MINISTRY RED FLAGS

A Checklist for Evaluating a Ministry

Before You Give



Calvin Edwards & Company Ministry Watch.com

Ministry Red Flags

A checklist for evaluating a ministry before you give

Ministry name:	Date:

For each item, if the answer is "yes," circle the check mark, if it is "no," circle the red flag. If you don't know, leave it blank. If you are not quite sure, place a question mark in the margin to seek more information. Circle "N. A." if the item is not applicable to the ministry you are assessing.

Many items are compound, containing several related components numbered thus: (i), (ii), etc. In these cases, the answer is "yes" if ALL the components are true—if one or more components is "no," circle the red flag.

The list has been prepared for global use and is not limited to the U.S., thus terminology and factors from foreign countries are used throughout. However, standards are different overseas and grace and contextual understanding should be used.

Christian





1. Does the organization have a statement of faith that (i) is available to donors and (ii) is consistent with historic Christian creeds?





2. If the organization teaches biblical content, the theology espoused is free from heresy that contradicts, or fails to align with, traditional teachings of the Church.

Family Ties





N.A.

If family members of employees are hired, do 3. they (i) participate in the organization's standard hiring process that is (ii) led by a non-family member, and (iii) report to a non-family member?





N.A.

4. Does every employed family member of a senior leader (i) hold a regular position that would be filled by another hired person if the family member left? Does the position (ii) have a job description and (iii) pay grade consistent with other positions, and (iv) does the family member receive regular performance reviews by a non-family member?





N.A.

Are family members of the founder and senior 5. executive/pastor only hired following formal board approval?



6. Is provision of paid travel for non-employed family members (i) controlled by a boardapproved policy and (ii) limited to not more than four trips per year? Is the value of such travel (iii) reported as income (in the U.S., typically as 1099 income)?

Conflict of Interest



7. Does the organization require management personnel to disclose any conflict of interest, or indicate that there is none, in a written statement each year?



8. If the organization requires annual conflict of interest disclosure, are all written conflict of interest disclosures reviewed by an independent individual or group (not a family member)?



9. Does the organization buy products and services only from vendors who are not associated with employees or their families, unless the board, acting independently, authorizes the details of the purchase?

Transparency



10. Is the organization's annual audit (if one is prepared), or its Form 990, or other financial statements, readily made available to the public (e.g., posted on a website, or provided immediately upon request)?



11. Does the organization respond (i) promptly and (ii) appropriately to external requests for information?



- 12. Are complaints regarding the accuracy of external communications dealt with (i) promptly and (ii) comprehensively to fully correct any misstatements?
- 13. Does the organization readily provide information to inquiring donors on total compensation paid to senior executives/pastors and family members? Total compensation includes:
 - a. Regular salary (in the U.S., W-2 income)
 - b. Contract income in addition to regular salary (in the U.S., 1099 income)
 - c. Benefits (health, disability and life insurance, "company car," etc.)
 - d. Retirement contributions (including, in the U.S., a Rabbi Trust)
 - e. Personal use of organizational assets (e.g., vehicle, plane, home)
 - f. Personal use of organizational employees
 - g. Royalties received on books purchased by the organization from publishers
 - h. Income from the direct sale of books to the organization
 - Honoraria received in the course of doing ministry work
 - Fees received for services provided or rental income
 - Savings due to a discounted interest rate or forgiveness of a loan from the organization





14. Does the organization disclose information to inquiring donors on payments to companies in which senior executives/pastors, family members, and board members have an ownership interest?

External Communications



15. Are the organization's external communications to clients, donors, prospective donors, the community, government agencies, watchdog groups, etc. honest, accurate, and complete?



16. Are claims of costs (e.g., the cost to feed a child for a year) and achievements (e.g., the number of churches planted in a region) (i) based on "hard data" or careful projections with (ii) source records or calculations available to inquirers?



17. Does the organization meticulously avoid deceptive practices such as, but not limited to: (a) showing photos that include the work of another organization without disclosing the other organization's role, (b) claiming achievements that are in fact joint achievements without disclosure of the other party, or (c) reporting achievements without a clear statement of the time period during which they were accomplished, so the same outcomes are reported multiple times?

Fundraising & Donors





N.A.

18. Are restrictions placed by a donor on a gift fully honored by maintaining records and a system that ensures donor intent is carried out?





19. Are the terms of conditional lead gifts, matches, etc. explained to other donors with clarity and honesty?



20. Do donors have the ability to observe the ministry carried out by their donations?

Stewardship & Compensation





21. Are compensation levels for the founder and/or senior executive/pastor set and reviewed (i) at least every two years (ii) by the board or an independent compensation committee that (iii) uses national or regional statistics as a guide?

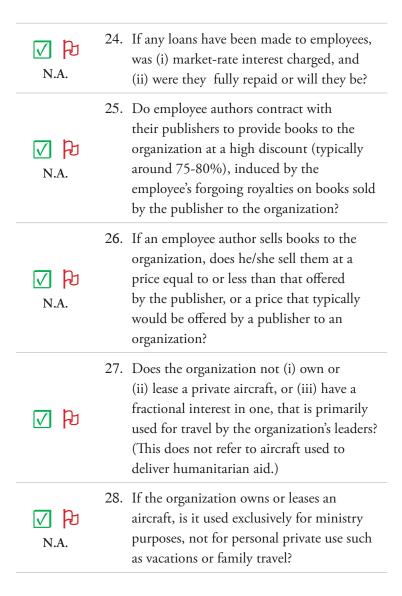


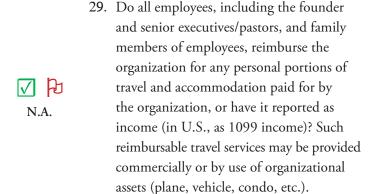
22. Is the total compensation paid to the founder, senior executives/ pastors, president, and family members, reasonable in relation to, and as a proportion of, compensation paid to others in the organization? (See item 13 above at Transparency for what is included in total compensation.)





23. Does the organization have a (i) policy and (ii) practice of not lending money to employees?

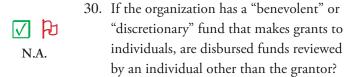




Financial Operations & Policies

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- 31. Has the organization implemented internal accounting controls to prevent and detect fraud? This includes separating duties such as opening mail and receiving checks, preparation of bank deposits, and recording accounting entries and having them performed by different persons or by two persons who monitor each other's work.
- 32. Does the organization have a board-approved policy that is monitored by the board (or the treasurer and reported to the board), that addresses authorization to make payments such as checks, bill-pay, EFTs, expense reimbursements via payroll, etc.?





33. Do major purchases or investments (e.g., securities, real estate, another organization, etc.) require board approval?

Financial Reporting

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34. Does the organization (i) prepare financial statements according to Generally Accepted Accounting Principles (GAAP, issued by the Financial Accounting Standards Board (FASB) for the U.S.) or International Accounting Standards (IAS, issued by the International Accounting Standards Board), and)ii) clearly report any variations from these standards within financial statements?



35. Does the organization have a (i) qualified accountant-internal or externalprepare (ii) regular financial statements (iii) without undue influence from management?



36. Are the organization's financial statements provided to the board on a regular schedule, at least quarterly?



37. If annual revenue exceeds \$0.5 million (USD), (i) does an unrelated, certified accounting firm prepare an annual audit (ii) in a timely manner?



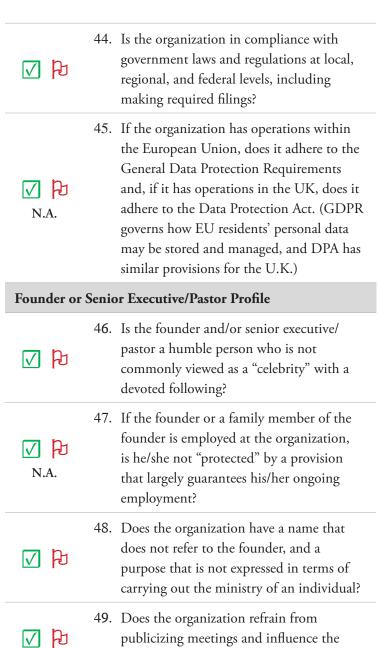
38. If the organization has related entities, including foreign ones, (i) are consolidated financial statements prepared (according to GAAP or IAS) and (ii) provided to the board?

Legal 39. For U.S. organizations, does it currently have active 501(c)(3) tax-exempt status ablawith the IRS? Or, if it is located outside the U.S., is it a registered charity, trust, or business in the country where it is located? 40. For U.S. organizations, is the organization either registered with the IRS as a (i) nonprofit organization that is not a church, or (ii) church, and the organization's primary purposes are to conduct the sacerdotal functions of a local church N.A. (preaching, baptism, offering sacraments, marriage, funerals, etc.) and function as a parish congregation, or as a group of such congregations? 41. For U.S. organizations, has the M B organization filed a Form 990 with the IRS N.A. within the past 23 months? 42. For the past five years, has the organization been free of lawsuits or administrative VI Ab actions filed against it by an employee, client, board member, vendor, donor, or other related party? 43. During the past five years, has the organization been the subject of a lawsuit, √l b administrative hearing, investigation,

or accusation by a government office,

department, or agency?

N.A.



founder and/or senior executive/pastor has

with governmental leaders or heads of state?



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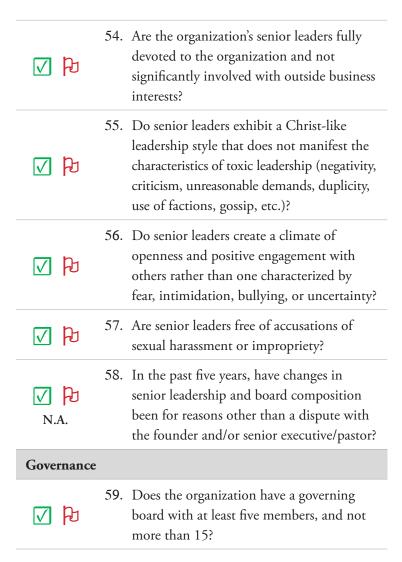
- 50. Does the founder and/or senior executive/pastor have a variety of healthy relationships with persons outside the organization and meet or connect with them regularly?
- 51. Is the life of the founder and/or senior executive/pastor, including his/her calendar and travel schedule, generally open to scrutiny by at least one other person who holds him/her accountable? (He/she does not use non-ministry communication devices or software for his/her work, does not do "business travel" for unknown purposes or to unknown places, and does not have inexplicable personal appointments.)
- 52. Is the founder and/or senior executive/ pastor viewed, by those who know him/ her well, to be free from characteristics that are commonly associated with personality disorders? (E.g., an unrealistic view of oneself, lack of empathy for others, arrogance, manipulativeness, impulsiveness, mood swings, delusions, etc.)

Senior Leadership Team



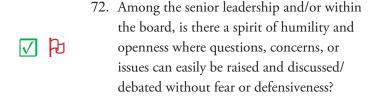
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53. Do the organization's senior leaders manifest a visible, personal commitment to Jesus Christ, and are leaders actively involved in a local church congregation?



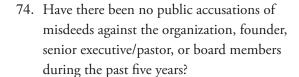
✓ þ	60.	Does the board have (i) no more than two non-independent members, and (ii) at least four independent members for every one non-independent member? An independent member is one who is not an employee or contractor, has no familial relation to any employee or another board member.
☑ þ	61.	Does the board (i) meet at least two times per year with (ii) at least one meeting inperson?
√ b	62.	Is the board chair an independent board member, not the founder or senior executive/pastor?
✓ þ	63.	Do board members generally have moral courage and the ability to hold leaders accountable and confront them when necessary—rather than excuse poor performance or behavior?
√ þ	64.	Based upon corporate bylaws (or, outside the U.S., other governing documents), are board members subject to term limits (except one senior leader who may be appointed by virtue of his/her position), ensuring that new directors with fresh perspectives regularly join the board?

a "lifetime appointment" to the board or requirement to be elected? This does not				
66. Does the board provide orientation and training for its members?				
57. Does the board regularly engage in a process of self-evaluation?				
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69. Are the names and credentials of the organization's board of directors made public?				
Corporate Culture & Board Culture				
against the founder or senior executive/ pastor—even when they do not align with his/her image—are the allegations (i) take	en			
66	requirement to be elected? This does not refer to ex officio appointment to the boat that is dependent of the person's position with the ministry. 66. Does the board provide orientation and training for its members? 67. Does the board regularly engage in a process of self-evaluation? 68. Do all board members have first-hand, field-based experience with the work of the organization? 69. Are the names and credentials of the organization's board of directors made public? ulture & Board Culture 70. Is the rate of staff turnover reasonable and in line with similar organizations (e.g., less than 10% per year)? 71. If allegations of wrongdoing are brought against the founder or senior executive/ pastor—even when they do not align with his/her image—are the allegations (i) take seriously and investigated in a professional manner, with (ii) complete information			



73. Are board members able and encouraged to ablatalk with each other and discuss ministry N.A. matters outside the boardroom?

Allegations of Wrongdoing



75. Have all known "watch dog" or "rating" organizations (e.g., in the U.S., Charity Navigator, Ministry Watch, Charity Watch, etc.) given the organization and/or its leadership a favorable rating (or no rating) during the past five years?





