



*Enhancing Trust*

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9 ESSENTIALS OF  
**AVOIDING  
CHURCH  
FRAUD**

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CHURCH ESSENTIALS SERIES

# Introduction

# Introduction

Fraud is just about losing money, right? Fraud does have negative financial implications for churches, but the impact goes far beyond money.

Fraud and misuse of church 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.

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

**Matthew 26:41**

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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 church 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, churches should:

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

For the church 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 as high on your radar screen as it should be. For churches with sound overall internal controls, the largest risks may involve certain types of electronic transactions—receiving gifts, fees, and sales. For a church with weak internal controls, the largest risks may relate to check approvals, bank reconciliations, and more.

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Avoiding fraud starts with the tone set by the senior pastor and ripples down through the church organization chart—rarely flowing upstream.

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

Understand why churches  
are susceptible to fraud



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## Understand why churches are susceptible to fraud

It is important to understand *why* fraud happens in churches.

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

- **A high trust culture.** Churches have a very high trust culture. Yet high trust, without accountability, can lead to disastrous fraud results.
- **Close personal relationships.** Unlike most other Christ-centered ministries, those who attend a local church typically develop close personal relationships with others in the church. These close relationships can make it difficult to properly assess church financial transactions.

- **Significant volunteerism.** Every church runs on the heart of volunteers. The financial transactions of most churches are totally handled by volunteers. When someone volunteers at the church, there is the immediate presumption that the volunteer has pure motives. This makes it challenging to question the actions of a volunteer.
- **Low verification.** A high trust culture combined with close personal relationships and significant volunteerism is the perfect recipe for low or no verification. What must be present to avoid fraud is high trust combined with high verification.
- **Reluctance to use background checks.** Churches are often 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 church financial positions. You must receive permission to conduct a background check, and that permission should be in writing.

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

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*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*

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The early church did background checks on those who served. We should, too!

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.

When one or more of these three elements are present, it may be just a matter of time until a fraud is committed, and the more elements present, the more likely the fraud. Of these three elements, the one that a church has the most control over is the opportunity element. To avoid fraud, churches must reduce fraud opportunities.

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 church. In a church where the senior pastor and the leadership team place 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.<sup>1</sup> This remarkable culture starts at the top of the church and flows down the organization chart. The church 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 church or as an impediment to ministry. 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 creditability and reputation of church staff and volunteers of equal or more value than church resources. By establishing sound internal controls to protect God’s resources, we protect staff and volunteers from unwarranted accusations of financial abuse.

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*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*

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

Understand how  
fraud occurs

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## Recognize how fraud occurs

Significant fraud doesn't just happen. It happens when churches 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 the Old Testament, which reveals that God's servants, who never intended to steal, may fall into temptation.

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*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*

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There are four big-picture issues that are often overlooked by churches, 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 church financial function, the door swings open for potential fraud. For example, let's say the church secretary approves checks, writes the checks,

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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 business administrator goes to the bank to wire \$10,000 to a mission field 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 church account. Since the church 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 churches have thorough written financial policies. For other churches, written policies are almost nonexistent. Whether strong or weak, those policies can be overridden, causing a major issue for many churches.

**Example:** A church needs to wire funds internationally. The church has a policy that the

executive pastor 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 executive pastor is on vacation and does not have a cell phone connection. So, the church business administrator decides the wire must be sent without the involvement of the executive pastor. 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 church 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 church 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.

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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 church 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 church 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 church 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.

Avoid revenue-related  
fraud

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# 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 church until the funds are deposited in the church's financial institution.

At a minimum, the following revenue-related duties should be segregated among several 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 checks and cash.** Adopt specific controls for cash and other revenue as follows:

- Money counters should undergo adequate training and sign a confidentially 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. Larger churches may have multiple teams, with a supervisor over all the teams.
- Checks should be endorsed to the church.

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**2. Fees and other income.** Fees and other income are often received throughout each month. Procedures should be developed to ensure the proper recording of these funds and their inclusion in a timely deposit.

**3. Revenue received remotely.** Are large amounts received remotely from the church's primary office? Are the controls at remote sites comparable to the controls at the church's main location?

**4. 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 churches 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 offerings. For a church receiving millions of dollars a year in digital gifts, a major loss can occur in a short period of time.

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

- **Giving.** Typically, the church collects credit card information and possibly, bank account information through an online giving platform, such as GivingKiosk, PushPay, and SecureGive. 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 church's financial institution.
- **Giver management system.** While some giving platforms have the option of processing giving records, most churches host giving 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 giving management system.
- Limit authorized changes to payment processor accounts.



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- 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.

Prevent expense-related  
fraud

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# 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**

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

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

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

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

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

There are a number of risks associated with church credit card use. Because of these risks, some churches have eliminated most credit cards. Employees use their personal credit card and instead, document church-related expenses for reimbursement.

This approach removes a number of risks for the church:

- (1) lost credit cards,
- (2) use of church credit cards for personal purposes, and

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(3) tardy substantiation of charges on a church credit card—the reimbursement of church expenses charged to a personal credit card only occurs after the expenses are submitted to the church with substantiation.

**3. Expense reimbursements for pastors.** These reimbursements can represent a sticky issue. When the church business administrator reports to a particular pastor who doesn't adequately substantiate business expenses or requests reimbursement of personal expenses, what is the administrator to do? One solution is to routinely have all 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 the major outflow of funds for most churches. 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 church with a few employees, payroll for the employees can be “padded” by adding unauthorized “bonus” amounts above regular pay. In a larger church, it is possible to have “phantom” employees. In other words, someone in the church office might add one or more “employees” who do not work at the church.

**5. Building programs.** When a church 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 for mission programs. It is not enough to merely confirm that the funds expended internationally reach the proper individuals or entities. The church should receive regular reports on how the funds are used. For significant international gifts, periodic site visits may be appropriate.

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 churches to also be alert in this area.

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

- **Investments.** Churches are especially susceptible to investment fraud. There always seems to be the potential to invest in high-return schemes and churches often 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 church investments. Strict compliance with the policy is also important.

- **Gift cards.** Unused or partially used gift cards are often donated to churches. Even when the gift cards are in modest denominations per card, in the aggregate, the gift cards can represent thousands of dollars for some churches.

Many churches have a policy of not accepting gift cards because of the potential hassle in administering them. But if gift cards are accepted, controls should be in place, including:

- a. Retain the gift cards in a secure location.
  - b. Create a spreadsheet to record each gift card; when it was received, from whom, and how much has been used from each gift card for church purposes.
- **Equipment inventory.** Except in larger churches, the equipment inventory may not receive the attention it

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deserves. As a church grows, equipment—especially unused equipment—tends to disappear. Sometimes the unused equipment shows up for sale on eBay, being sold by someone who attends the church.

For smaller churches, an equipment inventory system may be as simple as a spreadsheet. Perhaps only individual items costing more than \$500 or more than \$1,000 are included in the inventory. Larger churches 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 churches recording equipment on their statement of financial condition, the inventory additions and subtractions are reflected in the general ledger.

- **Merchandise inventory.** Some churches 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.

Perform routine risk  
assessments and audits





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## Perform routine risk assessments and audits

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

- 1. Risk assessment.** The purpose of a risk assessment is to determine if the church has weak internal controls in any area. Every church should periodically perform a risk assessment—larger churches more often than smaller churches. Part of a risk assessment is determining whether background checks have been completed for key financial positions in the church.

After a risk assessment is completed, church leadership should determine if steps should be taken to strengthen internal controls. An excellent church risk assessment tool is included in a book written by Rollie Dimos, *Integrity at Stake: Safeguarding Your Church from Financial Fraud* (Zondervan, 2016).

- 2. Internal audit.** If a church does not have an external audit, it is essential that a committee (an audit committee or finance committee, for example) perform an annual internal audit. 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 churches 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* (referenced above) and the *Zondervan Church and Nonprofit & Financial Guide* published annually and authored by Dan Busby, Michael Martin, and John Van Drunen.

- 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.

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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 churches 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.

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*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**

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Report financial  
wrongdoing



# Report financial wrongdoing

Should employees and volunteers be encouraged to raise concerns about financial wrongdoing in a church? 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 church 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.

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

**Ephesians 5:13**

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

1. Whistleblowing is an almost unheard of concept in the church world. The term “whistleblowing” conjures up certain negative images. A congregation that widely promotes whistleblowing could be opening the door for reckless accusations that could literally destroy the church.
2. Whether a church needs a formal policy to encourage the reporting of financial wrongdoing depends on the culture and values of the church.
3. Instead of a formal policy, most churches:
  - a. create an environment where people are encouraged to report problems or concerns, and
  - b. take reported problems seriously by investigating and resolving them, if needed.

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4. If a church does adopt a formal policy, it should include:
- a. A clear statement that employees (and perhaps volunteers) who are aware of possible wrongdoing with the church have a responsibility to disclose that information to designated individuals inside the church;
  - 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 church will be protected from adverse employment consequences; and
  - d. The establishment of a fair and impartial investigative process.

Manage the fraud  
occurrence



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## Manage the fraud occurrence

Despite your best efforts to establish and monitor internal financial controls, significant financial fraud may occur at your church. 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 almost always one of the most trusted individuals in the congregation. It is difficult to believe the person could ever betray the trust of church leaders.

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*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**

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What should a congregation 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

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instances, it may be relatively easy to determine the extent of the embezzlement.

**Example #1:** A volunteer stole two laptop computers. The individual did not have access to other church assets. After the theft was investigated, the church had a high degree of comfort that no other assets were stolen. The church took immediate steps to improve its equipment inventory control to minimize the risk of future equipment thefts.

**Example #2:** A church board member had the sole access to the church safety deposit box at a local bank. The church had issued bearer bonds to finance a construction project. Several un-matured bonds had been donated to the church. When the bonds matured, the board member removed them from the safety deposit box and cashed them at the bank. Since the board member did not have access to other church assets, church leaders determined that the fraud was limited to the bearer bonds. The church made a change to require dual access to the church safety deposit box.

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

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

**Example #2:** A church 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 church discovers fraud has occurred?

**1. Determine how the fraud occurred.** A church 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 how the fraudster absconded with church assets.

**2. Plug the leak.** Once a church 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 an offering counter,
- c. removing an individual as a signatory on a checking account,
- d. removing an individual's access to the church safety deposit accounts, and
- e. 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 church 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 church



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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 execute a note in favor of the church.
5. **Decide whether to contact law enforcement.** Some churches turn fraudsters over to law enforcement officials, some do not. Some of the deciding factors include how much grace the church desires to extend to the fraudster, concerns about church public relations, and many more.

Now what?

Action Steps to Excellence

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## 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 of the church set the example in accountability and transparency in financial matters, as this will create a church culture which minimizes fraud.
  - Establish and implement consistent dual controls and oversight policies.
  - Segregate among several individuals all revenue-related duties 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 several 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 church.
  - Establish policies for careful documentation of gift cards donated to the church, 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.

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*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**

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# Resources



## Other ECFAPress Books in the Church Series



### 10 Essentials of Forming a Church

Churches form to give followers of Christ the opportunity to worship together, grow in faith, and meet the needs of the local community. There are also practical legal and financial consequences that arise when organizing a church. This book provides an overview of the ten most fundamental issues to consider when starting a new church.



### 10 Essentials of Social Security for Ministers

Social security tax is one of the most complicated issues for many clergy in the U.S. It all starts with two types of social security—and a minister might be subject to both types of social security in the same tax year. The tax forms do not provide a convenient way to calculate the amount subject to social security tax. Understanding these ten fundamentals provides a good grasp of the social security basics that are often puzzling to ministers.



### 10 Essentials of Taxes for Ministers

This book provides a cogent overview of the ten most basic fundamentals of clergy tax. Clergy who understand these ten fundamentals will have a better understanding of the Federal tax issues impacting them. Some of these crucial issues include the clergy housing allowance, expense reimbursements, social security tax, and more.



### 10 Essentials of the Minister's Housing Exclusion

The minister's housing exclusion provides an income tax advantage to nearly every minister—in some instances ministers can save thousands of dollars per year using this tax provision. Maximizing this benefit requires coordination with the church, keeping good records of housing expenses, and applying the housing exclusion limits provided in the tax law. If you understand these essentials, you will have a sound understanding of the housing exclusion basics for ministers.



## 10 Essentials of Giver-Designated Gifts to Churches

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



## 7 Essentials of Cash Gift Acknowledgments

It is a privilege for churches 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 acknowledgments must meet strict substantiation requirements. This booklet guides a church through these challenging issues.



## 5 Essentials of Reimbursing Ministerial Expenses

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



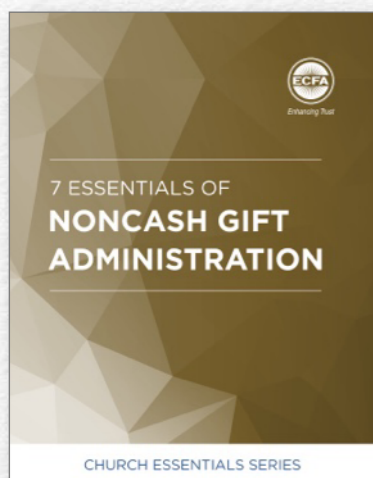
## 9 Essentials of Avoiding Church Fraud

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



## 10 Essentials of Church Budgeting

Preparing and utilizing budgets for a church 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 booklet provides the keys to maximize the benefits from church budgets.



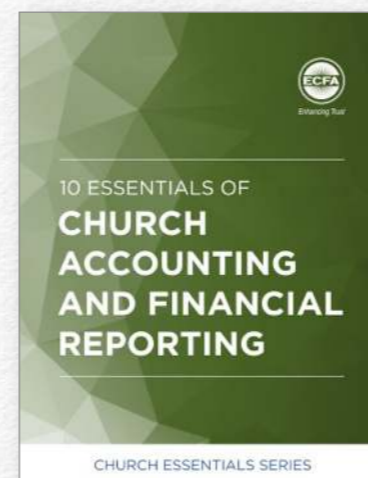
## 7 Essentials of Noncash Gift Administration

Most gifts to churches 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 church's mission. Most of these gifts are tax-deductible, but some are not. This booklet is helpful in addressing accounting and charitable gift receipting of noncash gifts.



## 8 Essentials of Compensating Ministers

Setting the compensation of ministers 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 booklet covers all of this and much more.



## 10 Essentials of Church Accounting and Financial Reporting

The accounting for church financial resources is the basis for accurately documenting revenue and expense. A sound accounting system provides the data to determine if a church is on track in comparison to the budget. It is also important to provide the appropriate financial reporting to the right audience. This booklet covers the basics for optimizing the church accounting system and providing meaningful reporting.





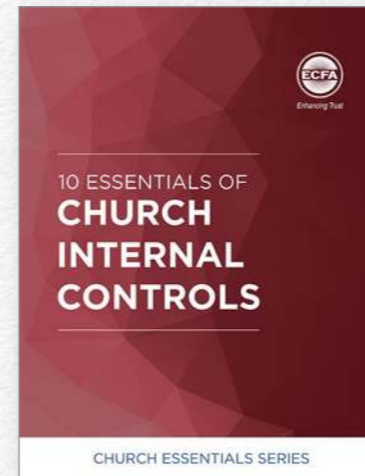
## 9 Essentials of Church Cash Reserves

Adequate cash reserves are necessary for a church 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 church. This booklet provides an overview of the different types of reserves and how a church may achieve them.



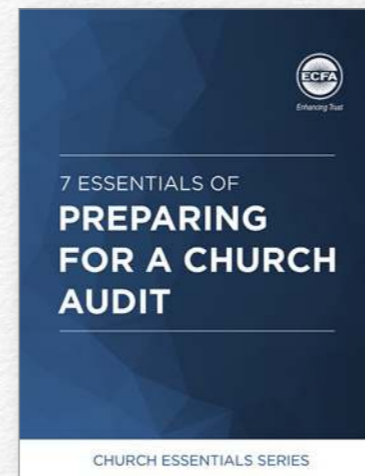
## 7 Essentials of Church Related-Party Transactions

Conflict of interest situations are common with churches—when a person who is responsible for promoting church interests is involved at the same time in a competing personal interest. A church should only enter into related-party transactions if strict guidelines are met. Even then, the risk of misperceptions may cause church leaders to choose to avoid related-party transactions.



## 10 Essentials of Compensating Church Leaders

Setting the compensation of church 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 booklet covers all of this and much more.



## 7 Essentials of Preparing for a Church Audit

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 church and prepare with confidence.



## 10 Essentials of Church Fringe Benefits

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 churches to design fringe benefit plans to model stewardship for the church and structure fringe benefit plans to allow employees to maximize compensation. This booklet will help you understand how to effectively use fringe benefits.



## 10 Essentials of Church Risk Management

There are a variety of risks in a congregation and all of them ultimately can have a financial impact. Risks range from property to people. It is not enough to understand risks exist. Churches must be able to prioritize and mitigate identified risks. This booklet is designed to help you begin to think more intentionally about risks in your congregation and where you may need to focus more attention.



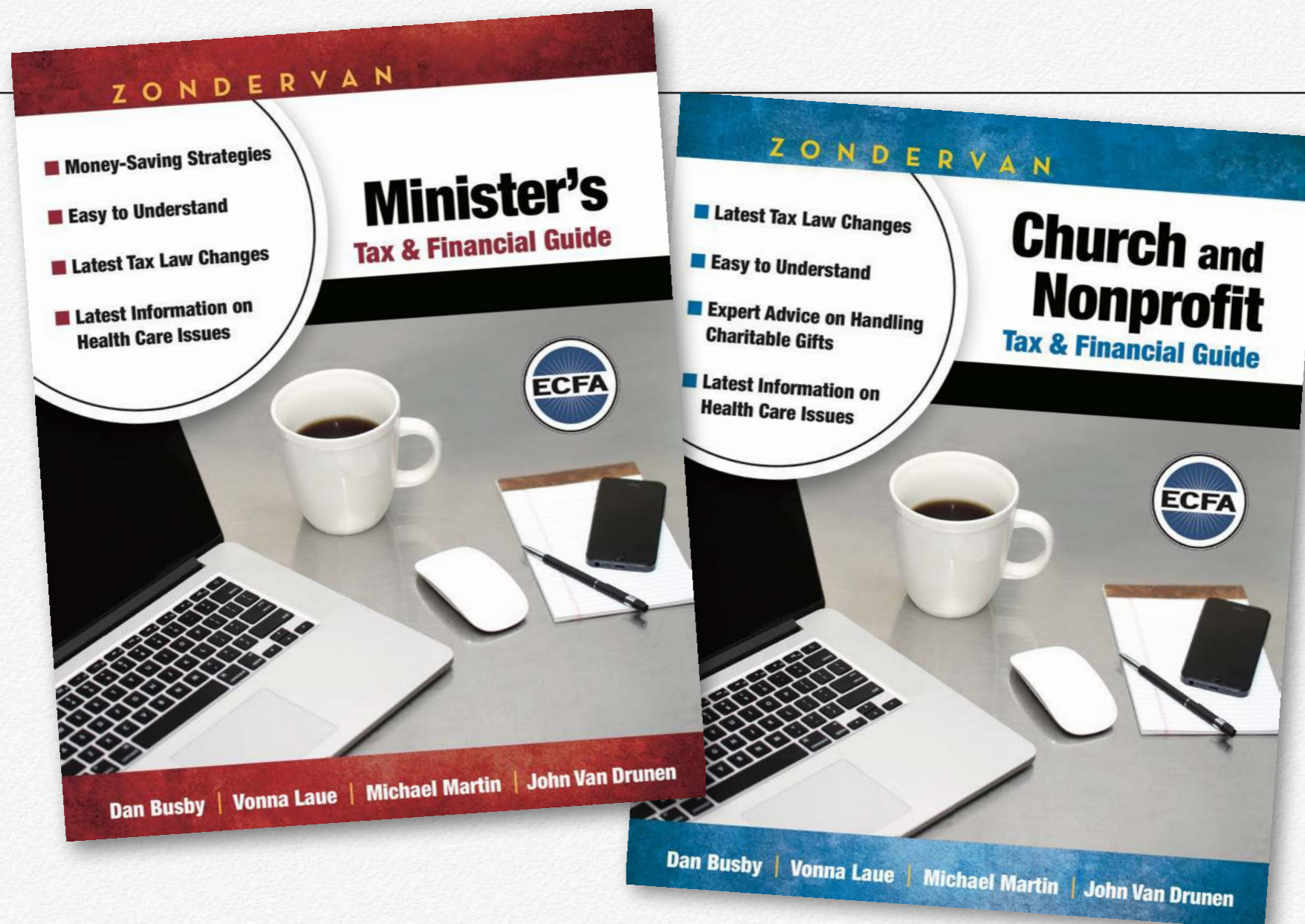
## 8 Essentials of Retirement Planning for Ministers and Churches

Retirement planning is important for ministers. The church should play an active role in the planning process for both ministers and staff. This booklet will assist the church and the minister to better understand the stages of retirement and the resulting financial needs. It will also provide practical tips on selecting and implementing a plan that encourages participation by ministers and staff to prepare adequately for traditional retirement years.



## 5 Building Blocks of Church Financial Integrity

When it comes to building a church'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 churches. The good news is building a church's 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 over two decades, the *Zondervan Church and Nonprofit Tax & Financial Guide* and the *Zondervan 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, Vonna Laue, John Van Drunen, 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.

To order these helpful resources, visit [ECFA.org](http://ECFA.org)



# KNOWLEDGE CENTER

The [Church Knowledge Center](#) contains hundreds of documents on church finance, governance, stewardship, and more. In addition, check out the ECFA website for special church webinars, newsletters, and other practical learning opportunities.

ECFA-certified churches have full access to these resources as a membership benefit, while ECFA friends are invited to access a basic level of Knowledge Center resources at no cost.



Governance



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## Notes

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## More Information

- *The Zondervan Church and Nonprofit Tax & Financial Guide* by Dan Busby, Vonna Laue, Michael Martin, and John Van Drunen, revised annually
- *Integrity at Stake: Safeguarding your Church from Financial Fraud*, by Rollie Dimos, (Grand Rapids, MI, Zondervan) 2016.



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