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Upfront

Playing Loose with God's Money **Study shows religious organizations lack financial controls**

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FINANCE

Playing Loose with God's Money

Study shows religious organizations lack financial controls

Four years ago, in the middle of various sexual abuse scandals, the Archdiocese of San Francisco filed a lawsuit against a defrocked priest for embezzling more than \$250,000. The money, from two churches where the priest ministered, was allegedly used to finance his vacation home in Southern California. Six years ago, the *Boston Globe* reported that a Pittsburgh pastor had confessed to stealing \$1.35 million in donations over 26 years from two churches that he served.

Most people find it difficult to

imagine that anyone would abuse the funds of a nonprofit organization, particularly an organization aimed at doing "God's work." Yet these two stories are just a sample of the number of recent cases of financial misconduct at religious organizations.

A recent study shows just how easy it is for church staff to misappropriate money. The survey of 548 Southern Baptist churches found that churches lacked basic controls against mismanagement or abuse of church funds. More than 70 percent of the

churches surveyed did not have written financial procedures, 30 percent did not have computerized accounting systems, and 70 percent did not make any type of audit of their accounting system. Twenty percent of the churches did not require any written documentation at all before funds were disbursed. Only 22 percent required written explanations for budget variances, and only 52 percent reported monthly the budgeted versus actual spending.

Perhaps most disturbing, the

researchers reported, “Ninety-one percent violated the basic principle of segregation of duties by having the same person handle the receipts and disbursements also prepare the bank reconciliation.” Someone could steal funds and change church records, leaving almost no evidence that such misconduct had occurred.

“The findings ... support the idea that the organization is more focused on its mission than on providing internal controls to protect its resources,” the study concluded. “Doing God’s work often motivates organizations to put much less emphasis on sound internal control policy.”

The study, “Financial Control in Religious Organizations: A Status Report,” was conducted by three Tennessee researchers – accounting professors Thomas Wooten and John Coker of Belmont University and

Robert Elmore of Tennessee Technological University. It was published last July in *Nonprofit Management & Leadership* (vol. 13, no. 4).

The results were based on in-depth survey responses from churches, located in the same state, that had more than 100 members and were affiliated with a state association of Southern Baptists. On average, the churches collected more than \$330,000 in receipts per year, mostly through individual and corporate donations. The survey asked questions about financial management such as “Does the church obtain an audit of its accounting records?”; “Does the church prepare an annual budget?”; and “Is the person who handles cash receipts or disbursements also involved with the bank reconciliation?”

The researchers analyzed survey

results to see if church size or the use of an external auditor affected the level of financial controls. They found that larger churches and those with external auditors were indeed more likely to follow defined procedures for controlling finances and for reporting periodic financial results.

The study results also faulted churches for not doing a good job keeping members informed of the organization’s financial status and fundraising efforts, and for missing opportunities to encourage further giving and member support. By providing better and more regular financial reports, churches would encourage their members to give more, demonstrating that donations have been properly spent and enabling members to see where funds are needed to accomplish an organization’s objectives. –*Rosanne M. Siino*