

# The Financial Controls Gap

## *How Churches and Nonprofits Quietly Accept Preventable Risk, and What Sound Operations Actually Require*

*Most churches and nonprofits do not have a fraud problem. They have a controls problem.*

### **The Pattern**

---

The offering gets counted. The bills get paid. The year-end report gets presented to the board. From the outside, the finances look managed. From the inside, a different picture often emerges: one person handling every step of the financial cycle, designated gifts sitting in the general operating account, a housing allowance that was never formally voted on, and a Trustee Board that has not commissioned an independent review in years. Nothing has gone wrong yet. That is not the same as having controls in place.

The gap between what a church's finances look like and what they actually are is one of the most underestimated risks in the nonprofit sector. The documentation required to close that gap is not complicated. Most of it can be adopted in a single board meeting. The cost of not having it is not theoretical. It shows up in fraud that could not be proven, donor trust that could not be rebuilt, and tax exposure that could not be undone.

### **Why Financial Controls Get Deferred**

---

*There are three reasons financial controls sit at the bottom of the operational priority list, and each reason is understandable.*

The first is trust. The Treasurer has served faithfully for fifteen years. The Bookkeeper is a deacon's spouse. Financial controls feel like an accusation in an organization built on relationships. They are not. They are the thing that protects a faithful treasurer from false accusation, a bookkeeper from overreach they did not intend, and a board from liability they did not know they were carrying.

The second is capacity. The senior leader is managing ministry, personnel, facilities, and governance simultaneously. Designing a financial control environment reads as an accounting project, not a leadership one. It is both.

The third is assumption. Most boards assume the finances are in order because nothing has gone wrong. The absence of a problem is not evidence of a control structure. It is evidence that nothing has been tested yet.

These reasons are real. They do not change the underlying obligations. Donors give in trust. Restricted gifts carry legal obligations. The IRS does not accept 'we trusted the right people' as a substitute for written policy. The work has to be done and deferring it does not make it cheaper.

## **Five Financial Control Failures That Are Already Happening**

*Across the small churches and nonprofits we encounter, the same patterns of preventable loss show up again and again. Five stand out.*

### **1. One person controlling the full transaction cycle**

The most significant financial control failure in the church sector is not fraud. It is the absence of separation of duties that makes fraud impossible to detect or prove. When the same person authorizes a payment, records it in the ledger, and reconciles the bank account it came from, there is no mechanism to catch an error or an irregularity. The Bookkeeper who does all three is not the problem. The board that designed it that way is. A well-structured set of financial roles costs nothing to define and protects everyone, including the Bookkeeper.

### **2. Restricted and designated funds commingled with operating income**

A donor gives \$5,000 to the building fund. It lands in the general checking account alongside the weekly offering. Months later, a ministry need arises, the building project is delayed, and the funds are spent on something else. This is not a bookkeeping error. It is a legal obligation that was not honored. Donor-restricted gifts carry the same obligation as a contract. Tracking them separately, reporting on them quarterly, and spending them only for their designated purpose is not optional.

### **3. Offering handled without two-person accountability**

Cash moves from the collection plate to the deposit bag with one set of hands. No count sheet. No independent witness. No reconciliation against the deposit confirmation. The exposure here is not just to theft; it is to accusation. A faithful volunteer who handles cash alone has no protection when a discrepancy appears. Two-person counting is not an indictment of the team. It is the standard that protects them.

### **4. No independent financial review, ever**

The Trustee Board assumes the Treasurer has the finances under control. The Treasurer assumes the Bookkeeper's reconciliations are accurate. No one has asked a CPA to look at the books. In churches above a certain revenue threshold, an independent review is not a best practice; it is what donors, lenders, and grant-making organizations expect. In churches below that threshold, a basic annual review is still among the highest-return governance decisions a board can make.

### **5. Spending authority with no defined thresholds**

Any staff member can commit organizational funds up to any amount because no one has ever defined the limit. By the time an invoice reaches the board, the obligation is already incurred. A tiered spending authority policy, defining who can approve what, at what dollar level, and with what documentation, takes one board meeting to adopt and costs nothing to maintain.

*Controls do not protect the organization from the people it trusts. They protect the people it trusts from the organization's failure to design things well.*

## What Sound Financial Operations Look Like

---

*The cure is not complicated. It is documentation and structure.*

Before a church or nonprofit reaches its third year of operation, ten financial control foundations can be in place. Most require no specialized accounting software. None require a full-time finance team. All of them are cheaper to build before an incident than after one. The list, in plain language:

- A documented set of roles with defined financial responsibilities for the Treasurer, Bookkeeper, and board-level oversight.
- A formal separation of duties policy: who authorizes, who records, who reconciles, and why no single person does all three.
- A tiered spending authority schedule with defined approval levels and required documentation at each threshold.
- A two-person offering counting procedure with signed count sheets and bank deposit reconciliation.
- A restricted and designated fund tracking policy with quarterly reporting to the board.
- A clergy compensation schedule formally adopted by the board each year, including housing allowance designation made before January 1.
- A written accountable plan for expense reimbursements.
- An annual budget process with defined timelines and formal board approval.
- A banking policy with documented signatories, access controls, and a review process when personnel change.
- A commitment to independent financial review, scaled to the organization's revenue.

That is the foundation. It is not a complete financial system. It is the minimum required to protect the organization, its donors, and the people responsible for handling its funds.

## What Maturity Looks Like

---

The foundation is not the finish line. As the organization grows, the financial function grows with it. Multi-fund accounting, endowment management, grant compliance, audit-ready documentation, and financial forecasting all enter the picture, but they enter on a foundation that has already been laid. The most expensive financial decisions are not the ones leaders make in year five. They are the ones leaders neglected to make in year two.

Mature financial operations do three things that immature controls cannot. They protect the people who handle money from accusation and error. They defend the organization when the inevitable difficult moment arrives. And they give the board the confidence to lead rather than the anxiety of not knowing what they do not know.

## Where to Go From Here

---

If you are leading a church or nonprofit, the next question is straightforward. Either the financial control foundation is in place, or it is not. If it is not, the question is not whether to build it. It is whether to build it before the first incident or after.

Stewardship Advisors publishes the Financial Operations Guide for Churches and Nonprofits as a planning tool for leaders who are ready to take the next step. The guide defines every role, every policy, every threshold, and every reporting requirement in the foundation list above, expanded for organizations at every stage of growth, and structured so that a board can adopt it section by section without starting from a blank page.

The Financial Operations Guide is available for purchase as a digital download. For organizations that want support implementing what the guide defines, from bookkeeping structure to independent review to clergy compensation, Stewardship Advisors can connect you with the right finance and accounting partner.

### **Take the Next Step**

The Financial Operations Guide for Churches and Nonprofits is the practical companion to this series. It walks leadership through every policy, procedure, and reporting structure in the foundation list, with the detail needed to implement, not just understand. For organizations ready to move from awareness to action, Stewardship Advisors can also connect you with a qualified finance and accounting partner.

**[stewardshipadvisors.co](http://stewardshipadvisors.co)**