

Local Church Workshop *Finance and Fraud Detection*

- ### Workshop Outline
- ▶ Local Church Finance Team
 - ▶ Internal Controls
 - ▶ Year-End Statistics and Apportionments
 - ▶ Fraud Detection

- ### Effective Finance Committee
- ▶ Regularly schedules organized meetings
 - ▶ Keeps documented Minutes
 - ▶ Supports the Vision of Church Council
 - ▶ Reviews financial reports to keep within Budget
 - ▶ Financial transparency with committees and congregation
 - ▶ Plans for the future

Finance Committee Role

- ▶ Oversees the duties of the Financial Secretary
- ▶ Oversees the duties of the Treasurer
- ▶ Provides adequate financial software to meet the needs of the church
- ▶ Works to gather budget requests from committees
- ▶ Proposes a budget to Church Council
- ▶ Ensures Internal Controls Policy is in place and Annual Audit is completed

Internal Controls

- ▶ Receipt of Funds
- ▶ Disbursement of Funds
- ▶ Credit Cards
- ▶ Financial Reporting
- ▶ Audit
- ▶ Insurance

Types of Church Funds

- ▶ Unrestricted
 - ▶ Tithes to general operating fund
- ▶ Board designated
 - ▶ Church Council designates funds for a purpose and can redirect funds if needed
- ▶ Donor restricted
 - ▶ Restricted to a specific purpose and cannot be changed by church
 - ▶ Church is not obligated to accept gift

Receipt of Funds

- ▶ Financial Secretary
 - ▶ cannot serve as Treasurer
 - ▶ oversees scheduling and training of count teams of two unrelated persons
 - ▶ records donor gifts and issues statements of giving which includes IRS Statement

"No goods or services were provided other than intangible religious benefits."

IRS Publication 1771

Receipt of Funds (continued)

- ▶ Internal Controls Recommendation:
 - ▶ Statement of Giving states that discrepancies are to be reported directly to Finance Chairperson
 - ▶ Install locked mailboxes to prevent stolen checks

Receipt of Funds (continued)

- ▶ Non-Cash Gifts
 - ▶ Financial Secretary provides a letter of acknowledgement of item and includes a description of item but does not value the item
 - ▶ Must contain the same IRS disclosure requirements
 - ▶ Stock gift is a non-cash gift

Virginia United Methodist Foundation handles gifts of stock for local churches. 804.521.1120

Receipt of Funds (continued)

- ▶ Finance Committee policies safeguard funds until they are deposited at the bank
 - ▶ Weekly offering
 - ▶ Electronic offering
 - ▶ Gift card sales
 - ▶ Mid-week funds
 - ▶ Special events
 - ▶ Gifts of stock

Disbursement of Funds

- ▶ Treasurer cannot serve as Financial Secretary
- ▶ Invoices are approved by a staff or church leader authorizing the Treasurer to pay; a voucher form is recommended
 - ▶ Invoices not carefully verified before payment; invoice scams go undetected
- ▶ At least three unrelated people are involved in the disbursement process

Disbursement of Funds

- ▶ Internal Controls Recommendation:
Bank reconciliation is reviewed by someone other than the Treasurer
 - ▶ Regular deposits made
 - ▶ Electronic payments appropriate
 - ▶ Credit card payments made
 - ▶ Review cleared checks
 - ▶ Payroll taxes paid

Credit Cards

- ▶ Trustees authorizes credit cards and overall limit
- ▶ Finance Committee sets internal control policy related to credit cards and establishes authorized persons to assign cards and change limits, which should not be the pastor or Treasurer
- ▶ Receipts must be submitted to Treasurer to substantiate credit card charges

Credit Cards

- ▶ Internal Controls Recommendation:
Same person that reviews the Bank reconciliation should also review the credit card statements
 - ▶ Balance paid in full by due date
 - ▶ Appropriate charges
 - ▶ Receipts attached for transactions

Reporting

- ▶ Financial Secretary
 - ▶ Provides summary statement of giving to Finance Committee
 - ▶ Provides Pastor with donor information
 - ▶ Provides reports as requested by Finance Committee or Church Council (ie. percent of pledged gifts received)

Reporting (continued)

- ▶ **Treasurer**
 - ▶ Provides Income statement with Budget comparison to Finance Committee
 - ▶ Provides Balance Sheet to Finance Committee
 - ▶ Provides Board designated funds and Donor restricted funds reporting to Finance Committee
- ▶ Finance Committee provides Financial Reports to Church Council

Audit

- ▶ Finance Committee schedules at least two independent persons to perform the annual audit
- ▶ Audit includes testing of all areas of internal controls
- ▶ Audit includes ALL accounts of the church
- ▶ Audit is reported at Charge Conference

Insurance

- ▶ Trustees annually reviews Insurance policy to protect the assets of the church
 - ▶ General liability
 - ▶ Employee liability (sexual misconduct, discrimination)
 - ▶ Directors & Officers
 - ▶ Property
 - ▶ Crime
 - ▶ Workers Compensation

Detecting Fraud

Why are churches vulnerable?

- ▶ Poor internal controls and financial oversight
- ▶ Trusting and forgiving environment
- ▶ Lack of criminal background checks

Detecting Fraud

Commonalities and Red Flags

- ▶ Lack of financial reports
- ▶ Evasiveness when asked questions
- ▶ Trusting environment
- ▶ No audit or lack of effective audit

Detecting Fraud (continued)

Commonalities and Red Flags

- ▶ Access to credit cards
- ▶ Delinquent notices and late payment fees
- ▶ Leaders noticed issues but did not feel comfortable to voice concerns



What do you do if you suspect fraud?

1. Contact your District Superintendent and Conference Treasurer to discuss the situation
2. Identify key leaders who are independent of the situation
3. Conduct an investigation
4. Document the timeline of events and obtain records

What happens if fraud is discovered?

Depends on type and size of theft

- ▶ Discuss situation with key leaders
- ▶ Decide whether to call police
- ▶ Call insurance company
- ▶ When appropriate share with church members

Year End Statistics

- ▶ Membership and participation
- ▶ Church assets and liabilities
- ▶ Church expenses
- ▶ Church income

Common mistakes

- ▶ Report whole dollars, no cents
- ▶ Mortgage payments and capital improvements should not be reported as Operating expenses
- ▶ Benevolent expenses for the benefit outside the church should not be reported as Operating or Program expenses

Common mistakes

- ▶ Membership - its okay to correct
 - Line 2c - correct previous year's reporting errors of total professing membership numbers by addition
 - Line 5c - correct previous year's reporting errors of total professing membership number by subtraction
- ▶ Brief explanation - each line item shows you the % change from the previous year; be sure to enter an explanation for big changes

Apportionment Data Verification

- ▶ Issued to all pastors and treasurers
- ▶ Compares two years of expenses
- ▶ Make changes directly in EVC
- ▶ Important to be accurate because this information is used for the Apportionment calculation

Local church expenses

- 39 Clergy pension benefits paid to VUMPI for CRSP/CPP
- 43 Total amount of accountable reimbursement paid to/for all persons reported in lines 41a-c
- 44 Total amount of cash allowances paid to/for all persons reported in lines 41a-c (non-accountable)
- 45 Total amount paid in salary and benefits for all other church staff and diaconal ministers.

Local church expenses (continued)

- Base Compensation**
- 41a Base compensation paid to Senior Pastor or other persons appointed in the lead pastor role of the church (this person could be an elder, deacon, supply pastor, local pastor, retired pastor)
 - 41b Base compensation paid to all Associate Pastor(s) appointed to this role of the church
 - 41c Base compensation paid to any Deacon not included in lines 41a-b
- Housing Benefits**
- 42a-c Housing allowances or housing expenses paid by the church for parsonage corresponding with persons reported in lines 41a-c

Local church expenses (continued)

- 46 Total amount spent for local church program expenses (report the total of all amounts spent on local church programs for the purposes of education, witness, outreach, mercy, communication, worship, and other ministries) Do not include amounts given to support benevolences.
- 47 Total amount spent for other local church operating expenses (report operating expenses such as office expenses, property maintenance, insurance, utilities, etc) Do not include expenses related to the parsonage, it is reported on Lines 42a-c.

2020 Apportionment Formula

For all Apportionments except Active Clergy Health

$$\frac{\text{2018 Local Church Expenses}}{\text{2018 All Churches Expenses}} = \text{Church Decimal} \times \text{Conference Budget} = \text{Your Church Ministry Share}$$

For Active Clergy Health Apportionment

$$\text{TIER 1 } \$5,000 \text{ flat amt for each full-time active clergy} + \text{TIER 2 Your clergy's salary divided by all clergy's salary} = \text{Your Church's Share of Active Clergy Health}$$

	2019
Conference Apportionments	
401 - Conference Mission & Ministry	3,140,000
402 - Conference Services	1,980,000
403 - District Superintendents Fund	2,000,000
404 - Equitable Compensation	280,000
405 - Council Extension & Development	1,300,000
406 - Young People's Fund	600,000
Total Conference Apportionments	9,300,000
Clergy Benefits Apportionments	
407 - Active Clergy Health	5,760,000
408 - Retired Clergy Health	4,060,000
409 - Pension Liability Assessment - (Pre 82)	750,000
Total Clergy Benefits Apportionments	10,570,000
General & Institutional Apportionments	
410 - General Fund	170,000
411 - World Service	2,800,000
412 - General & Institutional Connectional F.	600,000
413 - Ministerial Education	900,000
414 - Book College Fund	200,000
415 - Africa University Fund	90,000
416 - International Clergy Compensation Fund	40,000
Total General & Institutional Apportionments	5,770,000
Total Apportionments	21,640,000

Annual Conference Budget

Online Apportionments

- ▶ Go to www.vaumcpayapp.org to view the most current apportionment statement for your church OR see historical statements
- ▶ Pay apportionments and benevolences online or set up monthly automatic payments by contacting our office

Treasurer's Office Staff

Happy to help with questions
DavidDomnisse@vaumc.org - Conference Treasurer
CarolDraper@vaumc.org - Assistant Treasurer
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Conference Office 804-521-1100
