

The Role of Your Church Board in Providing Financial Oversight

By Rob Faulk, Partner

Many church boards have two main areas of focus: the faith-based aspect of governance and the business and stewardship aspect. It's important for your church to balance the two, because a weakness in either can cause serious issues in overall governance.

Too often, we see church boards that are strong in one area but challenged in the other. Some churches are dominated by mission but lack proper fiscal management. Others are strong operationally, but lack leadership support for the "why" that drives the church's vision and mission.

Although I've served as an executive pastor, a role in which I was concerned with both the spiritual and business sides of the church, the observations in this article focus on the business and stewardship aspects church boards must monitor.

Who is monitoring your church's finances?

When talking with a new church client through my work with the accounting firm CapinCrouse, I want to find out who is monitoring the church's finances. Sometimes it's an elder. Sometimes it's a subset of the full board. All too often, it's no one.

I have seen churches rely heavily on the bookkeeper or executive pastor to monitor finances, but when that individual produces or receives the financial information, they lack either the time or expertise to use it strategically. Unfortunately, this means boards don't always have useful financial information on which to base their decisions. The challenge in these situations is that the internal reporting structure provides neither accurate nor necessary information to paint a true picture of the

church's financial health. Without that, the board can't take appropriate action.

Your church should invest in hiring competent accounting personnel to ensure the basic records are well-maintained and accurate. It is also key to train the accounting staff on what information the board needs and how to prepare it accurately and on a timely basis.

What financial information should your board monitor?

No matter who the hands-on designee is, however, ultimately it's the board's duty to monitor the church's financial situation because it holds the fiduciary responsibility for oversight.

So what financial areas should your board monitor? While this isn't an all-inclusive list, the board should be responsible for:

- Protecting the overall health of the church by continuously analyzing financial condition and trends
- Maintaining adequate levels of reserves
- Safeguarding investments
- Ensuring internal controls are in place to prevent fraud and protect assets

The board should also pay careful attention to various financial ratios and measurements,* seeking to answer questions like these:

- Are we using our financial resources as efficiently as possible?
- How does our church compare with similar churches?

It's important to consider how to best plan for and establish the duties for gathering financial information and ensuring proper oversight.

- What financial indicators should we monitor, and how?
- Are we financially healthy?

Structuring your church board subcommittees to ensure adequate financial oversight

Certain denominations have distinct board structures outlined by their denominational guidelines. But for others, the structures can vary significantly.

Regardless of requirements, the effectiveness of a church board is not determined by the number of committees or positions assigned to members. Rather, it is determined by the composition of the board members and having members with the proper financial expertise in key positions. This could mean members who are business owners, chief financial officers, accountants, or controllers, for example. Experience and familiarity with not-for-profit financial statements or key internal control systems is also important.

Many churches form one finance/audit committee, but the functions of these two groups are very different. Also, some states have laws that prohibit the combination of these two committees, so make sure you understand your state law.

A finance committee should be responsible for overseeing the setup of appropriate financial practices, including ensuring that:

- An annual budget is created
- Financial statements are prepared on a regular basis
- Policies are in place to ensure appropriate reserves are maintained

In contrast, an audit committee should be responsible for making sure the policies and procedures set by the finance committee are functioning as intended and are adequate to ensure operations are following policy, with acceptable controls in place. Audit committee members:

- Ensure that:
 - Management prepares and approves budgets before the start of the fiscal year
 - Financial statements are prepared, distributed, and reviewed on a regular basis
 - Reserves are kept at levels in accordance with the policies in place
- Provide oversight of the church's policies and procedures

- Work with external auditors to interpret and implement the auditors' recommendations

Many boards believe that one committee can successfully perform both functions, if state law allows. However, combining the two places a lot of responsibility and time on volunteer members. This makes serving on this combined committee a more time-consuming and less appealing volunteer role that can be difficult to fill.

It may not be feasible for your church to have separate committees comprised of different members with the appropriate financial expertise. But if it is, splitting these functions results in fewer responsibilities and increases the number of board members overseeing the church's financial functions.

In practice, I have observed that churches sometimes make the audit committee a subset of the finance committee. Two or three members of the finance committee are appointed to the audit committee. They report back to the finance committee which, in turn, reports back to the full board.

While not ideal, members of the finance committee can be good candidates for this role because they are involved with the duties of the finance committee. Note, however, that the executive pastor and members of church management shouldn't serve as members of the audit committee. Because these individuals perform managerial functions and implement the system of internal controls that is being audited, serving in this capacity would involve conflicting duties. However, they will likely attend meetings to respond to process and procedural questions and obtain information requested by the committee.

Information and insight

It's important to consider how to best plan for and establish the duties for gathering financial information and ensuring proper oversight. Keep in mind that in most medium-sized churches it can take a subset of elders or the finance committee a significant amount of time to be trained on how to properly monitor the church's finances.

It's vital to put in the time and effort, however. When your church board is receiving the specific information it needs to monitor the church's finances and reserve levels throughout the year, it can make informed strategic decisions to help maximize your ministry.

This article first appeared on ChurchLawandTax.com.

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