

## **Local Church Finance Minimum Standards**

Serving as a financial officer or in a financially related position within a local church requires that we serve with fiduciary responsibility over the financial matters of the church. This fiduciary responsibility means that we stand in service to perform our duties with the trust and confidence that we act for the benefit of the church and not for the benefit or convenience of ourselves. As we serve with these responsibilities in local churches, we are guided to provide the most effective and most efficient ways to safeguard the assets entrusted to our care. One of the ways we safeguard the assets is to put procedures in place that have been proven to minimize risks by preventing and detecting error, deterring fraud and protecting innocent staff and volunteers.

The following guidelines have been developed in order to assist those with financial responsibilities in local churches to identify and implement basic internal control procedures. These guidelines are intended to aid in the prevention or deterrence of fraudulent behavior and are not accusation that fraudulent activities are being performed. These guidelines provide protection for those in a position of controlling financial activity from being accused of fraud. Part of the fulfillment of our calling to be good stewards of the Lord's funds is having effective procedures in place to safeguard those funds.

These minimum standards should be increased for churches with higher volumes of transactions but should not be compromised for lower volumes of transactions. All local churches are expected to meet these minimum standards.

### **Receipts and Disbursements**

- Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household
- Counting team (at least two unrelated persons) should count offerings and document totals – not treasurer and not financial secretary
- Offerings should be deposited the same or next business day
- Offering count details should be given to financial secretary for recording
- Offering totals should be given to the treasurer or financial secretary to record deposit
- The Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer)
- At least two persons should be listed as authorized signatures on all accounts. This should also be the case for setting up electronic payments (or EFTs). For EFTs, one of those individuals should be a Trustee or a member of the Finance Committee (other than the Secretary or Treasurer).
- The Treasurer is authorized to make electronic payments of bills. The Treasurer shall maintain support for every electronic payment just as with the support for paper checks.
- Financial policy and authority guidelines should be written and approved by the Finance Committee (there is a template available on the Conference Treasurer's Office website).
- Invoices should be required for all payments from all accounts
- Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment
- Typically, the Treasurer should make payments only after the invoice is approved. A policy may be implemented where routine, budgeted expenses (i.e., rent/mortgage, electric bill, etc.) may be paid without recurring approval; non-routine expenses must be approved prior to payment.

## Reporting and Review

- All accounts should be reconciled monthly
- Someone other than treasurer should review bank reconciliation at least semiannually – including bank statements, invoices, checks written, and financial reports
- The Treasurer should make detailed report of budget and designated fund activities to the Finance Committee at least quarterly
- There must be an annual evaluation of financial records – at least in as much detail as the Local Church Audit Guide (**completed no later than August 1 for preceding year, with the results of the audit being reported at Charge Conference**) – including **ALL** accounts of the church (except UMW may be under separate evaluation or audit) – ALL accounts includes the general fund, building funds, designated accounts, cemetery funds, discretionary funds, Sunday school accounts, etc.
- An individual CPA may participate in an audit, however, s/he must be a member of a church audit team performing an audit; thereby, a member of an audit team reporting to the church's finance committee.
- An external annual audit<sup>1</sup> of **ALL** accounts should be done at least every three years for churches with annual disbursements of more than \$500,000 per year (completed by August 1 for preceding year). An annual evaluation should be performed during the interim years.
- An external annual audit<sup>2</sup> of **ALL** accounts should be done every year for churches with annual disbursements of more than \$1,000,000 per year (completed by August 1 for preceding year)

## Tax Reporting Requirements

- W-2s must be issued for employees, including pastors, and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement)
- Payroll tax forms and deposits done as required for payroll amount (federal law requirement) – payroll reporting should be completed for the IRS and SSA by appropriate due date for filing method
- Housing allowance or exclusions approved annually at charge conference and kept on file (federal law requirement)

## Other General Requirements

- Prepare list of all church property for insurance purposes – include item description, serial number and value
- Prepare list of safety deposit box contents – update authority as needed – access should be allowed by two unrelated people
- Computer records are backed up and password protected for security
- Ideally, four individuals are required for regular financial procedures: financial secretary, treasurer, person to review and approve invoices and person to review bank reconciliations. It is possible for this to be accomplished with 3 individuals if proper segregation is achieved.

*Questions on implementing these standards? Call or email your District Superintendent or the Conference Treasurer's Office (800-849-4433 or helpdesk@nccumc.org).*

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<sup>1</sup> While a full audit is optimal, the term 'external audit' could mean a review by a CPA or other qualified individual (one with an accounting degree and accounting experience) that is independent of the church's Finance Committee or church council.

➤ Or an 'Agreed-upon Procedures' engagement emphasizing the examination of cash receipts and disbursements

<sup>2</sup> The term 'external audit' in this recommendation refers to an audit by an independent CPA or firm—not a member of the church

➤ Issues an opinion on the financial statements—both balance sheet and income statement