

RUSSELL RAEALLY, FIAC, FCCA

THE FINANCIAL EQUATION

OF TRUST, CONFIDENCE AND FAITHFULNESS



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The Financial Equation of Trust, Confidence, and Faithfulness

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The Financial Equation of Trust, Confidence, and Faithfulness by

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Acknowledgments

To God for the wisdom and strength.
To my wife and son for their support as
I wrote this manual deep into the night.

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Foreword

Our call to faithful stewardship is grounded in theological reasons: God is the Owner and Provider of every good thing, and we are His stewards. Nonetheless, there is a clear relationship between a perception of trust and accountability and rates of giving among members. This is the rationale behind the third lead measure of the GC Stewardship Ministries about accountability and transparency:

Stewardship leaders encourage and work together with the leadership of the church to establish an internal control system, comply with the Use of Tithe guidelines, assist in ensuring that regular financial information is provided to all members, and engage in other actions that contribute to building trust.

This manual, *The Financial Equation*, commissioned by Adventist Stewardship, provides a tool for stewardship educators and others who would like to assist the local church in building trust.

Our drive to participate in building up trusted leaders and trustworthy church communities is rooted in both Scripture

and the writings of Ellen G. White. While championing generosity and solidarity, apostle Paul appeals for church leaders to demonstrate a high level of accountability and trustworthiness: “Rather, we have renounced secret and shameful ways; we do not use deception, nor do we distort the word of God. On the contrary, by setting forth the truth plainly we commend ourselves to everyone’s conscience in the sight of God” (2 Cor. 4: 1, 2, NIV). In 2 Corinthians 8: 19–21, he explicitly mentions the appropriate rule of conduct for the managing of finances: honor the Lord, serve others, avoid criticism, be accountable to God, be accountable to man. Apostle Paul taught believers about their sacred responsibility to give and that their gifts were to be managed as a sacred trust. This is the guiding principle of this resource material.

Ellen G. White is adamant about the necessity of trustworthiness for those involved in ministry: “Those in responsible places are to act in such a way that the people will have firm confidence in them. These men should not be afraid to open to the light of day everything in the management of the work.” (13MR, 198). She testifies about the negative effect of mistrust on the giving of church members (Letter 36, 1897). At the same time, she adopts a well-balanced position when she claims that the absence of trust is not an acceptable justification for unfaithfulness. Since the inclination to give is weakened when trust is shaken, it is our responsibility to remove all stumbling blocks in the path of those we lead.

A study by Smith, Emerson, and Snell explores the factors influencing Christians’ giving in the US. They recommend, among other things, “transparency, accountability, and

institutionalized credibility” within church organizations to foster an increase in giving.¹ This resource material provides basic guidelines for the local church to grow as a trusted institution. Trust accelerates faithfulness. It creates a conducive atmosphere for sacrificial giving to happen.

We express our appreciation to Russell Raelly for sharing his expert knowledge about managing church finances with us. He brilliantly communicates technical information in a language accessible to everyone. As you use this knowledge to fulfill your role as a trust builder, be encouraged by these words from apostle Paul, “We have done so, relying not on worldly wisdom but on God’s grace” (2 Cor. 1:12, NIV).

GC Stewardship Ministries

¹ Smith, C., Emerson, M. O., & Snell, P. (2008). *Passing the plate: Why American Christians don't give away more money*. Oxford University Press, p. 143.

Introduction

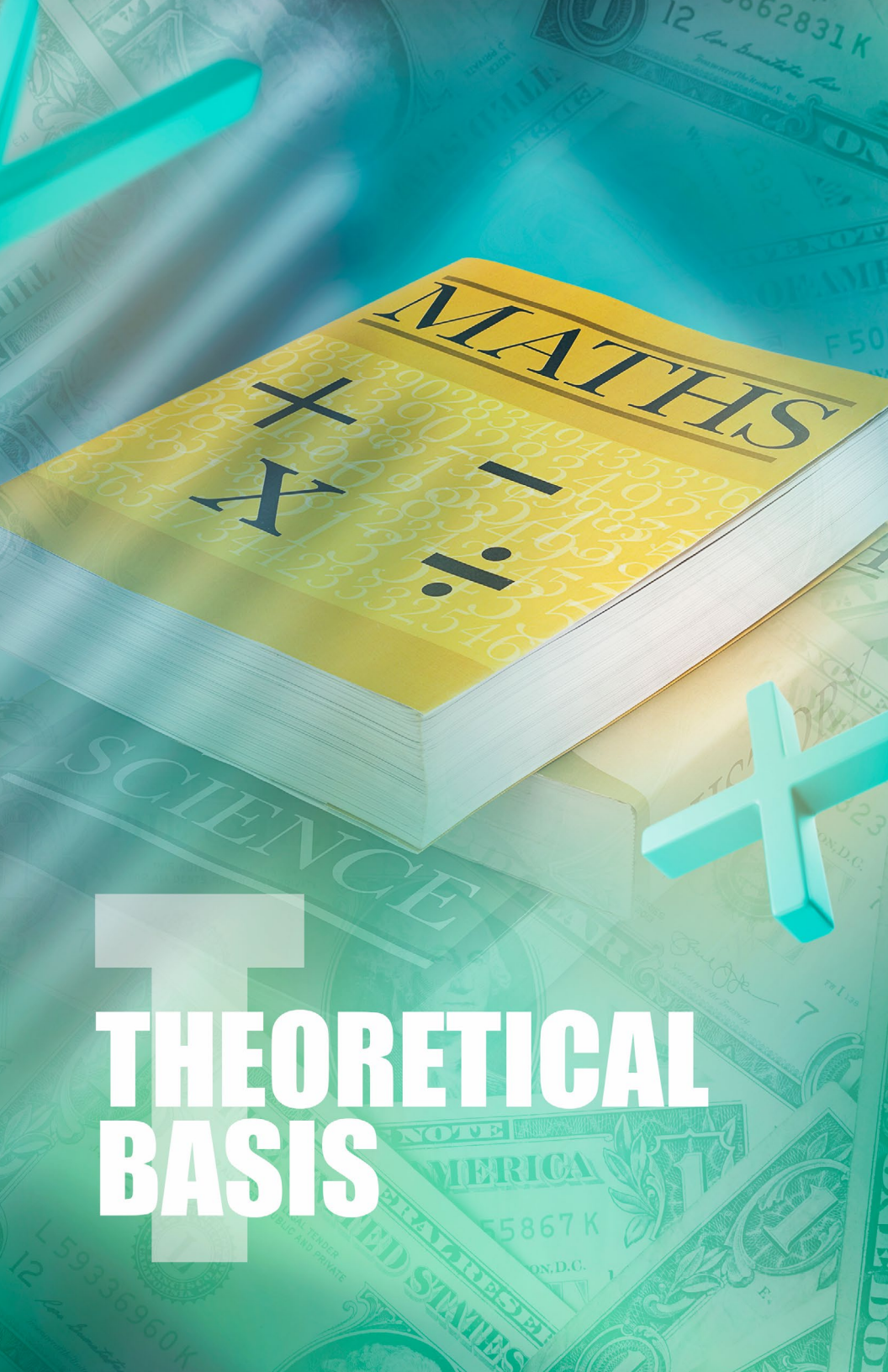
The phone rings, jolting him awake. Still groggy, he answers the phone. It's the church nominating committee requesting that he accept the office of church treasurer. He agrees.

A month passes, and it is time for his first meeting with the church financial committee. At the meeting, he busily thumbs through his notes. The financial report is next on the agenda. He clears his throat and begins to rattle off numbers. Are these numbers significant? Do they represent any objective reality? Were they arrived at systematically and honestly? He hopes and prays that they were. Moved and seconded. Done! Neither he nor the board knows the full significance of the report they have just voted with such expert grace and confidence.

A year later they meet again, as they have for untold ages. The audit report cites several noncompliance issues. Taken together, they indicate disarray and paint a picture of chaos. Moved and seconded. Done! Neither he nor the board knows the full significance of the report they have just voted with such expert grace and confidence.

The brief manual that follows is produced with the

intention of ensuring that the above scenario does not occur at your church, and that both the board and the church treasurer understand their roles and responsibilities.



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T
THEORETICAL
BASIS

T THEORETICAL BASIS

In business, shareholders entrust their investment to management. Management must manage to maximize shareholder wealth. This is the stewardship principle in action, the optimal management of something on behalf of another. Shareholders expect management to increase shareholder value ethically, wisely, and honestly, and to keep them informed.

The church has members. Members return their tithe and give offerings to the church. The member rightly expects that tithes and offerings will go to the destination specified, and that funds will be managed to enhance the mission of the church.

The financial world depends on numbers, formulae, and rules. Here is one of the most important formulae: Trust = Confidence = Faithfulness. If $A = B = C$, then $A = C$. Increased Trust = Increased Confidence = Increase Faithfulness. Therefore, Increased Trust = Increased Faithfulness.

Covey (2006) highlights that any relationship is built on trust, or confidence. Family, romantic, business, and work relationships are all built on trust, or confidence. Stated another way, confidence is the basis of any relationship.

Covey (2006), in the book *The Speed of Trust*, introduces the idea of the economics of trust. When trust increases, efficiency increases and costs decrease. When trust is low, efficiency decreases and costs increase.

In applying the economics of trust to internal control of church or institutional finances, we can infer the following: In the ordinary course of business, when a customer buys a service or a product, there is evidence of the service or product being delivered. But when someone is donating to an organization, they are giving to a cause in which they believe. There is no direct evidence of a service or product being delivered. It is therefore important that there is reasonable assurance that the donor's gift will carry out the cause the donor is supporting.

Trust that the organization will be able to deliver on its promise is important to the donor. There is no evidence that the funds will be utilized as promised since there is no product or service at the point of the donation. As such, there must be a system that gives confidence to the donor that the money will arrive as intended.

The higher the confidence, the more the donor is willing to give. When there is trust, or confidence, the speed of execution goes up and the costs decline (Covey, 2006).

How do we then increase trust? How do we meet the expectations of the members that the funds will arrive at their intended destination, and that they will be used to enhance the mission of the church?

By definition, internal controls are critical. Sanusi, et. al. (2015) indicate that adequate internal controls ensure that the managers of an organization will use the financial resources to safeguard the interests of the donors and achieve the mission of the organization.

The Seventh-day Adventist Accounting Manual defines internal control as follows:

The process designed and implemented by management and individuals charged with governance to provide reasonable assurance about achievement of the entity's objectives. Those objectives include reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control is designed and implemented to address identified risks that threaten the achievement of those objectives (General Conference of Seventh-day Adventists, 2011, p. 17).

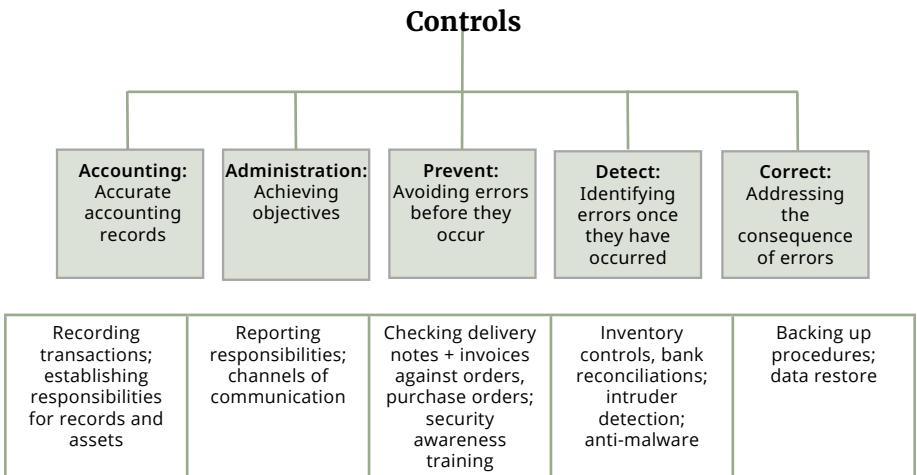
Boateng and Amponsah (2016) indicate that internal controls consist of policies and procedures in place to ensure that the organization achieves its objectives. Internal controls include the safeguarding of assets, prevention, and detection of fraud and

error, and ensuring accuracy and completeness of accounting records.

Both Boateng and Amponsah (2016) and the SDA Accounting Manual (2011) indicate that management is responsible for the design and implementation of internal controls. Therefore, it is extremely important that management understands the elements that constitute internal controls.

The Seventh-day Adventist Minister’s Handbook states that internal controls help the organization to fulfill its mission. Internal controls protect assets from theft or fraud, remove temptations to dishonesty, guarantee the accuracy of financial reports, and protect officials and officers from false accusations (General Conference of Seventh-day Adventists, 2015).

Figure 1: Categories of internal controls



(Association of Chartered Certified Accountants, 2020)

Internal controls have the following functions: (1) to enhance accounting by improving the accuracy of accounting records; (2) to improve administration by ensuring that the organization meets its objectives; (3) to prevent and detect errors and institute corrective measures (Association of Chartered Certified Accountants, 2020).

Internal controls can be mandatory or voluntary, discretionary or nondiscretionary, manual, or automated, general or application-controlled. Mandatory controls are those that must be applied without reference to changes in circumstances. Voluntary controls are based on the judgment of the implementer. Discretionary controls are similar to voluntary controls, while nondiscretionary controls are similar to mandatory controls. Manual controls are manual operations, while automated controls are part of an electronic system. General or application controls are for digital systems. They refer to rules written to retain the integrity of the data (Association of Chartered Certified Accountants, 2020).

Boateng and Amponsah (2016) agree with the *Seventh-day Adventist Accounting Manual* (2011) that there are key elements in which internal controls thrive. These are the control environment, the risk-assessment process, information and communication, control activities, and the monitoring of controls.

The control environment sets the tone of an organization, influencing the control consciousness of all its employees and the individuals charged with governance. It includes the attitudes, awareness, and actions of those individuals concerning the importance of internal control. It is the

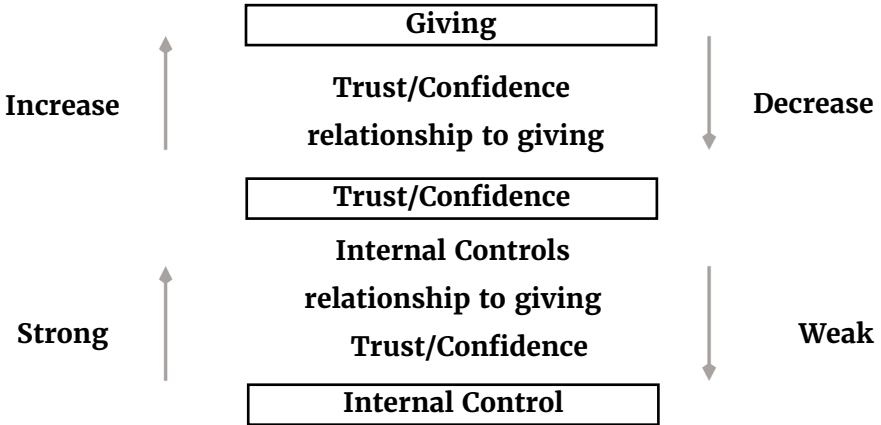
responsibility of those charged with governance and management to design internal controls that will help prevent and detect error and fraud (General Conference of Seventh-day Adventists, 2011, p. 17).

Organizations need to institute measures to identify and analyze the relevant risks that hinder achievement of organizational objectives. There must be a sway of informing and communicating these internal controls to the whole organization. Control activities are activities put in place to ensure that the organization meets its objectives. These include verifications, approvals, authorizations, reconciliations, reviews of operating performance, protection of assets, and segregation of duties. Finally, an organization needs to continuously monitor the internal controls for effectiveness and efficiency (Boateng & Amponsah, 2016).

Agyei-Mensah (2016) has a slightly expanded insight on the objectives of internal controls. The controls over receipted cash must protect the completeness of receipts. Controls over cash ensure that transactions are properly authorized, that expenses are in line with organizational objectives, and that they are recorded and classified correctly in the church accounts.

The design and implementation of internal controls is the function of the governing body. Each church should document the process from the collection to the amount finally arriving in church and conference/mission accounts. Analysis must identify the risks during the transaction flow and put measures in place to mitigate those risks. A church that only receives cash will have different internal controls from a

church that receives electronic fund transfers (EFTs). Likewise, internal controls over a manual system will be different from internal controls.





R RECORDING

R RECORDING

Timeliness, Completeness,
Accuracy, Cutoff, etc.

The recording of financial information is a key element for financial management. Without recording, reporting is not possible. The accuracy of the financial reports allows managers to make relevant decisions. Recording also enhances the budgeting process, especially for nonprofit organizations that have limited resources (Agyei-Mensah, 2016).

The key things for church treasurers to remember about their recording processes are: completeness, accuracy, cutoff, and timeliness.

Financial transactions must be recorded on a timely basis.

To give a January 2020 financial report in October 2020 makes it relevant. The transactions that happened between January and October would have totally changed the picture. Timely recording of transactions enhances the quality of the financial reporting. Financial reports should be news, not history.

Completeness means that all items pertaining to the period are recorded in that period. This is linked to cutoff. Incomplete records give incorrect information about the organization, compromising the soundness of decisions. All transactions pertaining to that period need to be recorded in that period in order to give a complete picture of the finances. To leave out some transactions gives an incomplete picture. It is like trying to make out someone's face with only their hair visible. It could be almost anyone. But a picture which the full face is shown enables one to recognize the person. So it is in finances, completeness makes the picture clear.

Accuracy is an extremely important element. An error made by the local church treasurer affects the entire organization. If a local treasurer incorrectly records tithe as offering, the same is recorded by the conference/mission, union, division, and General Conference. The whole channel relies on the accuracy of the local church treasurer. The system is designed to trace one member's tithe from the source all the way to the General Conference. If one was to look at the tithe envelope, the receipt, the cash book, the financial statement of the conference or mission, the union, the division, the General Conference, one would find the same lines for tithe and offering. This is reflective of the process of the income flowing along the channels. Accuracy is therefore very important at

the source, the local church, as this informs the recording and allocations further along the channel.

There are different types of systems used by the church— manual and digital, for example. There must be a system chosen to record all transactions, whether it originates in a manual or an electronic system. It is important to note that the auditor comes to check what has been recorded. Therefore, in the absence of a record it is impossible to audit.

1 Record created

Church Member
When they fill out the tithe envelope, the member is creating a record of the transaction.

2 Record written

Local Church Treasurer
When the treasurer records in a cash book and issues a receipt, the treasurer is making a record for the auditor.

3 Record checked

Auditor
When the auditor checks the books, the auditor is checking the record.

A hand is shown holding a white rectangular card. The card has the words "Cost Control" printed in a large, bold, dark blue font. The background is a collage of US dollar bills, including a \$100 bill and a \$20 bill, with a teal plus sign (+) overlaid on the right side. The overall color scheme is teal and white.

Cost Control

E
EXPENDING

EXPENDING

Controls Around Expenditure; Also Budgeting and Mission-Based Budgeting

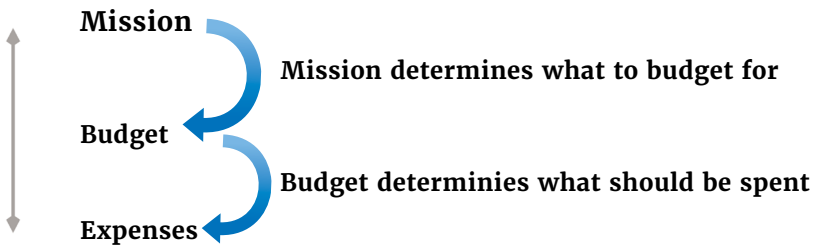
Activities give rise to expenses. Therefore, what an organization does creates expenses. The majority of the expenditures reflect organizational objectives. Internal controls are designed to ensure that the organization meets its objectives. Therefore, both budgeting and the actual spending are extremely important.

Sanusi, et. al. (2015) defines budgets in terms of a financial plan and a list of the planned expenditures and income. Budgets are a tool that management uses to ensure that the organization meets its goals and objectives. The budgeting process requires the participation of those charged with the implementation of

organizational objectives. Agyei-Mensah (2016) infers that the budgeting principle is entrenched in Bible teaching. When Joseph was in charge of Egypt, nothing was given out of the treasure without a written order. Luke 14:28 talks about the element of counting the costs before embarking on a project.

Budgets should be mission-driven. The organization exists for mission. The mission should drive the budget, and not vice versa. Internal controls are designed to ensure that the mission is accomplished. The budget is a tool to ensure that the funds are distributed according to the mission.

Mission can be seen in expenses



Expenses reflect mission

There are two key elements around expenditure control: authorization and legitimacy. Authorization is given by the board as the treasurer is a servant of the board. Routine expenses are approved by the board through the authorization of the budget. Items outside the budget are authorized by board action.

Expenditure files need to be created to prove legitimacy of transactions. All transactions should have a requisition, an invoice, and a proof of payment. The requisition is the request to pay, on which the signature provides the authorization. The

invoice is the evidence of legitimate expenditure. The proof of payment is evidence that the transaction actually took place.

There is a relationship between recording and expenditure. Recording the expenses is a very important aspect of the treasury work. In the recording of the expenses, the expenses are grouped by type. In the local church accounting system, the expenses are grouped by the relevant department that spent the funds.

When the auditors come to check, they are checking that the recording of the expenses is correct and that they are reflected correctly on the financial report. The auditor is also verifying that this transaction actually took place and was properly authorized. Therefore, the keeping of the invoices and receipts provides the auditor with the proof.



ACCEPTING

A ACCEPTING

Controls Around Counting and Banking

The opening of a container to ensure that no water is lost as it flows into the container, is just as essential as the container itself. Controls over expenditure ensure that the money is kept safe and spent according to the mission. Controls over the receiving of income ensure that the money is not lost before it is recorded.

Internal controls around the acceptance of income ensure that, in the words of Christ when referring to the fragments collected after feeding the 5,000, “nothing is lost” (John 6:12, NKJV).

The key elements are as follows:

Whenever cash is being counted, there must be two people present to count. In business, income can be traced to sales and sales to inventory. There is a direct link between the income increasing the inventory and the reduction of inventory. However, in the context of the church, the only item that verifies that income exists is the existence of two people present when opening the tithe envelopes and counting the offering.

The principle of two people being present protects each of them from accusations, reduces the possibility of theft, and also ensures that income is recorded correctly. The two people check each other's work. It is preferable that the two people are unrelated as it reduces the risk of collusion.

There must be a document to record what was counted. This is often called a count sheet. This is the source document for the auditors to trace the completeness of the income collected on a particular day. The count sheet has the total loose offering collected and the total tithe collected on that day. In some instances when the tithe envelopes are opened later, it would initially have only the total number of tithe envelopes collected on that day.

It is also recommended that the actual names on the tithe envelopes be recorded on the count sheet. This reduces the risk of a tithe envelope disappearing without a way of knowing which one is missing. If the names are recorded on the count sheet, it should be easy to trace.

When opening the tithe envelopes, the person counting should ensure that the amount in the envelope is the same as the amount recorded on the envelope. If there is a difference,

the member should be contacted immediately. This is one of the reasons why there should be two people counting, as the other person can verify that the money in the envelope was not the same as written.

EFTs have become a very common occurrence. The EFTs needs to be recorded separately at the bottom of the count sheets. This is because the EFTs are already in the bank. Therefore, they do not affect the total cash banked. Therefore, the total cash banked would exclude the EFTs. They should, however, still be recorded on the count sheet for audit purposes.

The finance process is about balancing. The total amount counted should equal the amount receipted, and should equal the amount banked. It is for this reason that receipts are issued to the head deacon or elder for the loose offerings.

No expense should be paid from unbanked money. The money should be banked whole and intact. The *SDA Accounting Manual* (2011) indicates that the receipted cash and petty cash should be kept totally separate (General Conference of Seventh-day Adventists, 2011). Further the *SDA Minister's Handbook* prohibits the borrowing of cash from the offerings (General Conference of Seventh-day Adventists, 2015).

See the next page for a sample count sheet.

COUNT SHEET

CHURCH: _____ Date: _____

OFFERING: Sabbath School Divine Offering

	Qty	A M O U N T	Qty	A M O U N T
\$ 200.00		0.00		0.00
\$ 100.00		0.00		0.00
\$ 50.00		0.00		0.00
\$ 20.00		0.00		0.00
\$ 10.00		0.00		0.00
\$ 5.00		0.00		0.00
\$ 1.00		0.00		0.00
SUBTOTAL NOTES		0.00		0.00
\$ 2.00		0.00		0.00
\$ 1.00		0.00		0.00
\$ 0.50		0.00		0.00
\$ 0.25		0.00		0.00
\$ 0.10		0.00		0.00
\$ 0.05		0.00		0.00
SUBTOTAL COINS		0.00		0.00
TOTALS		0.00		0.00

GRAND TOTAL SABBATH SCHOOL & DIVINE OFFERING **0.00**

COMBINED OFFERING PLAN

Local Church	0.00	50%	0.00
Conference/Mission	0.00	20%	0.00
Union Conference	0.00	6%	0.00
Division	0.00	4%	0.00
World Mission (GC)	0.00	20%	0.00
	0.00	100%	0.00

COUNTER 1: _____ Signature

COUNTER 2: _____ Signature

TREASURER: _____ Signature

RECEIPT NO: _____ RECEIPT NO: _____





S SPIRITUALITY

SPIRITUALITY

The handling of cash and money can be a very big temptation. The temptation is complex as it involves not just the theft of funds but also the abuse of power. Therefore, it is required of a treasurer to be very close to God.

Experience can create “ownership syndrome,” or the perception that because one has done this for a long time, they “own” the organization. This breeds a perception of power and opens one up to potential abuse of power. The treasurer may use this perception of power to influence members and the pastor. Some treasurers have gone so far as to influence members to stop returning tithe.

There is also the risk of misappropriation or theft. Having access to money is a temptation. Theft is the outright stealing of funds, while misappropriation is the subtle allocating of funds to purposes for which it was not intended. The use of tithe funds for local church expenses is an example of misappropriation.

The treasurer has access to personal information of members; to the money, which is a tool of power; and to people, who are the creators of power. Therefore, in order for the treasurer to remain focused, they must be connected to Christ.

The Bible tells us about Judas, who was in the treasury. His end resulted in his being lost. He was so close to being saved, yet so lost. He was in the very presence of Christ, yet he was lost.

It is important to note that the decay in human behavior is a gradual process. Paul calls it drifting. No one starts out by stealing millions. People steal gradually and eventually get the courage to steal more. So, it is necessary to guard against gradual drifting: the borrowing of small amounts from petty cash for personal use, for example. It all starts small.

Ellen G. White comments on this in her book *The Desire of Ages*:

“Judas had naturally a strong love for money; but he had not always been corrupt enough to do such a deed as this. He had fostered the evil spirit of avarice until it had become the ruling motive of his life. The love of mammon overbalanced his love for Christ. Through becoming the slave of one vice he gave himself to Satan, to be driven to any lengths in sin” (p.

716).

There is a danger of handling holy things and yet be lost. No wonder Paul says in 1 Corinthians 9:27, “*But I discipline my body and bring it into subjection, lest, when I have preached to others, I myself should become disqualified*” (NKJV).

It is extremely important that as a treasurer one has a relationship with the CEO of the church, Jesus Christ. Direct contact with the CEO gives direction, hope, courage, and comfort.

A constant life of prayer and reading the Bible is the only safeguard against temptation.

Ellen G. White writes: “Christ was continually receiving from the Father that He might communicate to us. ‘The word which ye hear,’ He said, ‘is not Mine, but the Father’s which sent Me.’ John 14:24. ‘The Son of man came not to be ministered unto, but to minister.’ Matthew 20:28. Not for Himself, but for others, He lived and thought and prayed. From hours spent with God He came forth morning by morning, to bring the light of heaven to men. Daily He received a fresh baptism of the Holy Spirit. In the early hours of the new day the Lord awakened Him from His slumbers, and His soul and His lips were anointed with grace, that He might impart to others. His words were given Him fresh from the heavenly courts, words that He might speak in season to the weary and oppressed. “The Lord God hath given Me,” He said, “the tongue of the learned, that I should know how to speak a word in season to him that is weary: He wakeneth morning by morning, He wakeneth Mine ear to hear as the learned.” Isaiah 50:4 (*Christ’s Object Lessons*, p. 139).

It is only through Christ that the treasurer can remain unspotted by the world. This is achieved through prayer and reading the Bible.



UNDERSTANDING

U UNDERSTANDING

the Relationship with the Board and Pastors; also Members' Confidentiality

The *SDA Church Manual (2011)* indicates that the treasurer is a custodian of all church funds. The treasurer reports to the board and functions under the guidance of the board. The pastor, as the chair of the board and in the capacity of pastor, has full access to the accounting records (General Conference of Seventh-day Adventists, 2015). It is important to note that the treasurer is subservient to the board. The treasurer acts under the direction of the board.

In the direct context of stewardship, the faithfulness level is a spirituality indicator. Therefore, there should be a close working relationship between the pastor and treasurer. This

will ensure that the pastor's visitation plan is informed by statistics and addresses the spiritual needs.

In business, there are confidentiality clauses signed by employees. This is to safeguard the information of a business. In the church, confidentiality protects the reputation of the members. Many lives have been destroyed by compromised confidentiality. Those charged with governance—the board members—should keep all information confidential to protect the individuals and the organization.

The treasurer also has a relationship with other board members. They are all on the same team. They are not under the treasurer, although they are required to account for their expenditures to the treasurer. A treasurer cannot instruct a board member as if the treasurer is the supervisor. Each board member is accountable to the board.

When decisions are taken at the board meeting, they are corporate decisions. Therefore, when financial decisions are made by the board, it is each board member's duty to support those decisions. The church system of governance doesn't allow for a member to disassociate themselves from the decisions of the board. When church board members create a perception that financial board decisions are made only by the treasurer, they create an environment of distrust. In order to build trust, board members should be loyal to the decisions taken corporately.





R REPORTING

R REPORTING

to the Board and Remitting
to the Conference/Mission

The *SDA Church Manual* (2011) requires both frequent reports to the board and regular remitting and reporting to the conference/mission. Reporting enhances trust in the system. Reporting is threefold: The treasurer reports to the member by giving a receipt within the same month of the tithe given. This enhances member confidence. The treasurer reports to the board by use of a financial report. This report is essential to building trust and confidence/mission, and it enhances decision-making. Finally, the treasurer reports to the conference/mission by means of the remittance report. Funds should be deposited on a monthly basis at minimum.

the allocation of the funds must be sent to the conference. The conference cannot allocate the funds without this report. The important link in the chain is the local church treasurer.

A receipt should be issued for every transaction. A receipt provides the source of the accounting system for the recording of income. The receipt also provides evidence to the member that the money has been received. Therefore, the receipt is a key element in linking the accounting system to the member. It also provides evidence for the auditors to check at a later date. Receipts, just like reports, should be issued in a timely manner. Timely recording and sending builds trust in the system. When members do not get receipts, there is a perception that the money hasn't been received or is lost. Therefore, the issuing of a receipt to the member is an essential element of in the building of trust.

The receipting system has a number of internal controls that ensure that funds are not stolen. The receipting system needs to have pre-numbered receipts. All missing receipts need to be accounted for. Canceled receipts also need to be accounted for. Finally, receipts should be in duplicate or triplicate, depending on the system. After a receipt has been given to the member, there should be one remaining for audit purposes.

Then there is the element of reporting to the internal auditors. The internal auditing system has been embraced by the church to give confidence to the accounting system of the church (Howson, et. al., 2014). The auditor provides an independent view of the transactions and the internal control system. The auditor often comes a year after the transactions

have been performed. Therefore, the treasurer needs to keep all source documents for the auditor to check and verify. The used tithe envelopes and the count sheets should be kept with the accounting system for the tracing of income. The expenditure files with the invoices, proof of payments, and the requisitions should be kept in order to trace expenditures. Relevant board actions should be attached to the expenditures. A voted budget should also be kept.



EXERCISING

F EXERCISING

Elements of a Financially Healthy Local Church

Budgeting, Bank Reconciliation, Reporting, and Internal Audit

Financial managers have debated over time as to what constitutes a healthy organization. Some have cited that an amount equal to six months' worth of monthly expenses needs to be in the bank. Some have suggested three months' worth. Others have complex formulae to determine this. This section is not going to deal with finances from the financial perspective; instead, it will deal with finances from the mission perspective.

1. Budget

An organization that has a budget that is mission-based is a sign of a healthy local church. Any organization's financial statement tells a story of where the organization is spending its money. Money funds expenses, and expenses are driven by activities. Therefore, a mission-based budget funds mission.

2. Bank Reconciliations

Sometimes hidden income and expenditures are found on the bank statement. Without a bank reconciliation the financial statements are not complete or accurate. By performing a bank reconciliation, the direct deposits are found. Bank charges are also identified by bank reconciliations. The sign of a healthy church is that regular bank reconciliations are performed before issuing the financial report.

3. Reports to Board

Providing regular reports to the board helps with monitoring and evaluation. The role of the board is to adjust activities so they are in-line with the mission, and to ensure that expenditures are in-line with the mission and the budget.

4. Internal Audit Report

The internal audit report helps identify areas of concern with regard to the internal control process. An organization that implements the recommendations in the internal report is a healthy organization. Internal auditors from the conference have an external view of the environment, and as such give valuable input on improvement to internal controls.

5. Report to Conference/Mission

The report of the conference/mission reflecting consistent remitting of funds is an indication that the organization is functioning properly. The entire upward chain—from the local conference/mission to General Conference—is reliant upon the local church remitting and reporting regularly. “Regularly” is defined as monthly, at a minimum. A church that reports and remits monthly is a healthy organization.



R RECOGNITION

R RECOGNITION

A Word from the Church to Thank You

The most important link in the flow of income in the organization is the local church, which is the source. That is where the members are. Activities drive expenses, and budgeting determines expense. Therefore, the most important link to the mission's achievement as reflected by spending and budgeting is the local church treasurer.

The work of a treasurer requires sacrifice, effort, and time. As long as a church is open, there will be the collection of offerings. This gives rise to the entire internal control process. We therefore greatly appreciate the efforts of the treasury team

throughout the world.

It's not in vain
It's not in vain
What you do for Jesus Christ is not in vain
Do all you can for Him
He will reward you in the end
What you do for Jesus Christ is not in vain
We'll be rewarded
We'll wear a crown
When all our work on earth is done
We'll be rewarded
He'll call us by our name
What you do for Jesus Christ is not in vain
No, it's not in vain
It's not in vain
What you do for Jesus Christ is not in vain
Do all you can for Him
He will reward you in the end
What you do for Jesus Christ is not in vain
We'll be rewarded
We'll wear a crown
When all our work on earth is done
We'll be rewarded
He'll call us by our name
What you do for Jesus Christ is not in vain
Don't be discouraged
Keep pressing on
Because it's not in vain

Songwriter: Andrae Crouch

<https://www.rockol.com/uk/lyrics-2604199/brooklyn-tabernacle-choir-its-not-in-vain>





E

E-GIVING

E-GIVING

in the Context of the Financial Equation

E-giving , according to eGiving.com (2022), is defined as online giving. The earlier chapter that indicates that the flow of income comes from the member to the plate then to the bank is what can be referred to as the manual or physical process. While e-giving is from the member directly to the bank through electronic means, e-giving can occur by a church member paying an electronic fund transfer (EFT) directly to the church bank account; by the member using a bank app to pay the local church; or by using a church designed app, such as 7me, to return tithes and offering. With

the advent of COVID and church-going restrictions e-giving has increased substantially. Therefore, a cursory commentary on internal controls as applied to e-giving is warranted.

The book refers to the word “treasurer” in terms of Theoretical Basis, Recording, Expending, Accepting, Spirituality, Understanding, Exercising, and Recognition. A paragraph or two will be dedicated to each of these elements in the context of e-giving.

Theoretical Basis:

The very definition of internal controls, as quoted earlier from the Seventh-day Adventist Accounting Manual (2011), infers that internal controls are designed to address the risks identified that could hinder the achievement of the organization’s objectives. The very basis of e-giving thinking is based on the manual system. In development of any software, there is a process outline that is developed. The programmer outlines the specifications of how the process should flow through the digital system. This is often based on a manual process flow. Therefore, the theoretical basis of manual and digital are the same. The key elements of internal control in all areas are still applicable.

Recording:

The part electronic and part manual system would still require timely and accurate recording. The system that the member remits using a banking app or an external app that does not interface with the church book keeping system still requires recording in the cash book. It is extremely

important to educate members to indicate to the treasurer what the deposit is for, how much tithe, and how much offering. The increase in digitization has the risk of an increase in unidentified funds.

Members should be encouraged to put their names on the reference of the EFT so that the treasurer can know where the money came from.

The system that interfaces with the electronic cash book often has a step of verification by the treasurer before they are allowed to be entered as a record in the cash book. This internal control feature is extremely important, as it blocks the bogus or fictitious entries. The member remits and attaches the proof of payment as a picture. Once the treasurer has verified it, it is recorded automatically in the church system. It is important that this verification only happens when the treasurer actually sees the deposit on the bank statement.

Expending:

E-giving primarily deals with incoming income. However, there are also EFTs which, in the context of digitization, with key. Segregation of duties is a key component of internal controls. Therefore, there should be two signatories online. The transaction should require the two to release it in order for it to be effected. There should be no sharing of passwords. Signatories should study the documentation, particularly the banking details, as payments may be made into incorrect accounts or even personal accounts, resulting in theft. In its simplest form, electronic banking should follow the manual process, just in the digital space. Just like in the manual

process, you cannot give your signature away, so you cannot give your password away. The check is delivered to the supplier in the manual process, so in the digital it goes to the bank account. Therefore, the bank account of the supplier should be checked.

Accepting:

Under the manual process, the cash is counted by two people. In the digital process, a notification for authorization prior to it being loaded into the book-keeping software is normally sent. This is an important step. If the software allows direct entry by the donor without verification, this is an internal system control flaw. This is because receipts can be issued without the money being deposited into the account.

When the system creates the verification, the treasurer should check if the amount is actually in the church's bank account before allowing the entry into the book-keeping system.

Spirituality:

Fraud also occurs in the digital environment. We will refrain from expanding on this matter, as it may give others ideas on how to commit fraud in the digital space. As alluded to in the manual process, the connection to Christ is what keeps us from falling. Paul tells us to “[look] unto Jesus” (Hebrews 12:2, NKJV). The constant connection with Christ is what safeguards treasurers from committing fraud.

Understanding:

In the digital space, the understanding of the system is a key component of internal controls. The flow of the system defines

what additional controls need to be instituted. Understanding what happens when the giver sends money via an app and how it finally arrives into the book-keeping system is important. Understanding the function of verifying and also declining entries is also important. Understanding which user has what powers also assists with this. In its simplest form, just like driving a car, the driver needs to know what the hand brake does or even where it is located to be able to use it efficiently. This is also true with any software.

Reporting:

Under the digital system, swift issuing of receipts from the system builds confidence in the members of the system. A delay in receipting may cause members to doubt if the app is working. In addition, if there is an error on the receipt, this can be swiftly rectified. Or if the money was paid into a wrong account, this can also be rectified. Therefore, swift receipting or cancellation of entries is important.

The reporting to the board should have the element of highlighting how much came in through the app. The costs of digitization when viewed by the amount of income it brings are often very small. This would assist in decision-making for further digitization projects.

Exercising:

A report that is not preceded by a reconciliation is often inaccurate. Completeness of all transactions reflected on the report is achieved by regular reconciliation. In the context of the digital space, reconciling the receipts to the bank statement is a

very important process, as it makes sure that all the entries are captured into the book-keeping system and the report is correct.

Recognition

Often like a little boy entering a cold swimming pool, there is fear and excitement of the digital system. It requires one to jump into the pool. This needs faith and courage. It takes a lot of time to learn the new system and adapt to new thinking, often with no remuneration. Therefore, once again, we express appreciation for the hard work that the treasurers perform. Paul says in Galatians 6:9, “Let us not become weary in doing good, for at the proper time we will reap a harvest if we do not give up” (NKJV).

Conclusion

He sits in his customary position. It is exactly a year later now. This time the anxiety of the previous year is less. He has read through this manual and implemented what he learned. The internal audit report is read with commendations. “Moved!” “Seconded!” and “All in favor say, ‘I’” This time both the board and the treasurer know that they have just voted a clean audit report.

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GOD FIRST
ADVENTIST STEWARDSHIP MINISTRIES

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