



Batts Morrison
Wales & Lee

CERTIFIED PUBLIC ACCOUNTANTS

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Church Risk Management – Just Do It

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The bottom half of the page features a decorative design of overlapping geometric shapes in shades of white, gold, and blue, creating a dynamic, abstract pattern.



Church Risk Management – Just Do It

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Practical Church Risk Management

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Practical Church Risk Management

In most churches, risk management is addressed in piecemeal form, and on a reactive basis.

Practical Church Risk Management

With risks increasing in both number and complexity, churches should consider a more holistic, proactive, and collaborative approach to risk management...starting with the board itself.

Practical Church Risk Management

Overall church risk management is typically considered (either explicitly or implicitly) one of the many duties of a particular staff member.

Practical Church Risk Management

The staff member charged with risk management is, more often than not, occupied with day-to-day obligations and rarely has the opportunity to rise above the “tyranny of the urgent” to proactively address and manage risk.

Practical Church Risk Management

The result in many cases is that the church does not proactively and systematically address risk.



A Collaborative Approach – Board and Staff Roles

As the group ultimately legally responsible for the affairs of the church, the governing body has ultimate responsibility for risk management.

In reality, the operating details of risk management are carried out by the church's staff.

A Collaborative Approach – Board and Staff Roles

Risk management should be carried out by staff pursuant to a framework or plan endorsed by the board.

A Collaborative Approach – Board and Staff Roles

The board should, either directly or by use of a committee, oversee and monitor the organization-wide process of identifying, assessing, prioritizing, and responding to risk.

A Collaborative Approach – Board and Staff Roles

Staff must have adequate capacity to proactively engage in risk management and prevention for the process to be effective.



Risk Management Structure

Consider utilization of a board-level risk management committee and a dedicated risk management official whose duties do not include day-to-day operations.

Risk Management Structure

- Treat this committee and staff member just as you would a critical standing committee and key staff position.
- The risk management official may not necessarily be a full-time employee.
- The risk management committee might be used in lieu of other committees or may draw from the work of other committees.

Risk Management – The Process

Identification



Assessment



Prioritization



Response



Identification

Identify key risk areas. Examples to consider:

- Corporate structure
- Governing documents
- General legal compliance
 - Contractual agreements
 - Applicable laws

Identification

Examples to consider (*continued*):

- Policies/policy manuals
- Tax status and compliance
- Financial controls
- Insurance coverages
- Physical security

Identification

Examples to consider (*continued*):

- IT/data security
- Child safety
- Succession planning
- Moral conduct of leaders
- Other key operational areas

Identification

Engage legal, financial, and other experts to advise/assist.

- Special outside expertise and resources may be needed in certain areas of operations.

Identification

Identify and articulate specific risks.

- What could happen?

Example: A vehicle accident could occur due to one of the church's employees texting while driving.

Assessment

Assess Probability.

- How likely is it to happen?

Consider mitigating factors.

Inspection, observation, and testing may be required to adequately assess the probability of occurrence.

Assessment

Assess Impact.

- How bad would it be if it happened?
(*Financially, reputationally, etc.*)

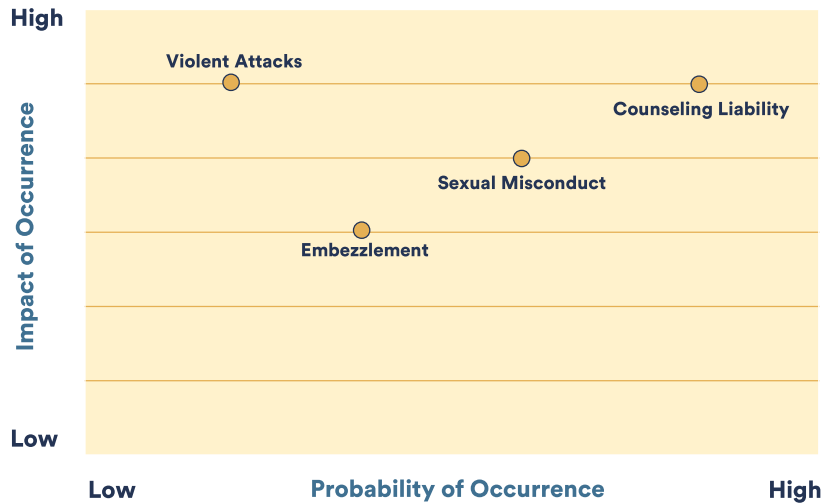
Consider mitigating factors.

Prioritization

Prioritize the risks using some appropriate method.

- Consider, for example, assigning scores for Probability and Impact.
(*See sample graph*)

Sample Risk Graph



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Prioritization

You might refer to the combination of Probability and Impact as the “Magnitude” of the risk.

- Items with highest combined scores, or highest magnitude, are highest priority.
- Use whatever approach best fits your church to prioritize risks.

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Prioritization

Determine which risks require attention on a priority basis and develop a specific implementation plan and timetable to respond to the risks.

- How can we reduce the probability that it will happen and/or minimize the impact?

Response

Your response to a particular identified risk will depend on your assessment of the magnitude of the risk and your risk tolerance.

Response

Keep board-level involvement to oversight and policy matters and set policy where appropriate.

- The board or committee shouldn't micro-manage or interfere with operations.



Next Steps for
Board/Committee
Engagement

Next Steps for Board/Committee Engagement

- Have staff develop a proposed framework and plan for risk management.
- Evaluate and approve the framework and plan, as well as progress in carrying it out.

Next Steps for Board/Committee Engagement

- Don't assume that because a policy is in place, it is being complied with. Test it. Inspect it. Observe it.
 - Advice from legal counsel is *critically* important in determining how to document concerns/findings and responses to findings.

Next Steps for Board/Committee Engagement

- Ensure that specific people are assigned to specific tasks with accountability.
- Require regular reports regarding risk assessment in all identified areas.
(Standing agenda items)

Suggested Steps for Board/Committee Engagement

- Ensure that the risk assessment process is continuously updated, including the identification, assessment, prioritization, and response to risks.

Summary and Conclusion

Overall risk management is often under-performed in the church arena, but it should be a significant area of focus for a church's board and staff. In order to be effective, overall church risk management requires dedicated attention from the board as well as dedicated staff capacity.

Resources

- [*Nonprofit Risk Management Center*](#)
- [*Church Board Guide to Developing a Risk Management Strategy*](#) from the Editors and Advisors of Church Law & Tax
- [*Reducing the Risk: A Child Sexual Abuse Awareness Program*](#) by Richard Hammar
- [*Board Member Orientation: The Concise and Complete Guide to Nonprofit Board Service*](#) by Michael E. Batts

Today's Presenter



Michael E. Batts, CPA

Managing Partner

Batts Morrison Wales & Lee

Mike Batts is the managing partner of Batts Morrison Wales & Lee (BMWV). Mike has more than 30 years of experience serving hundreds of nonprofit organizations in a variety of ways. He has served on and chaired the boards of nonprofit organizations, both nationally and locally. Mike is a member and former chairman of the board of ECFA, an organization that accredits Christian organizations in the areas of board governance and financial integrity. He advises nonprofit organizations on matters related to board governance, financial oversight, tax compliance and strategy, risk management, corporate structure, international activities, and related topics. Mike has actively engaged in nonprofit legislative matters at the federal and state levels. He served as chairman of the Commission on Accountability and Policy for Religious Organizations, a national legislative advisory commission convened to address tax policy recommendations for Congress, the Treasury Department, the nonprofit sector, and the giving public. Mike has authored several books covering a variety of topics important to nonprofit organizations, including books addressing board member responsibilities, financial administration, and unrelated business income. Mike's newest book is entitled *Nonprofit Finance: The Field Guide for Financial Operations of Ministries, Schools, and Other Public Charities* (Accountability Press, LLC). Mike is a summa cum laude graduate of Stetson University, where he studied accounting. He received state and national recognition for scoring the highest in the state on the Florida CPA examination. Mike leads our national headquarters office in Orlando as well as our Dallas office.



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About BMWL

BMWL is a national CPA firm dedicated exclusively to serving nonprofit organizations and their affiliates across the United States through audit, tax, and strategic advisory services.

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