

Religious organizations and fraud: the case of the rogue employee

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ABSTRACT

The case involves a quiet and unassuming employee who worked with the New York Archdiocese since 2003. The employee is accused of using a sophisticated fraud to manipulate the accounts payable system within the Department of Education Finance Office. The diocese alleged that after being employed for over eight years, she embezzled approximately \$1m from accounts that supported some of its schools. The scheme involved the employee issuing over 450 checks for nonexistent services, totaling less than \$2,500 each to herself and entering them into the accounting system as legitimate church related expenses. The employee made a full confession. She was convicted and sentenced to 4 1/2 to 9 years in prison. Ironically, the same employee was convicted of theft twice before working for the Archdiocese.

The case illustrates the importance of consistently performing rigorous background checks as part of the employee hiring process, and implementing effective internal control within all organizations, including religious organizations.

Keywords: embezzlement, fraud, religious organizations, rogue employee

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INTRODUCTION

The Archdiocese of New York was seeking a new employee for its accounting department and posted an ad in the local newspaper. The diocese received many resumes for the position, but one candidate stood out, Ms. Cathy Richards, since she had prior bookkeeping experience. As a result, she was selected for an interview and was subsequently hired by the diocese based on the strength of her interview performance. She performed well in the role and was promoted to an accounts payable clerk position after three years on the job. Ms. Richards seems to be the perfect match for the Archdiocese in terms of her maturity and professionalism.

THE ORGANIZATION

The New York Archdiocese (the organization) is the second largest diocese in the United States with 295 parishes serving approximately 2.8 million members. The organization encompasses the boroughs of Manhattan, the Bronx, and Staten Island in New York City, and certain counties in New York State (namely Dutchess, Orange, Putnam, Rockland, Sullivan, Ulster, and Westchester). The organization defines its mission simply “to live and proclaim the Gospel message of Jesus Christ.” The archbishop has overall responsibilities for the organization and he is supported by approximately four auxiliary bishops and over 360 archdiocesan priests.

The organization oversees a large number of educational institutions. Its imprint includes nine colleges and universities, 170 elementary schools, and 46 high schools, serving over 200,000 students.

St. Patrick's Cathedral in New York City, is the seat of the Archbishop of New York. It is the largest decorated gothic-style Catholic Cathedral in the United States and has been recognized throughout its history as a center of Catholic life in this country. The central offices of the archdiocese support local parish efforts with pastoral services, financial and human resources management, purchasing, building repairs and renovations, insurance and grants for education, clergy care, and spiritual formation.

At the time of the case (2012), the organization reported parish revenue of \$296 million and related parish expenses of \$255 million. The top three expense categories were lay personnel; clergy personnel; repairs, maintenance, and plant expenses.

THE ACCOUNTS PAYABLE PROCESS

Ms. Richards was the accounts payable clerk and her duties included hiring contractors for different outreach programs at the church. As part of this role, she was responsible for generating invoices and writing checks to contractors. She also had check signing authority for disbursements of less than \$2,500; and for performing the monthly bank reconciliations.

The scheme involved manipulating the accounts payable system within the Department of Education Finance Office for the diocese. The theft began when she started sending the Archdiocese invoices for fake services. Personal checks were forged for payment of the invoices and written out to the initials of one of her children to avoid detection. The fraudulent checks were then deposited into her own bank accounts. She would then change the journal entry for the deceitful transactions in the general ledger, so they would appear to be paid to authentic vendors.

THE FRAUD COMES TO LIGHT

In 2011, the Archdiocese implemented an enhanced set of financial oversight controls and safeguards in the accounts payable process. After a yearly financial examination, the auditors found problems and alerted the diocese. The two parties worked together and applied new controls and safeguards to determine the fraud had occurred. [In the research of the case it could not be determined the set of financial controls that identified the theft.] The enhanced procedures may have included separating the accounting duties, requiring a mandatory vacation, or imposing limits on data entry within the accounting system.

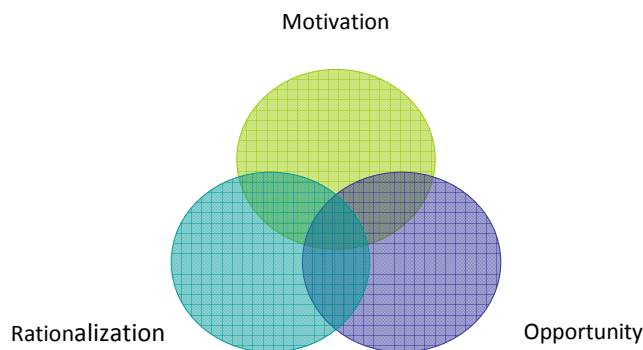
The auditors and the Archdiocese confirmed that approximately \$1,000,000 was stolen with each check written for less than \$2,500. Ms. Richards was confronted by the diocese and terminated. The police were then alerted, and she was arrested. For many people who knew Ms. Richards it was inconceivable that she could be accused of any wrong doing especially since she seemed like a nice hard-working person. However, the postal carrier stated that she would habitually receive all different kinds of packages to her home daily. These packages may have contained some of the items purchased with misappropriated funds such as expensive collectible dolls and paintings, clothing, furniture, and gift shop items.

The employee was hired in 2003 when the Archdiocese had not instituted a criminal background check policy. The employee's attorney stated that his client was incredibly remorseful and ashamed. Ms. Richards made a full confession and was charged with stealing over \$1 million from the Archdiocese's organization after being employed for over eight years. It was later discovered that, prior to the fraud at the Archdiocese, Ms. Richards had been convicted of theft twice before, in 1986, and again in 1999. She was convicted of grand larceny for stealing \$46,000 from a temporary agency and continued to be on probation when selected to work at the diocese.

DISCUSSION QUESTIONS

The student should be able to answer the following questions:

- Using the fraud triangle below, discuss (a) the opportunities that enabled the fraud to occur, (b) the motivation that encourage the employee to commit the fraud, and (c) the rationalization used by the employee in carrying out the fraud.



- The *opportunity* that enabled the fraud to occur include:

- The accounts payable clerk had the authority to sign off on all disbursements under \$2,500 without needing a second signature or an independent review by a second employee and or department, before payments were made.
 - The accounts payable clerk had no accountability to a manager, supervisor, nor any members of the archdiocese.
 - The archdiocese did not require nor perform any reviews of their payments made through their accounts payable system.
 - The archdiocese did not evaluate its accounts payable policies, procedures, to determine whether the policies and procedures were consistently and effectively implemented and followed.
 - the accounts payable clerk had full access to the accounts payable system.
- (b) The *motivation* that encouraged the employee to commit the fraud include:
- The accounts payable clerk may have felt that since she “got away” twice in the past with stealing from other organizations and not required to spend any time in prison, or having to pay any retributions, that it was safe to steal again.
 - The Accounts payable clerk may have felt confident that she can get away with another theft based on outcomes from the two previous thefts, where she did not have to pay in fines nor spend time in imprisonment.
 - The accounts payable clerk could have felt that she had certain wants and needs that taking the money from the archdiocese could meet immediately.
- (c) The *rationalization* used by the employee in carrying out the fraud was:
- The accounts payable clerk feels that the archdiocese owes her as a loyal employee
 - The archdiocese is a large organization with resources in the millions of dollars and they won't miss the money she is taking.
 - The accounts payable clerk could have thought that her salary did not match the amount of work for which she was responsible for.
 - The accounts payable clerk could have thought that she would repay it someday.
 - The accounts payable clerk could have thought she will stop stealing very soon.
2. What conditions existed that prevented the fraud from being detected in a timely manner? The conditions that existed that prevented the fraud from being detected in a timely manner include:
- Improper segregations of duties – the Accounts Payable clerk was allowed to work with the invoicing duties to the company and to also process payments for those invoices.
 - No regular internal control reviews were performed, nor audits carried out. Through audit sampling, it is possible that some consistencies between the invoices and payments could have been detected.
 - Regular and impromptu reviews may have detected issues and allowed for further review into the disbursements made in prior months and years.
 - There was no periodic review of disbursements to determine whether procedures were followed.

3. What controls should be in place by the archdiocese to prevent future asset misappropriation?

The controls that should be in place by the archdiocese to prevent future asset misappropriation include:

- All checks being processed should be required to have two signatures.
- Frequent audits – at least one annually – this would allow for more independence review and the opportunity for auditors to identify inconsistencies and problems.
- Segregating duties of recording and paying transactions – the accounts payable clerk should not be allowed to approve invoices for payment.
- Increase in financial oversights – regular bank reconciliations should be completed, the bank statement reviewed, invoice review including matching the invoice to the payee, and independently calling and verifying from vendors that they performed the services and that the invoices are legitimate.
- Implementing a vacation policy that require employees to take vacation and cross train other employees.

Overall, there needs to be increased oversight of all disbursements processed by the archdiocese as an organization.

EPILOGUE

The Archdiocese continues to function and prosper with the implementation of stronger internal controls and proper segregation of duties. Ms. Richards was convicted and sentenced to 4 1/2 to 9 years in prison. A judgment order for restitution in the full amount of the theft was filed in civil court. The employee will forfeit any property seized by the Manhattan District Attorney's office during the investigation. Some cash is still unaccounted for and the employee said none is left. The employee owes approximately \$1,073,358.83 in restitution.

DISCLAIMER

This critical incident was prepared by the authors and is intended to be used for class discussion rather than determining either effective or ineffective handling of the situation. The events described in this case are based on a real-world situation as reported by various media sources.

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