

Church Finances Above Reproach



Tony Neal, CPA – Church Financial Services

info@churchfinancialservices.net

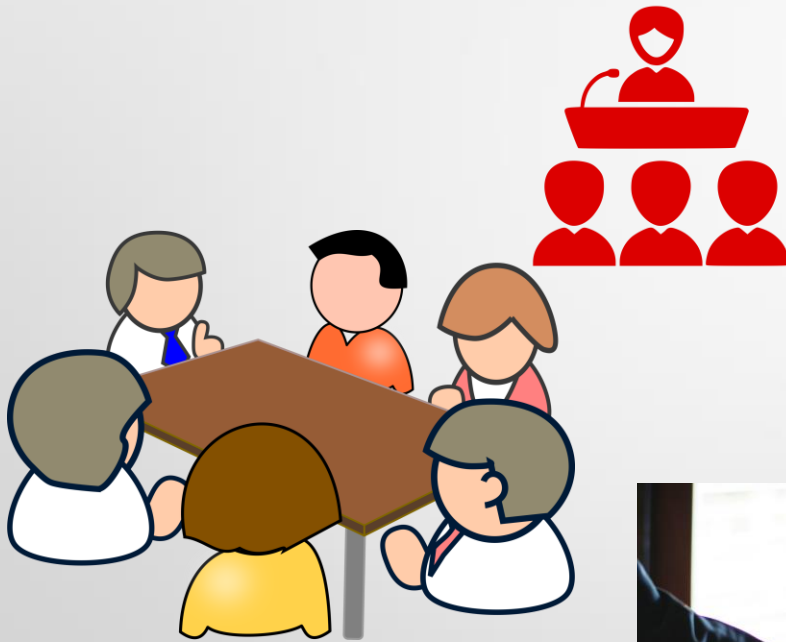
(678)448-4824

CHURCH FINANCE DANGERS

- Honest financial mistakes
- Dishonest financial behavior
- Whether financial mistake or dishonest action, the church can be put in a bad position financially and evangelistically.

Who is Responsible for Finances of the Church?

Church leaders have a special fiduciary obligation to make sure that all church assets are protected and used properly.



WHAT KEEPS PEOPLE HONEST?

- Personal beliefs
- Overall attitudes about right and wrong
- Cultural standards and laws
- Lack of need to commit fraud
- Lack of an opportunity to commit fraud
- Fear of getting caught and/or punished

Church Treasurer Embezzles

Church treasurer convicted of embezzlement

Rowe's attorney said she used the money for medical expenses. A trustee is skeptical of the claim. Newspaper Article - Ms. X Rowe replied "not guilty" as a clerk read the charges against her: seven counts of embezzlement while she served as treasurer for three churches in Catawba. Rowe, 70, maintained that she didn't think she had done anything wrong. She'd always intended to pay back the money, which a Roanoke police investigator estimated to be \$50,000.

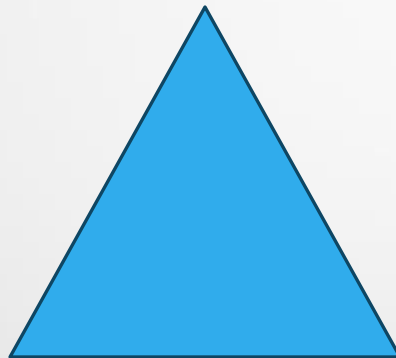
Important Note: Financial fraud is one of the main reasons people state for not giving tithes or attending church. It is important for more reasons than the money!

TRUST!

Fraud Triangle

The fraud triangle shows us the variables involved in committing financial fraud helping us determine how to minimize likelihood of embezzlement and other dishonest financial activity.

Pressure
(Personal Circumstances/Need)



Rationalization (Personal Justification)

Opportunity (Ability to execute plan)

Only the opportunity variable can be managed by the church in the fraud triangle.

New Testament Encourages Church Be Above Reproach

18 And we have sent with him the brother, whose praise is in the gospel throughout all the churches;

19 And not that only, but who was also chosen of the churches to travel with us with this grace, which is administered by us to the glory of the same Lord, and declaration of your ready mind:

20 Avoiding this, that no man should blame us in this abundance which is administered by us:

21 Providing for honest things, not only in the sight of the Lord, but also in the sight of men

2 Corinthians 8:18-21

Internal controls or dual control assures operating with integrity in the context of church offerings and finances (blameless or above reproach)

Churches Encounter Misappropriated Funds and Unreliable Records From Internal Control Problems

Segregation of duties

Loose organizational structure

Unqualified personnel/incompatible duties

Lack of financial policies and procedures

Absence of any monitoring of accounting

People let their guard down believing that people working in a church could never commit such terrible acts !!!

Segregation of Duties

- Authorization of financial transactions
- Recording of financial transactions
- Custody of Assets
- Reconciliation
- If there are not enough qualified people to separate all duties, then churches should separate functions of recording financial transactions from asset custody at minimum. (Increased Risk – if one is left out)

Establish Clear Organizational Structure

- Volunteer job descriptions
- Staff job descriptions
- Supervision and accountability
- Specific written explanation (sometimes depicted in flow charts) of how each department or team works together to accomplish tasks.

Enlist Qualified Personnel

- Sophisticated accounting controls and procedures can't overcome personnel issues
- Screen workers for aptitude and personal integrity
- Unqualified financial workers will lead to more honest errors and open door for more dishonest acts
- Training and mentoring to increase number of qualified personnel so church has ability to implement checks and balances
- Continuing education
- Individually bond employees and volunteers who handle cash

Document Accounting Procedures

- Policies and procedures need to be formally documented and provided to persons filling roles.
- It is recommended the church document in a financial policies manual so that persons asked to do the tasks can look at the requirements before accepting role.
- Financial Manual should include: 1)Budget and procedures with deadlines; 2)Handling transactions – cash or asset received and disbursed; 3)Processing of transactions – recording cash and other gifts; restricted assets and general fund accounting with account descriptions and proper documentation; 4)Reliable recordkeeping – procedures for reconciling cash and receipts to church records as well as bank statements; 5)Preparing and distributing financial reports.*

Monitoring of Financial Transactions

- Internal Audit/Review
- Objective Outside Review Sister Church
- Fraud Exam
- Accounting Review/Agreed Upon Procedures/Limited Scope Audit
- Professional Audit (Varies based on stewardship, affordability and etc.)

Above Reproach - Keep Up Guard – Be Reasonable!

- Church is a ministry but must maintain records like a business.
- Whether we want to admit it or not church workers are still sinners and still make mistakes. We need to monitor finances and recognize that the overly trusting attitude makes church more vulnerable.
- If you suspect something is wrong in finances, then there probably is something wrong.
- Transparency and accountability should be embraced – change is usually met with resistance (Easier to learn/correct mistakes than to recover from fraud).
- Complacency leads to opportunity.
- Late payments and late issuance of required documents is a sign something may be wrong.
- Internal controls protect employees, volunteers, and others from possible injurious accusations or needless suspicions.

Above Reproach Finances Are Important

- Remove temptation/opportunity to embezzle with controls
- Prevent a cloud of suspicion from developing over heads of honest workers
- Improve probability that errors, intentional and unintentional, are discovered with internal controls
- Reduce the chance of having to confront employee who has taken funds
- Reduce risk of having to tell congregation that some of their contributions have been lost (honest or dishonest) which can lead to division in congregation (criminal action, discipline and etc.)
- Reduce chance that you and other church leaders will have to feel embarrassed or dismissed for allowing the incident to occur
- Reduce the risk of negative media coverage and humiliating public portrayal of your church.
- **Reduce risk of church being an impediment in someone coming to know Christ.**

Sample Controls for the Church

- Counters – Team with two or more every week; not related; rotated; safe room; initials counts; deposited immediately
- Budget – Church approved & appropriately administered
- Proper accounting procedures to safeguard assets especially designated funds uses
- Duties to segregate - deposits, check writing, signing/approval(dual) & reconciliation of bank statements
- Accountability – Report regularly to committee/team, church & reviewed periodically by objective outside entity; Reconciliation of bank statements
- Safeguarding – blank checks locked away, petty cash reconciled, checks received stamped 'deposit only'; Individuals that have check-signing authority, authority to transfer funds between accounts, or prepare bank deposits should not reconcile the bank statement
- Require multiple signatures for checks is a simple way to reduce risk when don't have enough financial workers available.

Church Financial Checklist

- Segregation of Duties
- Establish Clear Organizational Structure
- Enlist Qualified Personnel
- Document Accounting Procedures
- Monitoring of Financial Transactions
- Keep Up Guard! Rely on Internal Controls

Tax Law Updates – Not Major in 2024 but Tax Laws Expiring & Election Will Bring Change

- 2024 Business Mileage Rate .67/mile
- The standard deduction rose \$1,500 from 2023 to \$29,200 for married couples filing jointly. Single taxpayers and married individuals filing separately can take a standard deduction of \$14,600, an increase of \$750.
- Charitable contributions deductible only if itemize.
- UBIT lower because of lower corporate rate and cannot combine multiple unrelated business to offset gains and losses.
- IRA required minimum distribution age to start raised to 73.
- IRS retirement contribution limits for 2024 will be increased slightly from their 2023 limits. For company sponsored 401 (k) plans, the maximum contribution limit from employee and employer will increase to \$69,000. The maximum employee contribution on a pre-tax or Roth basis will increase to \$23,000 and the catch-up contribution will remain the same at \$7,500.
- The max allowable adoption credit for 2024 is going up to \$16,800.