

QUESTION 3-b

b. The Service seeks to understand the method by which the Church hierarchy ensures that funds are not diverted to private interests in the lower level organisations. Towards this end, please assume that an FBO at a Class V Church embezzled funds. Please describe who would be likely to detect such embezzlement, by what means, and the likely subsequent course of events upon discovery of such embezzlement.

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The primary means of detection of whether the FBO of a Class V Church embezzles funds are at the level of the local Church. As a result of several very significant controls, Scientology administrative policy applies both with respect to the FBO's authority in particular and as to the receipt and disbursement of church funds in general, it is impossible for the FBO to embezzle funds without detection.

As an initial matter, the extent of an FBO's authority is significantly limited as to bank accounts, possible bank account balances, and the kinds of disbursements he or she may make. The FBO is primarily responsible and has custody of checks for only three bank accounts - the Finance Office Number 1 Account, the Finance Office Number 2 Account, and the Finance Office Number 3 Account. Other church staff working in the church's Treasury Division, generally its Treasury Secretary, are responsible for and have custody of checks for all other of the church's bank accounts.

Each of the three accounts over which the FBO has primary responsibility serves the very limited function of a temporary depository for funds. One of the accounts never has more than a week's worth of receipts for the church and a minimum float; the other two accounts generally have zero or nominal balances.

For example, the Finance Office Number 1 Account is a temporary depository for the church's receipts for the week until its financial plan for the upcoming week is approved by the Advisory and Executive Councils. At that time, the FBO transfers funds in the account pursuant to approved allocations for the week. These transfers will be either to other churches, primarily CSI, or to other accounts the church maintains for specific purposes such as paying third-party vendors. All receipts for the week must be transferred from this account at the end of each week; at that time the only balance remaining in the account would be a limited "float" prescribed by Scientology administrative policy to guard against possible bounced checks from previous receipts.

The Finance Office Number 2 Account serves the even more limited purpose of holding funds for paying local expenses

incurred by a senior management church in managing the local church. This account ordinarily has a zero or nominal balance unless a management church (generally CSI) happens to have a mission at the local church. Disbursements from this account must be approved by the Treasury Bureau of the Flag Bureaux of CSI.

Scientology administrative policy requires that the Finance Office Number 3 Account be used only in the unusual event the local church receives a large donation or other payment that might have to be returned to the donor, such as a donation designated for training the staff of a church organization that has yet to be formed. Every disbursement from this account must be approved by the church's Executive and Advisory Councils in a weekly financial plan. This account in all likelihood will have a zero or nominal balance.

The FBO does not have unfettered control over these three accounts, and no one has exclusive signatory authority over them. Rather, as required by Scientology administrative policy, all checks drawn on the three FBO accounts must be jointly signed by the FBO and another senior staff member of the church, who is a participant in the Executive Council. The Executive Council approves the church's financial plan and therefore each co-signatory is familiar with every approved disbursement for the week.

It would be impossible for the FBO to embezzle the church's receipts to be deposited in the Finance Office accounts without immediate detection for the simple reason that the organization's Treasury Division collects and invoices all receipts before providing them to the FBO to deposit. In this process the Treasury Division totals all receipts and verifies that they equal the total balance of the invoices. Any embezzlement of funds prior to deposit would be immediately detected when the FBO prepares the FBO Allocation form for the week (see the sample form submitted in response to Question 4a) since copies of deposit slips for deposits to all three Finance Office accounts must be attached to the form and totals stated on the form itself, which is reviewed by the church's Treasury Secretary, Executive and Advisory Councils. Any discrepancy between receipts as recorded on the invoices by the Treasury Division and actual deposits as reflected by the deposit slips would be immediately detected and prompt an immediate investigation.

The only exception to this invoicing procedure relates to the collection of bounced checks, which is the FBO's responsibility. (The FBO is responsible for invoicing each bounced check that it collected and providing the invoices to the Treasury Division.)

However, any embezzlement of a bounced check would be detected when the parishioner in question asks to receive services at the church. Since the FBO would not have given Treasury an invoice, there would be no record that the parishioner is entitled to receive services.

The FBO also could not embezzle funds once they have been deposited without immediate detection. As noted above, the FBO never has exclusive signatory authority with respect to a bank account; he only has joint signatory authority. The other signatories on the FBO bank accounts are executives who share responsibility for monitoring administration of the church's weekly financial plan. Thus, the co-signatory always is very familiar with the church's authorized expenditures for the week and will be familiar with every disbursement to be made from the Finance Office accounts. When presenting a check for signature, the FBO is required by policy to provide the following information: (a) the total debts and bills owed by the church (b) the total cash in the bank; (c) total checks being signed from that account; (d) a tape giving the total of the checks presented for signature; and (e) an authorized purchase order for each expenditure other than a transfer to another local church bank account. The executive therefore can immediately verify that the check is drawn for an approved purpose and that funds exist in the bank to cover it.

Moreover, since the FBO accounts are not normally used for paying third party bills, the vast bulk of check payees would be to another bank account and not to individuals or outside vendors. The likelihood of there being a fictitious payee and this not being detected by a co-signatory executive is very unlikely.

The FBO also cannot embezzle funds from other church bank accounts not under his or her primary authority since other church staff located in the Treasury Division have authority over and custody of all checks for those accounts. They are responsible for preparing checks only for disbursements approved in the church's weekly financial plan. If the FBO attempted to draw money from other org bank accounts, he would have to manufacture fictitious reasons to pay out money, create phoney bills and then persuade another signatory to sign the check. However, any such attempt would be detected by the second signatory who would be aware of approved disbursements.

Any embezzlement would be detected through the normal reporting and auditing processes required by Scientology ecclesiastical policy. It could be detected in this way either locally or at any of the management echelons which receive copies of the reports.

For example, the FBO is required to prepare weekly financial reports, such as the FBO Allocation form and Financial Planning Executive Directive, for review by the Treasury Secretary and by the appropriate Continental and Flag Finance Offices. Failure to submit these reports would result in an investigation.

The reports include copies of bank statements against which check payments and income deposits are cross-checked; copies of accounts which are cross-checked against the Church's reported income and receipts for the corresponding week; details of disbursements made which are checked for regularity and consistency with the FBO's reported allocations to other bank accounts; the week's FBO Weekly Allocation form and the organization's Financial Planning Executive Directive for the week; all of which are cross-checked to each other and to the FBO's deposits and disbursements.

Inconsistencies in any of these reports would normally be detected by the Treasury Secretary and would result in alerts or written reports to other executives of the church and to the FBO's seniors at Continental and Flag Finance Offices, and to the International Finance Ethics Officer. Such reports would be investigated and followed up as covered in more detail below.

Every month an audit of all of the church's financial transactions is conducted by its Audits Officer, who is part of the Treasury Department. A monthly audit is described in detail in Question 4b of our prior response.

During the course of this audit, all of the original records for all of the org's bank accounts, including FBO accounts, are independently examined, verified and reconciled to the corresponding bank statements. This includes every invoice and disbursement voucher issued during the period under audit. Any missing income (not deposited) or falsified check payments would be detected and alerted upon by the Audit Officer to the executives of the church and confirmed by review of the audit by the Director of Special Affairs. Any inconsistencies which could indicate embezzlement would be immediately followed up and investigated.

When an inconsistency is noticed, an investigation would be commenced at the origination of the local church or by the Continental, Flag or International Finance Office. If the investigation showed the probability of embezzlement by the FBO, he would be suspended from post. If this was proven out and he was found guilty of such by an ecclesiastical justice proceeding he would be removed from post. Suspension from post

would deny him access to the checkbooks and other means by which he could control church financial transactions. Removal would result in his removal as a signatory and remove him completely from any involvement with Church finances.

The penalty imposed on the individual would depend on various factors including the magnitude of the offense, his willingness to rectify the situation and his demonstrated worth to the group. The penalty would certainly include restitution and may also include criminal prosecution, dismissal from staff and expulsion from the Church.

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