



**THE Missouri Conference**  
OF THE UNITED METHODIST CHURCH



# Financial Ethics and Best Practices

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# Why Financial Ethics?



# Uptick in Reported Losses

- Missouri UMCs suffered known losses of about \$85,000 in 2018 alone.
- Even among known cases, the losses could have been over \$100,000.
- Worldwide, one author (J. Petrucelli) estimated that churches lose \$37 billion annually to fraud and as much as another \$8 billion in mismanagement. Gordon-Conwell Seminary put the number at \$50 billion.
- Brotherhood Mutual reports at least 30 claims a year related to internal fraud (keep in mind most of these losses won't be insured). Translated to Missouri United Methodist Churches, we should expect two to three reported cases every year.





# Baptismal Covenant

A Better Way to Consider Financial Management



# The Baptismal Questions

- Do you accept the freedom and power God gives you to resist evil, injustice and oppression in whatever forms they present themselves?
- According to the grace given to you, will you remain a faithful member of Christ's holy Church and serve as Christ's representative in the world?
- The answers are "I do" and "I will."
- Most Christians take that pretty seriously and often recall it when it comes to considering matters of justice and morality. We might have differing opinions on some of those issues, but most of us would agree that the gospel, working in our lives, requires us to at least name and resist evil where we encounter it.
- Most would even go further to say our baptism calls us to prevent evil where we can. Wesley's General Rules for the Societies provide a simple expression.



# Financial Ethics

- When it comes to money, evil can abound.
  - Dishonesty and fraud
  - Spending beyond means
  - Expenditures made in areas other than the mission/vision of the local church
- If we begin with baptismal covenant, every professing member has a role to play in preventing evil.



# A Necessary Balance

- A person misbehaving or obstructing is no better than the fraud he or she is imagining might be prevented.
  - Respectful conversation;
  - Attentive questions, rather than accusations and assertions;
  - Trusting participation rather than skeptical semi-withdrawal; and
  - Calm naming and renaming of the church's mission/vision while avoiding personal agendas.
- A willingness to speak and, when necessary, contact appropriate leadership within the congregation (PPR Chair, Council Chair, Finance Chair) or, when necessary, outside leadership (District Superintendent or Director of Financial and Administrative Ministries).





# Best Practices



# Clear Vision for the Mission of the Local Church

- Every church, with every Christian, has a unique identity and, therefore, a special role to play in the Kingdom of God.
  - Regardless of the number of people in the congregation
  - Usually must be articulated and rearticulated over time (the local church truly is alive and changing)
- The articulation of that vision provides a base from which all administration flows.
  - Budgets are planning tools, financial how-to's for accomplishing the vision.
  - The budget and the reporting that follows it should be aligned with the vision so that the leadership knows the boundaries for spending and has a target for the income.



# Clear and Concise Policies/Procedures

- Must not vary from established policies. Like the vision and budget, the policies provide boundaries and avoid confusion.
- I have provided a sample designed especially for small and mid-sized churches. Larger churches can also use them but will need to modify based on staffing and personnel.
- A credit card policy or covenant is critical for any church utilizing credit cards.



# Clear Roles/Responsibilities

- Human nature causes various phenomena that make ensuring good financial ethical practices more difficult.
  - Anyone questioned, even respectfully, is bound to feel mistrusted and accused.
  - When a person feels mistrusted or accused, they are apt to respond in kind (like meets like).
  - No one wants their friends and others about whom they care to feel mistrusted or to respond with in-kind accusations/mistrust.
  - “Blood runs thicker than water,” though baptismal waters run pretty thick.



# Clear Roles/Responsibilities

- These may never be eliminated, but they can be eased by clearly defined and assigned roles.
- One person focused on reviewing and ensuring documentation for expenses.
  - It's easier for someone to ask questions when it's part of their job. It also makes it easier to achieve the right tone and balance.
  - It's likewise easier to be asked a question when you understand the person asking is doing their assigned job.



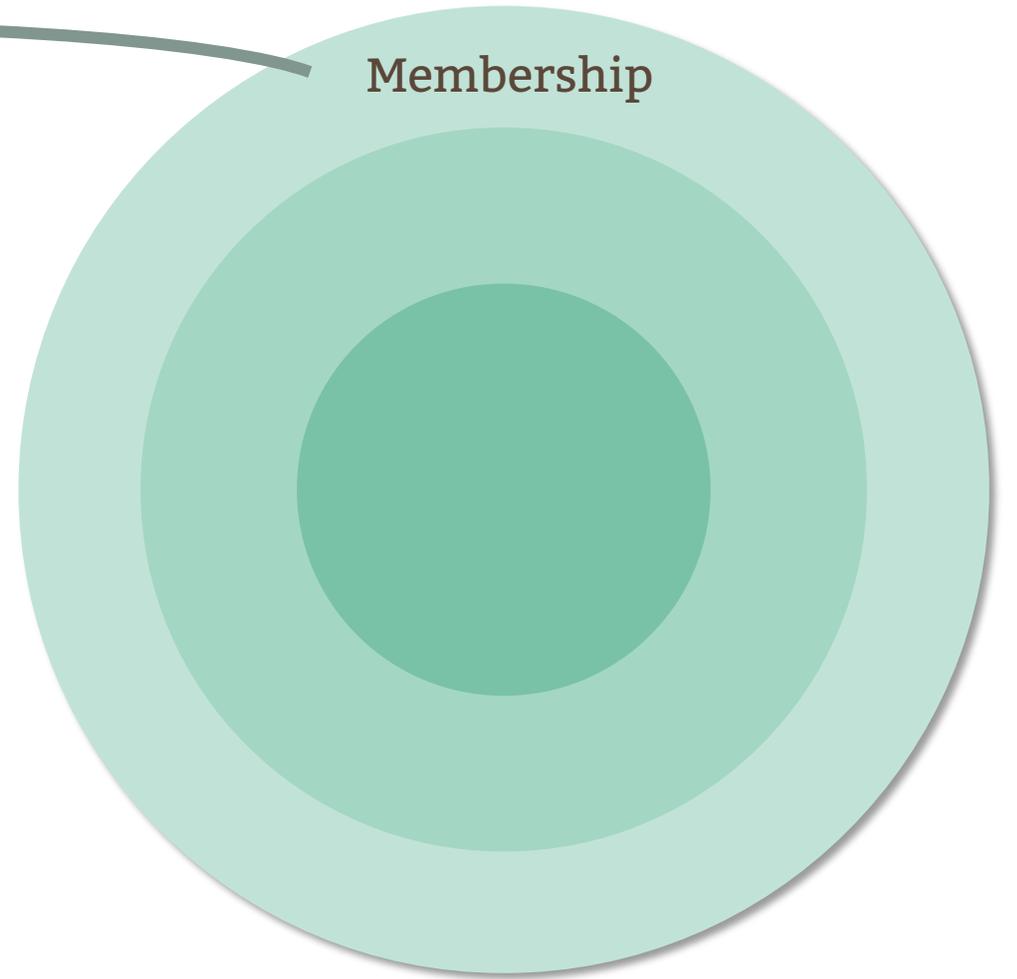


# Imagining Responsibilities as Concentric Circles



## Membership

- Review yearly reports
- Engage in conversation with leaders
- Watch/participate in ministries



*Varies by size of church*

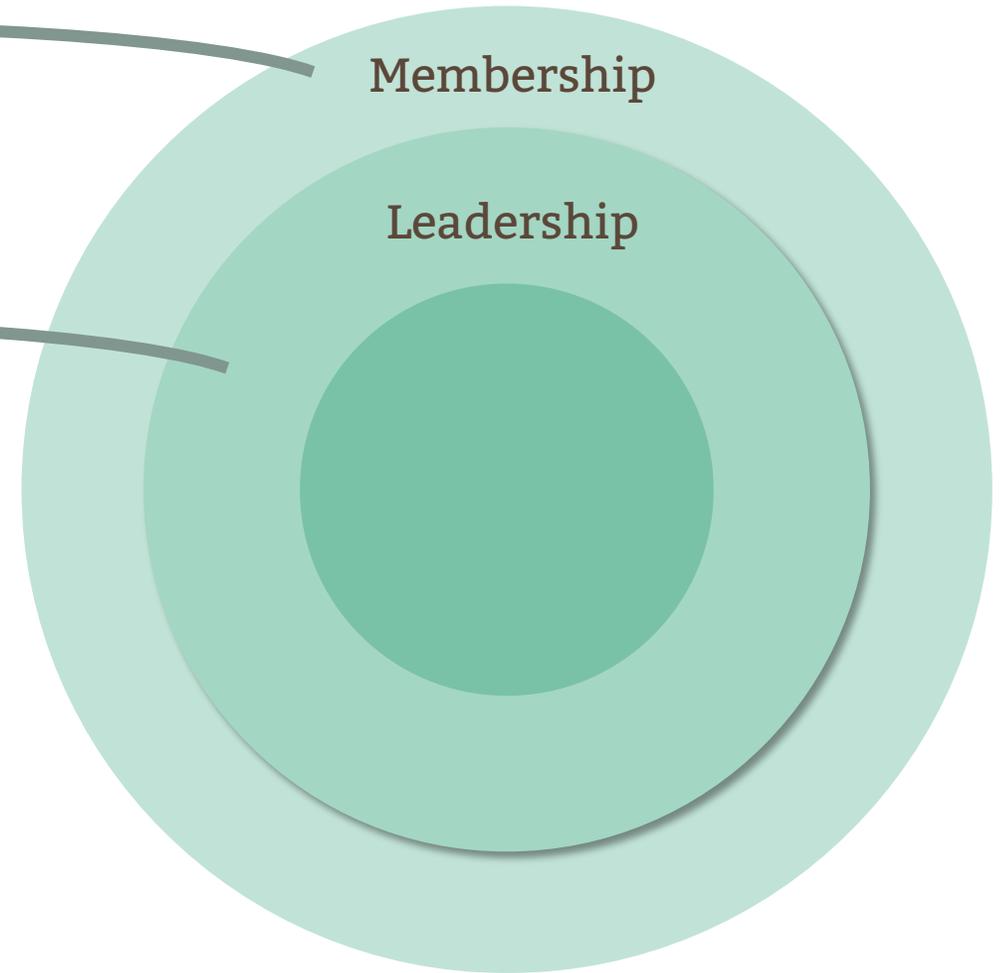
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## Leadership

- Insist on itemized receipts and explanations
- Approval and check writing
- Monitor counters
- Double check deposits
- Reconcile bank statements
- Accounting
- Generate Reports
  - Statement of Activities (P&L)
  - Statement of Position (Balance)

More than 1;  
4-10 people



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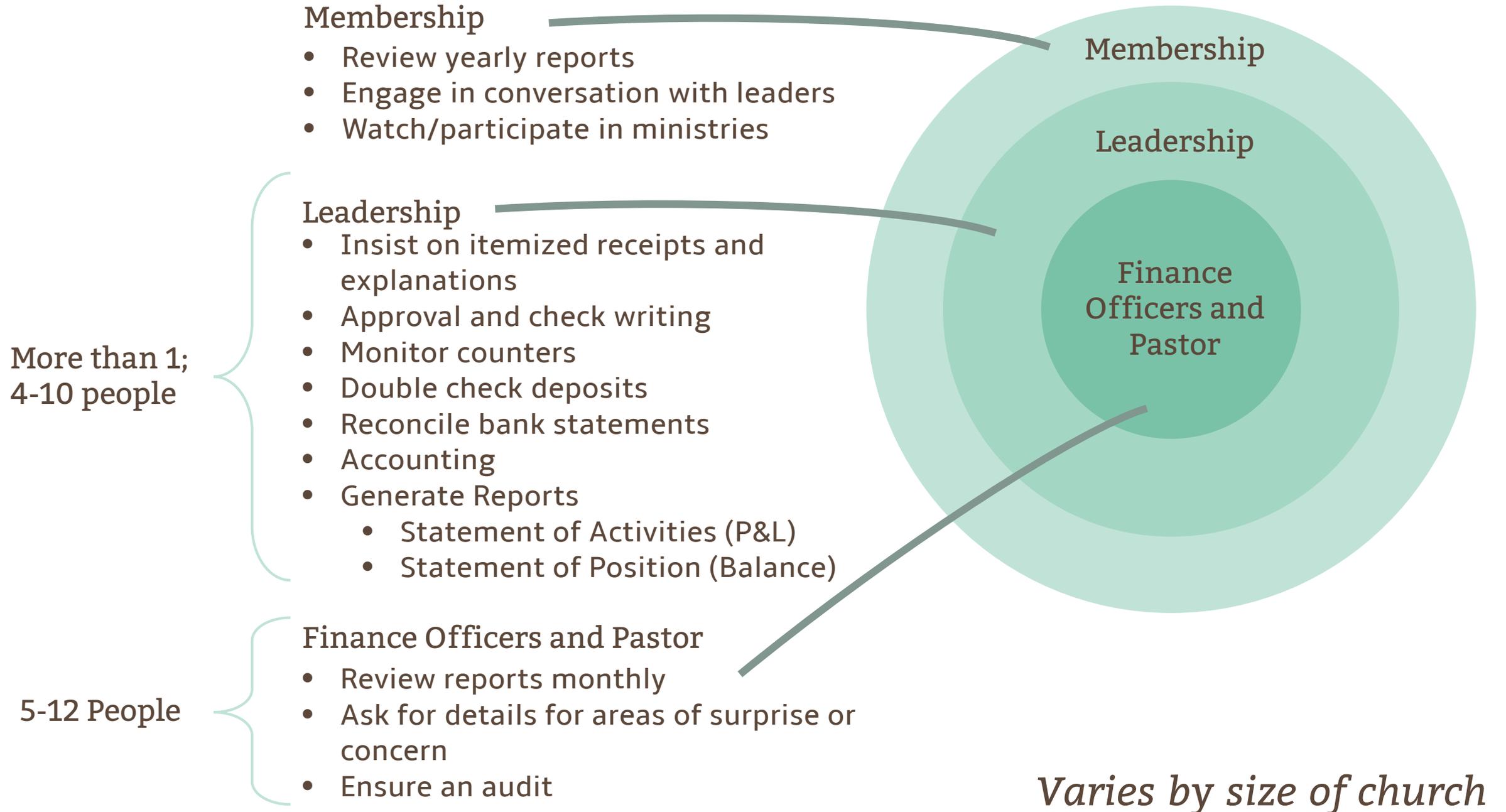
5-12 People

### Finance Officers and Pastor

- Review reports monthly
- Ask for details for areas of surprise or concern
- Ensure an audit



*Varies by size of church*



# The Role of the Pastor (somewhere between inner and second circle)

- Attentive and informed but not involved directly in bookkeeping and reporting.
- Why?
  - The pastor leads in generosity and must be the one to make significant asks.
  - The pastor is the primary driver for creating a culture of trust, which means the pastor must be aware of what's happening AND set a strong positive example.
- The pastor is NOT:
  - A counter
  - A check writer
  - The accountant
  - The auditor



# The Role of Pastor

- Key: attentive and informed.
- Pastor must graciously participate in the established procedures.
  - Presenting itemized receipts for expenses/credit card bills;
  - Explaining “why” following the procedures is so critical to the mission/vision of the church;
  - Affirmation for accounting staff (paid and volunteer) while working to ensure the necessary balance is achieved.
- “But, too many regulations can hamper ministry.”
  - Sure, but no regulations or refusal to graciously participate will only ever generate a culture of distrust or chaos.
  - Think Genesis 1 and God’s “good” order out of the chaos.





# Best Procedures

Some general rules



# Always More than One

- Ecclesiastes 4:12
- No. 1 red flag of financial impropriety: one person with complete control of all aspects of financial work in a local church (counting, check writing, accounting, reconciling).
- The Offering
  - Two unrelated counters
  - One unrelated person who records/accounts/sends giving statements



# Always More than One

- Spending

- Must separate the spending from the accounting/review/reconciliation. One person spends, but someone else reviews and accounts.
- Some expenses just need two people to participate in actually spending the money (two check signers never hurts).
- Credit Card Policy
  - Clear review/approval process (separate from cardholder)
  - Anything unapproved taken from paycheck



# Always Generate or Retain Documentation

- Offering
  - The counters should agree on the count and record in a log. Then, the counters should present the offering and the log to the person who will record it.
  - The log should always match the deposit slip, and those should be available for examination.



# Always Generate or Retain Documentation

- Expenses

- Any expense incurred on behalf of the local church should be supported with an itemized receipt and written description of why it was made.
- This includes a pastor/lay staff professional expenses.
- Expense forms are very helpful and can be attached to the receipt.
- Why? Looking back, without the receipt, how do you know what was purchased?
- A word on groceries and a combination of our first two general rules: Two people should do the shopping.



# Always Generate or Retain Documentation

- Credit Cards
  - Itemized receipts are really critical (no private inurement).
  - Every expense should be reviewed for receipt and explanation. Credit card receipts are not sufficient. A reviewer had no idea on what it was spent.
  - No receipt, again, withheld from next paycheck.



# Clear Limitations

- General expenses must have some limitations imposed.
  - Budget: Certain authority should be required for expenses in excess of certain amounts. But, such authority must be available because a budget is a “plan.” This is also why regularly conversations about the budget and reporting are so important. You may have to change it.
  - Procedural limitations: You may want additional review on checks in excess of a certain amount.
- Credit Card Limits
  - Limits should be appropriate to the cardholder’s role.
  - But, everyone needs some limit, no matter the role. Otherwise, they could theoretically indebt the church with little or no recourse.





# Miscellaneous Topics



# Designated Funds

- Governed by state law and principles of accounting
- Must respect a donor's wishes for use.
  - Only recourse is to refuse/return the gift.
- Only the donor can release the restriction.
  - When gift is made through a will, the restriction is simply a fact of the gift.
- How is a restriction made?
  - Clear when it's a letter or clear note on memo line of check.
  - Harder when its given as part of a special offering
  - Err on side of respecting restrictions or, when possible, asking the donor about intent.



# Designated Funds

- This is simple until the congregation is short on cash.
  - Typically, interest or investment returns can be used for other purposes unless the donor also restricted those (which is possible). Again, err on the side of caution.
  - Churches may not dip into restricted funds to pay general expenses even if it plans to restore the restricted funds.
    - No borrowing against restricted funds (because doing so represents a use outside the restriction).
    - No lending the funds to some other entity.



# Designated Funds Example

- Church has:
  - General Fund: \$12,000
  - Designated Funds: \$25,000
  - All funds in one bank account: (\$37,000)
  - Monthly expenses of \$17,000. No problem. Right?
  - Wrong. At least, not without donor approval to lift the restrictions. What about in the middle of the month? At best that's risky.



# Resources

- Nate Berneking, *The Vile Practices of Leadership: Finance & Administration*, Abingdon Press, 2017.
- Mike Piper, *Accounting Made Simple: Accounting Explained in 100 Pages or Less*, Simple Subjects, 2013.
- Sharon Farris, *Nonprofit Bookkeeping & Accounting for Dummies*, Wiley, 2009.

