

Five Key Considerations of Financial Integrity for Church Leaders

By Gregg Capin, Senior Advisor

Amidst the daily duties and demands church leaders encounter, it is not easy to maintain perspective on factors that can protect or diminish integrity. But consider the immeasurable benefit of maintaining integrity — and the cost of compromising it.

To help protect and maintain the financial integrity of your church and leadership, this checklist contains five key areas of considerations built on a framework of:

- Consistency with faith and values: “For we are taking pains to do what is right, not only in the eyes of the Lord, but also in the eyes of man.” (2 Cor. 8:21)
- Conformity with laws and regulations: giving “back to Caesar what is Caesar’s...” (Mark 12:17)
- Clarity of message: avoiding impropriety or the appearance of wrongdoing; being transparent and truthful to avoid even the appearance of impropriety.

The following checklist does not cover all areas but is meant to help focus your thinking about financial integrity. Keep in mind that accountability is paramount at all levels, and even one oversight can result in a significant failure.

Responsible Governance

___ Have a high regard for legal parameters, tax forms, and status (charter, corporation, registrations, etc.) in order to support the church’s operations and vision through appropriate structure, legal position, and tax compliance.

___ Understand fiduciary responsibilities (duties of loyalty, care, and obedience).

___ Define the roles and responsibilities of the board and its members. This starts with a governance framework that is defined and set forth in board policies. The most effective boards know their role and execute their position.

___ Know exempt organization responsibilities so you can identify potentially problematic areas that can negatively reflect on character and competence.

___ Maintain active board oversight and monitoring of financial policies, operations, and controls, including ongoing risk assessments.

It is often said that tone at the top is everything and permeates an organization. There is ample evidence that this is true, and responsibility starts with leaders, especially those on an organization’s board.

As with our Christian witness, actions speak louder than words. A governing board leaves the door open to failure when it does not empower accountability by rigorously fulfilling its fiduciary duties and exercising effective oversight and monitoring. It’s also imperative for boards to define appropriate conduct and misconduct.

To be effective, boards must ensure accountability by understanding the cost/benefit of controls and what can go wrong without them.

Effective Financial Control

___ Establish written policies and procedures that include a clear delineation of the roles, functions, and duties of all people, positions, and groups, and then monitor those to ensure they are working.

___ Maintain segregation of duties, with multiple people involved to prevent and detect problems and monitor the effects of change on people, processes, and systems. These basic controls (checks and balances) should be an ongoing priority.

___ Monitor internal and external fraud risk and know how to respond to suspected fraud.

___ Consider internal audit procedures, which can be performed in any size church, as well as independent financial audits and legal evaluations, which can be right-sized for your church.

Financial integrity is dependent on financial control that prevents and detects problems. Control goes beyond exercising care with financial assets to stewarding and protecting people as well.

Wise Financial Management

___ Ensure that you receive timely, accurate, and reliable financial reporting, including key financial indicators, trends, and ratios. Your board and management need this information to make effective decisions and to anticipate and avoid problems.

___ Monitor church-specific, local, regional, and national giving trends, such as annual giving and budget survey findings. Understand the factors behind these trends.

___ Establish and maintain dynamic budgetary controls that are responsive to changing circumstances.

___ Maintain adequate financial reserves to weather unforeseen circumstances.

___ Adhere to strict guidelines for the acceptance and appropriate use of offerings and restricted contributions that avoid conduit of funds (funds that are received but then passed on to other individuals or organizations) and other concerns (including tax areas such as benevolence and scholarships).

The decisions your church makes and the way it conducts operations merit careful consideration. This requires good organization, clear core values, having the right people in the right positions, effective systems and processes, strong controls, and an uncompromising commitment to accountability.

___ Document the reasonableness of compensation and the ministry's compliance with excess benefit rules.

This is an area that can stretch the bounds of trust and transparency. There is an inherent conflict of interest that cuts to the core of integrity and values. What constitutes appropriate compensation and benefits to one person can be different in the eyes of another. The key is to understand the perspective of stakeholders and to base decisions on compensation studies that identify comparability with other churches.

Risk Identification and Management

___ Maintain an intentional and formal risk assessment process that is monitored by the board.

___ Monitor legal and regulatory developments, such as in religious hiring, ministerial status, and tax law.

___ Watch the horizon to be aware of developments that can affect your church. This includes fraud and financial failures, economic changes, giving trends, technology security, and many more.

Beyond reliance on God and a commitment to core values, avoiding problems is difficult without continually identifying risks and evaluating the potential effects of taking appropriate action.

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Appropriate Compensation and Benefits

___ Increase human resource awareness and skills of all staff by providing guidelines and training in areas such as hiring, supervision, and compensation and benefits. Maintain personnel files with required tax and legal information, including periodic evaluations. This is an area of significant risk for churches, and mistakes can lead to litigation and can affect a church's reputation.

___ Manage intellectual property ownership through clear guidelines and consistent practices, including a general church policy of ownership absent specific identification and agreement. This should provide a clear understanding for all individuals, whether personnel, leaders, or board members.

___ Perform careful retirement planning. Options and resources are limited, so time is critical. This is particularly an area of concern for start-up and nondenominational churches.

Although there is a lot to monitor, it's vital to be aware of, and respond to, these crucial areas in order to maintain financial integrity and protect the reputation and standing of your church leadership.

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