

ETHICS AND SAFEGUARDING CHURCH ASSETS



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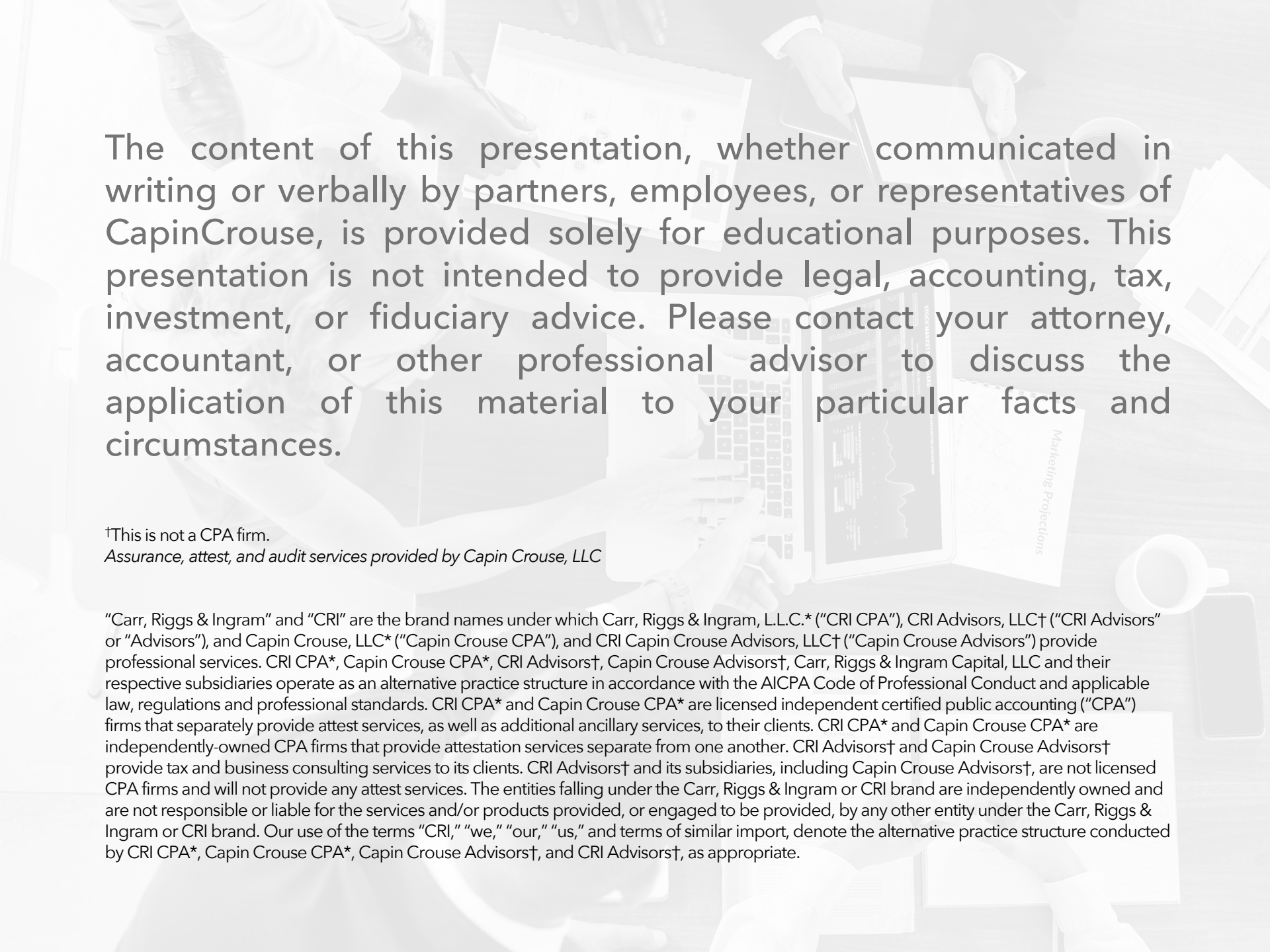
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CHURCH  FINANCIAL CONFERENCE

ETHICS OVERVIEW



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COMMON CHALLENGE

- One challenge a church treasurer may encounter is how to proceed when the church and/or a staff member wants a situation handled in one way, but the law or IRS code requires the treasurer to address it differently
- The treasurer typically considers one of two options:

Follow the instructions of the church and/or staff member, or

Inform the church and/or staff member that their request does not comply with legal guidelines and disregard it

SUGGESTED STEPS FOR THE TREASURER

1

Obtain a written statement of the law or IRS guidelines related to the issue

2

Present the law and guidelines to the church and church staff members

3

If the request was from a staff member who does not then change the request, the treasurer should present the situation to the finance committee (or to the church, if there is no finance committee)

SUGGESTED STEPS FOR THE TREASURER *cont.*

4

If the original request came from the church, the church treasurer should present the written laws or guidelines for properly handling the issue and ask the church to reverse its earlier request

5

If the church does not permit a reversal of the original request from either the church or the church staff member, the church treasurer should consider resigning from the position

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DEVELOPING A CHURCH FINANCIAL EXAMINATION PROCESS

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KEY CONSIDERATIONS

- Every church, regardless of size, needs to have some type of financial examination completed annually
- This will:



Give the congregation confidence that the financial policies and procedures adopted by the church have been followed



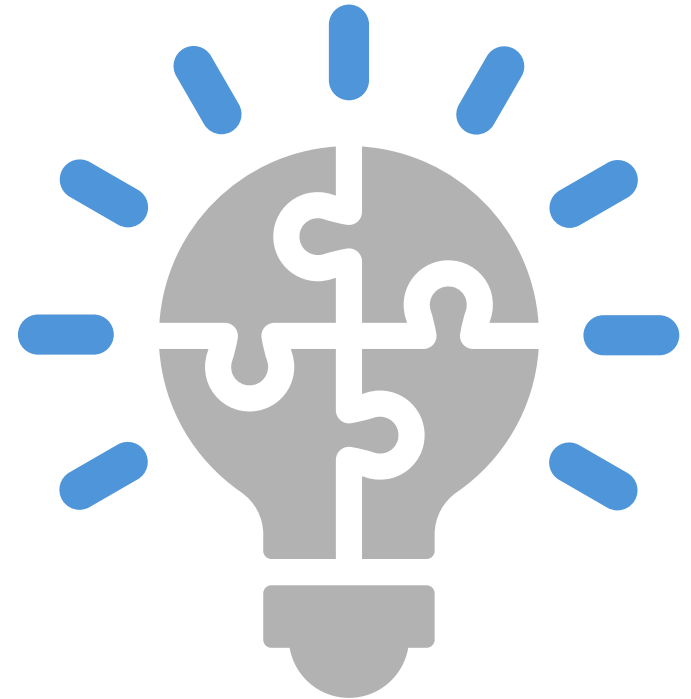
Assure members that the accounting system is intact and functioning properly, accurate reports are being presented, and members' gifts are being used efficiently and effectively to carry out the church's mission



Help protect the integrity of the church's financial management team and prevent them from being unjustly accused of any financial mismanagement

KEY CONSIDERATIONS *cont.*

- There are several types of financial examinations that a church may consider
- The first consideration is whether it will be conducted by an independent external accounting firm or by an internal church financial examination committee



EXTERNAL FINANCIAL EXAMINATIONS

- Ideally, a qualified Certified Public Accountant (CPA) should conduct the financial examination, ensuring they meet the professional standard of independence from the church †



† The professional standards established by the American Institute of Certified Public Accountants (AICPA) offer guidance on this

EXTERNAL FINANCIAL EXAMINATIONS

- A major challenge faced by many churches is the expense associated with a full financial audit [†]. **Consider the following:**



Contacting other local congregations or accounting firms to obtain an estimate for hiring an external accounting firm



If the cost is too high, consider taking the estimated amount and dividing it by the number of years needed to gather the necessary funds for an outside examination. (It is advisable to conduct an external examination at least every five years.)



This strategy will provide the budget committee with a figure to include in the budget annually until the necessary funds can be gathered to finance the examination.

EXTERNAL FINANCIAL EXAMINATIONS *cont*

- To help minimize costs, you may also want to consider the following services offered by an external accounting firm.

A major challenge faced by many churches is the expense associated with a full financial audit †

- † **A major challenge** faced by many churches is the expense associated with a full financial audit.
- **Instead of dismissing the idea** of an external examination, the church should contact other local congregations or accounting firms to obtain an estimate for hiring an external accounting firm. If the cost is too high, the church should consider taking the estimated amount and dividing it by the number of years needed to gather the necessary funds for an outside examination. (It is advisable to conduct an external examination at least every five years.)
- **This strategy will provide** the budget committee with a figure to include in the budget annually until the necessary funds can be gathered to finance the examination. To help minimize costs, the church may also want to consider which of the following services are offered by an external accounting firm.

ACCOUNTING FIRM SERVICES: AUDIT

- A formal examination intended to assess the accuracy and thoroughness of financial records
- Performed by an independent auditor on a set of financial statements to express an opinion regarding whether the financial statements, when taken as a whole, are materially correct
- An unqualified audit opinion indicates that the financial statements conform to U.S. generally accepted accounting principles (GAAP) and that the services have been carried out in accordance with generally accepted auditing standards (GAAS)
- Reported as the responsibility of management
- More expensive than a review* or a compilation due to the extensive testing requirements
- Depending on your financial deadlines, can often be scheduled during a “non-busy” period, which may result in lower fees

ACCOUNTING FIRM SERVICES: REVIEW

- Aimed at obtaining moderate assurance* that no material changes need to be made to the financial statements for them to conform with the applicable financial reporting framework (commonly U.S. GAAP)
- While significantly narrower in scope than an audit, a review offers more assurance than a compilation
- In carrying out this assurance and attest* engagement, the accountant must adhere to the AICPA Statements on Standards for Accounting and Review Services (SSARS)
- Reported as the responsibility of management
- Less costly than an audit but pricier than a compilation (no opinion by a CPA is rendered)

ACCOUNTING FIRM SERVICES: COMPILATION

- ⦿ Designed to help management present financial information through financial statements
- ⦿ Does not provide a basis for obtaining any level of assurance on the compiled financial statements
- ⦿ In conducting this engagement, the accountant must adhere to the AICPA SSARS
- ⦿ A compilation is less costly than either an audit or a review
- ⦿ Reported as the responsibility of management
- ⦿ This is considered a non-attest service

ACCOUNTING FIRM SERVICES: FINANCIAL STATEMENT PREPARATION

- This service allows accountants to meet the needs of their clients without a full audit, review, or compilation
- It may be particularly useful when dealing with taxing authorities, banking services, litigation services, or church valuations
- Reported as the responsibility of management
- This is considered a non-attest service



ACCOUNTING FIRM SERVICES: AGREED-UPON PROCEDURES

- Specific procedures to be completed and agreed upon between an accounting firm and the church
- May include a staff compensation analysis, tax compliance examination, internal control assessment, or specific procedures requested by a lending institution prior to granting a loan
- These types of services may be most cost efficient for a church with a very specific or limited need



INTERNAL FINANCIAL EXAMINATIONS

- Another option is for the church to conduct an annual internal financial examination
- This responsibility is sometimes assigned to the standing Audit Committee in certain churches
- If there is no Audit Committee, it would involve selecting an internal financial examination committee (EC) that is elected by the church and adheres to the rules and procedures outlined in the church's governing documents

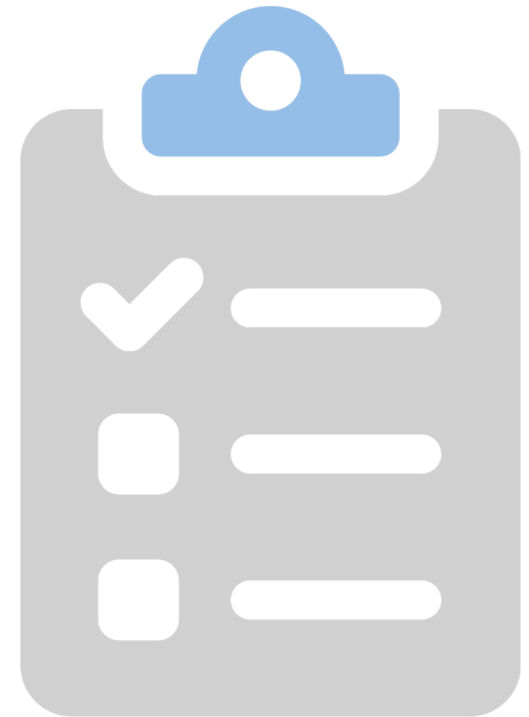


EXAMINATION COMMITTEE: MEMBER QUALIFICATIONS

- Active church members (see exception at 3 below).
- Duly elected in a church business session.
- Independent from any other responsibilities related to managing the church's finances. (If there aren't enough qualified individuals in the church, consider partnering with another local church and confidentially reviewing each other's records.)
- Possess integrity and financial knowledge.
- Given complete and open access to church records.
- Given clear task assignment.

EXAMINATION COMMITTEE: PURPOSE

- The main purpose of the EC is to review the work of the treasurer, financial secretary, and the Finance Committee to ensure compliance with financial guidelines
- The EC should also provide assurance that proper stewardship is exercised in receiving, disbursing, reporting, and safeguarding the church's assets in accordance with government regulations
- Once the annual financial examination is complete, a full report should be presented to the church



POSSIBLE TYPES OF FINANCIAL EXAMINATIONS

Internal Financial Examination

Review of receipts, disbursements, and financial reports to ensure the accuracy of the financial system

Internal Control Examination

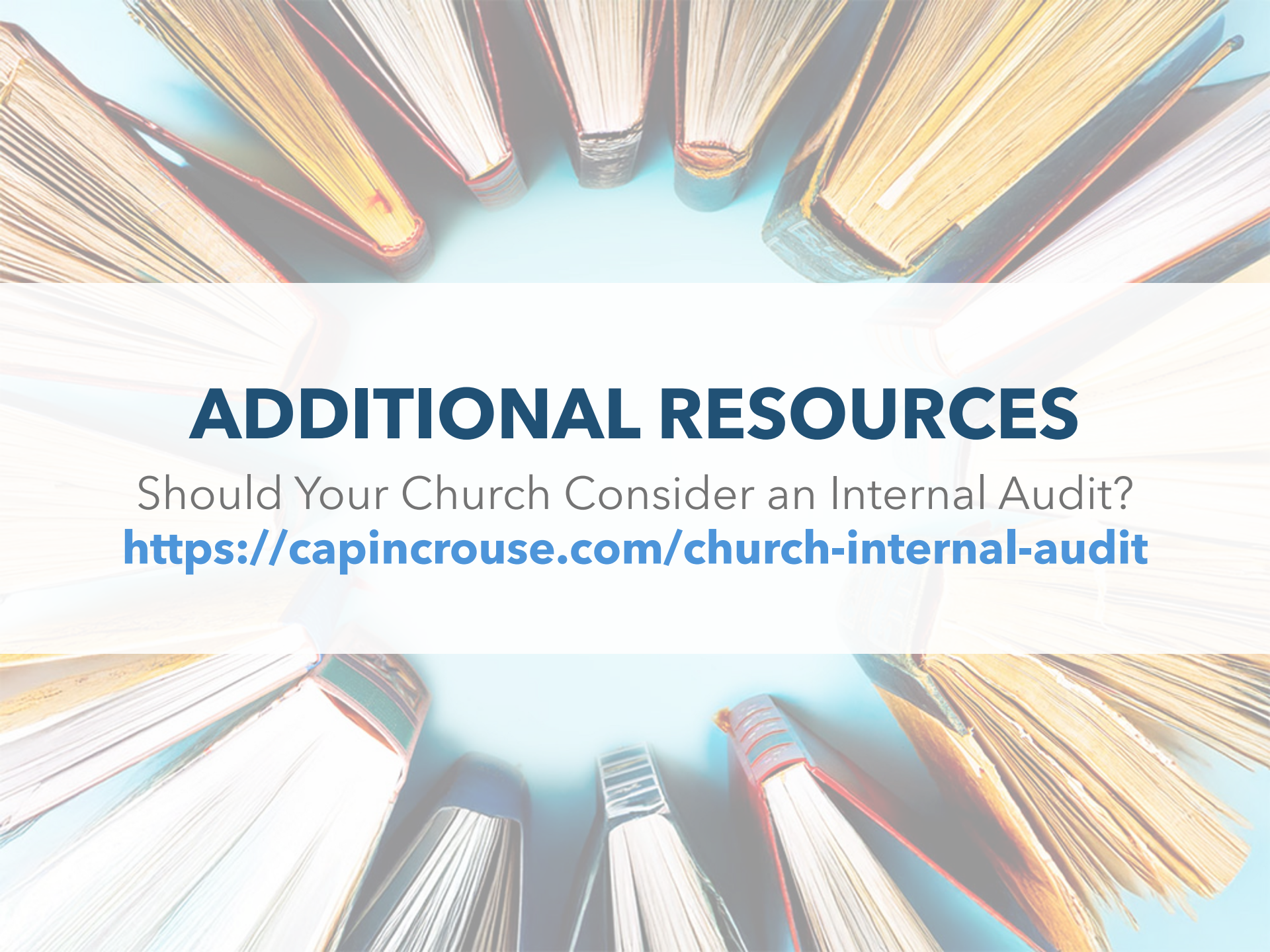
Review of church policies and procedures to ensure that appropriate safeguards and separation of accounting duties are in place to mitigate the risk of mishandling the church's funds

Property and Equipment Inventory Examination

Inventory of all church property, furniture, and equipment to produce a comprehensive listing of all assets for insurance and accounting purposes

IRS Tax Inquiry Audit Examination

Review of a church's records initiated by the IRS; if selected, it is advised that you seek professional assistance to address any concerns as promptly as possible



ADDITIONAL RESOURCES

Should Your Church Consider an Internal Audit?

[**https://capincrouse.com/church-internal-audit**](https://capincrouse.com/church-internal-audit)

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INTERNAL CONTROLS



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INTERNAL CONTROLS: DEFINITION

- Internal controls are specifically defined as the methods, measures, and plans (policies and procedures) that an organization such as a church adopts to ensure the following objectives are achieved:

- 1 *Safeguarding assets*
- 2 *Improving the accuracy and reliability of financial records*
- 3 *Ensuring good compliance with organizational (church) policies*

INTERNAL CONTROLS: DEFINITION *cont*

- To practice good stewardship, every church should create and implement a comprehensive set of financial policies and procedures
- In coordination with the church treasurer, the Finance or Audit Committee should develop a set of guidelines to be approved by the church to ensure the resources entrusted to the church are properly handled

SEPARATION OF DUTIES

- Separation of duties (also called segregation of duties) should be applied throughout the church to ensure accountability and transparency
- Ideally, different individuals should perform these activities related to financial transactions



*Authorization
(e.g., check signing)*



*Recordkeeping
(e.g., writing checks,
recording in
accounting system)*



*Reconciliation/Asset
Custody (e.g.,
reconciling bank
statements)*

SEPARATION OF DUTIES *cont*

- The unfortunate reality in many churches is that one person carries out all three of these roles, which offers no protections for either the church or the individual assigned to these duties



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SUGGESTED FINANCIAL POLICIES AND PROCEDURES



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FINANCIAL POLICIES AND PROCEDURES MANUAL

- Establish a committee (your finance committee, if you have one) to develop and present policies and procedures that will guide financial operations
- The following items are simply suggestions of what you can include
- Ultimately, it is up to your church to decide which items to include in the manual and to determine the precise wording of the policies and procedures

MONEY-HANDLING PROCEDURES

- ✓ Counting and banking money on Sunday
- ✓ Handling money that comes in at a time other than Sunday
- ✓ How much cash to keep at the church
- ✓ How to handle cash receipts
- ✓ Policies and procedures for:
 - *Check writing*
 - *Building use*
 - *Church material use*
 - *Budget oversight*
 - *Purchasing*
 - *Designated monies*
 - *Fundraising activities*
 - *Contribution records*
 - *Non-cash gift acceptance*
 - *Special offerings*
 - *Bonding*
 - *Petty cash*

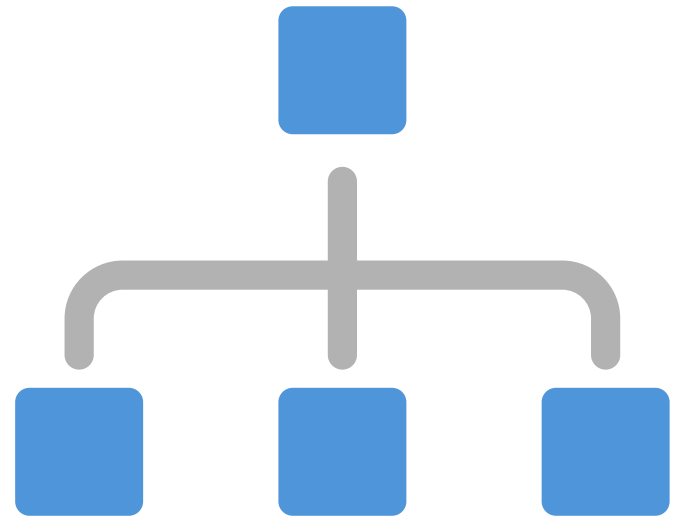
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CHURCH FINANCIAL ORGANIZATION MODELS

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CHURCH FINANCIAL ORGANIZATION MODELS: OVERVIEW

- ① The functions and responsibilities of the various members of a church finance team vary according to the size, needs, and organizational structure of the church



FINANCE TEAM RESPONSIBILITIES AND PROCEDURES



CHURCH TREASURER

Responsible for receiving, disbursing, accounting for, and safeguarding church resources in accordance with established policies and procedures



COUNTING TEAM (COMMITTEE)

Responsible for properly receiving, counting, and depositing all funds received by the church

FINANCE TEAM RESPONSIBILITIES AND PROCEDURES *cont* FINANCE COMMITTEE



Develops and presents financial policies and procedures to the congregation



Holds the overall responsibility for coordinating the church's financial activities, monitoring accounts and expenditures to ensure adherence to the policies and procedures, and revising them if necessary



The church treasurer should serve as an ex-officio member of the finance committee

FINANCE TEAM RESPONSIBILITIES AND PROCEDURES

BUDGET (PREP) COMMITTEE



In many churches, the finance committee also functions as the budget committee



Responsible for planning and presenting an annual budget for the upcoming church fiscal year



The procedure for assigning this responsibility to the committee should be documented in writing and approved by the church



The church treasurer will have significant interaction with this committee

FINANCE TEAM RESPONSIBILITIES AND PROCEDURES

FINANCIAL SECRETARY/ BOOKKEEPER/ACCOUNTANT

- Should serve as an assistant to the church treasurer
- Typically, responsible for posting contributions, mailing statements, writing checks, preparing monthly financial reports, and maintaining the church's financial records
- Retains legal and fiduciary responsibility for these functions
- Many churches do not have a financial secretary or bookkeeper
 - *It is not a requirement as part of a quality financial structure, especially for small churches*
 - *Most medium and large churches will have some type of paid staff involved in the church's financial administration*

FINANCE TEAM RESPONSIBILITIES AND PROCEDURES

STEWARDSHIP COMMITTEE



Should be responsible for planning year-round biblically based stewardship education for the entire church membership



This encompasses annual budget awareness initiatives, promoting capital fundraising campaigns, encouraging estate bequests, and coordinating personal money management education efforts

FINANCE TEAM RESPONSIBILITIES AND PROCEDURES AUDIT COMMITTEE



Reviews the work of
the treasurer and
the finance
committee



Ensures that
financial
guidelines are
being followed



Provides assurance
that proper
stewardship is used
in receiving,
disbursing,
reporting, and
safeguarding the
church's assets

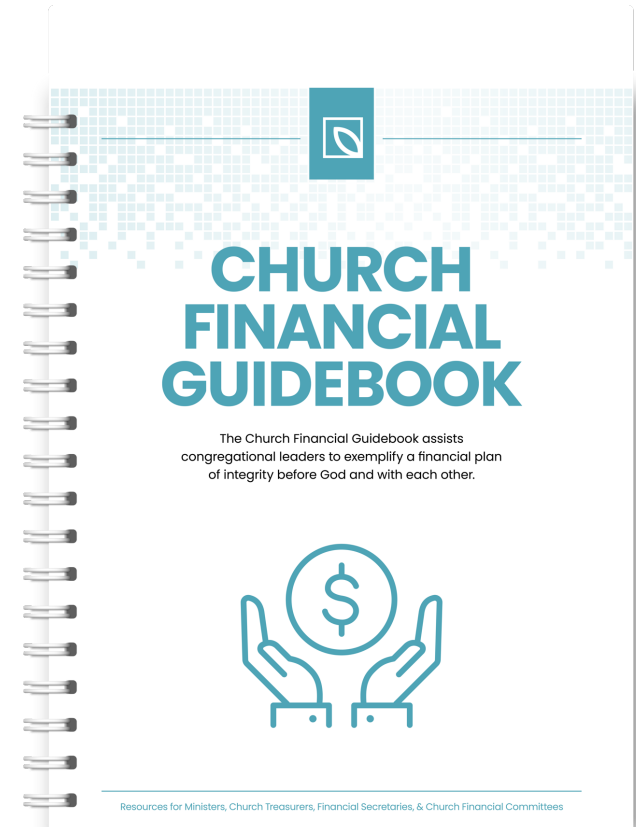
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RECORDS RETENTION GUIDELINES

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HOW LONG SHOULD YOU KEEP VARIOUS RECORDS?

- The following chart from the Church Financial Guidebook serves as a general guideline to help churches determine the minimum retention period for records
- The duration for keeping a document depends on historical interest, potential liability concerns, and tax considerations
- Depending on your church's needs, some records may need to be retained longer than suggested



HOW LONG SHOULD YOU KEEP VARIOUS RECORDS? *cont*

Record	Minimum Time to Keep
Articles of Incorporation, Constitution, and By-Laws	Permanent
Church Minutes	Permanent
501(c)(3) Determination Letter to indicate Church's Non-profit Status	Permanent
General Ledger Books and Church Financial Statements	Permanent
Employee's Personnel File incl. Application, Interview Form, Background Checks	Permanent
Federal and State Employer Identification Numbers	Permanent
Form 8274 if elected Exemption from FICA Taxes	Permanent
Bank Statements without Cancelled Checks or Deposit Slips	Permanent

HOW LONG SHOULD YOU KEEP VARIOUS RECORDS? *cont*

Record	Minimum Time to Keep
Church Financial and Employee Benefit Policies	Permanent
Church Audits/Financial Reviews and Government Correspondence	Permanent
403(b) Retirement Plan Document	Permanent
Cancelled Checks, Deposit Slips, Check Stubs	7 to 10 Years
Invoices and Receipts	7 to 10 Years
Annual Contribution Credit Statements	7 to 10 Years
W-4, State Withholding, I-9, New Hire Reporting Forms	10 Years
Salary Reduction Agreements of Employees	7 Years

HOW LONG SHOULD YOU KEEP VARIOUS RECORDS? *cont*

Record	Minimum Time to Keep
Housing Allowance Designations given to Ministers	7 Years
Form 8282 for Donated Property over \$5,000	7 Years
Payroll Tax Forms (941s, 944, W-2s, 1099MISC, 109)	7 Years
Form 5578 (Nondiscrimination Requirements)	4 Years
Offering Envelopes (see donor communication)	3 to 7 Years
Housing Allowance Designations given to Ministers	7 Years
Form 8282 for Donated Property over \$5,000	7 Years
Payroll Tax Forms (941s, 944, W-2s, 1099MISC, 109)	7 Years

SAMPLE RECORD RETENTION GUIDELINES AND POLICIES

- National Council of Nonprofits:
WWW.COUNCILOFNONPROFITS.ORG
- Evangelical Council for Financial Accountability:
WWW.ECFA.ORG

QUESTIONS?



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