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CORPORATE GOVERNANCE IN RELIGIOUS ORGANIZATIONS: A STUDY OF CURRENT PRACTICES IN THE LOCAL CHURCH

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ABSTRACT

This paper addresses corporate governance practices in religious organizations by examining fiscal oversight and financial management practices in the local church. Fiscal oversight includes the existence of an independent board of directors with a financial expert and documented policies and procedures. Financial management includes the existence and use of a budget, controls over cash receipts and disbursements, financial reporting and tax reporting and compliance. A questionnaire was used to collect data from various denominations. The results showed that churches do have adequate fiscal oversight and financial management controls. However, opportunity exists for churches to document their internal policies and procedures and communicate them to employees. The accounting professional could help church personnel bridge their knowledge gap by educating them on accounting standards such as SFAS 116 and 117.

INTRODUCTION

The accounting and ethical scandals within such public companies as Enron and WorldCom created an uproar in the marketplace. The US Congress reacted with sweeping legislation which forced public companies to implement procedures to improve internal controls over financial reporting. Nonprofit organizations may be facing the same peril as scandals continue to affect the sector. The fund raising practices at the American Red Cross after the September 11, 2001, and excessive salaries paid to executives and board members at other nonprofit organizations are some of the actions that are raising concerns among the various constituents.

Religious organizations are also caught in the spotlight because of such issues as the sex abuse scandals in the US Catholic Church, embezzlement of funds in various organizations and the use of government funds to support social services and other programs in faith based organizations. For instance, the director of a Christian community was charged with stealing $23,000 and other items from the organization over a two year period (Anonymous, 2000).

BACKGROUND

Religious and other non profit organizations have a responsibility to their various constituents to be fiscally responsible and transparent in carrying out their missions. These organizations rely on the public for a significant portion of their annual budget. Support is received by nonprofit organizations in the form of tithes, pledges or donations. Some donations are quite generous such as the $40 million unrestricted gift received from an anonymous donor by a religious organization in the State of Missouri (Preston, 2005a). The Annual Giving USA study published by the American Association of Fundraising Counsel noted that Americans donated $248.52 billions to charity in 2004, with individual donors providing the largest share at 75.6% or $187.92 billion. Religious organizations received the highest percentage of these donations at 35.5% or $88.3 billion.

Churches have always played a role in social services and their involvement in hurricanes Katrina and Rita relief efforts along the Gulf Coast, demonstrate their capability. The federal government recognizes this and it continues to actively promote diverting government funds to faith based organizations to support social service and public health programs such as youth development and substance abuse treatment. For instance, in fiscal year 2003, 5.1% or $6.8 million of the Department of Education's discretionary grants went to faith based organizations up from 2.1% just two years earlier (Davis, 2004).

Boston (1999) believes that government money is for the first time underwriting social services programs by religious organizations with virtually no significant oversight or strings attached. Some foundations are not deterred and they are showing their financial support by increasing their donations to religious organizations. A recent report noted that 37 foundations provided $168 million to approximately 700 evangelical Christian organizations over a four year period. The organizations focus primarily on such issues as making abortion illegal, banning same-sex marriage and promoting school prayer (Wilhelm, 2005).

Donors are increasing looking to nonprofit organizations to provide transparency in their operations. The Sarbanes-Oxley Act of 2002 (SOX) is one legislation that might provide a starting point. SOX placed increased responsibilities on the board of directors of pubic companies to improve their governance practices by having the financial expertise and independence needed to oversee their managers' performance. Although SOX does not apply to non-profit organizations, there is an expectation in the marketplace for non-for-profit organizations to adopt some of its requirements.

Some nonprofits are doing just that and are early adopters of SOX. A study of nonprofit organizations performed by the accounting firm Grant Thornton found that 48% of the respondents voluntarily made changes to their operations because of SOX (Williams, 2004). The changes were effected in such areas as establishing conflict-of-interest policies, developing procedures for internal financial controls and record retention, drafting code of ethics and audit committee charters, and in codifying protection for whistle-blowers. One organization went a step further by contracting for an internal controls audit to be performed by an independent accountant. The audit focused on the areas of grant making, contract management, and travel and entertainment as part of the organization's efforts to voluntarily comply with SOX (Anft & Williams, 2004b).

Congress is also looking specifically at improving accountability within nonprofit organizations. One of the federal government's proposals is for tax-exempt organizations with $250,000 or more in annual gross receipts to be subject to an annual independent audit of their financial statements (Anft & Williams, 2004a). Some states are not waiting on the federal government and are proposing their own legislation. For instance, one State of California's proposal would require charities with annual gross income of $2 million or more to file annual financial statements prepared by independent certified public accountants with the state. Wolverton (2005) recommends that nonprofit groups voluntarily improve governance by adopting conflict of interest policies, obtaining a financial statement audit if they have $2 million or more in total revenue, including financially literate individuals, and consider establishing a separate board committee to oversee audits of the organization.

Churches will be challenged by their constituents to be more transparent in their operations. They may need to implement any new legislation that is passed by the government addressing governance in nonprofit organizations. Due to limited resources, churches will need to find creative solutions to implement the legislative actions. Perhaps the current governance practices in churches are not bleak. However, very little research is available that addresses corporate governance in churches so the current state of affair is difficult to ascertain. This led to the current research which attempts to address the questions: (1) do churches have adequate fiscal oversight of their operations and (2) are there adequate controls in place in churches over financial management.

In terms of the research, fiscal oversight includes the existence of an independent board of director with a financial expert and documented policies and procedures. Financial management includes the existence and use of a budget, controls over cash receipts and disbursements, financial reporting, and tax reporting and compliance.

THE STUDY

The purpose of the study was to examine the fiscal oversight and financial management practices in the local church. The study used churches representing various denominations with a physical presence in the State of Georgia. They were identified haphazardly by searching the website of umbrella organizations (e.g., Episcopal churches in the state of Georgia) and by using a local telephone directory. Churches were excluded if a mailing address was not available or the name of the pastor or minister could not be easily obtained from available sources. An attempt was made to identify multiple churches across a wide spectrum of denominations to ensure diversity within the population. Approximately 249 individual churches were initially identified and contacted during for the initial phase of the study. This number was subsequently reduced to 221 since questionnaires were returned undeliverable by the post office i.e., the address of record was unknown.

A questionnaire was developed and used to collect data for the study. It was pre-tested with a small number of churches through which the researcher had prior relationships. A cover letter along with the questionnaire was mailed to the pastor or minister of the churches. The cover letter described the research purpose, provided a time estimate for its completion, and a note thanking the ministers for participating in the research. The cover letter encouraged the pastor to complete the survey if possible or to delegate it to either a member of the board of directors or vestry, or the accounting personnel on staff. A second questionnaire was mailed to non-respondents after approximately two weeks to request participation in the study. Additional attempts were made via e-mail (if e-mail address was known) to non respondents to encourage their participation.

RESULTS AND ANALYSIS

Sixty useable surveys representing a response rate of 27% was achieved. As expected, respondents represented a board range of denominations; however the vast majority (53%) were from churches within the Episcopalian denomination. In terms of membership level, most respondents (75%) had 300 or fewer members as of their most recent year end. The gross revenue of the respondents was consistent with their membership levels with 71% reporting revenue of $300,000 or less.

One church reported employing as many as 42 individuals other than the minister, with the average number of employers at six per church. In terms of full time employees, one church reported having 17 full time employees compared to an average of three full time employees for all churches. Respondents reported having an average of two personnel as part of the church's accounting staff, with one reporting a high of six individuals.

Fiscal oversight

In terms of fiscal oversight, a large majority (92%) had a separate board of directors or similar organization. The number of board members ranged from a low of three to a high of 40 members, with a typical board averaging 11 members. For those with a separate board of directors, 71% reported that the chairman of the board was someone other than the minister while 33% reported that the minister was a voting member of the board. A majority of respondents (95%) noted that board meetings were held on a regular basis, with meetings ranging from a low of four to a high of 50 times per year. The average board met 12 times during a typical year.

98% of the respondents reported that the financial information and other significant church activities were discussed with the board on a regular basis and 93% required board authorization of significant financial transactions such as leases and capital improvement projects before the costs were incurred. A majority (87%) noted that their board membership included individuals who were considered financially literate. However, the questionnaire did not ask for the qualification(s) of such individual(s).

In terms of the committee structure within the board of directors, 78% of the respondents reported having separate committees within their organizations with a separate audit or financial committee being the most common (55%). In most cases (89%), the members of the board of directors were appointed via elections held by the church membership. A majority of boards also determined the pastor's compensation package (91%) and a majority (85%) used resolutions to review and approve the minister's compensation on an annual basis.

The responses to questions on policies and procedures used by the church were a bit inconsistent. 75% of the respondents had formal policies and procedures regarding significant church activities. However, only 62% of these policies were actually documented with a smaller majority (58%) actually communicated the policies to employees.

Financial management

The majority of respondents (95%) reported that their organization operated with an annual budget. Of those churches that used a budget, 94% reported that their budget was approved by the board prior to the start of the church year. A majority of the respondents (65%) used ushers to collect the offerings during church services. Other respondents reported using deacons, finance teams, the treasurer and various other personnel, to perform this function. One reported using a board member to collect the offerings during church services.

Funds were held in a secured environment by most churches (92%) before they were deposited. Collections were often deposited in the bank at least weekly in a majority (93%) of the churches. Some respondents reported that the bank deposit was made by the treasurer (38%) or the financial secretary (27%). Other churches reported using ushers, vestry members, office managers, and various other personnel to make their deposits.

Bank reconciliations were prepared at least monthly for all bank accounts by most respondents (97%), and the reconciliations reviewed by someone other than the preparer in most cases (95%). Petty cash was not often used by the churches with only 30% of the respondents reporting having such accounts. When used, these accounts were reconciled and replenished at least weekly by 56% of the respondents.

In terms of financial reporting, most churches (93%) ensured that the pastor or close family member was not involved in the accounting process. A number of churches (62%) had an independent party such as a Certified Public Accountant review their financial statements at least annually, but only 57% had an actual audit performed. When asked if the financial statements were prepared in accordance with generally accepted accounting standards, 90% of the respondents agreed. However, only 43% of the respondents were familiar with Statement of Accounting Standards Numbers 116 and 117 (which governs nonprofit financial reporting).

In terms of their tax exempt status, 84% of the churches reported that they were tax-exempted having obtained it on their own or through an umbrella organization. However, approximately ten of the churches are not tax-exempted which meant that donations provided by individuals to these organizations might not be deductible for tax purposes. In terms of payroll processing, 72% of the respondents prepared their payroll in house while 12% used a third party service provider such as Automated Data Processing. Most were current with their payroll filing and payments with a large majority (78%) not incurring any penalties in the last two years because of delinquent payroll tax returns or payments. However, 5% or approximately three churches did incur financial penalties due to late filings. This might indicate that churches may not be aware of the filing dates for various payroll related documents such as Form W-2s. Since payroll processing is performed in house by most churches, the possibility of late penalties and filings increases.

LIMITATIONS

A number of factors in this study will limit the ability for the findings to be generalized. The findings are based on churches selected haphazardly from one state. The results may be a little skewed since a large percentage of respondents were from one denomination. This denomination may have standing operating procedures for all its churches hence the positive survey results. Future researchers may wish to duplicate the research in a different setting i.e., multiple states and diverse denominations, and determine if the results obtained are consist with the current study. The scale used in the questionnaire was not very flexible and results could not be analyzed in any great details. Future researchers may wish to use a Likert scale to analyze survey questions.

CONCLUSION

The purpose of the study was to determine if churches have adequate fiscal oversight of their operations and that adequate internal controls are in place over financial management. The results of the study suggest that corporate governance in churches in the area of fiscal oversight and financial management is adequate. However, opportunity exists for churches to document their policies and procedures and to communicate them to all employees. Also, church accounting personnel should consider attending a nonprofit course or seminar to increase their understanding of accounting standards especially SFAS 116 and 117.

REFERENCES AND DETAILS OF THE ANALYSIS - Available upon Request

BUSINESS NONPROFITS: HELPING SMALL BUSINESSES IN NEW ORLEANS SURVIVE KATRINA

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ABSTRACT

The research gathered for this paper examined how business nonprofits helped small businesses in New Orleans, Louisiana survive the aftermath of Hurricane Katrina.
The research chronicles the various aspects of the help provided by business nonprofits and associations to not only its members but to the community at large. The importance of networking and the use of the Internet became vital to the success of these organizations in trying to help the small business community.

These organizations help small businesses find contractors, health permits to reopen their business, small business loan information, as well as trying to help businesses find places for their workers to live or stay.

The largest obstacles for small businesses were lack of employees, insurance and proof of loss. Many of the individuals who needed help could not prove credit worthy for SBA loans. Or, because of lack of proof of loss, were unable to receive insurance settlements if they had any insurance at all. These organizations not only had to provide opportunities for creative financing, but psychological help for the individual small businesses affected. In many cases it was showing that someone cared and was trying to help that made the situation bearable in an almost unbearable situation.

Another problem that the nonprofits and associations had to face was the price for nearly everything skyrocketed and there were few signs that things were about to get better. This created a need to reassure the small businesses owners that everything would be all right.

In times of crisis, this research chronicles the need for small businesses to help each other in a common cause of bringing the community back to economic health.