



Insurance Board Webinar Series

Building Trust, Preventing Disaster – Financial Controls for Your Church

We Care As Much About Your Church As You Do

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Carl Kotheimer

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Insurance Board Webinar Series

Building Trust, Preventing Disaster – Financial Controls for Your Church

We Care As Much About Your Church As You Do



Insurance Board -- Who We Are

We are a property and casualty insurance program
serving the churches and related ministries of the:
Christian Church (Disciples of Christ)
Presbyterian Church (USA) &
United Church of Christ

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Mission

To support and protect churches and church ministries by offering superior property and casualty risk and insurance management services.

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Objective

The workshop objective is to develop understanding fiduciary obligations of church leaders. Stewardship of church assets requires establishing processes and monitoring financial records. We will review elements of church by-laws and basic principles of financial control, separation of duties and audit.



Broad Outline

- Fiduciary Responsibility & By-Laws
- Change Barriers
- Basic Processes
- Examinations & Audit
- Next Steps



Definitions

- Covenant

Answer: _____

- Fiduciary

Answer: _____



Definitions

- Covenant – a written contract
- Fiduciary – a position of trust



Officer/Director = Fiduciary

- Distinguishing between
 - *Covenantal* relationships among individuals – casual agreements

versus

 - The ***assets*** and ***business*** of the church – your **fiduciary responsibility**



Bylaws

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Church Governance

- *“The United States Supreme Court has observed that ‘all who unite themselves to [a church] do so with an implied consent to its government, and are bound to submit to it.’* Watson v. Jones, 80 U.S. 679 (1871). *A church’s “government” generally is defined in its charter, constitution, bylaws, resolutions, and practice”* – Church Law & Tax Report, Jul-Aug 2009
- ... to wit, Courts are reluctant to address church governance, except in rare instances.



By-Laws – Finance Related

- Responsibilities of directors and officers
- Purchase and conveyance of property (last will & testament)
- A clause specifying how contracts and other legal documents are to be approved and signed
- Signature authority on checks



By-Laws -- continued

- “Bonding” of officers and employees who handle church funds
- An annual audit by independent certified public accountants
- Indemnification clause
- Specification of the church’s fiscal year



By-Laws -- continued

- “Staggered voting” of directors (a portion of the board is elected each year to ensure year-to-year continuity of leadership.

Source: *Church Law & Tax Report*, Jul-Aug, 2009



Barriers to Change

Installing Financial Controls

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A Pastor's Lament

“The church has had three treasurers since World War II. All of them have had exclusive access to financial records”



Warning Signs of Fraud -- Irony

- Comes in early, stays late.
- Takes on additional responsibility
- Rarely complains
- Earns management's trust
- Has access to everything
- Attentive to customer complaints
- Personal financial troubles are suddenly resolved

Source: Chrissie A. Power, CPA/CFF, P.D. Eye Forensics, LLC



Polling Questions

- Does your church have (any) controls written into by-laws?
- Does your church have other written financial controls?
- Have you experienced “push back” when attempting to address financial controls?



Opportunities to Get under Control

- Board or Treasurer Turnover
- New Pastor
- New Business Manager
- New Treasurer
- Don't accept appointment without an audit



Flags

- Reluctance to give up role
- Threat of quitting -- bluffing
- Won't take vacation
- Objection to audit – “You don't trust me”



Treasurer Role

- Counting, record-keeping, banking, distribution
- Focal point of financial process



Stewardship...

- ...is expressed through financial leaders
- “Because the treasurer is accountable, (s)he becomes a mirror through which the congregation sees itself in its faithfulness and by which its integrity is mirrored to the world.” -- CC(DOC) Treasurer’s Manual



Basic Process

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Resource

- www.disciplesmissionfund.org
 - Treasury Services
 - Treasurers Handbook – 2009
- www.macucc.org
 - Stewardship & Financial Development
 - A Church Finance Handbook -- 2010



Get Organized

- Finance committee
 - Budget
 - Monitor receipts, commitments, expenses
 - Establish procedures
- Audit committee
 - Independent; non-members
 - Accounting firm
 - Report available to members



Budgeting

- A spending plan
 - A statement of the congregation's ministry and outreach priorities
 - Includes the mundane – maintenance, salaries, insurance, utilities
- Set priorities – revise past, establish new, eliminate old
- Accountable to the Board



Budgeting (cont)

- Estimate income & allocate resources
 - Fixed and variable expenses
- Without specific budget guidelines and priorities, “leakage” can occur.
- Monitor variances



The people in the process

Distinct principal players

- Counters – large inputs of cash
- Treasurer –
 - Approves, monitors accounts, manages the budget
 - Reports to (is not the) Finance Comm.
- Financial Secretary –
 - Any designated person handling the books
 - Not the Treasurer



Accounting Software

- Software guide:

<http://www.churchaccountingsoftwareguide.com>



Handling Money

- Caretakers – Ushers, counters, financial secretary, treasurer
- Offerings – never to be unattended
- Counting – two or more persons
 - Protect from suspicion
 - Assures accuracy
- Separate money handling and recordkeeping
 - Protect individuals
 - Promotes orderly procedures
- All money banked ASAP



Counters' Role

- Each counts all funds for accuracy
- Record on form:
 - Checks
 - Cash in envelopes – amount recorded on outside
 - Loose offerings
- One copy to financial secretary, one to office



“Financial Secretary” Role

- Maintain accurate record and gives proper credit
- Receives:
 - Counters’ report
 - Envelopes
 - Discrepancy information for resolution with donor



Treasurer

- Seldom sees the money in any form except to sign checks
- Copies of all deposit slips or reconciliation report
- Review of sealed bank statements against deposit slips or reconciliation report
- Board decides which expenditures require approval or within Treasurer authority
 - Accountable (capitalized) versus expense (expendables)



Basic Banking -- Summary

- Two signers, all checks (Ideal case) or other approval regime (one over one)
- Split duties of check writing and review of bank statements (to prevent diversions)
- Checks accountable by number
- Match deposits to statements
- Provide receipts to donors
- **New!** -- Credit card use and statement payment routines
- Security



Flowcharts

- Key Processes
 - Collections
 - Purchasing
 - Credit Cards
- Can you “connect the dots” of your processes?



Disclaimer

These financial flowcharts are provided as representative procedures and guidance only. Adoption does not provide absolute assurance of financial integrity in the absence of periodic audits and other controls.



FLOWCHARTS

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Other Issues

- Confidentiality
- Preserving Records
- “Bonding” Officers -- Insurance



Confidentiality

- Not secrecy but ...
- Need-to-know only (= 2 minimum)



Preserving Records

- Five years – financial secretary, treasurer, annual audit
- Offsite storage and back-up
- Oldest records destroyed each year
- Follow your own procedure



“Bonding” Officers

- Obsolete term – now “Crime” coverage, including “Employee Theft”
- Fundamental stewardship
- Know policy limits – claims can be serious
- Know limitations of insurance
- Insurance loss reporting requirements



Examinations & Audit

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Objective

- Verify accuracy
- Verify controls
- Constructive improvement -- Errors don't necessarily mean fraud



When to Audit – Easy v. Hard

- Replacement of treasurer or financial secretary
- Financial institution requires an audit before making a loan
- Congregation's system of handling money is questioned
- Integrity of congregation's financial status is called into question
- Integrity of person handling funds is called into question



Benefits

- Public & congregational **perception**
- Enhanced confidence and **trust**
- Bolsters **reputation** – enhances giving
- Minimizes probability of crisis of reputation (6 o'clock news moment)



In-house Audit Guidelines

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Income

- How money received (Sunday offering, mail, office)
- What happens to it before deposit
- Who handles, counts and deposits
- Timeliness of deposit



Expenditures

- Prove footings in the cash disbursements journal (Does it add up?)
- Verify all pre-numbered checks? (accountable)
- Verify check number, date, amount, payee and accounts listed in journal
- From journal, trace entries to the general ledger for proper recording.



Expenditures (contd)

- Determine who authorizes expenditures.
- Is there sound budget control?
- Examine payroll records. **Has treasurer complied with government regulations** – taxes, withholding, WC, unemployment, etc.
- Reconcile the bank statement



Petty Cash Funds

- Check for control of petty cash funds
- Examine disbursement vouchers



Debt Retirement

- Debt balances to all lenders should be verified in writing.
- Examine loan conditions and repayment schedules



Insurance Policies

- Check policies for coverage, premium, payment terms, expiration
- Relevant coverage in place?



Saving Certificates

- Check amounts, interest and conditions of saving accounts
- Account for CD's



Your Critical Next Steps

- Get “governance” on the Board agenda
- Get big picture consensus
- Create ad hoc committee – “constitutional convention”
- Consider interim steps to establish control



Specific Steps

- Find the By-Laws
- Identify weaknesses & omissions as written
 - This is not personal
- Draft changes
 - Comprehensive revision
 - Doable, livable
- Communicate to congregation
- Discuss
- Vote



Implement Controls

- Audit Committee
 - Organize an independent audit
 - Evaluate requirements of by-laws vs. what actually happens (old and new)
 - Report to the Board with recommendations
- Finance committee
 - Re-map process of internal controls
 - Implement



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Property and Liability Risk Solutions for Churches

ABOUT US	OUR PROGRAM	SAFETY SOLUTIONS	CLAIMS	CONTACT US	<input type="text" value="Search"/>
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IB Elects Two New Board Members
 The conference ministers elected two new board members at the annual meeting in Florida. Reverend Dr. John R Deckenback, the Conference Minister of...

IB Offers PCUSA California Churches Earthquake Coverage
 The Insurance Board (IB) has announced that it is now accepting applications for earthquake coverage from the hundreds of Presbyterian Church (USA)...

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 Early Tuesday morning, the city of Cleveland woke to find that a beloved landmark and historic church, Euclid Avenue Congregational Church was ablaze....

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CHURCH MANAGEMENT

While handshake relationships may be acceptable among individuals, your church must be run as a business. As church leaders you have a fiduciary duty to fulfill the expectations of your members to manage your church's ministries, assets and reputation. Collectively or by committee you have management responsibilities every bit as serious as an equivalent local business owner.

In Volume 5 of our Loss Control Manual, we address the broad responsibilities of employment management, financial controls, property management (landlord), contracts, purchasing, food preparation, parish nursing, youth ministry and emergency planning.

Click [here](#) to access our Management Loss Control manual.

What about standard forms? - Because State laws vary widely with regard to certain contracts, like leases and releases, we do not provide a digest of forms on this site. However, you may contact us directly to discuss your particular needs. We can provide some assistance and sometimes a form, but only after we understand your need. See *Have a Question?* at the left of this page.

More detailed information regarding specific management challenges is provided below.

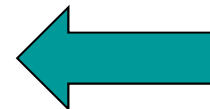
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[Catastrophe Information Center - Lexington Ins. Co.](#)

Document Name	Create Date
Cell Tower Leases Pestle-Varnum Law Document	8/31/2010
Contractor On-Site Document	8/31/2010
Facebook, Managing	8/31/2010
Fiduciary Duties for Church Leaders	8/31/2010
Hold Harmless Agreement	8/31/2010
Third Party Liability	8/31/2010
Loss Control Manual 5, Church Management	9/2/2010
Financial Controls - Separation of Duties Flowchart	10/8/2010

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Time to Chat

- Telephone – “Raise your hand” icon
- Public chat – All can see your question
- Private chat – Only I can see questions routed only to me.



Insurance Board

Carl J. Kotheimer, CPCU, ARM
Director, Loss Control & Claims
ckotheimer@insuranceboard.org
Tel. 216 736 3244

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