# Risk Management Strategies

## Protect Your Church from Costly Compliance Failures

## Strategic Framework for Pastors, Board Members & Leadership

Church Clergy Tax Management & Compliance

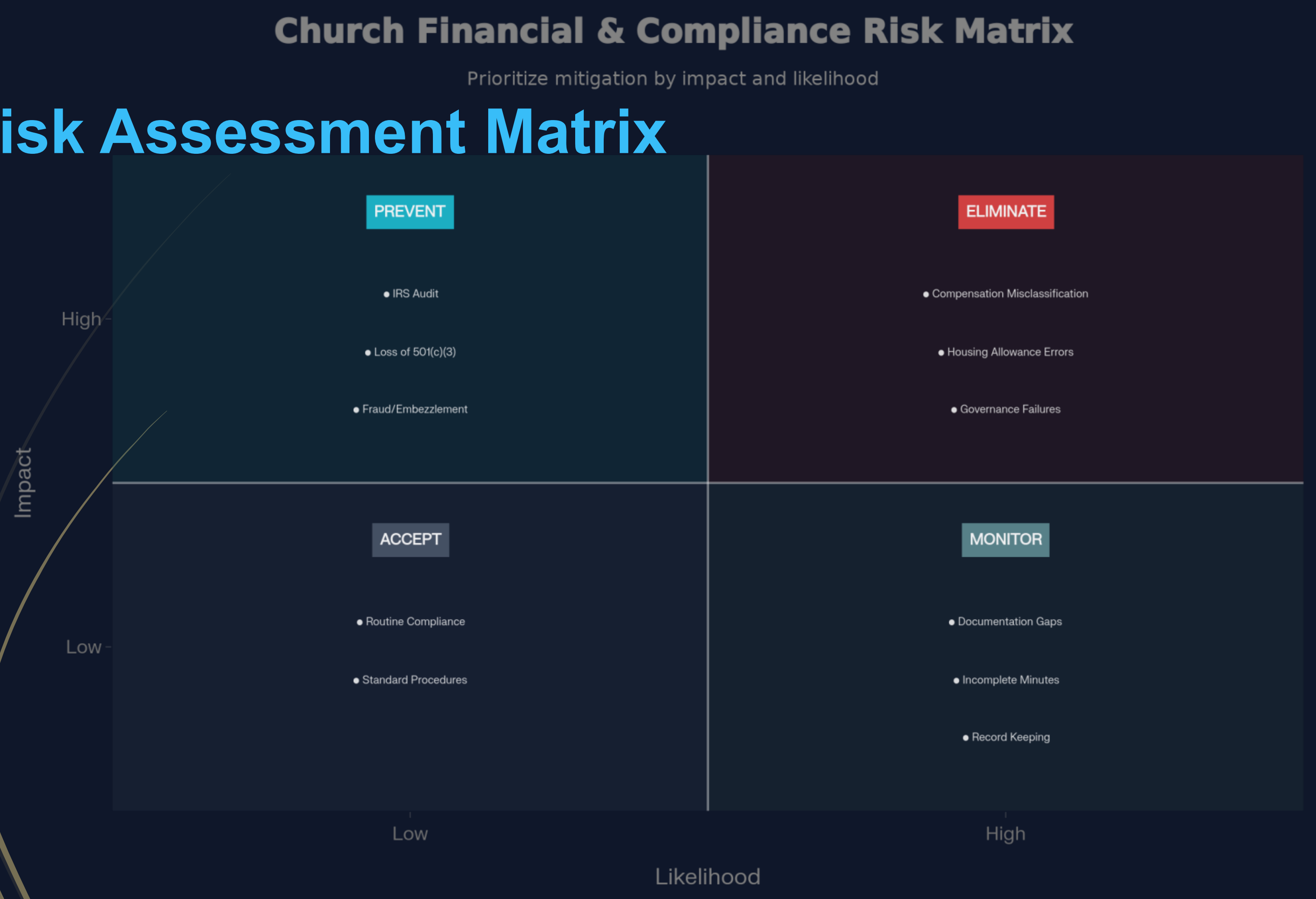
# Today's Agenda

- Understanding Risk Landscape in Churches
- The Risk Heat Matrix: Likelihood & Impact
- Critical Compliance Risk Areas
- Asset Protection Protocols
- Internal Control Systems & Implementation
- Action Plan & Next Steps

# Why Church Risk Management Matters

- IRS intensifying audit activity on exempt organizations
- Church leaders face personal liability without proper safeguards
- Loss of 501(c)(3) status threatens tax-exempt standing
- Compensation misclassification: most common audit trigger
- Housing allowance errors cost pastors thousands in taxes
- One governance failure can destabilize entire ministry

# Risk Assessment Matrix



# ELIMINATE: High Impact & Likelihood

## Compensation Misclassification

W-2 vs. 1099 errors trigger IRS audits immediately

## Housing Allowance Errors

Improper designation costs pastors thousands in taxes

## Board Governance Failures

Absent minutes & conflicts expose church legally

# PREVENT: High Impact & Low Likelihood

## IRS Church Audit

Requires high-level IRS "reasonable belief" - prevention saves years

## Loss of 501(c)(3) Status

Catastrophic consequence - permanent damage to ministry

## Fraud & Embezzlement

Strong controls prevent 95% of internal theft

# Seven Critical Compliance Risk Areas

- **Compensation & Payroll** - W-2/1099 classification, housing allowance designation
- **Board Governance** - Meeting minutes, conflict of interest disclosure
- **Financial Controls** - Segregation of duties, approval hierarchies
- **Tax Reporting** - Timely filing, accurate documentation, IRS responses

# Asset Protection Protocol Overview

## Legal Structure

Proper incorporation shields leaders from personal liability

## Insurance Coverage

Directors & officers liability protects against claims

## Documentation

Minutes, policies, resolutions create legal paper trail

# Five Pillars of Internal Controls

- **Segregation of Duties** - Prevent one person from controlling entire transaction
- **Approval Authority** - Clear authorization thresholds for expenses
- **Reconciliation** - Monthly bank/account verification catches discrepancies
- **Documentation** - Every transaction has supporting evidence

# IRS Audit Prevention Strategies

## Maintain Accurate Minutes

Most critical protection - shows governance is intentional

## Designate Housing Allowance

Document in December BEFORE year begins - never retroactively

## Classify Staff Properly

W-2 for employees, 1099 only with IRS safe harbor rules

# Avoid Attorney General Scrutiny

- States increasingly scrutinize nonprofit governance (including churches)
- Maintain incorporation status and annual compliance filings
- Implement conflict of interest policies with board acknowledgment
- Document charitable activities align with 501(c)(3) purposes
- Separate website materials from business activities (no ads)
- Regular audits demonstrate financial accountability

# Board Governance Excellence Framework

## Duty of Care

Attend meetings, ask questions, review financials diligently

## Duty of Loyalty

Disclose conflicts, prioritize church interests over personal gain

## Duty of Obedience

Enforce bylaws, follow state/federal law, document decisions

# Financial Transparency Standards

- Monthly financial statements to board (not just annual)
- Clear budget vs. actual reporting - identify variances early
- Published annual financial summary to congregation (accountability)
- Annual independent audit or review engagement
- Dedicated finance/audit committee with written charter
- Above-reproach operations prevent regulatory scrutiny

# Risk Minimization Implementation Plan

## 30 Days

- Audit current bylaws
- Review board minutes
- Document policies

## 90 Days

- Implement controls
- Train staff/board
- Review compensation

# Key Takeaways

- Risk management is NOT optional - it's fiduciary duty
- High-likelihood risks (compensation, governance) demand immediate action
- Documentation is your strongest legal defense against audit
- Board members face personal liability for governance failures
- Prevention costs far less than remediation after IRS audit
- Transparency builds congregational trust and regulatory respect

# Your Action Begins Today

Do not delay risk minimization - every day without controls is exposure

Next: Asset Protection Protocol Deep Dive

# Thank You

Protecting Your Ministry's Future Through Strategic Risk Management

Questions & Discussion Welcome