

## **Fifty Internal Control Practices for Every Church**

### **Reference**

The Church Guide to Internal Controls, Church Law and Tax Report, Richard J. Vargo, 1995

These controls are the most reasonable for all churches, large and small, to use to reduce the risk of embezzlement and the generation of unreliable financial reports.

### **General Internal Controls**

1. Are specific accounting functions handled by the individuals or groups who are assigned these functions in the church's organizational chart, bylaws, or manual of operations?
  - Who collects the offering? Who counts the offering? Who goes to the bank?  
  
"Getting cash to the bank looks like a Laurel and Hardy movie in some churches as those people who hold the Sunday offering look for someone to take it to the bank."  
  
"Consultants to churches and certified public accountants have no intention of keeping pastors from the financial information necessary to operate their churches. Information should be freely transmitted as necessary. But internal control is best maintained when those given responsibilities by the organization chart carry out their duties precisely as planned."
2. Does the church have a written, up-to-date accounting procedures manual?
  - Places responsibility and assures continuity of practice
3. Does the financial secretary's or treasurer's activities involve only keeping the records of cash collections and preparing the support for disbursements?
  - The separation of duties is the keystone of a church's internal control system.
  - Keeping the recordkeeping function distinct from the cash handling function will go a long way in reducing the church's risk of misappropriation of funds.
4. Are facilities locked when not in use?

5. Are the accounting records safeguarded at all times?
  - Are computer files backed up and the backup copies properly stored? Are paper records stored at home or in the church safeguarded from being destroyed, altered, or tampered with?
6. Is an internal audit committee operational?
  - An internal audit committee is usually made up of members with accounting or business backgrounds. They perform some tests of the accounting records. Their tests should be done annually at a minimum.
7. Are the accounting records and the underlying internal controls audited annually?
  - In churches that have a new treasurer every year, the church will be certain to have each treasurer's work reviewed.
  - The auditor can identify and correct any deficiencies before they become standard operating procedures.
  - A written policy of annual audits precludes any treasurer from feeling paranoid about the members not trusting him or her.
8. Are new personnel screened?
  - 70% of all embezzlers are repeat offenders
  - Some screening must occur and may involve as little as a few telephone calls to references, former supervisors, neighbors and so on.
9. Are all employees who have access to cash bonded?
  - Blanket bonds are popular with churches because all employees may be covered. Your parish insurance policy should provide this coverage.
10. Are members encouraged to use offering envelopes?
  - Envelopes serve to 1) protect members' offerings until they can be counted, and 2) provide the basis for recording the contribution in the church's accounting records.
  - The envelopes should be retained by the treasurer or financial secretary until after a contribution report has been provided to members.
11. Are members encouraged to use checks in making their offerings?
12. Is the handling of offerings always controlled by at least two people?
13. Is the handling of other receipts of cash always controlled by at least two people?
14. Is cash counted in a secure area?
15. Do the money counters verify that the contents of the offering envelopes are identical to the amounts written on the envelopes by the members?

16. Are all checks received restrictively endorsed as soon as possible?
17. Is cash deposited as soon as possible after receipt?
18. Is all cash received deposited in the bank?
  - Cash receipts should be deposited *intact*, that is, without being reduced by disbursements.
19. Is cash safeguarded in a safe, lock box, or similar protective container when at the church?
20. Are collection reports given to the financial secretary or treasurer for entry into the accounting records, and a copy sent to the internal audit committee for subsequent audit purposes?
21. Are incoming-mail and in-office contributions handled by people who are not responsible for the accounting records?
  - If contributions acknowledgements and/or statements are mailed on a regular basis, this may mitigate the risk from not having these duties separated.
22. Has the bank been instructed in writing never to cash checks payable to the church?
  - A letter to the bank may not prevent someone from cashing such a check, but it would fix responsibility for the misappropriation with the bank.
23. Are contribution records maintained for members?
  - This is required by the IRS.
24. Do members receive periodic (perhaps quarterly) notices of their contributions from the audit committee?
25. Are the periodic notices of contributions sent to each member photocopied?
  - The idea here is to deter anyone from changing the amount on the notice to an amount that is not recorded in the books.
26. Are members instructed to report any irregularities or errors in their notices of contributions to the internal audit committee?

### **Cash Disbursement Controls**

27. Are requisition slips prepared for anticipated disbursements that do not have standing authorization?
28. Are prenumbered purchase orders used for all disbursements that do not have standing authorization for payment?
  - Purchase orders should be used even if requisition slips are not used. Purchase orders provide structure and accountability for legitimate purchases.