



Seven Proactive Policies for Well-Run Churches

by Bill Sims, CPA

POLICY DOCUMENTS provide continuity for churches. They serve as a stake in the ground for good business practices and when properly followed, they contribute to internal controls. Here is a list of recommended policies that will ensure your church is on top of fiscal fitness with reimbursements, petty cash, credit cards, bank reconciliations, mail procedures, electronic contributions, and political involvement.

1. REIMBURSEMENTS

A written reimbursement policy sets standards for business expenses and minimizes the gray areas for what is and what is not a qualified business expense. The policy needs to meet the IRS's criteria as an "accountable plan" if your employee is to exclude the reimbursement from taxable income. Examples of expenses to make decisions on and document are the following:

- Mileage reimbursement (We recommend you reimburse at the standard amount approved by the IRS.)
- Parking and tolls
- Travel expenses (including transportation, lodging, and meals)
- *Per diem* amount for meals while traveling (if applicable)
- Cell phones
- Professional membership dues and periodical subscriptions

Additional decisions are required for the process of reimbursement:

- Which expenses are reimbursable vs. expenses that should be paid directly
- Acceptable time frame for submitting expenses (60 days per IRS rules)
- Amount that needs a hard copy receipt (IRS standard is \$75; your amount may be lower)
- Whether or not cash advances are available, and the time frame for returning excess advance payment

- Whether pre-authorization is required to qualify for reimbursement

Include in your policy the required documentation to meet IRS standards:

- Type of purchase
- Date, place, amount of purchase
- Business nature of the expense

For nonprofit organizations, including churches with a 501(c)(3) designation, provide employees with a form or certificate that shows your tax exemption. If someone makes a purchase for your church that is reimbursable, then they do not need to pay sales tax. (Check your specific state for its rules.), but the place of purchase will need to see proof of tax exempt status.

One more thing—determine who approves expenses for each department or program area. Without proper approval, the reimbursement should not be made.

2. PETTY CASH

Petty cash needs guidelines that are determined by your church administrator and/or financial officer. Here are examples of criteria for the policy statement:

- All petty cash is reported on a log which is reconciled (for a pre-determined period of time, such as monthly or bi-monthly).
- The person who manages the petty cash should not be the same person that reconciles the log.
- Only a small amount of money needs to be kept, such as less than \$100.
- The cash should be in a locked location, with access by a limited number of personnel (ideally only one person).

In your policy statement, determine the amount to keep on hand, the location, and the name(s) or title(s) of the staff who have access and who reconcile the log.

3. CREDIT CARDS

A credit card policy is more than determining and limiting which employees will be issued a church credit card. Consider the following for your policy:

- Perform a credit check before issuing a card. (It is a good idea to run a credit check on all employees prior to hiring.)
- Document the types of expenses for which the credit card can be used.
- Create a disciplinary provision for the credit card policy to detail the consequences of unauthorized use. (For example, loss of credit card privileges ranging to legal action.)
- Request a merchant code from the credit card provider that will block the use of church credit cards at ATM and certain types of establishments determined by the church.

4. BANK RECONCILIATIONS

Bank statements must be reconciled on a timely basis. Here are suggestions for a bank reconciliation policy:

- Ideally, require two different people to have proper segregation of duties. An authorized person (such as a signer on

the account) designated to receive the bank statement should be responsible for opening and reviewing the bank statement for unusual or irregular transactions. This person should initial and date the statement for evidence of receipt and review. A second person should perform the bank reconciliation and initial and date for evidence of completion.

- Perform bank reconciliations within 30 days of month end to avoid irregular items going unnoticed for extended periods of time.

5. MAIL, CHECKS, AND CASH

Churches are often relaxed about a very important fraud-prevention duty—opening mail and copying checks. Because different staff or volunteers may have access to mail and check copying, it is important to have a written policy that is readily available. This is not a policy to put in a binder and forget. Proper procedures for mail and checks help eliminate temptation and opportunities for misappropriation. If possible, it is best to have one person, such as an administrative assistant or receptionist, open all the mail, copy the checks received, and restrictively endorse those checks. They can also prepare the deposit slip and ultimately make the deposit, if that helps. That person would have no further duties regarding checks received via mail. Specifically, the following duties must be kept separate:

- Maintaining the cash receipts journal and contributions module
- Posting journal entries to the general ledger
- Reconciling the bank account
- Investigating discrepancies related to cash

For receiving walk-in cash donations, we recommend putting the money in an envelope and putting the envelope in a drop safe. The person receiving the cash should note the date, amount and his or her name on a log sheet. If cash/currency (not a check) is received, a receipt book should be maintained with a copy to the

donor being required. Cash must be protected at all times.

An alternative to completely separate duties is to have two people present for the opening of mail and copying of checks; however, these two people should rotate duties so that collusion is not a likely possibility.

Additionally, the person who investigates discrepancies related to cash should be someone not connected to the day-to-day cash/check receipt and bank account responsibility.

6. ELECTRONIC CONTRIBUTIONS

Many churches offer the option of electronic giving. Just like cash and checks, you need a procedure in place to keep integrity with electronic contributions.

A policy for electronic contributions needs to include the following:

- Access to inputting or changing information to the credit card processor should be segregated from the access to donor records and reconciliation of amounts charged.
- Designate a regular review of electronic contributions to reconcile the batch report from the credit card processor to the bank deposit. A process to ensure that the donors receive contribution credit on their giving statements should also be implemented.
- All changes (new automatic authorization requests and termination of giving) should be kept separate and reviewed to ensure that the request was properly completed.
- Review various credit card processors and review the Service Organization Controls Report (SOC 1, formerly SAS 70). This report gives the church or ministry the comfort that the processor has the proper controls in place to safeguard the information of their donors.

7. POLITICAL INVOLVEMENT

Your church needs to let employees and lay leaders know what is acceptable regarding political statements in an

official church capacity. The rules divide between what churches can and cannot do:

Churches may do the following:

- **Insubstantial lobbying**—Such activity must be kept to a minimum expenditure and must not be a substantial part of the church's activities to keep your tax-exempt status. "Not substantial" would be a very low percentage of activities. Unfortunately, the IRS has failed to define "insubstantial," so consult an attorney if you have a question. Examples of lobbying that may be allowable by a church, are attempting to influence legislation considered by Congress, state legislature, or at local and municipal levels. Also keep in mind that *anyone* who feels the church has violated these requirements may file a complaint with the IRS on Form 13909.

- **General advocacy on issues**—Examples of safe topics include community involvement, responsible citizenship, and non-partisan voter education activities; however, churches must not mention specific elections or candidates.
- **Candidate appearances**—If a church wants to hear from candidates, all must be given an equal opportunity to participate, and they must not give political speeches. This is a tricky area, so it is best to seek legal advice before proceeding to invite candidates running for office.

Here is what churches may not do:


- **Electioneering**—Churches cannot endorse or oppose specific candidates or political parties. This includes making contributions or distributing campaign materials.

Author

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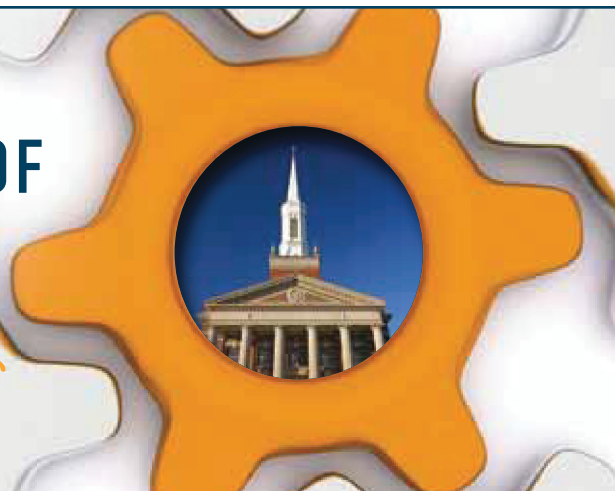


- **Express political opinion from the pulpit**—As private citizens, pastors can be involved in political campaigns, but they must never cross the line and express political opinions in any official capacity—written or verbal.

The most important part of a policy is documentation. Documented decisions protect you in an IRS audit and ensure that all departments operate under the same standards. 

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