

Handling Money in the Church

Basic Internal Controls Every Church Should Use

The way a church handles money can present a positive or negative witness. Churches need to be diligent in handling money to encourage integrity and positive Biblical stewardship. Every step should be taken to make sure everything done regarding church finances helps facilitate and enhance the ministries of the church.

One would like to think churches would be immune from such things as fraud but history teaches otherwise. When it occurs, whether on a small or large scale, the cost cannot be measured solely by the dollars lost. Fraud can occur when three things are present:

1. **Incentives and Pressure**
(Example: someone who handles the money regularly has a major financial need in their life.)
2. **Opportunity**
(Example: a lack of basic internal controls leaves someone the opening to access money for personal use.)
3. **Rationalization**
(Examples include thinking "I don't get paid enough anyway", "It's just a loan – I'll put it back later", etc.)

The church cannot totally control the first and last but through adequate internal controls they can significantly reduce the opportunity for fraud or mishandling of money. Below are some basic internal controls that every church should use to be good stewards of church finances. This does not eliminate the element of trust that should be a part of the church setting. Instead, it can enhance that trust. Those persons we can trust the most typically appreciate the value these protections provide.

1. SEGREGATION OF DUTIES IS ESSENTIAL

Persons handling money coming in until it is deposited should never include any of those who handle disbursements and financial records. Thus, a treasurer should not be on the counting committee and person(s) who record lists of incoming checks should not reconcile the bank statement. Without separation, a person could manipulate information and cover up discrepancies (whether intentional or through sloppy record keeping). And fraud could occur with little fear of detection.

2. TWO OR MORE UN-RELATED COUNTERS ALWAYS PRESENT

At least 2 (better to have 3) un-related individuals should always be present when handling and counting church offerings until it has been safely deposited in the bank. One individual should never be alone with the church's money, including the ushers. Tellers should be rotated periodically.

3. ALL DISBURSEMENTS BY CHECK

All disbursement (except for very limited petty cash) should be made by check. Using cash significantly reduces the ability to track how the church's funds are being used.

4. NO BLANK CHECKS OR CHECKS PAYABLE TO CASH

Avoid using blank checks and no check should ever be written payable to cash. It is essential to always be able to identify the use of all funds. (All blank checks should be kept in a locked place.)

5. USE ORIGINAL INVOICES TO MAKE PAYMENTS

Payments should be based on original invoices and supporting documentation. Mark all supporting documents "paid". Otherwise, there is increased opportunity for use of "doctored" invoices and/or duplicate use of invoices.

6. LIMIT AUTHORIZED CHECK SIGNERS

The number of authorized check signers should be limited. Two signatures should be required on checks over a particular threshold. Pastors and other ministerial staff should generally never be authorized to sign checks.

7. BANK STATEMENT REVIEWED BY SOMEONE WHO DOES NOT HANDLE CASH OR DISBURSEMENTS

This relates to the need for segregation of duties. Ideally bank statements would be reconciled by someone other than a treasurer who writes checks. Realizing this may not be practical in many smaller churches, at a minimum someone else should at least receive and review the bank statements before giving them to the treasurer for reconciliation.

8. USE A CHURCH BUDGET EFFICIENTLY

All expenditures should be consistent with a planned budget and should be authorized by the appropriate person. Ideally the person approving purchases should not be the person who prepares checks for payments. (Example: Approval for checks from the church Youth Program budget should be approved by those responsible for the Youth Program and not by the treasurer.) Unanticipated expenses should be approved by a finance committee or other appropriate leadership specified by church policy. Otherwise, it opens the way for a treasurer to become the “chief gatekeeper” for church money.

9. CASH HANDLING PROCEDURES SHOULD BE IN WRITING

Having written policies reduces the chance of abuse and misunderstandings about church finances. These policies should be comprehensive and updated regularly. All persons handling the money need to be aware of all the policies. If only one person understands how everything works, that is a potential vulnerability.

10. FIDELITY BOND FOR ALL PERSONS HANDLING MONEY

Get a fidelity bond to cover staff and volunteers who have responsibility for handling money. This is a form of insurance that compensates a church if it loses money due to dishonesty of employees or volunteers. This bond is generally included as a part of the church’s comprehensive property and casualty insurance.

11. CONDUCT A REGULAR AUDIT

This may be an internal audit of church records each year by one or more church members with no other role in church financial operations. Periodically it may be beneficial to engage a professional for an audit. See the sample below of one church’s audit procedures.

12. DOCUMENT

Every church financial transaction should have information on the date, who was paid, who approved it, and a brief statement of the purpose unless it is obvious for the item purchased. Adequate documentation would make it possible many months later to look back and see exactly what transpired, who was responsible and when it occurred. You cannot over document.

13. COMMUNICATE

This is a basic principle of accountability and it helps keep a proper focus on who the money belongs to. Two things should be communicated:

CASH FLOW (Financial Activity)

BALANCES (Financial Condition)

Appropriate levels of detail should be shared with church leaders and to the church. Keep it simple but as detailed as needed. Make the communication fit the audience

14. RECEIVE AND ACKNOWLEDGE ALL CHARITABLE CONTRIBUTIONS ACCORDING TO IRS RULES

See the document on this web site entitled "Charitable Contribution" for details on those rules.

15. COMPUTER CONTROLS

If using computers for record keeping, safeguard the computer data. Save data frequently and make regular backups. Use passwords and restrict access to a limited number of appropriate people to protect information maintained on the computer.

16. USE OF DISCRETIONARY FUNDS SHOULD BE CONTROLLED BY THE CHURCH

Sometimes pastors and other ministerial staff will know best of some urgent needs and there is not adequate time to get approval to use church funds to meet those needs. For that reason, many churches will have a Discretionary Fund that can be used in those situations. The use of those funds should be controlled by the church and should have appropriate limitations. Church policy must prohibit the minister from distributing any of those funds for the benefit of the minister and/or their family and all distributions should be reviewed by appropriate church leadership so the church maintains administrative control. Without these limits, any discretionary funds may be taxable to a minister. And, to be tax deductible, contributions to these funds must be subject to the full control of the church.

17. MAKE SURE FINANCIAL SUPPORT FOR ALL PAID STAFF IS PROPERLY STRUCTURED AND IS CORRECTLY REPORTED TO THE IRS

Financial support should include compensation (salary & housing for ministers), and protection benefits (social security, retirement and insurance). This financial support should be structured by the church as employer. All ministry related expenses should also be covered by the church through a qualified accountable reimbursement plan separate from the pay package.

Numerous documents on this web site address all these Financial Support specifics.

An example from one church of their policy on handling offerings:

1. Immediately following the service, two persons carry the contents of the offering plates to a room for counting or placed in an adequate safe for counting the following day. Church funds/offerings should never be taken to a private home for counting. These persons should be unrelated and should rotate on a regular basis.
2. The envelopes are immediately opened by at least two persons. Envelopes are marked as to intent and purpose if for other than undesignated offerings.
3. Balances between envelope totals and cash/check totals are reconciled.
4. A summary report outlining the various accounts income is to be credited to, is prepared and initialed by at least two persons.
5. A deposit slip is prepared and at least two persons bring the deposit directly to the bank. Cash should not be stored at the church.
6. A copy of the deposit slip and the summary report are given to the treasurer and to the financial secretary.
7. It is understood that the recording of income/gifts from individuals of the congregation is a confidential matter and such records are available on limited basis.

An example from one church of their policy on handling expenditures:

1. Blank checks should never be signed in advance, under any circumstance.
2. Bills and obligations should be approved for payment. This approval should be indicated in writing by the person responsible. In larger congregations, a purchase/approval form may be used to approve payment and identify the account to be charged. In all cases, expenditures should be supported by original invoices and/or receipts, not photocopies.
3. Check is prepared.
4. Check is signed by persons authorized under the bank account agreement. Dual signatures are recommended. The pastor should not be an authorized signer.
5. Check number is written on invoice/support document to prevent duplicate payment, and check is mailed.
6. Bank statement reconciliation should be prepared by persons other than the treasurer or anyone else having check signing authority. This procedure should be reviewed and initialed by a person other than the treasurer. Realizing this may not be practical in many smaller churches, at a minimum someone other than the treasurer should at least receive and review the bank statements before giving them to the treasurer for reconciliation.

Example of Audit Procedures Established by One Church

1. Review the recording of cash receipts

- a. Trace deposits from the counter's reports in the financial secretary's and treasurer's records. Compare these to the entries recording such deposits so they agree with the deposits recorded by the bank.
- b. Check on the timeliness of the deposits.
- c. On a sample basis, check the account distribution in the cash receipts journal, being especially alert for funds designated for specific purposes.

2. Verify check accounting

- a. Inspect the cash expenditures record in the cash disbursement journal which should show the date, check number, name of payee, amount of check and account distribution for each check written.
- b. Check mathematical accuracy of entries.
- c. Examine the authority for writing a check such as approval on invoices; pastor's call, including current salary and housing arrangements; employee salaries, contract agreements; actions of council reported in minutes, and actual receipts for tangible goods.
- d. Examine canceled checks to verify that disbursements were actually paid to the proper parties.
- e. Account for all checks, used and voided.
- f. Prepare a statement of expenditures for comparison with the adopted budget for the year and analyze variances.
- g. Prepare a tabulation of benevolence payments to the synod and compare with statements received from the synod. Compare this total with the expected response for the year.
- h. Analyze expenditures, noting proper capitalization of major improvements, refurbishing, new equipment, and proper designation of employees vs. Independent contractors.

3. Reconcile bank accounts

- a. Inspect, on a sample basis, endorsements on the canceled checks.
- b. Request banks, savings and loan associations, and other investment agents to confirm, in writing, the balances held in accounts.
- c. Confirm authorized signatures for check writing with the financial institutions. Compare signatures on the card with those currently used on checks.
- d. Prepare a statement of reconciliation between bank balances and balances shown on the books. The reconciliation should begin with the bank's balance. Add to that figure deposits shown on the books but not yet credited on the bank statement. Subtract the outstanding checks (those which have not yet cleared the bank) to prove the balance shown on the books.
- e. The statement of reconciliation should be performed by someone who does not process receipts or disbursements.

4. Examine petty cash funds to determine that:

- a. Disbursement vouchers have proper approval and receipts.
- b. Reimbursements to the fund are made properly.
- c. Maximum figure for individual payments has been established and followed.

5. Examine individual member records

- a. On a sample basis, check the financial secretary's posting of contributions to the members' records.

6. Inspect insurance policies and prepare a schedule of insurance in effect to show

- a. Effective and expiration dates.
- b. Kind and classification of coverage.
- c. Maximum amounts of each coverage.
- d. Premium amounts and terms.
- e. Comparison of insurance coverage with the insurance appraisal or other supporting cost data. Does insurance coverage provide adequate replacement value for church building and personal equipment such as: organ, pews, hymnals, computers, printers, etc.