

# 3 Basic Principles for Protecting Your Congregation's Finances

Union of Messianic Jewish Congregations

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# 3 Basic Principles for Protecting Your Congregation's Finances

- Proactive procedures to reduce risk and temptation
- Charitable contributions and their reporting requirements
- Important tax considerations



# Two Types of Fraud

1. Fraudulent financial reporting
2. Misappropriation of assets



# Two Types of Fraud

## 1. Fraudulent financial reporting

- Intentional misstatement or omission of material information
- Typical when 3<sup>rd</sup> parties are relying on F/S
- Usually perpetrated by those in control and trusted positions



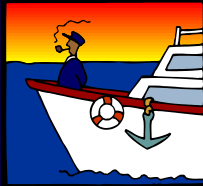
# Two Types of Fraud

## 2. Misappropriation of assets

- Stealing cash or other tangible assets
- Personal expenses paid by company/employer
- Transfer of liabilities to company/employer
- Billing and purchasing schemes/kickbacks

# Behavioral Red Flags

- Four most common characteristics



Living beyond one's means



Financial difficulties



Unusual familiarity with vendor or salesperson



Control/Anger issues

# Why Fraud Occurs



All three need to be present for fraud to occur.



# Motives to Commit Fraud

- Addiction
- Bonus, raise or promotion
- Positive performance evaluation





# Rationalization

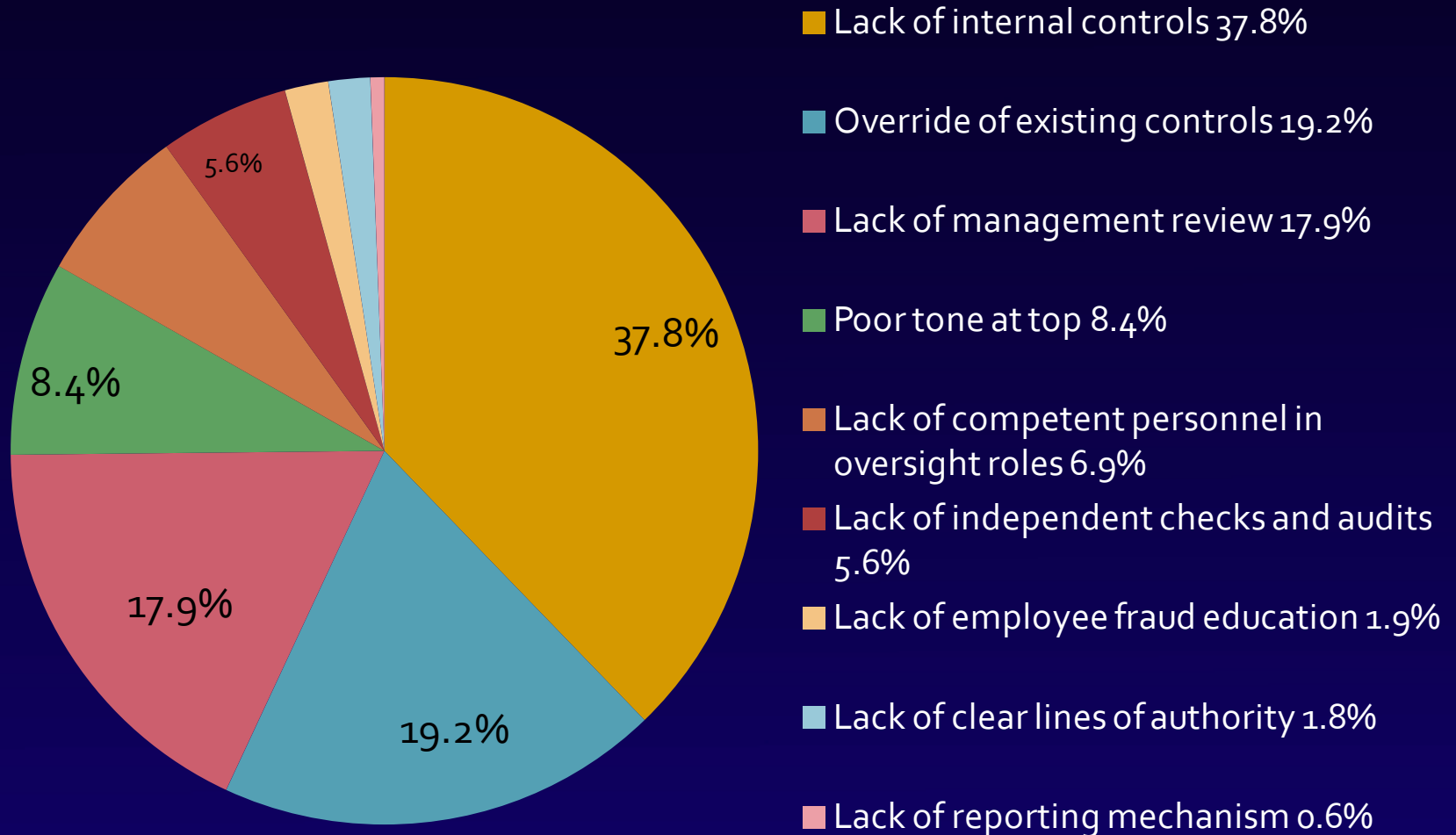
- Under-appreciated
- Under-valued
- Believe entitled to more compensation

*"I'm just going to 'borrow' but I'll repay it"*



# Opportunity

## Weaknesses that Contribute to Fraud



\*Association of Certified Fraud Examiner's 2012 Report to the Nations on Occupational Fraud and Abuse



# Cases of Fraud

Faith-based organizations can be more tolerant of human frailties and misdeeds; as a result, fraud perpetrators survive and thrive by taking advantage of this trust.

# Cases of Fraud

2010 - Church bookkeeper arrested for stealing over \$2 million from collections



2011 – Chair of church finance committee embezzles \$400,000 – He wrote checks to self and generated false reports

# Cases of Fraud

2009 – 2 priests steal \$390,000 - \$500,000 for lavish Las Vegas lifestyle



2003 – Church finance manager embezzled \$300,000 to enable grandson's addiction.

*It is only those you trust who will steal from you.*

# Recommendations to Limit Opportunities

- Tone at the top
  - Lead by example
  - Practice what you preach
- Define principles and values
- Define roles and responsibilities
- Involve Board and lay leadership



# Recommendations to Limit Opportunities

- Emphasize ethics
- Perform background checks
- Encourage open communications
- Establish policy to protect whistleblowers
- Set-up tip hotline to report fraud

# Recommendations to Limit Opportunities

- Controls over disbursements
  - Use only approved vendor list
  - Limit who can set-up vendors
  - Approval by appropriate supervisory personnel
  - Limit employee advances
  - Limit check signers to those without G/L access



# Recommendations to Limit Opportunities

- Controls over disbursements
  - Consider dual signatures to those without G/L access
  - Bond personnel who handle cash
  - Restrict who can make transfers

# Recommendations to Limit Opportunities

- Controls over disbursements
  - Limit who has church credit cards
  - Restrict types of purchases to be charged on cards
  - Consider eliminating credit cards; rather reimburse employees



# Recommendations to Limit Opportunities

- Controls Over Receipts
  - At least 2 people perform counts and prepare a report
  - Use drop safe
  - Periodically, rotate counters
  - Person who posts contributions should not be a counter



# Recommendations to Limit Opportunities

- Controls over receipts
  - Develop policy to reconcile on-line
  - Obtain SOC 1 (formerly SAS 70) report for 3<sup>rd</sup> party
  - Develop policy for collecting cash at special events

# Acknowledging Charitable Contributions

# Acknowledging Charitable Contributions

*Ascribe to the Lord the glory due His name; bring an offering and come into His courts. (Psalm 96:8)*

## ■ Six requirements

1. Gift of cash or property
2. Claimed as deduction on year made
3. Unconditional and without personal benefit
4. Made to or for use of charity
5. Within limits of the law
6. Properly substantiated

# Charitable Contributions

1. Must be cash or property
  - Personal services are NOT deductible!  
(but related expenses might be)

# Charitable Contributions

## 2. Must be claimed in year made

- When charged on credit card
- If mailed, postmark must be before January 1<sup>st</sup>
- Backdated checks received (not mailed) in current year are deductible in current year- not last year



# Charitable Contributions

3. Unconditional – no return benefit to donor  
(excluding “intangible religious benefits”)

- Non-reciprocal transfer
- If something received in return, then deduction is net

# Charitable Contributions

## Examples

- Meal cost for a dinner associated with a fundraiser
- Value of golf round in a tournament fundraiser
- Certain de-minimum amounts set by IRS annually (“token” exception)

# Charitable Contributions

3. Unconditional does not mean “undesigned” or “unrestricted” as to purpose

- Can't designate person (s) but purpose okay (if within your exempt purpose)
- Recognition is okay

# Charitable Contributions

4. Made to or for use of charity
  - IRS qualified organizations (Pub. 78)
  - Not to individuals
  
5. Within limits of the law
  - Deductibility can sometimes be limited

# Charitable Contributions

## 6. Substantiation

- Less than \$250, at a minimum, must have cancelled check
- Individual amounts greater than \$250
  - Check copy not sufficient
  - Must have an acknowledgement from the nonprofit organization

# Charitable Contributions

## 6. Components for legal substantiation:

- Name of charity
- Amount
- Description (but not value) of noncash contributions
- Statement (if applicable) that no goods and services were received in exchange for contribution
- Description as good faith estimate of value of anything given by congregation in return
- Statement (if applicable) that nothing received in exchange other than intangible religious benefit

# Tax Considerations for Ministers

1. Self-employed status for social security purposes  
("dual status")
2. Possible exemption from self-employment taxes
3. Exemption from mandatory federal income tax  
withholding
4. Housing allowance

# Self-employed status

- Ministers do NOT participate in FICA program
- Mandated by law
- Defined as Self-Employment Income
- Congregation does NOT withhold FICA and match the tax
- Rather in the SECA program
- Reported on Schedule SE
- Includes designated amounts for housing allowance



# Possible Exemption from SECA

- Opt out of SECA program
- Opposed to public insurance on religious beliefs
- File 4361 in triplicate due by tax due date of 2<sup>nd</sup> year  
when earnings as a minister > \$400/year
- Keep in safe place

# Federal Income Taxes

- Ministers are exempt from mandatory FIT
- Not required to complete Form W-4
- However, most are employees can elect voluntary withholding
- Can also compute to cover amounts attributable to SECA
- Recommend this vs. E/S payments

# Housing Allowance

- Excludable from Federal Income Tax not reported on W-2
- Subject to SECA
- Designated in advance
- In writing
- Adopted by Board or Congregation

# Housing Allowance

- Excludable amounts – Lesser of:
  - Amount designated and authorized by Congregation
  - Actual expenses incurred
  - Annual fair rental value, furnished and utilities

# Housing Allowance

	#1	#2	#3
Authorized Housing	\$25,000	\$30,000	\$35,000
Actual Housing Expenses	32,000	32,000	32,000
Fair Rental Value w/Utilities	<u>27,000</u>	<u>27,000</u>	<u>27,000</u>
Allowable Amount	25,000	27,000	27,000

# Questions?

## Contact Information

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