's multi-million dollar budget.

What Was He Thinking?

At the sentencing hearing, the judge was incredulous that a man with Tom's background had fallen for a fairly common get rich quick scam. This was not a typical case of embezzlement. Instead, it was a case of foolishness wrapped in shrewdness. Tom had discovered what seemed like a good idea for growing church funds (and his own) when he stumbled upon an "investment opportunity" known to law enforcement as the Nigerian advance fee scheme that had cost U.S. victims more than $2 billion in the previous 12 years.

It all started when Tom received a grammatically-flawed email message from a spokesman for a group which allegedly represented the Nigerian National Petroleum Corp. and the Nigerian government. It proposed a deal that could earn Tom $10 million. The email said that the group wanted to sneak $30 million from grossly over-invoiced contracts out of the country and into Tom's bank account. As is typical with this scam, all he had to do to get his share was wire this new Nigerian partner a specified amount of up-front money over a 19-month period to cover administrative costs and handling fees. He was assured that the process was risk free and 100 percent safe and was encouraged to proceed "with strictest confidentiality and utmost urgency."

A month later, Tom traveled to Amsterdam to meet with two Nigerians connected with the scam. Three weeks after the trip, he wired close to $100,000 to an Amsterdam bank. Over 30 more payments would follow in the next 19 months—most of the money coming from funds secretly diverted from SCC.

The Revelation

Tom was so determined to hold up his end of the bargain that he expanded the funding sources beyond SCC. He wired almost $400,000 from his personal bank accounts—which consisted of his own resources as well as more than $100,000 borrowed from friends. One of those friends, Dean Thompson, loaned Tom $75,000 without hesitation. Tom told him that the money was needed to buy expensive camera equipment for a government contract, and Dean believed him. Tom also promised Dean a 100 percent return on the loan within one month, and Dean saw this as a great way to grow his resources. Because of Tom's sterling reputation and friendship, Dean never suspected a problem and did not require details from the man whom he had looked up to for many years. Before a month had passed, Tom called Dean, not to discuss repayment, but to borrow an additional $100,000. Dean immediately sensed that something was very wrong and demanded that the $75,000 loan be repaid right away. He got nothing but excuses.

After several months of getting the runaround from Tom, Dean reported the problem to church officials and shared with them his apprehension about Tom continuing as church treasurer. They promised to look into the matter. For a while, nothing appeared to change. Then after a few months, the trigger was pulled that signaled the beginning of the end. Tom wrote a $300 check to a member for services rendered to the church, and the check bounced. This prompted the pastor and elders to examine the books and bank records where they discovered that more than $1 million of SCC's money was missing.

Fall From Favor

Upon this discovery, the church leaders quickly scheduled a meeting with Tom. He claimed that there was no theft involved. It was an investment (just like other investments in the past which he had made and church officials had not objected to). He vehemently insisted that he had planned to repay everything—plus $2 million. When asked to disclose where he had made the investment, he said he couldn't say because the information was confidential. This response was not well received by the church trustees.

After the long and intense meeting, Tom submitted his letter of resignation as treasurer. This action was a mere formality because it was clear that he would be removed from office if he didn't voluntarily step down.

A few months later the church held a meeting in which a majority of the members present voted to terminate Tom's membership. Many in the packed auditorium were shocked as they heard the details of how their trusted church brother had drained SCC's treasury. Even his closest friends and family members appeared visibly shaken, though they supported his claim that he was the victim of an unscrupulous scheme. They asserted that he was just trying to help the church—as he had done for many years. This line of reasoning met with strong opposition from the majority of those present. Several did not hesitate to include the word thief in their comments and recoiled at the reality that he had single-handedly transferred over a million dollars "of God's money into the hands of crooks." All in attendance recognized one thing: regardless of why Tom did what he did, he had left the church virtually penniless.

To get any compensation from their bonding company, SCC also had to press criminal charges against Tom. Law enforcement authorities turned to the FBI for assistance with the case. Tom watched in disbelief as federal agents confiscated his personal computer, bank records and a diary in which he had recorded his dealings with the scam artists.

There also were two separate civil cases brought against him. Dean Thompson and Jacob Wilson, one of Tom's government co-workers, both sued to recover money that they had loaned him (totaling almost $200,000 between the two of them). The judgment in both instances was against Tom.

With over $150,000 in credit card debt, Tom and his wife opted to file for bankruptcy. They had once had excellent credit, sizeable savings, luxury cars and a beautiful suburban home. He had lost it all.

In addition, the church money was gone, and it wasn't coming back. Ultimately, Tom entered a guilty plea on one count of wire fraud in the criminal case. He also acknowledged that he had taken the church funds and agreed to pay restitution of $1.3 million.

During his 37 months in prison, Tom had a lot to think about. So did the members of SCC.

DISCUSSION QUESTIONS

1. Why would someone with Tom's professional background fall for the Nigerian money scheme?
2. What makes churches particularly susceptible to fraud?
3. What internal controls could SCC have implemented to help protect its resources?
4. What other alternatives to prosecution do you think church members suggested?
5. What is the likelihood that Tom will repay $1.3 million to SCC?

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