

Fifty Internal Financial Control Practices

From: *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."
2. Does the church have a written, up-to-date accounting procedures manual?
 - The 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?
 - Seventy (70) percent 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

[church] 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.
- Their use protects the church from unscrupulous vendors who send unordered goods to churches.

29. Are invoices for goods and services approved by a qualified person before payment is made?

30. Are invoices checked for accuracy before being paid?

31. Is a check authorization slip prepared to support the disbursement of funds?

32. Are all disbursements of cash, except for minor items, made by serially numbered checks?

33. Is a check protector used?

- This is a mechanical device that embosses the amount on the check so that nobody can change the amount of the check before it is deposited at the bank.

34. Do all check signers inspect all supporting documents before signing?

35. Are at least two signatures required for all checks?

- This is strictly an internal control and often not enforced by the bank.
- Prevents one person from being in charge of cash.
- Blank checks should not be signed!

36. Are supporting documents canceled when checks are issued?

- Stamp "Paid" on the paperwork. If a voucher check is used, attach the paperwork to the voucher.

37. Are all voided checks marked and retained?

38. Is preparing a check to "Cash" prohibited?

39. Are blank, unused checks safeguarded at all times?

40. Are expenses always recorded in the correct accounting period?

41. Is a petty cash fund used for minor disbursements of cash?

42. Are vouchers prepared for all disbursements from the petty cash fund?

43. Are transfers among bank accounts properly authorized?

Reconciliation Practices

44. Are reconciliations of all bank accounts prepared monthly by a person not involved in writing checks?

- Bank statements should be mailed to a member of the internal audit committee or someone designated by the committee to reconcile the accounts.
- Monthly reconciliations should be retained for use during the yearly audit of the books.

45. Is the petty cash fund reconciled on a surprise basis at least once a year?

46. Are account balances in "the books" ever reconciled with the amounts presented in financial reports?

Other Assets

47. Are valuables (securities, jewels, valuable documents, etc.) afforded protection in a bank

safe-deposit box?

48. Are two signers required for access to the safe-deposit box?
49. Is an updated inventory of securities, valuables, equipment, and other major non-cash assets maintained?
50. Are scheduled reviews made to determine if insurance coverage is adequate?