

HIGHER EDUCATION'S RESPONSE TO THE CHANGING ROLES REQUIRED IN CHURCH MANAGEMENT FOR THE 21ST CENTURY

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ABSTRACT

With the increased number of church consolidations throughout the country, combined with some high-profile defalcations and poor budget management decisions, many clergy members and their lay associates are unprepared for the management and accounting issues facing them, now and into the future. This paper synthesizes the many issues facing church workers acting as managers of significant and complex enterprises, and proposes

higher education changes and curriculum enhancements that will help ameliorate the complexities of church management. The end result, a strong educational program for lay and cleric managers of church properties and assets designed and implemented as an undergraduate program in church management. A rubric will be provided outlining the course requirements for an effective and efficient church management program, including specific learning objectives that must be achieved to properly educate church workers for the changing role of church management in the 21st century.

Keywords: accounting, auditing, church, curriculum, internal controls, management, mergers

Data Availability: Data used in this paper are available from public sources

INTRODUCTION

Church¹ management has never been easy and clergy today must balance a variety of issues, many of which have traditionally been the responsibility of highly-trained business leaders in the “for profit” sector. Such issues facing modern day church leaders include, but are not limited to, increasing congregation size, upkeep on extensive physical assets, and managing complex issues such as bond offerings and mortgages on the church’s property. Furthermore, the number of lay clergy and other church members that have access to growing church assets is a concern as institutional size increases. The increased number of individuals (often without sufficient appropriate training) can lead to additional direct risks in many financial and managerial areas.

The authors of this paper believe that churches should be managed using tools utilized by other organizations with substantial property, financial assets and a large “clientele.” In other words, clerical leaders and church boards alike must utilize the tools of modern financial and enterprise management. While the authors are not presuming that such

management and financial skills take precedence over the religious mission of the congregation, we do feel that education of church leaders in best-practices in church management benefits the financial strength of the organization, leading to less distracting worry and confusion, allowing the church leaders to focus on their primary mission of serving their congregation.

THE STATE OF EDUCATION FOR CHURCH LEADERS

On a positive note, the concept of strengthening a church's enterprise management is taking hold among both the religious communities and institutions of higher learning. Church leaders are becoming more aware that financial problems not only garner negative press, but significantly undermine the institutional mission of the church. Colleges and universities, never ones to let an unmet educational opportunity slide by, are developing programs for a variety of denominational leaders. While Catholic universities have taken the lead in creating these programs, the authors observe more colleges and universities putting together programs tailored to the unique circumstances of the religious communities (Damast, 2008).

What is less clear, and is certainly not consistent across current programs, is much agreement on the inclusion or exclusion of specific topics in enterprise and financial management. There is also a debate whether such programs should constitute a certificate program or a dedicated degree or major for students who plan a career in the church. A handful of colleges and universities have also begun to develop programs at the graduate school level, such as offering a Master's degree or MBA degree with concentrations in church management, ministry, and not-for-profit management (Dmast).

Table 1 below outlines **some** of the current graduate school programs that tailor enterprise management with a focus on the religious organization, while Table 2 lists **some** of the current undergraduate

programs. Program information and descriptions were obtained from the institution's websites.

The goal of this paper is not to reinvent the wheel, but to identify those subjects within a traditional business curriculum that could be advantageous for enhancing church management programs. Such programs would integrate core values required for clergy members with relevant business topics to serve their institutions and communities.

THE IMPORTANCE OF ACCOUNTING

It is the contention of the authors that, while many business topics have some relevance to clerical leaders, the first effort must be to properly understand accounting, the *lingua franca* of business. Clergy must be able to read the books of the church and come to conclusions as far as concepts of revenue, cash flows and the "bottom line" are concerned. Please note here that the authors are focusing on the bottom line not in the sense of making a profit, but in the sense that an organization that consistently spends more on activities than it takes in is eventually going to experience financial problems, including limited access to credit, and dire situations up to bankruptcy.

If the leadership of the church as to become more conversant in the language of business, they would use this skill in:

- Setting budgets based on expected revenues.
- Reviewing budgets and actual expenditures to ensure that projects, such as new buildings, repairs, staff salaries, etc., do not exceed the planned amount.
- Understanding the differences between recurrent expenses and capital expenditures.
- Managing reserve accounts, especially for church and rectory upkeep.
- Preparing and analyzing financial statements, including a statement of cash flows.

- Maintaining the currency of the organization's accounting records on a daily basis.
- Understanding investment portfolio returns.

Because many donations that religious institutions receive are tax deductible (under the correct circumstances) for donors, clerical leaders need to be informed on some basic tax concepts and rules. Equally important is the understanding of how foundations and endowments work, and what is appropriate for their institution. More and more churches are using mortgages, especially for the construction of new places of worship and to finance repairs to existing structures. The significance of mortgages, including both the risks and the benefits, need to be well understood by the clerical leader.

Accounting literacy at the top of the organization, whether regional or within a community, sets a higher tone for openness and disclosure. Church leaders must also take greater responsibility developing functional accounting information systems, including creating sufficient internal controls.

THE ROLE OF INTERNAL CONTROLS

Unfortunately, there has been a rash of large-scale church financial scandals in the past ten-years. These have included:

- A 2006 scandal in Darien, Connecticut where a pastor stole \$1.3 million from the church (Damast).
- In 2013, a church treasurer and her husband, a deacon, stole \$444,000 from a church in Upstate, NY. The treasurer, who was also a former Certified Public Accountant, used her knowledge of accounting and systems (and the church's lack of understanding the same) to write over \$665,000 of unauthorized checks (O'Brien, 2013).
- A Catholic bishop in Limburg, Germany spent over \$30 million on constructing a personal residence next to the cathedral. None of his immediate superiors was aware of the scale of his expenditures until

a newspaper broke the story. Construction was not stopped until the Pope personally stepped in (Erb, 2013).

These are just some of the few large crimes that were exposed in the press. Hundreds more smaller crimes do not make the press, or are hushed up to avoid embarrassing the church, the cleric or the congregation. Often, even a small defalcation is sufficient to start the church on a downward spiral to eventual closure.

It is the contention of the authors that had appropriate internal controls existed, these defalcations would not have occurred or would have been uncovered much earlier. Internal controls consist of a tool kit of common-sense rules and oversight to ensure an organization's effectiveness and efficiency, that the financial statements are reliable, that the organization is operated in compliance with the relevant laws and regulations, and that opportunities for defalcation are minimized as much as possible.

Internal control safeguard the organization's assets through separation of duties and by having different individuals authorize, record, reconcile and have custody over financial information (West and Zech, 2008). This can be controlled through preventive and detective measures within the organization (West and Zech). The more people see and/or review financial information, the less likely defalcations can occur without extensive collusion.

Organizations, churches included, must direct and monitor the handling of their assets, especially cash and access to bank and investment accounts. They must protect themselves against fraud, as in the case above of unauthorized checks being written to non-existent vendors.

Clerical leaders, in addition to knowing how to read the financial statements of the organization, must know how to set up the organization in order to minimize problems. Reliance on just one person, especially when acting in the role of an expert, such as treasurer and CPA, often leads to other types of problems. Clerics and lay managers hoping that

an auditing/accounting firm will find the problem is often mistaken for two reasons:

- The accounting firm or auditor is attesting to the method of financial statement preparation, not the accuracy of every number.
- Very often, smaller institutions are not willing to pay for a full audit, and so only receive a review of the financial statements as compiled by an organization insider.

AUDITING & ASSESSMENT

Most religious communities have a board of supervision of some kind, modelled on a company board of directors, which is usually constituted from lay and cleric members of the religious organization. The authors believe that churches need to take this one step further by having a sub-committee of the board function as an audit committee to receive, review and discuss the independent accountant's findings.

Most churches larger than a very modest scale (the authors suggest a current guideline of \$250,000 in liquid assets and \$2 million in total assets) will need to pay for a full-scale audit. To minimize expense, if a congregation member is a qualified CPA, they can swap services with a CPA in another congregation. That way, both congregations receive quality audits gratis with no conflicts of interest.

MANAGEMENT & LEADERSHIP

While the authors strongly believe that accounting proficiency is key to better management of churches, they also believe that one cannot overlook the cleric's role as both leader of the congregation and manager of the organization. As such, skills in leadership, organizational development, human resources and operations would further enhance the cleric's ability to manage their organization in an efficient, constructive and legal manner (Rainer, 2013). Appropriate tools and techniques of good

management (communication skills, knowing one's own strengths and weaknesses, etc.) should be taught (Clark, 2013).

DOWNSIZING & MERGING OF CONGREGATIONS

In this era of uncertainty, many churches are facing declining memberships, and are often faced with the difficult decision as to whether they should remain a stand-alone group or merge with another congregation. Furthermore, higher-level dioceses are often faced with financial decisions as to whether to keep parochial schools or churches open. In these situations, understanding financial data/statements are critical.

Strategic options for struggling congregations include (United Church of Christ Massachusetts Conference):

- Turning around the congregation's financial condition and health: tactics include hiring a new pastor or other changes regarding church structure, finance and leadership.
- Consolidation or merger: budgets, buildings and resources are consolidated for one mission, either within the same denomination or across denominations in the case of smaller communities or markets.
- Have a smaller congregation become a satellite branch of a larger congregation.
- Share facilities like sanctuaries or churches.
- Like many for-profit businesses, get a fresh start through bankruptcy or reorganization.

It is important that a church conduct a thorough investigation of the financial and managerial health of any partner organization. Just as two drowning men cannot save each other, neither can two failing congregations expect to miraculously become one strong unit. Only through a thorough evaluation of each other's situation can the two congregational leaders expect to develop a single, healthier organization.

THE PROPOSED CURRICULUM

Whether the clerical leader is gaining a Bachelor's, Master's or Doctor of Divinity degree, they need to learn specific skills for the financial and managerial health of their congregation(s). Table 3 identifies those key components to be taught in the Church Management curriculum.

The authors believe that, by covering these topics in a nine-class concentration or major, the student will still have plenty of time for appropriate religious instruction, while preparing themselves for the secular world of running a not-for-profit organization.

Conclusion

Churches and their leaders face a challenging economic and financial environment. Most churches are substantial organizations with property, debts, investments and employees. By properly training financial leaders in management techniques, especially in accounting, the language of business, churches and congregations have a better chance to thrive. Once the financial pressures are reduced through skill and knowledge, clerics can focus on their true mission and calling of ministering to their congregations.

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WEB APPENDIX

A web appendix for this paper is available at:

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NOTES

1. This paper assesses common church issues on a non-denominational basis. Most aspects of strong church management would also apply to synagogues, temples, convents and other assets held by a variety of different types of religious communities.