

Preventing Credit Card Abuse

By Rollie Dimos



Shutterstock.com

In last month's newsletter, we discussed ways to protect the cash your organization receives each week in the form of offerings and donations. But more and more, America is becoming a cashless society. Noncash transactions, in the form of checks, credit cards, debit cards, and other electronic transactions, like ACH and wire transfers, continue to increase year over year.

According to a recent study by the Federal Reserve, there were 122.8 billion noncash transactions in 2012 that included credit cards, debit cards, prepaid cards, and checks. Credit and debit card transactions grew to 73.2 billion, which quadrupled total check usage of 18.3 billion.

Credit cards are a quick and convenient way to make business purchases, and many churches are using credit cards to conduct daily business. Due to the convenience that they provide, credit cards are typically used for point-of-sale transactions; however, the convenience of credit cards also contributes to their frequent abuse.

A 2012 study by the Association of Certified Fraud Examiners determined that when religious institutions were victims of fraud, 31.5% of the cases involved fraudulent expense reimbursements. Expense reimbursement frauds will typically include unsupported purchases, non-approved purchases, and reimbursements for personal expenses. Many of these transactions will involve credit cards.

Does your organization have appropriate processes to ensure credit card transactions are proper and accountable?

Adequate Substantiation

Just like other business expenditures, adequate substantiation should be required for all credit card transactions. That means all credit card statements must be supported with receipts. The credit card statement will reveal that a purchase was made, but in most cases, the item or service being purchased will not be very apparent.

For example:

- A credit card statement will reveal a purchase was made at a department store, but it will not describe the items purchased.

Continued on next page...

Preventing Credit Card Abuse (cont.)

- A credit card statement will identify a purchase at a restaurant, but won't identify the number of people participating or the business purpose of the meal.

With respect to meals and entertainment, this additional information will be needed in order to comply with IRS requirements for an accountable plan.

Besides providing adequate support for every credit card transaction, it is necessary to have each transaction reviewed to determine if the purchase is an appropriate business expense. Without the actual receipt, the appropriateness of the transaction will not be easily determined.

Best Practices

Here are some controls you can implement in your organization to ensure the appropriateness and accountability of your credit card transactions.

- Create a policy for credit card usage to include acceptable and non-acceptable usage.
- Require receipts for all credit card transactions.
- Have staff members note the business purpose of each transaction.
- Require the names of those attending meal and entertainment functions, as required by the IRS.
- Require secondary review and approval of all transactions. (In some cases, you may want to require approval before the purchase is made.)
- Have an established remediation process for noncompliance.

Keeping track of credit card receipts can be difficult and time consuming, and is often a point of tension between bookkeepers and staff members. However, as leaders in the church, you can help foster a culture of transparency and accountability. As you embrace and model accountability, it will become the norm for everyone else!

About the Author:

Rollie Dimos, CIA, CISA, CFE, is the Internal Audit director at the AG National Leadership and Resource Center. As an auditor in the government and nonprofit sectors, Rollie has helped leaders assess the strength of their organizational controls for over 20 years. If you have a question about this article, you can contact Rollie at 417-862-2781, or by e-mail at rdimos@ag.org.