

Financial Management for Congregations

A summary of basic considerations

by The Rev. Ralph Mero, updated 2000

The UUA Office of Church Staff Finances frequently receives inquiries about how local congregations should manage their funds and disbursements. This brief summary is offered for congregations wanting to initiate simple steps to assure their receipts and payables are appropriately handled, and that their members are adequately informed.

Congregations are urged to seek more detailed information from their District Office field staff or from the UUA Department of Congregational, District, and Extension Services.

Introduction

As organizations largely staffed by volunteers, it is virtually impossible for churches to have complete financial security. Still, experts in church administration feel strongly it is irresponsible not to have in place a system of cash management that protects both staff and volunteers by instituting checks and balances to prevent the opportunity for misappropriation of funds. It is unfair to put people in situations where their reputation is their only protection against accident or allegations of dishonesty.

Cash management

1. The Sunday offering should be counted by two persons working together in the same room. Both should initial a written form noting the amounts received in checks and in cash. The form should be part of a routine system maintained by the secretary or someone else to record the collection along with attendance and other information about the weekly service.
2. It is best if the person who makes out the bank deposit is a third person, not one of the cash counters. In any event, a copy of the deposit slip must be saved and compared with the deposits noted on the monthly bank statement.
3. The offering proceeds should be stored in a secure place until deposited. A safe is best. Deposit bags with key locks are available from many banks, along with a key to the night deposit box used by commercial customers. The church liability insurance may protect named individuals who have responsibility for handling cash.
4. Some experts recommend that the monthly bank statement and canceled checks be mailed to the home address of someone other than the person who signs the checks. This is to protect against someone falsifying the amount on a check after it has been signed.
5. Petty cash kept in the building should be in a locked file cabinet or safe and should be disbursed only upon submission of a written request. The starting balance is reconciled monthly against withdrawals, and the petty cash amount added to as needed. Any removal of petty cash must be explained in writing or by a receipt. Hiding the petty cash in the back of a desk drawer assures it will be found by even the most inept burglar.
6. The treasurer should describe to the board annually how the congregation's cash is handled, what safeguards are in place, what changes should be made, if any, and s/he should immediately report any

irregularities. This will be reassuring to the congregation's insurance company in the event of a theft or embezzlement.

Accounts Payable

7. There must be a bill, invoice, statement, or written request for reimbursement for every check drawn. These should be available for comparison with the canceled checks on an occasional basis. No checks should be signed without documentation of the expense. It is assumed that monthly expenses are consistent with the categories established in the church budget.

8. How many people should be authorized to sign checks? Enough that the church business can go on if the treasurer is away at a conference or on vacation. Other than checks for payroll or other routine monthly payments such as a mortgage, checks larger than some arbitrary amount such as \$2,000 should require two signers. The minister is often the only staff person with signatory authority, and many ministers prefer not to have that responsibility. Persons should not sign checks made out to themselves without a co-signer.

Reporting Contributions and Record Keeping

9. Persons who pledge should receive a report of their pledge payments at least quarterly, with the name and phone number of the person to call if there is a discrepancy. Such statements should also report non-pledge contributions when these can be identified. Statements reporting when pledge amounts are in arrears usually increase receipts dramatically, especially when accompanied by a return envelope. The IRS expects persons who make single contributions of \$250 or more to receive receipts for each such contribution. Usually this is satisfied through a reporting system that itemizes contributions.

10. Fewer and fewer congregations can pay for a full-blown audit of the church books by a CPA. Audits have become expensive, often ranging from \$5,000 to \$15,000 depending on the annual budget of the organization. An accountant or experienced church bookkeeper can perform a management review of the cash management procedures, accounts payable procedures, and the system for recording and reporting pledges and contributions. This should be done at least once every three years, usually before a new treasurer or bookkeeper takes office.

11. Payroll information is highly confidential. Advances against future salary should be permitted only in extreme emergencies. Some congregations have found that a payroll service is an easy and economical way of making these transactions more comfortable for all concerned.

12. Some congregations post monthly financial reports of income and expenditures for anyone to see who is interested. Copies should be available in the office. Think carefully about grouping items to protect confidentiality while providing enough detail.

Endowment Funds

13. The management of endowment funds should be undertaken or overseen by a special committee appointed by the board or elected by the congregation. This committee reports quarterly to the board, annually to the congregation, and to individuals upon request about the types of investments being utilized and the success of the investment policy.

14. The endowment committee should meet quarterly to review the performance and allocation of assets. It should act at least semi-annually to rebalance the portfolio if market performance has caused

a shift in the previously approved allocation, or if it is prudent to alter the allocation. The committee should not hesitate to seek investment advice from qualified professionals.

15. It is critical that a written investment policy be approved by the board and that all investments be in accord with the policy. This policy should cover the nature and amount of risk the committee is authorized to assume, the desired rate of return, how much of the endowment income is to be expended, and the extent to which investment decisions will be guided by considerations of social responsibility. It should also specify whether mutual funds or individual equities and debt instruments will be used.

16. Most charitable organizations immediately sell any individual equities at the time they are donated. This verifies the present market value of the gift for the benefit of the donor, although sharp donors will want to know the value on the date of the donation, not the value when it was sold. Efficient endowment management stimulates additional gifts; even the appearance of inefficient management will stifle them.

17. Many UU churches have found it worthwhile to engage a money management professional to occasionally advise on their endowment investments. They may also benefit from participation in the pooled investment funds administered by the UUA. Contact the Development Department of the UUA for additional information.

18. The church accountant should review the monthly statements and reports for the endowment fund at least annually.

Safeguards

It may seem like these procedures involve an unnecessarily large number of people. However, involving several persons is a good safeguard in itself, and this practice is of great value should an unfortunate incident occur, if it proves that good faith management efforts were being made.

Embezzlement from congregations is not unusual, and it almost always occurs when one individual has been granted such a high degree of trust that no safeguards are considered necessary. If your congregation's money is managed by such a person, show respect and consideration for him or her by promptly initiating safeguards that offer protection to the person as well as the congregation.

What is most important is to have carefully thought-out written policies in place. It is hard to persuade members to contribute generously to a congregation, if we can't demonstrate that their gifts are being safely managed and accounted for. Fiduciary responsibility requires that we have a system worthy of trust, at the same time that we trust the people to carefully exercise the responsibilities they have accepted.