

## Best Practices for Finance in the Local Church

Derek W. McAleer  
Conference Treasurer  
Director of Administrative Services

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**Buckle up!**



**Things we want to cover today:**

- Segregation of duties.
- Duties of Finance Comm., Treasurer, and Financial Secretary.
- How the Treasurer's attitude affects finances and mission.
- Local church audits.
- Increasing funding.
- Where to find resources.

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## Segregation of Duties in Church Finance

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## What Is Segregation Of Duties?

Segregation of duties is a system wherein checks and balances are built in for protection

Examples:

- Justice (Prosecutor, Defense, Judge, Jury)
- Government (Executive, Legislative, Judicial)

Theologically, segregation of duties is a response to the reality of original sin, and to the error built in to our fallen nature.

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## Why Segregate Duties?

- Protect church funds.
- Protect the Treasurer / Financial Secretary.
- Protect the Finance Comm. (fiduciary responsibility).
- Catch normal errors.
- Provides backup in case of death, disability, or travel.
- Segregation of duties is standard procedure in financial dealings.
- *Trust* is not the issue; *Protection is*. Appropriate controls / checks & balances protects all parties.
- **I would not handle funds for an organization that would not provide me the protection of segregation of duties.**

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## Segregation of Duties

Finance Committee's job:

- Identify, Perfect & Manage the Finance System
- Oversee Treasurer and Financial Secretary
- Finance Committee makes decisions that others carry out

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## Finance Committee Duties

### ¶258.4

- Compile annually a budget for the local church – submit to church council for review and adoption.
- Develop plans to raise sufficient income to meet the budget adopted by the council.
- Implement approved budget spending plan.
- Approve/reject all fundraising requests outside of budget.
- Establish written internal control policies.
- Provide for annual audit.

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## Finance Committee Duties

### ¶258.4

- Guide Treasurer & Financial Secretary.
- Ensure internal control policies are being followed.
- Ensure that the Treasurer and Financial Secretary are not the same person nor in the same immediate family.
- Designate at least two unrelated persons (not residing in same household) to count offerings.

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## Finance Committee Duties

### ¶258.4

- Failure to establish and monitor internal controls may be culpable and negligent behavior.
- Failure to establish and monitor internal controls (thus putting church's assets at risk) because you are afraid of hurting someone's feelings is un-defendable.
- Best practice is to involve such persons in setting controls, stress how it protects them.

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## Segregation of Duties

### Treasurer's job:

- Carry out decisions made by Finance Comm.
- Sign properly documented checks (ask when unclear)
- Provide reports on church funds
- Compare deposit slip with count tally

### Financial Secretary's Job:

- Keep accurate records, handling funds
- Write checks (but do not sign)
- Oversee counting and deposits
- Balance statements – reconcile cash
- Send donor receipts

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## Treasurer's Role

- Keep accurate records:
  - Disburse funds to causes for which they were given.
  - Make sure reserve or escrow funds are not used for current expenses.
  - Do not talk (information is confidential).
  - Signs checks that are prepared by Fin. Secty
- Manage Funds:
  - Careful record keeping.
  - Invest unused funds (work with finance committee).
  - Timely payment of designated funds (including monthly payments to Conf. Treasurer).

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## Treasurer's Role

- Reporting is IMPORTANT:
  - Regular reporting of receipts & disbursements in an accurate and easily interpreted way.
- Report to Finance Committee and to Church Council or Administrative Board (monthly, at least quarterly).
- Records of income and expenses should be available to Finance Committee, Minister, and other church leaders.
- Does NOT count nor deposit funds.
- Does NOT prepare checks if signing them.
- Review Minister's Compensation Form to see about various withholdings.

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## Financial Secretary's Role

- Duties of Financial Secretary:
  - Oversees counting, receives, records, deposits all funds received by the church.
  - Keeps records of all funds received.
  - Records all funds received from individuals.
  - Tax laws require documentation of gifts.
  - Prepare checks for Treasurer to sign from approved vouchers and invoices (seek clarity when needed).
  - Balances bank statements.
  - Send donor receipts.

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## Financial Secretary's Role

- One of most important offices in a church.
- Protects both Treasurer and Church.
- Cannot be Treasurer nor related to the Treasurer (§ 258.4).

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## Finance Comm., Financial Secretary & Treasurer – Working Together

- **Finance Committee's job:**
  - Identify, Perfect & Manage the Finance System & Budget
  - Oversee Treasurer and Financial Secretary
- **Treasurer's job:**
  - Carrying out decisions made by Finance Comm.
  - Keeping accurate records, handling funds
  - Sign checks (ask when unclear)
- **Financial Secretary's Job:**
  - Oversee counting and deposits
  - Prepare checks (but do not sign)
  - Balance statements
  - Send donor receipts

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## Why Segregate Duties?

### THE UGLY TRUTH:

- Every year funds are embezzled from a church in South Georgia – churches of every size!
- These funds are taken by trusted Treasurers whom everybody knew. These were our small town neighbors.
- Usually begins with “borrowing” funds to get through a “tight spot”.
- Appropriate controls make such “borrowing” very difficult, and so keeps people away from disaster!

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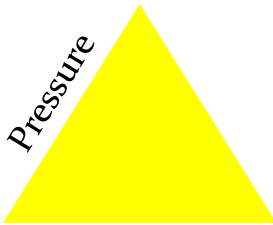
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## The Fraud Triangle

Pressure of  
unpaid bills,  
medical debt,  
addiction,  
gambling  
habit, etc



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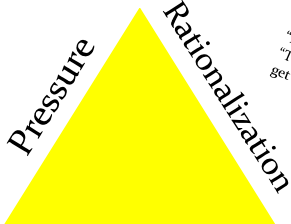
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## The Fraud Triangle



"I'm just  
borrowing it."  
"I'll pay it back."  
"This is just to  
get me through."

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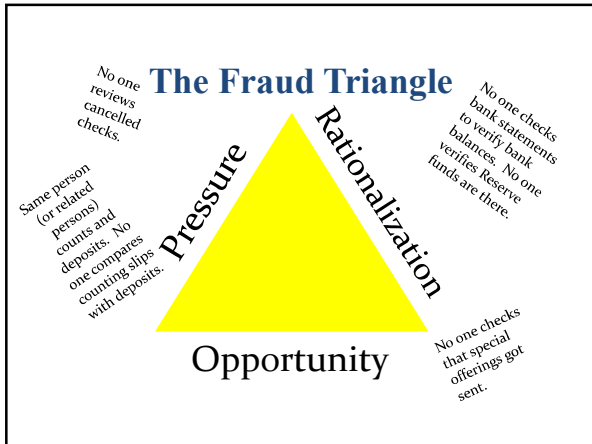
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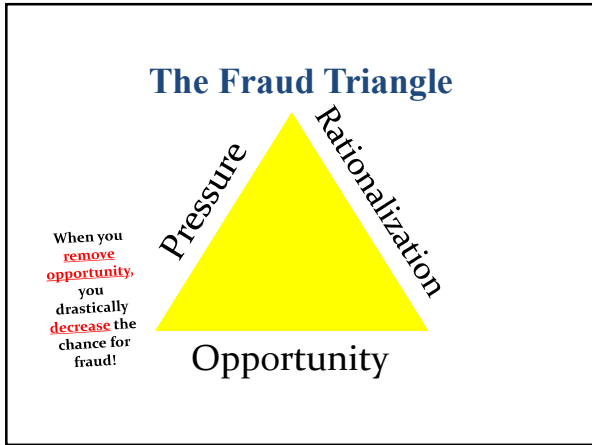
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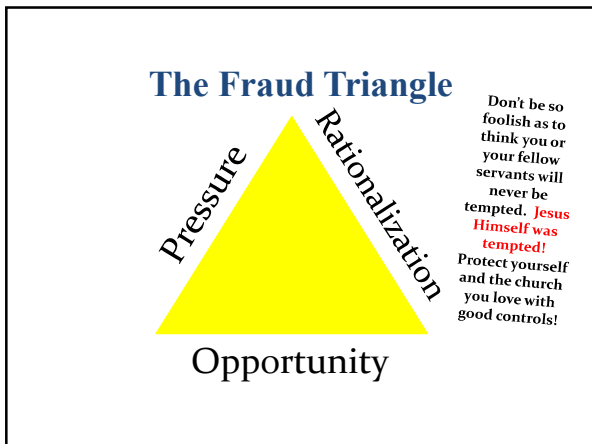
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### Examples of Poor Controls

- Only one person counts the offering.
- No rotation of individuals who count the offering.
- Individuals who count the offering are related.
- Only one person takes the offering to the safe/bank.
- One individual has access to the safe by himself or herself.
- The offering tally sheet is not reconciled with the deposit.
- The person who prepares the deposit also makes the deposit.

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### Examples of Poor Controls

- Contribution records are not reconciled with accounting/bank records.
- Person reconciling bank statement
  - Has signing authority
  - Does all bookkeeping/accounting entries
  - Processes offerings and revenues
- Documentation for substantiation of reimbursements not received or reviewed.
- Ministry leader approving own expense reimbursements.

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### Checks and Balances

- Deposit count sheets are compared to actual deposits.
- One person writes checks, but someone else signs them.
- Bank statement is reviewed occasionally by someone who does not balance it nor write the checks.
- Bank accounts are not reconciled by person who writes checks.
- Outside person(s) review books.
- Cancelled checks are reviewed.

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### Fraud Enablers

1. Same person deposits and records bank deposits.
2. Same person writes checks, deposits cash and reconciles bank accounts.
3. No required vacations of staff.
4. No criminal background or credit checks of staff.
5. No "term limits" for financial volunteers (treasurer, counters, etc.)
6. No financial expert on Finance Committee.
7. No surprise audits/financial and bank account reviews.
8. Related persons on Finance Committee or familial relationships with financial staff.
9. References are not checked when employees are hired.

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### How To Segregate Duties

- At least two unrelated, trustworthy, and competent people.
- One is Treasurer; one is Financial Secretary.
- Can switch the duties listed, as long as one set is performed by Treasurer, and the other by Financial Secretary.
- Both should report to Finance Committee at least quarterly.

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### Do We *Have* To Segregate Duties?

- Failure to segregate duties is failure to exercise fiduciary responsibility.
- Every church, of every size, has at least two trustworthy people in it.
- Treasurer should take the lead, insist on this!
- Your business people already know these concepts, likely practice them at work.
- Exactly why would you NOT want to protect church funds and your treasurer in this way?

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## Attitude Matters

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### Attitude matters!

- People are often hesitant to ask questions about finances – which is unhealthy and unhelpful.
- The Treasurer’s attitude goes a long way in making people easy.
- The Treasurer and Financial Secretary must lead the way, and over-share financial information.
- People with bad or incomplete information make poor decisions. More knowledge = better decisions.

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### How can we *share* the records?

- If funds are personal, don’t share. If they belong to the church – share!
- Treasurer has no authority to withhold information, even if their goal is to “keep funds from being spent” or misspent or squandered (in their opinion).
- Finance Comm. has authority and responsibility to protect church funds, not the treasurer.
- Treasurer may (and should) share their advice w/Finance Comm.

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**How can we *share* the records?**

- Only report the “balance in the bank”
- Give “gloom and doom” reports
- Make people feel guilty...

***Or,***

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**How can we *share* the records?**

- Share what ministry is being enabled
- Share stories of the impact gifts are having
- Visiting shut-ins, care for ill, help for grieving, support for parents, growth for children, etc.

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**Sharing the records**

- Have written reports, with budget, current monthly/quarterly expenditures as well as year to date amounts.
- Answer questions, be willing to discuss.
- Ask about how to handle cash balances. (ask about how much for reserves).
- *Report on ways funds were used* --
  - Not just the amounts spent, but ministry.

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## Funding The Conference

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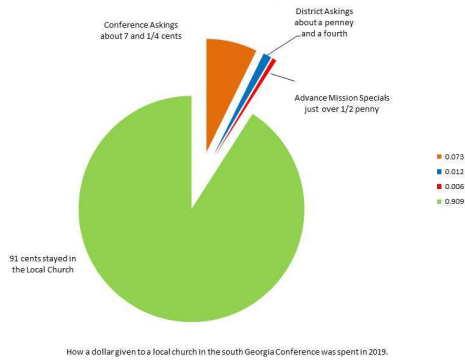
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### How A Dollar Was Spent In 2019




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#### How Local Churches Spent A Dollar in 2019

Average worship attendance	0-69	70-199	200+	Overall
Item	Smaller	Medium	Larger	Church
Debt Payment	0.92	3.19	4.03	4.65
Non-AC Benevolences	3.38	2.23	4.30	3.60
Church Programs	3.95	5.38	7.48	6.21
Conference Apportionments	8.65	7.77	7.19	7.79
District Apportionments	1.46	1.22	1.14	1.19
General/Advance Missions	0.82	0.43	0.66	1.00
Capital Expenditures	9.30	11.48	12.00	12.86
Local Church Operating Expenses	22.55	21.25	17.21	18.88
Staff salaries, & benefits	48.98	47.05	45.98	43.82
Total	100.00	100.00	100.00	100.00
Number of churches in group	435	97	52	584

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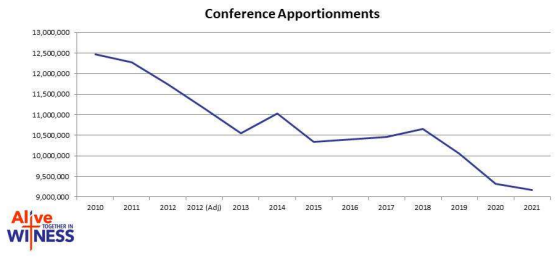
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## The Budget Truth

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## Annual Audit

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## Local Church Audit

“An independent evaluation of the financial reports and records and internal controls of the local church by a qualified person or persons for purpose of reasonably verifying the reliability of financial reporting, determining whether assets are being safeguarded, and whether the law, the Discipline and other policies are being complied with.”

From “The Local Church Audit Guide For United Methodist Congregations”, page 5

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## Audits - continued

- **Independence** means person doing the audit should not be subject to control by or related to the person in charge of financial records.
- Neither the pastor nor the persons who handle church funds should conduct the audit.
- Recommend an outside professional, if the church has annual receipts in excess of \$300,000.
- Small churches can do lesser versions of audit, not hire CPA's for this.
- Free audit guide on our website with instructions for small churches.
- Trade off with a neighboring church.

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## Increasing Funding

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## Funding Your Congregation's Ministry

- Operating Budget = Foundational level of giving.
- Designated Giving = Giving in addition to the budget.
- Planned Giving = Gifts of stock, property, insurance policies.
- Estate Giving = wills, trusts, etc.
- *You must earn trust by how you handle church finances if you want the bottom two types of gifts!*

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## Funding Your Congregation's Ministry

- Outside-focused ministries can be funded in other ways:
  - *Grants*
  - *Business sponsorships*
  - *Community fundraising*

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## Resources

- **Administrative Services Office**
  - 1-800-535-4224
  - [Derek@sgaumcadmin.com](mailto:Derek@sgaumcadmin.com)
- **Websites:**
  - [www.cokesbury.com](http://www.cokesbury.com) (*Guidelines for Local Congregations: Finance*, other official handbooks and forms) 1-800-672-1789
  - [www.sgaumc.org](http://www.sgaumc.org) (local church audit guide, lots of info on Administrative Services page)
  - [www.gcfa.org](http://www.gcfa.org) (great tax packet, 501.c.3 ruling forms)
  - [www.wespath.org](http://www.wespath.org) (information on pensions)

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