

How to Handle Money and Protect Contributions

Embezzlement, mishandled funds, or just plain stealing — any of these issues could occur at any church, at any time. Whether a church takes physical donations (such as cash or checks), online donations, or both, there are certain risks that the proper handling of money can mitigate.

The three rules of cash management

Daniel Kasle, Executive Vice President and Chief Financial Officer for the Church Pension Group (CPG), says there are three cardinal rules of cash management:

1. ***Proper segregation of duties***

“The person who collects the money should not be the same person who banks the money,” Dan says. There should always be “at least two people” who know how much money was collected, so no disagreements arise about the amount collected versus the amount deposited.

2. ***Always require two approvals or signatures for all disbursements***

Board members often have fiduciary responsibilities under state law. Dan suggests that a paid administrator should be one of the signatories, and a vestry member should be the other. If the parish has no paid administrator, then two vestry members should act as signatories.

3. ***Any questions?***

“If you have any doubt, refer back to rules one and two,” Dan says.

Online contributions

One benefit of using an online donation system is that no one has to handle the cash. When someone makes a contribution, it goes directly into your bank account. But, there are certain risks that accompany online donations, too.

Dan recommends against churches setting up their own web forms that accept credit cards, which can open them up to risk. Instead, you should select a vendor that complies with the Payment Card Industry Data Security Standard (PCI DSS).

These vendors usually charge for their service. “Look at the cost against the convenience and figure out if it is worth it to accept online donations,” Dan suggests.

Stay on the right side of the law

Keep track of donations, and be aware of IRS charitable giving rules. For example, Dan points out that current tax law requires that a donor must obtain written acknowledgement from the church in order to take a tax deduction for any single donation of \$250 or more.

Although a charity is not required to provide a written acknowledgement for donations under \$250, it is good practice to provide acknowledgements for all donations, as donors may request a written acknowledgement from you at the end of the year for their sum of the year's donations. "Somebody might give \$50 at one event, \$100 at another time, and so on – and it adds up to \$600 at the end of the year. They will want a letter from you at tax time."

Dan also says it is important to segregate money that is donated for a specific or restricted purpose, either by placing it in a separate account or by creating line items in the balance sheet that clearly show how money is to be spent. "It takes careful administration," he says.

"If money is collected for a capital campaign, intended to do something like completely renovate the church, I would suggest creating a separate account," Dan says. "But, if the donated money is intended for something smaller, like the flower fund, that can be segregated on the books."

Rotate and separate to avoid fraud

"When it comes to being a good financial steward, small amounts of money can be as large a risk as big amounts," Dan says. He says that the average duration of embezzlement activity pertaining to a single scheme within an organization is about four and a half years – but for religious institutions, the average length is **seven years**. That means that the individual committing fraud usually takes small amounts of money over a long period of time.

An important way to protect church funds is through "rotation and separation of duties." See rule number one of cash management above. And, regularly changing the roles of volunteers and vestry members who have a hand in your church's financial management can go a long way toward preventing fraud. "It is far less likely that you will have two people colluding to commit fraud than one person doing it on their own. That is just a fact of human behavior," Dan says.

Segregation of duties and precise administration can help church organizations to be good financial stewards and prevent fraud. It may take time and care to establish best practices, but the efforts churches make toward proper money handling will pay them back.