

Detecting and Preventing Mission Fraud

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For MissioNexus Webinar
1/18/2018

Webinar Outline

1. Introduction/Background (5m)
2. Why it happens (5m)
3. Case Studies/Examples (10m)
4. Types and Mechanics of Fraud (5m)
5. Predictability Model (10m)
6. Prevention (10m)
7. Concluding Recommendations (10m)
8. Questions (10m)

Introduction

Fraud definition:

Deception intended to result in financial or personal gain.

Mission Fraud definition (for this webinar):

Deception by local partners of outside mission funders with the intention of personal financial gain.

My Background/Personal Interest in this Topic

1. 20 years in mission research
2. Began to encounter cases of mis-reporting
3. Presented a paper on the "Gutzlaff Syndrome"
4. Have been collecting case-studies related to this topic
5. Have concluded that a wider study is needed

Global/Historic Context

1. 4.6 billion going from the United States to foreign fields each year through 930 mission agencies
2. These 930 agencies are supporting 93,691 national missionaries (average of 100 per agency)
3. We are entering into what Tom Steffen calls the 4th era of missions – the Faciliator Era.
4. Increasingly churches and foundations are giving directly to local field partners

Excerpt of an open letter . . .

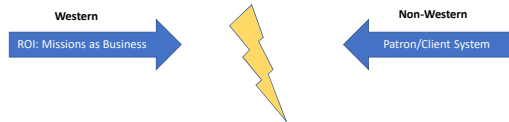
"After having received thorough confirmation from the leaders of various missions, we gradually transferred funds for the reconstruction of destroyed homes, for printing Bibles, for the purchase of sewing machines (to support sisters in Christ and their work in the slums) and for the purchase of some water pumps. Over the years we collected and donated tens of thousands of Swiss Francs. When possible we examined the use and impact of the given funds. However, the review turned out to be weak. [REDACTED] We underestimated the spiritual forces of corruption, deception and lies that influenced our partner [REDACTED]. He fell into (long rooted) cultural and personal sins. We found out that the money given for the reprinting of Bibles and children Bibles (\$70,000) could not be confirmed [REDACTED]. The loan for the shrimp farm [REDACTED] (\$40,000 return over 4 years) was not paid back (as agreed/signed in the loan). [Our partner] [REDACTED] again and again promised to return that money. In the meantime we have proof that [he] [REDACTED] will not pay the money back. Also he will not bring all things to the light of the gospel, nor will he assume spiritual and public responsibility. We have to put up with a financial loss. That hurts! But for us the broken relationship hurts even more. We refrained from legal procedure."

Why It Matters

1. Affects witness
2. Affects future funding
3. Empowers persecution
4. Destroys ministries

Why it Happens

A clash of cultures and values



“The truth is not always convenient to our funding-cycles.”

The Gutzlaff Syndrome

The failure to recognize when deception is happening on the mission field, and as a result becoming a participant in perpetuating the deception among donors.

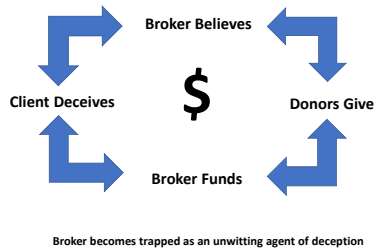
Introducing Karl Gutzlaff

“In the 1840s he elaborated a plan for the rapid penetration and evangelization of China by the Chinese themselves. Great enthusiasm was aroused by these plans on the continent of Europe, and both the Rhenish and the Basel Societies sent men to China to help Gutzlaff in his work. By 1850 he had gathered round him several scores of Chinese workers, who were bringing in reports of journeys in every one of the 18 provinces of China, with distribution of Scripture and the formation of groups of Chinese Christians. A fearful exposure was to follow. While Gutzlaff was in Germany, one of his colleagues discovered that almost all of Gutzlaff’s Chinese workers were frauds—opium addicts and criminals. Few had traveled far from Hong Kong; money had been squandered, and there was nothing to show for it. On his return, Gutzlaff set to work with untamed enthusiasm to cut his losses and to re-organize the work, but he died in 1851 with all his new projects unrealized. **This was perhaps the worst of the not infrequent fiascoes with which the history of missionary work is studded.**”

The Patron/Client Syndrome

The mistaken belief of a patron that a client is interested in achieving their desired results when in fact the client's only goal is to make the patron happy.

Deception Cycle



7 Common Denominators

1. Foreign agendas/methodologies
2. Inability to verify results
3. Funds dependent on results
4. Funds under the control of one person
5. Lack of proper accounting systems and procedures
6. Unqualified trust without vetting and verification
7. Lack of administrative gifts in the ministry

Case Studies

RED CROSS SAYS \$6 MILLION IN DONATIONS, PAYROLL STOLEN DURING EBOLA CRISIS



"Internal investigations revealed that at least \$2.13 million was lost in Sierra Leone due to a collusion between former IRFC staff and local bank employees. It's believed that the exchange rate was improperly fixed, the [Associated Press](#) reports. Whereas in Guinea, the fraud is thought to be a combination of **fake and exaggerated customs bills**, totaling a loss of \$1.17 million. There's the possibility an even greater amount of funds were lost, as the IRFC is in the midst of launching two more investigations.

Previously, the organization found other **evidence of inflation**, including overestimating the costs of 'relief items, payroll and payment of volunteer incentives,' which led to another \$2.7 million lost."

Newsweek, 11/5/17



Meet Mr. Babu

- Was hired by a friend to bring 70 people from his village and say they were ministry leaders from all over the country
- Each one was to claim they had three to five hundred churches under them, and a total of over 1 million believers
- All non-believers from a non-Christian background, they were trained for three days on what to say and how to behave (Example: They were coached to say "hallelujah" all together when someone said something exciting)
- They were promised each a sack of rice
- He did this four separate times over a period of six years with foreign groups who were coming to "verify" the movement. Three times he was cheated out of what was promised in the payoff.
- On the fourth time he decided he had enough and he told the truth to the foreigners who had gathered there.

North India: From 3,000 churches to 300 believers

1. Leaders of a "church-planting movement" were gathered by their "broker" to report to their foreign "funders" what was happening.
2. Many reported hundreds of churches. Altogether 3,000 churches were reported, and this was widely circulated as an amazing breakthrough.
3. A missions researcher began looking into it. In questioning one of the leaders he found he grossly exaggerated his numbers. When asked why he did so he said, "Because it felt so good!"
4. Another researcher re-gathered the group and asked them to write down all the names of believers they knew. After eliminating duplicates the total number of believers came to around 300 people.



Nepal: Endemic Corruption

- Restricted Access Country
 - Ministry properties in hands of individuals
 - Ministry accounts in names of individuals
1. Case of the stolen cemetery
 2. Case of the Christian prisoner racket
 3. Case of the missing 2 million and 40 mistresses

Mechanics

Mechanics of Fraud

1. The Inside Skim ([Fixing the Books](#))
2. The Kickback ([Fake receipts](#))
3. The Other Guy's Ministry ([Brochure Ministry](#))
4. The Broker ([Overnight Ministry](#))
5. False/Inept Verification ([Rubber-Stamp Validation](#))
6. Corrupt Voucher ([Collusion with an Authority](#))
7. The Hustle ([From One Crisis to the Next](#))

Bottom Line: Almost all fraud requires collusion between multiple parties.

Where does it go? Some red flags . . .

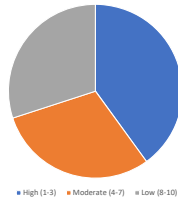
1. Buying properties
2. Children's education
3. US/International Bank Accounts
4. Western Lifestyle (Home, car, dress)
5. Multiple Families/Mistresses
6. Recreational Travel
7. Extended Family Support

Prediction Model

Fraud Prediction Model

1. Internal Accountability
2. Strategic planning
3. Lifestyle of leader
4. Community Validation
5. Proven track-record
6. Fund Accounting system
7. Sustainability
8. Transparency
9. Auditable transactions
10. Stability
11. Vision Ownership
12. Impact Reporting

Distribution of Weighted Answers
Scale of 1 to 10*



Prevention

7 Great Questions to Ask

1. Who is on the board of directors?
2. How does this ministry make decisions?
3. Where does the funding come from?
4. What is the attrition rate?
5. What has worked and what hasn't?
6. What is the long-term plan for this relationship?
7. What's for dinner?

Recommendations

Three ideas . . .

1. National Councils
2. Report system
3. Grant Management System

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Stewardship Study
www.cosimnetwork.org/stewardship.php
