

10 Things Every Church Administrator Should Know About... Finance

1. Financial Controls

Following a strong set of financial controls can help ministries protect their funds and maintain credibility with their donors, congregations, and communities. Here are a few checks and balances to consider implementing:

Use a screening process. Screen everyone who will handle money and financial records for the ministry. A thorough screening process consists of a written application, a reference check with at least two references, a face-to-face interview, and an annual background check. To make it easier for volunteers to impartially supervise each other, avoid situations where immediate family members—and people who work at the same place during the week—work together on church finances.



Protect tithes and offerings. Always have two people present to collect the offering and count money. Coats, purses, and briefcases should not be allowed into the counting room. Rotate counting teams so that no team counts money more than once a month. Deposit offerings into the ministry’s bank account as soon as possible to avoid keeping cash on church premises. Reconcile counting records and deposit slips with bank statements regularly.

Scrutinize payments and disbursements. Only reimburse for approved business expenses that are documented with receipts. Require dual signatures for bank withdrawals and to endorse checks above a certain amount. Make sure the person who reconciles the bank account is not the person who writes checks for the church. Strictly prohibit the use of ministry credit and debit cards for personal expenses.

Safeguard financial data. Have bank statements sent to multiple people for review—at least one of the people should be someone who does not have accounting responsibilities. Back up financial records and keep versions in multiple secure locations in case one version becomes damaged or corrupted. Protect data with strong passwords. Change online banking passwords and only share them with those who need them. Perform regular backups of financial files.

Audit the books. An external audit from a certified public accountant (CPA) can give an unbiased look at ministry finances and help find weak points in the ministry's system of financial controls. Between audits, ask church leaders to review financial statements on a monthly basis. Review the ministry's financial controls with the ministry's attorney or CPA to make sure the policies and procedures comply with the laws in your area.

Document the approved financial controls and educate employees and volunteers on them. You may want to have personnel sign a statement saying they understand the policies and will follow them.

2. Online Tithing

Online tithing is an increasingly popular option for ministries and their donors. Consider the following issues to protect those who do their tithing online:

Data storage. By storing donors' bank account number or other financial information, the church becomes responsible for guarding that information. One way to avoid storing this data is to hire a trustworthy outside vendor to process online donations. A secure partner will use Secure Socket Layer (SSL) encryption and comply with the Payment Card Industry (PCI) Data Security Standards. Before signing an agreement with an outside vendor, ask for referrals from churches that work with the vendor and have the ministry's attorney review the agreement. The vendor should also agree to indemnify (reimburse) the church for any losses of donors' data which results from the vendor's negligence.

Insurance. If a data breach occurs, the entity responsible for protecting donors' financial information could be legally obligated to pay for the damages and notify donors of the breach. Be sure that whoever handles the data—whether it's the church or a contractor—has adequate insurance to cover these risks.

Forms of payment. Some ministries choose not to accept donations via credit card, opting instead for e-checks and bank drafts, which do not involve debt. Discuss the forms of payment that your ministry will accept before starting an online giving program. If your ministry accepts online gifts, talk to a trusted IT professional and the ministry's attorney to weigh the options for processing these donations. Whatever solution you choose, strong data security measures can help protect donors and the ministry.

3. Documents and records

Documents and records can provide important information about the ministry's finances beyond its tax-exempt status and income and expenses. Here are a few types of records to retain and update at your ministry:

Bylaws and other organizing documents. Review the ministry's organizational document on a regular basis with a qualified attorney to make sure it contains all provisions that are recommended by the IRS for 501(c)(3) organizations. If the ministry is incorporated, file all required paperwork, such as annual reports with the Secretary of State's office.

Financial statements. Reconcile deposit slips with bank statements regularly, and have bank statements sent to more than one person for review. Review ministry finances at each board meeting and encourage board members to ask questions. Save financial records in multiple secure locations in case one version becomes damaged or corrupted. Protect data with strong passwords to help prevent thieves from stealing or altering financial records. Perform frequent backups of financial computer files.

Meeting minutes. Document all board and committee meetings and keep copies of the meeting minutes. These records can serve as official documentation of certain financial arrangements, such as a pastor's housing allowance.

Payroll and tax records. Keep timesheets, W-2s, W-4s, and all other paperwork related to payroll and taxes. It's best to retain these documents for at least seven years after filing related tax returns.

Contracts. If a contract dispute occurs, accurate copies of the contract can serve as a reference in settling the disagreement. Local laws may require your ministry to keep additional records. Talk with the ministry's attorney to be sure your recordkeeping complies with all applicable laws.

4. Offerings and disbursements

Following a series of policies and procedures can help ensure that offerings and disbursements are processed accurately. The following measures can help you keep a handle on offerings and disbursements:

Don't go it alone. Putting multiple sets of eyes on every step of the process can help keep everyone accountable for their actions and may help avoid false accusations. Always have at least two people present when counting money, and rotate counting teams on a regular basis. Counting team members should be on stable financial footing, unrelated to each other, and should not work at the same place during the week. Reconcile deposit slips—and check registers—with bank statements to make sure deposits and disbursements are accurate. Require dual signatures for withdrawals and for endorsing and cashing church checks.

Analyze disbursements. Prepare cash disbursements only when someone with the proper authority has approved and documented payment.

Limit the number of debit and credit cards issued. Issuing cards only on a “need to have” basis can help lower the likelihood that a card is misused, lost, or stolen. Issuing fewer credit cards also may limit the ministry’s liability if someone makes unauthorized charges.

Mark checks and invoices appropriately. Stamp checks “FOR DEPOSIT ONLY” when endorsing them. Mark invoices “PAID,” when appropriate, to avoid double payment.

Update information with the bank. Make sure the bank has an up-to-date list of people who are authorized to sign checks on behalf of the ministry. By protecting the ministry’s funds, you can protect its ability to minister. Train employees and volunteers to use the appropriate financial controls to help keep the ministry’s finances—and credibility—above reproach.

5. Payroll

Payroll processing can be a challenging task for any organization, but especially for ministries. To help improve accuracy and comply with the law, keep the following tips in mind:

Use timesheets. Employees should complete timesheets each week. Review and discuss any discrepancies before approving. Once a timesheet is approved by the employee and the ministry, it confirms that both sides agree on what the employee is owed.

Understand and follow unique clergy tax laws. Dual-tax status, housing allowances, and special- occasion gifts can make clergy payroll processing a tall order. Consider using a reputable outside processor (such as MinistryWorks), but if you decide to keep payroll in-house, be sure to follow all applicable tax laws.

Know the Fair Labor Standards Act (FLSA). The FLSA governs minimum wage and overtime pay, among other employment issues. Some employees and organizations are exempt from the FLSA. To be sure you properly classify workers within your ministry, consult a qualified attorney.

Avoid stipends. It’s better to pay a salary or an hourly rate that’s at or above the minimum wage.

Retain documents. Keep timesheets, W-2s, W-4s, and all other paperwork related to payroll and taxes. Retain these documents for at least seven years after filing related tax returns. Payroll processing and tax filing can be a full-time job in itself. Following the law and keeping detailed records can help maintain accuracy and avoid costly penalties.

6. Business expense reimbursement

Staff members and volunteers may incur business-related expenses, from purchasing Sunday school supplies to attending conferences. One way to reimburse personnel for

these expenses is by using an accountable reimbursement arrangement. These suggestions may help in administering an accountable reimbursement arrangement:

Define which expenses are eligible. Set a reimbursement limit—any high-dollar transactions above the limit should be paid directly by the ministry. Only reimburse for legitimate, ministry-related expenses.

Require documentation. Ask for documentation that shows the amount paid, date of payment, location of the purchase, and how the purchase is business-related. Generally, a receipt or canceled check submitted within 60 days of the transaction is acceptable.

Keep appropriate records. Once an expense is reimbursed, mark the receipt “PAID” to avoid double reimbursement. Document the date and check number of the reimbursement check for the ministry’s records. There are several ways to reimburse for business-related expenses, but an accountable reimbursement arrangement generally minimizes the number of adjustments an employee must make on tax returns. Whatever reimbursement policies and procedures your ministry uses, review them with the ministry’s CPA or attorney to make sure the process adheres to all applicable laws. Then, follow the policies and procedures consistently and keep accurate records.

7. Clergy housing allowances

Ministries are generally permitted to give housing allowances to help pay for their pastors’ housing-related expenses. When administered correctly, clergy housing allowances are exempt from federal income taxes. If your ministry offers these allowances, the following tips may be helpful:

Designate the allowance. Prior to the start of each calendar year, church leaders must officially designate the amount of the housing allowance in one of two documents: the pastor’s employment contract or the church board’s meeting minutes. This cannot be done retroactively.

Calculate the amount that’s tax exempt. The amount of the housing allowance that is exempt from federal income tax is the lowest of the following: the total designated housing allowance; actual housing expenses (such as mortgage payments, utilities, insurance, improvements, and furnishings); or the fair rental value of the home (furnished, including utilities). If the designated housing allowance is greater than the pastor’s actual expenses or the home’s fair rental value, the excess housing allowance is subject to federal income taxes.

Complete tax forms accurately. While housing allowances are exempt from federal income taxes, they are generally not exempt from Social Security and Medicare taxes. Be sure to file accurate W-2s, 1040s, and other tax forms. Ministries are subject to unique—and sometimes complicated—tax laws. Consider working with a qualified tax preparer such as MinistryWorks to help complete the appropriate forms accurately.

8. Dual-tax status

All taxpayers must designate their tax status as either “employee” or “self-employed.” Many pastors qualify as employees for federal income taxes, but are considered self-employed for Social Security and Medicare tax purposes. See the following points for help in navigating this “dual-tax status”:

Determine federal income tax status. A worker’s status as being an “employee” or “self-employed” (an independent contractor) depends on the degree of control and independence he or she has. See the IRS Common Law Rules for more information. If unsure about a pastor’s tax status, consult with the ministry’s attorney. If an attorney cannot determine the status, fill out and submit IRS Form SS-8 to ask for a ruling from the IRS.

Consider voluntary payroll withholdings. Churches are not required to withhold federal income tax from a pastor’s paycheck, but the pastor is required to pay this tax at some point. Pastors also are required to pay both the employer and employee portions of Social Security and Medicare taxes, as mandated by the Self Employment Contributions Act (SECA). One way to pay these taxes is for the pastor to ask the church to make voluntary payroll withholdings. Voluntary withholdings can save the pastor the time-consuming task of preparing quarterly estimated tax payments.

Complete the necessary payroll tax filings. Churches that agree to make voluntary withholdings for pastors should complete the necessary quarterly and annual payroll tax filings and remit the tax withholdings to the U.S. Treasury. If the church does not agree to make voluntary withholdings, the pastor should make quarterly estimated tax payments using IRS Form 1040-ES. Dual-tax status can be a source of payroll tax complications for ministries. By determining tax status correctly and withholding taxes accurately, ministries and pastors can feel confident that they’re paying taxes by the book.

9. Fair Labor Standards Act

The Fair Labor Standards Act (FLSA) includes unique conditions for ministries regarding wages, overtime pay, child labor, and other issues. Here are a few FLSA-related issues to consider:

Employee classification. Even if the ministry as a whole is exempt from the FLSA, individual employees may be covered by it. See the *United States Department of Labor’s FLSA Reference Guide* and check with a licensed attorney if an employee’s FLSA status is unclear.

Minimum wage. Unless an exemption applies, employers must pay at least the federal minimum wage. States and localities may have higher minimum wages—follow the laws that apply in your situation. If you are unsure of whether federal or local minimum wage laws apply to your ministry, you should contact a local attorney.

Overtime pay. Non-exempt employees must be paid overtime wages (at least 1 1/2 times the worker’s regular hourly wage) for time worked beyond 40 hours in a week.

Flex time. The FLSA does not permit the use of “comp time” (vacation time to be used at a later date) by most employers. One alternative may be to use “flex time” to keep an employee’s total number of hours at 40 or less in a week. For example, if an employee works 10 hours on Wednesday, the employer is allowed by federal law to send him home an hour early on Thursday and Friday, so he works only 40 hours in a week. Check your local employment laws, as some states are more restrictive with flex time.

Employees who volunteer. Ministries may have employees who also want to volunteer their time. While individual employees may volunteer in other areas of ministry, they generally cannot volunteer for work they are being paid to do as part of their job description. The FLSA is just one labor law that ministries and their employees may be subject to. Check with a local attorney to make sure your ministry follows all applicable employment laws.

10. Credit card safeguards

While debit and credit cards can be a quick and easy payment option, ministries should take steps to avoid misuse and fraudulent charges. These security measures could help you manage the use of ministry credit and debit cards:

Opt for a card with fraud protection. While the government offers business entities protections against unauthorized charges, these protections are generally limited. Some banks and card providers, meanwhile, offer “zero liability” protection options. Check the terms of the ministry’s credit and debit cards to learn about the protections that apply.

Limit the number of cards issued. Only give cards to those who need them. The Federal Truth in Lending Act includes limited protections against fraudulent charges for small-business credit cards, but these protections only apply if a non-employee made the unauthorized charges and there are nine or fewer credit cards linked to the account.

Monitor ministry accounts. Online banking tools have made it easier than ever to track ministry finances. Call the bank or card provider immediately to report unauthorized activity. Individual states may offer expanded protection against debit or credit card fraud. Check with a local attorney for clarification on local laws.

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