



Brethren in Christ U.S.

Best Practices for Handling Church Finances

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Why are we here?

- God has called us to steward His resources
- By implementing best practices, we can invest our energy into what we have been called to as congregations
- We have a responsibility to protect those serving our congregations
- Being separate from the world doesn't mean church finances are immune to fraud and misuse



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Presentation Roadmap

- Overview of the fraud triangle and internal controls
- Practical tips for improving cash handling procedures
- Common pitfalls
- Tips for improving your church's financial reporting and budgeting
- Q&A

Why Do Churches Fall Victim to Fraud?

- Trust
- Limited capacity and expertise
- Ever changing environment
 - New employees
 - New software
 - Growth or shrinking of the organization
- Limited to no internal controls
- Tone at the top

Fraud Triangle



- Pressure
 - Financial Pressure, Vice Pressure, Other Pressures
- Opportunity
 - Lack of internal controls, ability to circumvent internal controls, failure to discipline fraud perpetrators
- Rationalization
 - The church owes me, I am simply borrowing the money, it won't hurt anyone, I do all this work for free

Two Ways to Fight Fraud

- Fraud Prevention
 - Creating a culture of honesty
 - Assessing and mitigating the risk of fraud
 - Internal controls
- Fraud Detection
 - Anonymous tips
 - Management review
 - Internal controls

Internal Controls

- Definition from [Investopedia.com](https://www.investopedia.com)
 - Internal controls are the mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.
- Why?
 - Protect the assets and reputation of the church
 - Protect your people (staff and volunteers)
 - Provide reliable financial information
 - Detect mistakes
 - Detect (and deter) financial misconduct



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Internal Controls

- Segregation of Duties
 - Custody, Authorization and Recordkeeping
 - "The principle of SOD is based on shared responsibilities of key process that disperses the critical functions of that process to more than one person or department." AICPA
 - Most types of theft can be prevented by segregating employee/volunteer duties
 - Duties common to churches that should be segregated
 - Collecting cash (Sunday offering & receipts throughout the week)
 - Preparing bank deposits
 - Reconciling bank statements
 - Posting contributions to the accounting/giving software
 - Expenditures (approval, writing checks, and signing checks)



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Internal Cash Controls

- When talking about churches, we are mostly focused on internal cash controls
 - How does cash get from the offering plate on Sunday morning, to the counting room, on to the bank and finally recorded in the accounting records?
 - How is cash disbursed? Who has signature authority? Who approves disbursements? Where are blank checks stored?
- Consideration should also be given to computer controls
 - Who has access to accounting software? Is access password protected?



Practical Tips

- Set high standards of financial responsibility with buy in from all leaders in the congregation
- Write your procedures down
 - Track the dollar from the offering plate in the pew to the safe to the count team to the bank to the accounting records
 - Procedures for disbursing a check
- Offering Team and Count Team
 - Use the rule of twos
 - At least two unrelated people should collect and count the offering
 - Rotate members of count team
 - Avoid selecting members experiencing a financial crisis
 - Consider conducting credit checks for volunteers involved in handling church finances



Practical Tips

- Counting Procedures
 - Count sheet
 - Signed by at least two members of count team
 - Multiple copies of completed count sheet
 - One should stay with bank deposit
 - One should be submitted to person who will record contribution in accounting software
 - One should be submitted to person in charge of reviewing bank reconciliation
 - Offering should be counted in secure room by at least two people
 - Consider stamping checks with "For Deposit Only" stamp or use a digital check scanner available through your bank
 - If cash is taken to bank by one person, deposit slip should be compared to count sheet held by other counter



Practical Tips

- Dual Access, Drop Slot Safe



Practical Tips

- Reconcile count sheets and bank deposit slips frequently
 - Any discrepancies should be noted and signed off by both counters
- Periodically compare deposits from Sunday services to previous weeks. The amounts received usually won't vary greatly week to week.
- Establish rhythm of sending statements to donors, detailing dates and gift amounts received.
 - This task should not be done by members of the count team
 - If there are discrepancies, they should be investigated and resolved quickly



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Practical Tips

- Disbursements
 - Make all disbursements by check or ACH
 - Establish who is authorized to approve disbursements
 - Only prepare disbursement (check or ACH) when someone has approved and there is supporting documentation
 - Use an accountable reimbursement plan
 - Separate role of signing checks from role of recordkeeping and preparing checks
 - Keep blank check stock in secure location
- Bank Reconciliations
 - Reconcile bank accounts monthly and have someone other than the preparer review and approve the bank reconciliation and bank statement



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Common Pitfalls

- One person is responsible
 - Not only are you putting your church at risk, you are also putting your volunteer or staff member at risk of false accusation or place of temptation
- Reporting is infrequent and inadequate
 - Monthly reports should be made available to the Board
 - Monthly bank reconciliations and bank statements should be reviewed and approved by someone other than the preparer
- Internal Controls are inconsistent
 - Strong in some areas but weak in others

Common Pitfalls

- Corporate credit card misuse
 - Missing Receipts
 - Personal purchases on the corporate card
 - Unauthorized purchases
 - Consider establishing reasonable credit limits to limit exposure
- Use of debit cards
 - Loss of dual control if debit cards can be used to make ATM withdrawals
- When fraud or misuse is discovered, it is not properly handled

Financial Reporting

- Statement of Financial Position (Balance Sheet)
 - Financial position at a point in time
 - Assets = Liabilities + Equity (Net Assets)
 - Most accounting software can prepare this report automatically
 - I recommend showing Current Year and Prior Year

Church Name			
Statement of Financial Position			
December 31, 2019			
	12/31/19	12/31/18	Inc/(Dec)
ASSETS			
Cash and Equivalents	\$ -	\$ -	\$ -
Accounts Receivable	-	-	-
Investments	-	-	-
Other Assets	-	-	-
Notes Receivable	-	-	-
TOTAL ASSETS	\$ -	\$ -	\$ -
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ -
Payroll Taxes Payable	-	-	-
TOTAL LIABILITIES	\$ -	\$ -	\$ -
NET ASSETS - UNRESTRICTED			
Undesignated Net Assets	\$ -	\$ -	\$ -
TOTAL UNRESTRICTED NET ASSETS	\$ -	\$ -	\$ -
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ -	\$ -	\$ -
TOTAL PERMANENTLY RESTRICTED NET ASSETS	\$ -	\$ -	\$ -
TOTAL NET ASSETS	\$ -	\$ -	\$ -
TOTAL LIABILITIES & NET ASSETS	\$ -	\$ -	\$ -



Financial Reporting

- Statement of Activities (Income Statement)
 - Income and Expenses over a period of time
 - Income - Expense = Net Income
 - I recommend showing Actual (year to date) and Budget
 - It may also be helpful to show prior year actuals
 - Most accounting software can show the CY and PY actuals automatically but the budget column may need to be added manually

Congregation Name			
Statement of Activities			
December 31, 2019			
Description	Actual YTD	Budget	Budget Variance
REVENUE			
CONTRIBUTIONS			
Unrestricted Contributions (Tithes and Offerings)	\$ -	\$ -	\$ -
Restricted Contributions	-	-	-
TOTAL CONTRIBUTIONS	\$ -	\$ -	\$ -
OTHER INCOME			
Investment Income (Loss)	\$ -	\$ -	\$ -
Registrations	-	-	-
Miscellaneous Income	-	-	-
TOTAL OTHER INCOME	\$ -	\$ -	\$ -
TOTAL REVENUE	\$ -	\$ -	\$ -
EXPENSES			
RETIREMENTS			
Youth Retreat	\$ -	\$ -	\$ -
Adult Retreat	-	-	-
Memorial Wellness Camp	-	-	-
TOTAL RETIREMENTS	\$ -	\$ -	\$ -
OPERATING EXPENSES			
SALARY & BENEFITS	\$ -	\$ -	\$ -
TRAVEL EXPENSE	-	-	-
OFFICE EXPENSE	-	-	-
TRAINING & DEVELOPMENT	-	-	-
CONTRACTED SERVICES	-	-	-
UTILITIES	-	-	-
MORTGAGE	-	-	-
OTHER EXPENSES	-	-	-
RESTRICTED DISBURSEMENTS	-	-	-
TOTAL OPERATING EXPENSES	\$ -	\$ -	\$ -
TOTAL EXPENSES	\$ -	\$ -	\$ -
CHANGE IN NET ASSETS	\$ -	\$ -	\$ -



Financial Reporting

- Other Reports
 - Statement of Cash Flows
 - Churches are often operating week to week or month to month, so knowing your cash position is important
 - Up to date accounting records and bank reconciliations prepared on a timely basis are important
 - Restricted Funds
 - If your church has accepted restricted gifts, it is important that you track the outstanding balances as those restricted funds are used
 - Giving Analysis
 - It may be helpful to have your treasurer do periodic analysis of the churches giving
 - Important to be aware of large, one time contributions vs. routine giving



Budgeting

- Why do we need Budgets?
 - Plan
 - Support strategic growth and ongoing ministry
 - What work does God have for us and how can we steward resources to care for those needs?
 - Provide fundraising targets
 - Spend
 - Provide a plan for strategic spending throughout the year
 - Analyze
 - Compare the plan with actual events – spending and contributions
 - How did we spend the funds we had?
 - Was our spend consistent with our strategic plan?
 - How can we improve in the future?



BIC U.S. Resources

- Church Finance – What Pastors, Treasurers, and Church Boards Should Know
 - <https://vimeo.com/showcase/5965620/video/299018975>
- HR ³ – 3 Critical Church HR Policy Issues
 - <https://vimeo.com/showcase/5965620/video/297335952>
- Healthy Personal Finances
 - <https://vimeo.com/showcase/5965620/video/334503694>
- Intentional Charitable Giving Strategies
 - <https://vimeo.com/376857355>



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Other Resources

- Financial Management Policies
 - <https://www.ecfa.church/Content/Financial-Management-Policy-and-Procedure-Handbook-CHURCH>
- Document Retention and Destruction Sample Policy
 - <https://www.ecfa.church/Content/Records-Retention-for-Churches-Church>
- Credit Card Use by Church Staff
 - <https://www.ecfa.church/Content/Credit-Card-Use-by-Church-Staff>
- Church Internal Audits
 - <https://www.ecfa.church/Content/The-Who-What-When-and-How-of-Church-Internal-Audits>



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Other Tips

- Offerings and Disbursements Assessment
 - <https://www.brotherhoodmutual.com/resources/safety-library/risk-management-forms/offerings-and-disbursements-checklist/>
- Ministers' Taxes Made Easy
 - <https://www.ecfa.org/FileAccess.aspx?file=2020MinTaxes&source=NPO>
- Church Reporting Made Easy
 - <https://www.ecfa.org/FileAccess.aspx?file=2020ChrRep&source=NPO>
- How to Buy Church Insurance
 - <https://www.brotherhoodmutual.com/resources/safety-library/risk-management-articles/administrative-staff-and-finance/finances/how-to-buy-church-insurance1/>



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Questions?



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We love to help

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