

## **Best Practices for Church Financial Internal Controls**

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*On a recent trip to Iowa for a few church visits, I spoke at length with Tammy Masson, CFO Diocese of Des Moines, regarding a Manual for Financial Internal Controls she was compiling for her Parishes and Schools. Tammy, a Certified Fraud Investigator, mentioned the need for a "Best Practices" listing for all churches that would help reduce or eliminate theft in church. Much of the article below was taken from the Diocese of Des Moines "Financial Management and Control Manual for Parishes and Schools".*

*As I watched CNN over my morning cup of coffee, I saw that yet another church lost thousands of dollars over several years from a trusted church secretary. Tammy is right; the need for this article is now!*

Whether your church has a full-time paid staff, or all volunteers, life in a church office can sometimes feel transient. New finance committee members, church council members, volunteers, ushers and even staff members can come and go, and not know exactly what is expected of them.

Administration of church finances is a sacred trust. It is very important for the Pastor to establish a strong system of internal control because he/she has the responsibility for overall stewardship of the Church. (Mason, 2009)

Every church should have an outline of Internal Controls that will help you train new staff, volunteers, finance committee members, and clergy on what is expected of them to maintain the integrity of your organization, and the trust of your supporters. Internal Controls are essential to protect the assets of the church from waste, fraud, and inefficient use. They will also benefit staff and volunteers by showing that you have procedures in place to avoid the appearance of misbehavior, thus protecting their reputation.

We want to believe that those who serve the church are good, honest people. However, there have been numerous recent reports of improprieties in churches and non-profit organizations. Good internal controls can minimize loss.

Because each church is different, and each demonization organization may have a unique set of standards, this article is designed to lay the groundwork for further discussion and definitions of proper financial management by your church.

The following system can be completed by fewer persons, depending on the resources of the church. Use this as a starting off point. You'll need to determine how much internal control is necessary for your church.

### **Contribution Collection, Deposits and Data Entry**

#### **1. Encourage Church Members to use Envelopes**

- a. Envelopes protect the member's offerings until they can be counted, it also assist the contribution entry person making their job faster. Then save the envelopes, and you will have a written record for each offering put into the plate.
- b. Encourage Members to write checks or use [CMS Online Giving](#). This makes theft much more difficult, and they will have a receipt if verification of the church records is necessary.

2. **Ushers** – Provide your ushers with some procedures to follow, in particular how to properly seal collection bags. Post the procedure and review with new ushers. Let your ushers know how much you appreciate their cooperation in successfully implementing these procedures.

- a. **Let the ushers know ahead of time the number of collections in the service and assign tamper resistant, pre-numbered bags for these collections plus an extra bag in the event of bag defect or closing the bag too soon. Defective and extra bags should also be submitted with collections.**
- b. **DO NOT GIVE OUT CHANGE! The collection should be maintained in its original form, and no change should ever be given from the collected funds.**
- c. **Bags should be then transported to a secure area for safekeeping prior to delivering to the counting team and if a contribution was missed, place the loose envelope in the pocket of the sealed bag or add to an additional sealed bag and transport to secure area for safekeeping prior to delivering to the counting team.**

3. **Counter, Safes and Secured Area**

- a. **Only a limited number of people should maintain lock combinations and/or custody of keys to church safe(s).**
  - **Combinations and keys should never be stored in an unlocked desk drawer, hung on a wall, back of a door, or in an unsupervised area where anyone can gain access to them. The safe should be in good working condition at all times and ensure the safe door is not only shut, but also locked.**
- b. **Limit the amount of funds secured in the safe to a minimum.**
- c. **Secure the counting area**
  - **The count area should be free of distractions with no “through traffic” to access a supply closet or bathroom by individuals other than the counters, and limit the number of people, other than counters, in the room; only the counters, clergy overseeing count, and/or someone from the church staff should be in the room. NOTE: Ushers and Parish Staff should NOT be counting the collections.**
- d. **Provide Counting Supplies**
  - **Collection worksheets, Bank Deposit Tickets, Tape calculator, and New tamper resistant bags to secure funds to be deposited after the count is complete.**
- e. **Counters open the bags**
  - **Assemble the counters (3 or more unrelated people) then the Pastor or designee should deliver the tamper resistant bags containing the**

collections. Also include any other sources of income received by mail or in person to the church office.

- Counters must examine the bags for tampering, breaches of the seal, or other irregularities and note the condition of the bag and the bag number on a Bag Tracking Form. Notify the Pastor of any irregularities on any bag.

**f. Counters count the contributions**

- Collections are counted, classified, and recorded by alternating count teams, or duties are rotated among several count team members. The complete collection is deposited. Don't keep any cash at the church as convenience cash.
- Photocopy loose checks and keep with offering envelopes.
- Cash should be separated by denomination, counted and banded. The amount and the counters initials are recorded on the band. A second counter should open the band, recounts, and records their initials on the band.
- Run two adding machine tapes to verify the total of the checks, and two adding machine tapes to verify the total of currency and coin.
- Counters complete the count sheet by documenting currency, coin, and checks. The adding machine tape should be identified by indicated cash or check; initialed and dated. One copy of the tape is attached to the collection worksheet, along with each counter's initials and date, to provide accountability for the amounts.
- The counters record the currency and checks on a duplicate bank deposit ticket with all information on the ticket completed. The original bank deposit ticket, along with the adding machine tapes, is sent to the bank and a copy retained at church.

**g. Supporting documentation received at church**

- The empty envelopes and photocopied loose checks are given to contribution entry person who enters data in CMS Contribution System.
- The count sheet, bank deposit copy, and bag tracking form is retained at church and turned into bookkeeper. Bookkeeper should receive a deposit receipt from the bank in a couple days. Match the deposit receipt to the count sheet and attach. Enter deposit in CMS Ledger & Payables system.
- If there are overages and shortages between bank count sheet and bank deposit, immediately notify Pastor, and receipt should be reviewed to

determine if additional count team members should be recruited or if count duties should be changed.

- Publish prior week's collection totals in weekly bulletin/newsletter.

## Accounts Payable

1. Separation of Duties – While oftentimes, those who choose to serve the church think the more they do, the more they serve. This can oftentimes lead to a lack of separation of duties.

There are many churches allowing one person to handle all financial elements within the church. They count the offerings, make the deposit, record the offerings, paid the bills, sign the checks, reconcile the bank account and prepare the financial records.

By allowing one person to perform all of these duties, you are setting them up to conceal wrongdoings. Even an accusation of wrongdoings can damage the reputation of the staff member/volunteer, and the church.

Instead, split up the duties between several staff members and/or volunteers

- a. Secretary/Receptionist

- Opens the bills and reviews them, then gives them to the Bookkeeper
- Gives unopened Bank Statements to Pastor and/or Church Administrator
- Receives and reviews signed checks from Pastor/Treasurer/Authorized Check Signer and vendor remittance stub, seals envelopes and mail

- b. Bookkeeper

- Enters the bills in CMS, assigning each bill to the appropriate vendor and account
- A regular schedule, i.e. every Thursday, for issuing checks allows for efficiencies in the business office and helps control the work associated with paying bills.
  - ❖ Petty cash should not be used to pay vendors, contractors, or employee.
  - ❖ Petty cash disbursements should also be tracked in the CMS Fund Accounting system and periodically reconciled.
  - ❖ The use of manually created checks is discouraged.

- a. If a manual check is used, i.e. an authorized check signer takes a check to a retail store; the receipt should be promptly taken to the bookkeeper so the transaction can be reported.
- Prints the checks in CMS on 3 part check
  - ❖ Blank check stock should be kept in a locked location, preferably in a safe or fireproof filing cabinet, and access limited to those who are authorized to prepare checks. This helps reduce the risk of stolen or forged checks.
- Staples church copy of stub of a 3-part check to associated bill and gives to Treasurer/Pastor
- Before January 31<sup>st</sup>, compiles 1099's for non-incorporated vendors who were paid over \$600 in the calendar year
- c. Pastor/Treasurer/Authorized Check Signer
  - Reviews bill and check for accuracy
  - Signs checks
    - ❖ Two people should be required to sign any check over a pre-determined amount. The amount requiring a second signature can be pre-printed on checks, i.e. "Any check over \$2,000 is required to have two signatures".
    - ❖ The signature documentation (signature card) held by the bank should also show this restriction.
    - ❖ The Pastor must be included as an authorized signer on all accounts as administrator of the church and its affiliated organizations. This ensures the Pastor is aware of all accounts in the name of the church. This also protects the misuse of the parish tax ID number.
    - ❖ Individuals with access to record entries in CMS Fund Accounting who receive and process cash receipts should not be authorized signers. This separates the duties of those with control over cash to insulate the individual from any implication or temptation of wrongdoing.
    - ❖ Signature stamps should never be used. This way, all cash outflow is properly reviewed and authorized. If you have a signature stamp, it should be kept locked up and used only with authorization from the Pastor for correspondence purposes only.

- ❖ **NEVER SIGN A BLANK CHECK!** Blank or partially blank checks should never be signed. Only sign a check when the payee and dollar amount are filled in and there is supporting documentation.
- Removes check, vendor copy of stub, vendor remittance stub and provided envelope (unsealed) and hands to secretary for mailing.
  - ❖ It's a good practice to hand the signed checks to a third party, not the person preparing the checks, to review and mail. This prevents the vendor remittance stub from being swapped out upon mailing, i.e. someone paying their personal electric bill with a church check.
- Gives church copy of bill back to bookkeeper for filing.

**d. Pastor/Church Administrator/Finance Board**

- Bank reconciliation
  - ❖ Bank Statements and cancelled checks should be received directly by the Pastor or Church Administrator, who should:
    - a. Open and review to ensure payees are valid and signatures are authentic
    - b. Review endorsements and determine if they are genuine
    - c. Determine that all transactions have been authorized
    - d. Determine the balance appears reasonable.
    - e. Then sign and date the bank statement to indicate his/her review.
  - ❖ Bank Reconciliations should be performed each month within ten days of receiving the bank statement. This can help ensure that any errors can be found and corrected quickly by either the bank or the church.
  - ❖ Bank Reconciliations should be performed by a third party, one who does not sign the checks, keep the books, or process the receipts. A finance board member, the pastor, or business manager should be reviewing bank reconciliations on a monthly basis, dating and signing off on them.
- Internet Banking/ACH Transfers/Wire Transfers

- ❖ While Internet Banking can be quite convenient, it can also open the church for a great degree of exposure and should always be monitored by the Pastor and/or Church Administrator.
  - ❖ Any individual who has access to these online transactions literally has an open checkbook.
  - ❖ It is recommended that only the Pastor and/or Church Administrator that releases the funds and should be the only holder of the administration password.
  - ❖ Once a transaction has been completed, he/she should generate a bank report that details the transactions, signs and dates it, and forwarded to the bookkeeper for recording in the CMS Fund Accounting system.
  - ❖ If your church uses the CMS Payroll Direct Deposit feature, or if an outside payroll service is used, the Pastor and/or Church Administrator should be signing off and reviewing every report processed by the bookkeeper.
- Credit Cards
    - ❖ Again, another convenience, but can open the church up to more exposure.
    - ❖ Use the CMS Ledger & Payables Credit Card feature to track the individual expenditures (including vendor, amount, date and related expense account) and reconcile the credit card statement each month.

## 2. Bank Accounts

- a. **Number of Bank Accounts** – The number of accounts should be kept to a minimum. This also helps streamline the accounting process. The separation of funds for different activities or programs can be done using the General Ledger rather than having a separate bank account for each.
- b. **Other Church Organizations** – Any and all checking, savings and investment accounts must be included on the church general ledger. This helps guarantee that the financial statements are accurate and allows the finance board and the church members to have a complete picture of the finances of the church. It is the responsibility of Pastor to oversee the finances of the parish and require full disclosure of all accounts.
- c. **Name of Bank Account and Investment Accounts** – Pastors, clergy, deacons, committee members, staff and volunteers should not hold assets in their own name or purchase in their own name any property that rightly belongs to the

church. Bank deposits must be made in the name of the institution from which these funds originated.

### **3. Other Church Organizations**

- a. Organizations associated with the church should be recognized by the church council as a matter of written record and should be subject to the ultimate fiscal control by the Pastor.
- b. An itemized record of receipts and expenditures should be filed in the church office periodically (monthly, quarterly, or annually) and made available upon request of the Pastor.
- c. The church office should be reviewing, signing and dating, or completing the bank reconciliation and reviewing the cancelled checks on a regular basis (monthly, quarterly, or annually).
- d. Organizations should only have separate bank accounts based on the approval of the Pastor.
- e. The Pastor should be included as an authorized signer on all affiliated organizations that use the church tax ID number. This ensure the Pastor is aware of all accounts in the name of the church, and prevents an organization from keeping church related assets (bank accounts) out of the control of the Pastor with the ability to close the account or put money in an account the Pastor is not aware or has access to.

### **4. Payroll**

- a. All church staff should be paid a pre-determined salary and the amounts must be reported on a W-2 annually.
  - Clergy Housing allowance should be voted on in December for the following year.
- b. All Payroll taxes must be paid on time.
- c. 941 and W-2's must be filed on time.

### **5. Periodic Audits**

- a. Internal Audits
  - Every church should have an internal audit committee in place. They can be church members who have financial, banking and/or business backgrounds.

- Periodically throughout the year, they should review the financial records for discrepancies and ensure the church is in compliance with the law.

**b. External Audits**

- Every church should hire a CPA firm to review the financial records of the church annually.

**6. Other Best Practices**

- a. Create an organizational chart which outlines the role of each staff member/volunteer. This can clarify the responsibilities of each position, and can eliminate confusion and overlapping of duties.**

- This can also help should a junior member of the staff who may spot a problem, go to the right staff member to voice a concern.

- b. Have a check request form in place that must be filled out each time a check is needed. This form can be reviewed and approved before the check is written. This also allows for a paper trail and the check writing procedure would have some internal controls in place to keep everyone honest.**

- c. Accounting records should be safeguarded at all times. It's important that the financial records remain at the church and not at a member's home. This is confidential information and should not be carelessly shared with anyone. If the financial data (or checks/deposit slips) are taken off site, there is a greater possibility that the information could be destroyed, stolen or lost.**

**d. Personnel**

- Most embezzlers are repeat offenders. Screen potential new employees carefully, and contact personal and professional references, and former supervisors.

- Remember that all of the checks and balances you implement will always have flaws. If you hire a skilled embezzler whose sole intent is to steal from the church, you may not find out about it until a large amount of money goes missing. (Henrickson, 2006)

- Bond your employees. Blanket bonds are popular with churches because all employees may be covered. Check with your church insurance policy for this coverage. (Fifty Internal Control Practices for Every Church)

- Train new employees and volunteers!

❖ Provide them with a copy of your internal controls manual.

- ❖ If the new employee will be working in the CMS People Products or CMS Fund Accounting, utilize the [CMS TeleTraining](#) offerings to get them started on the right foot.

## **REFERENCES**

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