



9 ESSENTIALS OF
**AVOIDING
MINISTRY
FRAUD**

NONPROFIT

**ESSENTIALS
SERIES**

Introduction

Introduction

Fraud is not just about losing money. Fraud *does* have negative financial implications for ministries, but the impact goes *far beyond* money.

Fraud and misuse of ministry resources can create sensational news—and not good news. Sadly, the result is the loss of credibility and a diminished witness of the Gospel in the sight of skeptics—not to mention the loss of effectiveness.

*Watch and pray so that you will not fall into temptation.
The spirit is willing, but the flesh is weak.*

Matthew 26:41

So why don't we just eliminate the possibility of any fraud being committed? The simple answer is that we cannot eliminate all fraud. This would require a small army of employees and/or volunteers rotating through different positions to separately review each transaction, with checks and balances that would bring any ministry to a grinding halt. This would not be effective stewardship. Therefore, our goal should not be to eliminate all fraud but rather to find a reasonable balance between preventive efforts and risks.

While not all fraud can be prevented, ministries should:

- understand the areas of highest risk,
- establish internal controls to minimize embezzlement opportunities,
- analyze weaknesses in controls, documenting recommended improvements, and
- create a fraud action plan, if victimized.

For the ministry you serve, what are the three areas which are most susceptible to fraud? If you can't readily answer that question, the risk of fraud is probably not very high on your radar screen. For ministries with sound overall internal controls, the largest risks may involve certain types of electronic transactions—receiving gifts, fees, and sales. For a ministry with weak internal controls, the largest risks may relate to expense substantiation, bank reconciliations, and more.

Avoiding fraud starts with the tone set by the top leader (president, executive director, etc.) and ripples down through the ministry organization chart—rarely flowing upstream.

Fraud is not just about money. *It's about faithful administration of God's resources.*

1

Understand
why ministries
are susceptible
to fraud

Understand why ministries are susceptible to fraud

It is important to understand why fraud happens in ministries.

Fraud can happen in any organization—nonprofit or for-profit, large or small. Ministries are susceptible to fraud for the following reasons:

- **A high trust culture.** Ministries have a very high trust culture. Yet high trust, without accountability, can lead to disastrous fraud results.
- **Limited constraints.** There is so much work to be done and never enough time to do it. It is easy for staff to look for shortcuts which may eliminate some internal controls designed to prevent or detect fraud.
- **Misuse of technology.** Implementation of new software or upgrades may result in permissions granted that were not intentional. Sometimes a ministry outgrows their current technology and not enough system controls exist for their size.
- **Lack of training.** Staff must be trained in the importance of internal controls, what to look for regarding potential fraud, and what to do if they suspect potential fraud. According to surveys by the Association of Certified Fraud Examiners, more fraud is detected by tips than any other means.
- **Reluctance to use background checks.** Ministries are sometimes reluctant to require background checks because they are overly sensitive to the feelings of staff and volunteers. But background checks should be considered for individuals being considered for key ministry financial positions. You must receive permission to conduct a background check, and that permission should be in writing.

At a minimum, a background check should include a criminal background check and a credit check.

*In the same way, deacons are to be worthy of respect,
sincere, not indulging in much wine,
and not pursuing dishonest gain.
They must keep hold of the deep truths of the faith
with a clear conscience. They must first be tested;
and then if there is nothing against them,
let them serve as deacons.*

1 Timothy 3:8–10

When fraud occurs, the following three elements are usually intertwined:

- **A need.** A person has either internal or external motivation to acquire additional resources. This could include medical needs, a divorce, or even just trying to impress someone.
- **An opportunity.** A person is presented with an opportunity to acquire funds or assets and they convince themselves that they will not get caught.
- **A rationalization.** A person is able to rationalize what they are doing so they are comfortable committing the fraud. This could be a perception of being unappreciated, under-compensated, or even thinking their actions will only result in a short-term loan.

The more of these three elements that are present, the more likely fraud will occur. Of these three elements, the one that a ministry has the most control over is the opportunity element. To avoid fraud, ministries must reduce fraud opportunities.

2

Create a culture
to minimize fraud

Create a culture to minimize fraud

While there are many important factors in minimizing fraud, the most important is the culture of the ministry. In a ministry where the leadership team places a high value on stewarding resources—where the leadership believes and teaches that faithful administration is a biblical mandate, a major fraud is unlikely to occur.

A remarkable culture plus remarkable people in tune with God’s Holy Spirit will produce remarkable results.¹ This remarkable culture starts at the top of the ministry and flows down the organization chart. The leadership team must set the accountability example—leaving all money matters to other staff and volunteers. This is an essential factor in creating a culture to minimize fraud.

Internal controls and documentation can either be viewed as important elements for the effective operation of the ministry or as an impediment to delivering program results. Staff will take their cues from leadership—if leaders value accountability and transparency in financial matters, staff will generally follow.

An important element of creating a culture to minimize fraud is valuing the credibility and reputation of staff and volunteers of equal or more value than the ministry’s resources. By establishing sound internal controls to protect God’s resources, we protect staff and volunteers from unwarranted accusations of financial abuse.

This, then, is how you ought to regard us: as servants of Christ and as those entrusted with the mysteries God has revealed. Now it is required that those who have been given a trust must prove faithful.

1 Corinthians 4:1–2

¹ David Salyers and Randy Ross, *Remarkable: Maximizing Results through Value Creation*, Baker Books, 2016.

3

Understand
how fraud occurs

Understand how fraud occurs

Significant fraud doesn't just happen. It happens when ministries are not alert to the opportunities for fraud. A weak accountability culture combined with an anemic accountability structure is the perfect landscape for fraud.

Before we look at modern situations to watch for, consider this interchange between Joshua and Achan in Joshua 7, which reveals that God's servants, who never intended to steal, may fall into temptation.

Then Joshua said to Achan, "My son, give glory to the Lord, the God of Israel, and honor him. Tell me what you have done; do not hide it from me." Achan replied, "It is true! I have sinned against the Lord, the God of Israel. This is what I have done: When I saw in the plunder a beautiful robe from Babylonia, two hundred shekels of silver and a bar of gold weighing fifty shekels, I coveted them and took them. They are hidden in the ground inside my tent, with the silver underneath."

Joshua 7:19–21

There are four big-picture issues that are often overlooked by ministries, providing an open door for those with an inclination to commit fraud:

- 1. Lack of dual controls.** When only one person has total control over a key financial function, the door swings open for potential fraud. For example, let's say the bookkeeper approves checks, writes the checks, signs the checks, and posts them in the accounting system. Even if another person reconciles the bank account, fraud can easily be committed—and over a period of many years.

Example: The accountant goes to the bank to wire \$10,000 to an overseas project but also wires an additional \$15,000 to her personal bank account. The transaction is entered into the accounting records as a \$10,000 wire transfer and the \$15,000 transferred to the personal account is charged to an obscure account. Since the ministry does not have an annual external audit or another person reviewing this transaction, it is unlikely the fraud will ever be discovered.

- 2. Overriding policies.** Some ministries have thorough written financial policies. For other ministries, written policies are almost nonexistent. Whether strong or weak, those policies can be overridden, causing a major issue for many ministries.

Example: A ministry needs to wire funds internationally. The ministry has a policy that the director of operations must be directly involved with all wire transfers, giving the bank the final go-ahead to release the wire. However, on the day the wire needs to be sent, the director of operations is on vacation and does not have a cell phone connection. So, the accountant decides the wire must be sent without the involvement of the director of operations. Thus, the controls, although strong, were overridden.

It is important to establish sound controls and stick with them.

- 3. Collusion.** Even with strong policies, collusion between two key staff members or volunteers can result in fraud. While it is unusual for two people to work together on a fraudulent arrangement, it can happen—especially if the two people serve the ministry over a long period of time.

Example: One person is in charge of the general ledger, including management of the relationship with the external service for online giving, and another person posts all contributions to the gift management system. The first person diverts online giving to his personal checking account for a few hours each month. The second person posts all the gifts to the donor accounting system as though the ministry received all the funds. The first person is responsible for reconciling the online giving to the accounting records and covers up the shortage. Over a period of time, the two individuals can defraud the ministry out of a considerable sum of money.

- 4. Long-term employee with no oversight.** When one individual—staff or volunteer—has the same position at the ministry over a long period of time with little or no oversight, an invitation to commit fraud is delivered. Over a long period of time, it is inevitable that a financial need will arise in the life of the person. Even the most trustworthy person may be tempted to be involved in fraud.

4

Avoid revenue-
related fraud

Avoid revenue-related fraud

You shall not steal.

Exodus 20:15

Incoming funds require special attention to ensure that all funds are handled properly from the moment they are received by the ministry until the funds are deposited in the ministry's financial institution.

At a minimum, the following revenue-related duties should be segregated among a couple of individuals to reduce the possibility of fraud:

- receiving funds,
- preparing bank deposits,
- reconciling bank statements,
- posting receipts to the contribution system, and
- posting entries to the general ledger.

The following three revenue-related areas should receive attention to minimize fraud:

1. Counting incoming cash. Adopt specific controls for cash as follows:

- Staff and volunteers handling cash and checks should undergo adequate training and sign a confidentiality statement before beginning their work.
- Provide a secure area where counting of checks and cash can be performed.
- The counting area should have video surveillance and no blind spots.
- Counters should not be allowed to have purses, briefcases, or other similar items in the counting area.
- Counting should occur in teams of two.
- Checks should be endorsed to the ministry.

2. **Revenue received remotely.** Are large amounts received remotely from the ministry's primary office? Are the controls at event sites comparable to the controls at the ministry's main location?
3. **Digital transactions.** With digital gifts, there is no challenge of converting checks to cash—it is as simple as redirecting the flow of digital funds. This threat is now just as significant to ministries as physical thefts or embezzlement, due to the prevalence of online giving. Without sound protections in place, there is a greater potential for digital fraud than for fraud related to physical funds. For a ministry receiving millions of dollars a year in digital gifts, a major loss can occur in a short period of time.

Ministries must understand the three processes included in all e-giving arrangements, and the safeguards that go along with them.

- **Giving.** Typically, the ministry collects credit card information and possibly, bank account information through an online giving platform. Data security on the giving platform is essential.
- **Payment processor.** The giving platform is in between the giver and the payment processor (also called the merchant account provider), which processes the gift and delivers it to the ministry's financial institution.
- **Giver management system.** While some giving platforms have the option of processing giving records, many ministries host donation records on their own IT systems.

The following steps will help establish internal controls vital to security in digital giving:

- Build a strong, multi-person payment processor relationship.
- Limit access to the donor management system.
- Limit authorized changes to payment processor accounts.
- Regularly reconcile digital giving accounts. This includes reconciling bank accounts to payment processor transaction reports, giving records to payment processor transactions reports, and giving records to bank accounts.

5

Prevent expense-
related fraud

Prevent expense-related fraud

Keep watch over yourselves and all the flock of which the Holy Spirit has made you overseers. Be shepherds of the church of God, which he bought with his own blood.

Acts 20:28

Ministries tend to spend much of their fraud prevention efforts on incoming funds. However, fraud generally occurs after the money has been deposited in the bank. Here are the key expense-related areas worthy of focus by ministries:

1. Segregation of duties. At a minimum, the following expense-related duties should be segregated to a couple of people:

- approval of expenditures,
- writing checks, and
- signing checks.

2. Ministry credit cards. The most common abuse of ministry credit cards is when an individual uses the card for personal purchases instead of ministry purchases. This may be a staff member who purchases airline tickets, books hotel stays, and eats at restaurants—all for personal purposes—and charges the expenses on a ministry credit card, while submitting expense reports indicating the expenses are for ministry purposes.

Strict policies should be enforced for ministry credit cards, and substantiation must be required for all purchases.

There are a number of risks associated with ministry credit card use. Because of these risks, some ministries have eliminated most credit cards. In these instances, employees use their personal credit card and document ministry-related expenses for reimbursement.

This approach removes a number of risks for the ministry:

- a. lost credit cards,
- b. use of ministry credit cards for personal purposes, and

c. tardy substantiation of charges on a ministry credit card—the reimbursement of ministry expenses charged to a personal credit card only occurs after the expenses are submitted to the ministry with substantiation.

- 3. Expense reimbursements for leaders.** These reimbursements can represent a sticky issue. When the bookkeeper reports to a particular executive who doesn't adequately substantiate business expenses or requests reimbursement of personal expenses, what is the bookkeeper to do? One solution is to routinely have all of the CEO's expense reimbursements and credit card statements submitted to an appropriate board member for approval. This review would generally occur after the expenses are paid in order to maintain timely payment of credit card statements.
- 4. Payroll.** Payroll and fringe benefits are typically a major outflow of funds for many ministries. Major discrepancies between actual payroll expense and the budget and/or differences between current year and prior year payroll expense should be readily explainable.

Even for a small ministry with a few employees, payroll for the employees can be "padded" by adding unauthorized "bonus" amounts above regular pay. In a larger ministry, it is possible to have "phantom" employees. In other words, someone in the office might add one or more "employees" to the payroll who do not work at the ministry.

- 5. Building programs.** When a ministry is engaging in a building program, significant outflow of funds often go to a few major contractors. This heightens the importance of dual controls over payments relating to the building program. The possibility is raised of payments going to a fictitious vendor or payments made to a legitimate vendor but going to the address of the person committing fraud.
- 6. Funds expended internationally.** Major cash flows often relate to payments to foreign nongovernmental organizations (NGOs) for ministry programs. It is not enough to merely confirm that the funds expended internationally reach the proper individuals or entities. The ministry should receive regular reports on how the funds are used. For significant international gifts, periodic site visits may be appropriate. Also, see ECFA's eBook: *6 Essentials of International Financial Activity for Ministries*.

6

Protect against
asset-related fraud

Protect against asset-related fraud

*Be sure you know the condition of your flocks,
give careful attention to your herds.*

Proverbs 27:23

One often thinks about fraud only occurring in connection with revenue and expenses. However, fraud sometimes occurs with respect to assets, requiring ministries to also be alert in this area.

Here are some areas where asset-related fraud can occur:

- **Investments.** Ministries are especially susceptible to investment fraud. There always seems to be the potential to invest in high-return schemes and ministries may look for these “opportunities.” While some of these options may just be poor investments, others are outright fraudulent schemes.

A sound investment policy is the starting point to protect ministry investments. Strict compliance with the policy is also important.

- **Equipment.** The equipment inventory may not receive the attention it deserves. As a ministry grows, equipment—especially unused equipment—tends to disappear. Sometimes the unused equipment shows up for sale on eBay, being sold by someone who volunteers at the ministry.

Technology is the most likely asset to be valuable enough to steal. Items such as laptops and audiovisual equipment should be closely monitored.

For smaller ministries, an equipment inventory system may be as simple as a spreadsheet with only individual items costing more than \$500 or more than \$1,000 included in the inventory. Larger ministries should use more sophisticated fixed asset management software.

Purchases or gifts of equipment are added to the inventory and sales or other dispositions of equipment are removed from inventory. For ministries recording equipment on their statement of financial position, the inventory additions and subtractions are reflected in the general ledger.

- **Inventory.** Some ministries sell products and carry inventory to support these sales. The two primary inventory control options are to maintain a perpetual inventory

or take periodic inventories. While a perpetual inventory may be preferable in reducing fraud, the periodic inventory system is preferable in some instances because it may be less time consuming.

- **Gift cards.** Some ministries receive gift cards as donations or may take part in selling scrip inventory where the organization makes a percentage for each gift card they sell. This can be a fundraiser that generates additional money for the ministry, but it comes with an elevated risk for fraud because of the susceptibility of the gift cards to theft. It is important that at least two people be involved in the inventory and accounting of this type of asset.

7

Perform routine
risk assessments
and audits

Perform routine risk assessments and audits

Generally, only larger ministries have external audits by a certified public accounting firm. Yet every ministry should routinely perform risk assessments and audits of some type.

- 1. Risk assessment.** The purpose of a risk assessment is to determine if the ministry has weak internal controls in any area. Every ministry should periodically perform a risk assessment—larger ministries more often than smaller ministries.

After a risk assessment is completed, leadership should determine what steps may need to be taken to strengthen internal controls. Additional information on risk assessment can be found at www.nonprofitrisk.org or by working with your CPA.

- 2. Internal audit.** If a ministry does not have an external audit, it is important that internal audit procedures be performed periodically by independent staff members, volunteers, or board members. The internal audit is a deeper drill-down into internal controls than the risk management assessment. Fraud prevention is a natural outgrowth of the internal audit.

Some large ministries that have an external audit also utilize an internal audit process to provide even more assurance than the external audit alone.

Excellent internal audit guidance is found in *Integrity at Stake: Safeguarding Your Church from Financial Fraud* by Rollie Dimos (Zondervan, 2016) and the *Church and Nonprofit Tax & Financial Guide* published annually and authored by Dan Busby and Michael Martin.

- 3. External audit.** While an audit by an independent CPA firm is not specifically designed to prevent fraud, auditors often provide a management letter with recommendations concerning significant internal control weaknesses.

Additionally, knowing that an annual audit is being performed is a good deterrent for potential embezzlers. They are less likely to participate in fraudulent activity if they know that an outside professional is going to be testing the validity of accounting transactions.

Some ministries have a “review” or a “compilation” performed by an independent CPA firm. A review only involves limited testing of transactions and a compilation does not involve any testing of transactions.

Ultimately, we assess risk and perform internal and external audits because we want to be sure God’s money is handled with faithfulness and integrity. Without such faithfulness, we demonstrate that we are unworthy to dispense true riches.

*Whoever can be trusted with very little can also be trusted
with much, and whoever is dishonest with very little
will also be dishonest with much.*

*So if you have not been trustworthy in handling worldly
wealth, who will trust you with true riches?*

Luke 16:10–11

8

Report financial
wrongdoing

Report financial wrongdoing

Should employees and volunteers be encouraged to raise concerns about financial wrongdoing in a ministry? The answer should be a resounding “Yes” for at least three reasons:

1. It helps create a culture of transparency, empowering employees and volunteers to “see something, say something.”
2. It gives the ministry the opportunity to address minor issues before they become serious problems.
3. Most instances of fraud are detected by reports of wrongdoing from employees and others.

But everything exposed by the light becomes visible—and everything that is illuminated becomes a light.

Ephesians 5:13

The larger question is: How should a ministry facilitate the raising of concerns about financial wrongdoing? Should the ministry have a “whistleblower policy”? These are challenging questions. Here are a few observations:

1. Ministries often think of whistleblowing only as it relates to large secular organizations. However, the Sarbanes-Oxley Act of 2002 requires protection for whistleblowers in all corporations. Since ministries are incorporated, they are subject to these same requirements.
2. Ministry leaders expect that staff members inherently know to report any perceived wrongdoing. This may not be true, especially if they are new or are intimidated by the involved individuals.
3. Ministries must be careful to take any allegations seriously while still protecting the accused from possible reckless accusations. Ignoring allegations or not handling them properly could result in negative public fallout for the ministry.

4. A formal policy should include:

- a. A clear statement that employees (and perhaps volunteers) who are aware of possible wrongdoing with the ministry have a responsibility to disclose that information to designated individuals inside the organization;
- b. The designation of specific individuals or groups outside the chain of command to receive reports;
- c. A guarantee that employees who in good faith disclose perceived wrongdoing to the designated parties inside the ministry will be protected from adverse employment consequences; and
- d. The establishment of a fair and impartial investigative process.

9

Manage the
fraud occurrence

Manage the fraud occurrence

Despite your best efforts to establish and monitor internal financial controls, significant financial fraud may occur at your ministry. When embezzlement pays a visit, it is usually a surprise—perhaps a shock. Why is it so unexpected? For openers, the person who committed the fraud is often one of the most trusted individuals in the organization. It is difficult to believe the person could ever betray the trust of the ministry's leadership.

*Brothers and sisters, if someone is caught in a sin,
you who live by the Spirit should restore that person gently.
But watch yourselves, or you also may be tempted.*

Galatians 6:1

What should ministry leaders do first when suspecting a fraud occurrence? Confirm that fraud has actually occurred and then take the steps to determine the extent of the loss. In some instances, it may be relatively easy to determine the extent of the embezzlement.

Example #1: A volunteer stole two laptop computers. After the theft was investigated, the ministry had a high degree of comfort that no other assets were stolen. The ministry took immediate steps to improve its equipment inventory control to minimize the risk of future equipment thefts.

Example #2: A board member had sole access to the safety deposit box at a local bank. The ministry had received several pieces of gold jewelry as a donation, storing them in the safety deposit box. The board member removed them from the safety deposit box, sold them, and kept the proceeds personally. Since the board member did not have access to other assets, ministry leadership determined that the fraud was limited to the jewelry. The ministry made a change to require dual access to the safety deposit box.

On the other hand, fraud is often much more complex and difficult to analyze.

Example #1: A ministry discovers that the long-time bookkeeper has been writing several significant checks to himself and removing cash from the donations for many years. Internal controls were totally inadequate, giving the bookkeeper the opportunity to cover up this fraud. The ministry has no idea how much money has been stolen. The ministry decides to engage a Certified Public Accounting firm to help identify the losses.

Example #2: A ministry receives 60% of its gifts in an electronic form. Evidence is revealed that a staff member who supervises the donation records has, over several years, occasionally diverted electronic gifts to her personal checking account. She covered up the gift diversion in the gift management system. It is very difficult to determine how much has been stolen. A certified fraud examiner is engaged to sift through the records and identify the losses.

What steps should be taken when a ministry discovers fraud has occurred?

1. **Determine how the fraud occurred.** A ministry can stop the flow of fraud losses only when it first understands exactly how assets were lost. The tendency is to first determine the dollar damage of the fraud. However, this can wait. First, learn exactly how the fraudster absconded with ministry assets.
2. **Plug the leak.** Once a ministry has discovered how the fraud happened, the next step is to immediately close the door to stop any additional fraud. These steps may include:
 - a. placing a staff member on leave,
 - b. removing an individual as a signatory on a checking account,
 - c. removing an individual's access to the safety deposit accounts, and
 - d. removing an individual from access to digital giving accounts.
3. **Determine the extent of the fraud loss.** The process to assess the amount of the fraud loss may take weeks or months. A ministry may never know exactly how much was lost. Further, it may not make sense to run down every last penny. The cost to determine the exact amount of the fraud may not be justified. In some instances, a ministry may be able to determine 90% of the fraud loss at a reasonable cost. However, determining the last 10% of the fraud may cost exponentially more.
4. **Determine whether assets are recoverable.** In some incidents of fraud, there may not be a possibility of recovering losses. However, it is important to try to recover everything possible. The fraudster may be encouraged to make payments and/or execute a note in favor of the ministry.
5. **Decide whether to contact law enforcement.** Some ministries automatically turn fraudsters over to law enforcement officials, some do not. Some of the deciding factors include how much grace the ministry desires to extend to the fraudster, concerns about public relations, and many more.

Be aware that if the ministry has insurance to protect against employee theft or dishonesty, there may be a requirement to involve law enforcement before any amounts will be paid. It is best to understand any potential requirements before a situation arises, as well as how the board and leadership will respond. It becomes more personal when an actual embezzlement happens and is more difficult to act objectively.

Now what?

Action Steps to Excellence

Now What? Action Steps to Excellence

- Balance trust in people with accountability by adopting verification policies (such as background checks) and minimizing the opportunity for fraud to occur.
- Have the leaders set the example in accountability and transparency in financial matters, as this will create a culture which minimizes fraud.
- Establish and implement consistent dual controls and oversight policies.
- Segregate all revenue-related duties among multiple individuals, such as counting cash and checks, processing income and digital giving, and depositing of funds into accounts.
- Understand the three steps of the online giving process and install controls as to who has access to those systems.
- Segregate among multiple individuals all expense-related duties such as approval of expenditures and writing and signing of checks.
- Be wary of investments that may prove to be fraudulent and therefore damaging to the ministry.
- Establish policies for careful documentation of any gift cards held by the ministry, as well as documentation of inventory and equipment.
- Perform a routine risk assessment as well as an internal and/or external audit (not just a “review”).
- Clearly communicate to employees the responsibility to report any possible wrongdoing, as well as designating individuals to whom they should report. Give an assurance of protection to those reporting a suspicion and a fair and impartial investigation for those in question.
- If fraud occurs, determine what happened, “plug the leak” to prevent further loss, determine the extent of the loss and how much is recoverable, and decide whether to involve law enforcement.

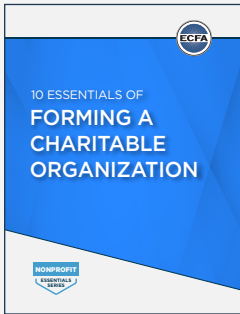
*For nothing is hidden that will not be made manifest,
nor is anything secret that will not be known
and come to light.*

Luke 8:17

Resources



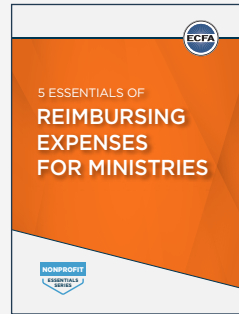
ECFAPress eBooks in the Nonprofit Series



10 Essentials of Forming a Charitable Organization

Tens of thousands of new nonprofits are formed each year. Of those applying for tax-exempt status with the IRS, about three out of four applications are approved. When forming a new nonprofit, there are some fundamental issues to consider before starting the process. This resource provides an easy-to-read guide

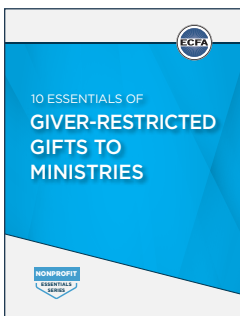
to the ten fundamental issues related to starting a new nonprofit organization.



5 Essentials of Reimbursing Expenses for Ministries

How a ministry handles the payment of business expenses incurred by staff speaks volumes about the integrity of the organization. Adequate substantiation is the starting point to qualify business expense reimbursements for tax-free treatment. This resource covers the steps to maximize stewardship for

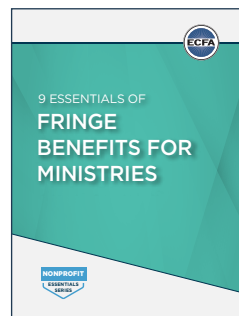
both the ministry and staff.



10 Essentials of Giver-Restricted Gifts to Ministries

Givers often make gifts to ministries for specific purposes and many of these gifts are in response to resource-raising opportunities shared by the ministry. These gifts, often called “restricted” or “designated,” must be expended consistently with giver intent. This resource outlines the way ministries can

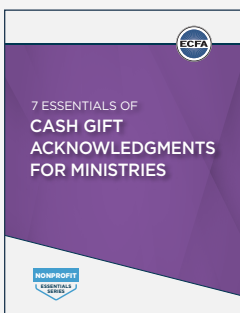
handle giver-restricted gifts with integrity.



9 Essentials of Fringe Benefits for Ministries

Fringe benefits are taxable and must be included in the recipient’s taxable pay except for those the law specifically excludes. Therefore, it is important for ministries to design fringe benefit plans to model stewardship for the organization and structure fringe benefit plans to allow employees to maximize compensation.

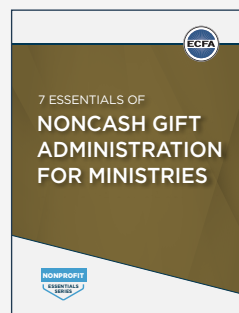
This resource will help you understand how to effectively use fringe benefits.



7 Essentials of Cash Gift Acknowledgments for Ministries

It is a privilege for ministries to express appreciation to givers for their generosity. Thanking givers for their contributions seems simple. But it is often not so. The complexity comes because U.S. tax law only allows charitable deductions for certain gifts, and charitable gift

acknowledgements must meet strict substantiation requirements. This resource guides a ministry through these challenging issues.



7 Essentials of Noncash Gift Administration for Ministries

Most gifts to ministries are in an electronic form with some additional gifts coming in the form of checks and currency. Noncash gifts—gifts of stock, real estate, other property, plus gifts of services—are often very helpful to fulfill a ministry’s mission. Most of these gifts are tax-deductible, but some are not. This resource is helpful in

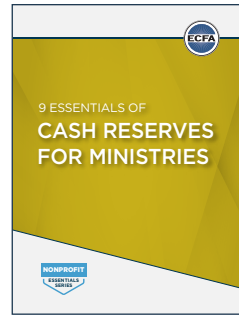
addressing accounting and charitable gift receipting of noncash gifts.



7 Essentials of Excellence in Related-Party Transactions for Ministries

Conflicts of interest situations are common with churches—when a person who is responsible for promoting ministry interests is involved at the same time, in a competing personal interest. A ministry should only enter into related-party transactions if strict guidelines are met.

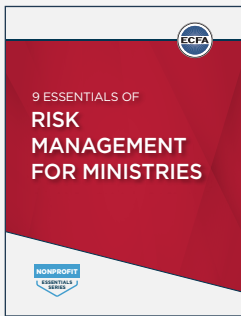
Even then, the risk of misperceptions may cause ministry leaders to avoid related-party transactions.



9 Essentials of Cash Reserves for Ministries

Adequate cash reserves are necessary for a ministry to pay its obligations on time in spite of fluctuations in monthly revenue. Still, developing and maintaining appropriate cash reserves is often one of the most overlooked and misunderstood issues for a ministry. This resource provides an overview of the different types of

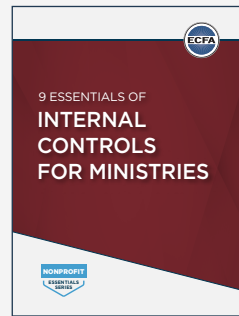
reserves and how a ministry may achieve them.



9 Essentials of Risk Management for Ministries

While Matthew 6 tells us not to worry about tomorrow, that is not a free pass to avoid planning or carefully considering the stewardship responsibilities that have been entrusted to us. Risks may have significant reputational and financial impacts. This resource will help your ministry assess risks, determine the

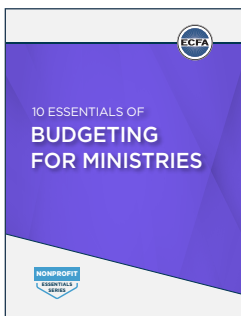
priority of addressing the risks, and implement steps to mitigate the risks.



9 Essentials of Internal Controls for Ministries

Internal controls are the procedures and practices implemented to help ministries achieve their mission. They promote efficiency, reduce the risk of financial loss, help ensure financial reports are accurate, and compliance with laws and regulations. This resource helps ministries find an appropriate balance between effective

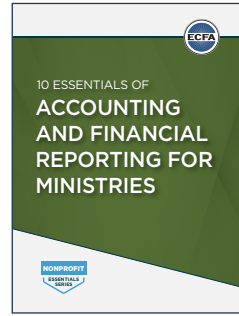
controls and operational effectiveness.



10 Essentials of Budgeting for Ministries

Preparing and utilizing budgets for a ministry is not as easy as it might seem. There may be several types of budgets: operating, cash, and capital. Budgets provide the guardrails to build cash reserves and keep expenses within certain limits, and assure there is adequate cash to pay operating, mortgage, and capital

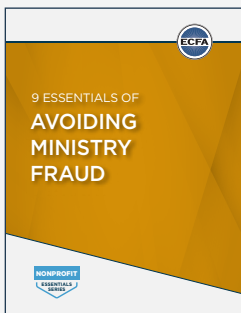
expenses. This resource provides the keys to maximize the benefits from ministry budgets.



10 Essentials of Accounting and Financial Reporting for Ministries

The accounting for ministry financial resources is the basis for accurately documenting revenue and expense. A sound accounting system, provides the data to determine if a ministry is on track in comparison to the budget. It is also important to provide the appropriate

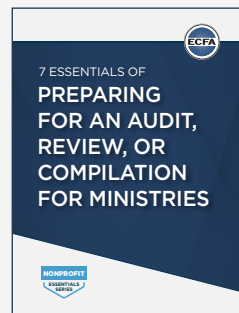
financial reporting to the right audience. This resource covers the basics for optimizing the ministry accounting system and providing meaningful reporting.



9 Essentials of Avoiding Ministry Fraud

Fraud and misuse of ministry resources can create sensational news and cause a diminished witness for Jesus Christ. While it is almost impossible to eliminate all fraud, ministries should find a reasonable balance between preventive efforts and risks. This resource helps ministries understand how to identify fraud risks and

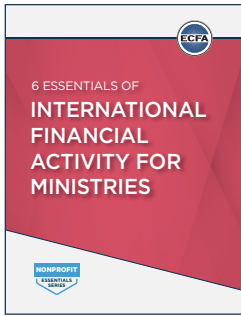
implement fraud prevention.



7 Essentials of Preparing for an Audit, Review, or Compilation for Ministries

Though the process can be intimidating, there are many ways to maximize the benefits of an audit. Independent reporting offers assurance to donors and in some cases, identifies weaknesses that may otherwise go undetected. Determine what level of CPA engagement is right for

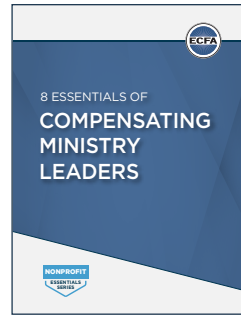
your ministry and prepare with confidence.



6 Essentials of International Financial Activity for Ministries

A ministry that sends funds internationally incurs significant legal and compliance requirements. The church must retain control and discretion over the use of the funds just as much as if the funds were expended in the U.S. This resource covers the special rules for screening and vetting international grant recipients, reporting

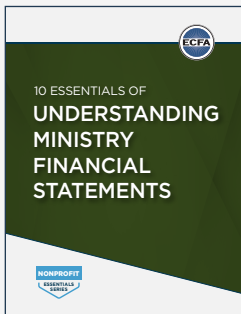
when a ministry has a financial interest or signatory authority over certain financial accounts, and carries significant cash in or out of the U.S.



8 Essentials of Compensating Ministry Leaders

Setting the compensation of ministry leaders should meet high standards that will enhance our Christian witness. These standards include utilizing comparability data to ensure reasonable compensation, approving compensation independently of the person whose compensation is being set, and properly documenting

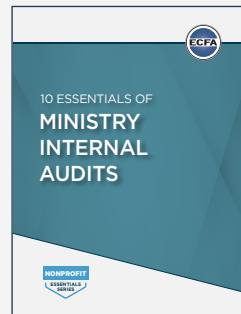
compensation, including fringe benefits. This resource covers all of this and much more.



10 Essentials of Understanding Ministry Financial Statements

Ministry financial statements consist of a lot of numbers—probably hundreds of numbers or more of numbers. Some numbers or combinations of numbers are much more important than other numbers. So which numbers are the key ones? How can a ministry board discern the key financial data—positive and less

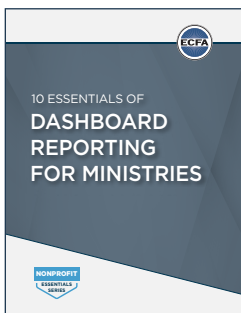
than positive? This resource provides many of the answers you need to understand ministry financial statements.



10 Essentials of Ministry Internal Audits

Internal audits are very meaningful to a ministry whether or not an external CPA audit is performed. Internal audits are often performed by a board committee, or non-staff members with accounting expertise. Improvements in internal controls and accounting procedures is often a result of this process. And, in some

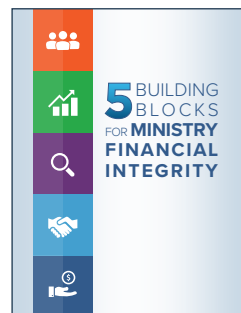
instances, fraud or the misuse of ministry funds may be identified and/or prevented.



10 Essentials of Dashboard Reporting for Ministries

Dashboards are really nothing more than user-friendly tools for displaying performance measures. What is working well? What went wrong? How can the ministry improve and further fulfill its mission? Dashboards are not only a powerful tool for staff to communicate important information to the board, but

also for alerting staff to internal or external changes that could affect the way programs are administered.



5 Building Blocks of Ministry Financial Integrity

When it comes to building a ministry's financial integrity, many leaders simply don't know where to start. Some think that establishing a strong financial foundation is too difficult, or perhaps only possible for large ministries. The good news is building financial integrity is not as complicated as some might

think. It is all about properly adding one building block at a time.



Now in publication for three decades, the *Church and Nonprofit Tax & Financial Guide* and the *Minister's Tax & Financial Guide* are two of the most trusted tax and financial reference guides for leaders of churches and other religious nonprofit organizations. These companion resources written by ECFA staff Dan Busby and Michael Martin are designed to provide up-to-date information in an easy-to-understand format on key issues affecting churches and nonprofits and the ministers serving them.

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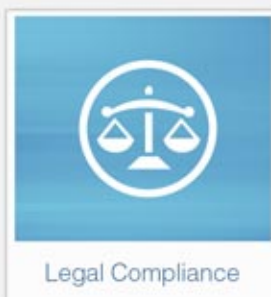
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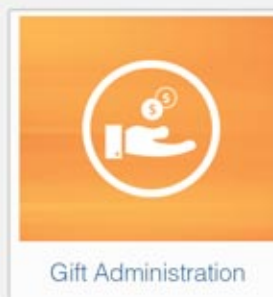
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More Information

- *Church and Nonprofit Tax & Financial Guide* by Dan Busby and Michael Martin, revised annually



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