

## **Illinois Great Rivers Conference**

### **Internal Accounting Controls for Local Churches**

Proper handling of assets is important to churches of all sizes. Having the appropriate policies and procedures in place not only protects the church, but also the employees and volunteers involved. Showing proper stewardship of the assets given to the church by its members will only strengthen the integrity and reputation of the church.

#### **Financial Roles**

1. Finance Committee
  - a. Assist in forming a budget that aligns with the mission and vision of the UMC
  - b. In consultation with the Pastor, determine person or persons who can authorize expenses (i.e. youth director, choir director, etc.).
  - c. In consultation with the Pastor, determine unrelated persons to serve as the Counting Committee
  - d. Assess and oversee the church's internal controls
  - e. Take the lead in suspected fraud investigations
2. Pastor
  - a. When possible, the pastor should be kept out of the day-to-day accounting for the local church
  - b. As chairperson of the Nominating Committee and in consultation with Lay Leadership, determines the Church Financial Secretary and Church Treasurer, elected positions.
  - c. Remind the Finance Committee and Church Council why it is important to follow these procedures.
3. Church Treasurer (volunteer or paid)
  - a. Process and sign all checks, recording them in the appropriate accounting system
  - b. Supervise daily cash balances to insure sufficient funds are maintained.
  - c. Prepare and submit all payroll tax forms (including Form 941's, W-2's, W-3's, etc) in a timely fashion
  - d. Prepare and present the monthly finance report for Finance Committee
  - e. Ensure that computer files are backed up at a minimum of weekly and the back-ups are stored off premises
  - f. Maintain a filing and storage system for all financial records, including historical records
  - g. Prepares records for annual audit
4. Financial Secretary / Administrative Assistant (volunteer or paid)
  - a. Supervise the Counting Committee, which shall consist of at least two persons not related
  - b. Deposit funds to the bank in a timely fashion
  - c. Record contributions to each family's record and to general ledger

- d. Report to the Finance Committee on a monthly basis regarding the status of contributions to the church
- 5. Counting Committee
  - a. As required by the *Book of Discipline*, consists of at least two unrelated persons in addition to the Church Treasurer and Financial Secretary
  - b. Count funds received in a timely manner and maintain sight of each other while counting as long as monies are not secured
  - c. When possible, these persons should be rotated on a regular basis

### **Internal Controls**

- 1. Review and assessment of internal controls (at minimum of yearly)
  - a. Verify there is an approved budget in place for the year
  - b. Verify that financial reports of ALL church funds are prepared at minimum of a monthly basis and submitted to the Finance Committee
  - c. Verify that there are proper policies and procedures in place for handling of cash receipts, cash disbursement, bank accounts and other donated assets
  - d. Verify that policies and procedures in place are being followed
- 2. Establish written policies and procedures to be followed
  - a. Make sure that all those involved have a clear understanding of the financial activities of the church
  - b. Written policies and procedures help ensure continuity when volunteers/employees transition out of their roles
- 3. Handling of bank and investment accounts
  - a. Reconciliations should be completed on a timely basis by someone other than person/persons handling cash receipts/disbursements. If this is not possible, then they should at least be reviewed by someone other than this person (a Finance Committee member)
  - b. Persons completing and/or reviewing reconciliations should sign and date the reconciliation
  - c. Verify all checks have proper approval and signing
  - d. Review "old" outstanding checks
  - e. Committee should annually review who is listed as an authorized signer on all bank accounts
- 4. Cash receipts
  - a. Must have proper Counting Committee in place
  - b. Verify that there are safeguards in place to protect collections from time of receipt until they are counted and deposited
  - c. Immediately after count is complete, all checks should be endorsed with a "For Deposit Only" stamp
  - d. All deposits made to bank should promptly be entered into family records and accounting system
  - e. Maintain all pledge envelopes/other memoranda with the deposit information
  - f. Verify that the prepared deposit amount matches the bank amount, family record, and general ledger

5. Cash disbursements
  - a. Finance Committee should determine who is able to authorize expenses and at what levels that person is allowed to authorize
  - b. Verify expenses are in line with set budget/special funding requirements
  - c. Persons authorizing expenses should be different than the person signing checks
  - d. Verify disbursements have appropriate supporting documentation and approval
  - e. If possible, two check signers are always better. If not practical, then make 2<sup>nd</sup> signer required over a certain amount
  - f. Verify there are adequate funds in the account to cover the payment
  - g. If the church maintains a petty cash for small expenses, reconcile on a regular basis and maintain in a controlled area
  - h. If the church maintains credit cards, there should be a written policy in place for the use and payment of the credit card
6. Non-cash donations
  - a. Church should establish a policy for non-cash donations that includes what will and won't be accepted
  - b. Determine the valuation of the donation when necessary
  - c. Determine location for item(s) to be held securely until such time they are utilized or sold

### **Audit**

1. An audit is “the best way for a local church to protect those persons it elects to offices of financial responsibility from unwarranted charges of carelessness or improper handling of funds. It is not a symbol of distrust.” (*Local Church Audit Guide*, P.4) Elected officials and employees can be held personally liable for discovered losses if they have been deemed to be negligent, or if no audit has been conducted.
2. Having an audit performed promotes an environment of accountability and decreases the opportunity for embezzlement
3. An audit will provide leadership with information that points out the strengths and weaknesses of the churches financial procedures
4. Annually, a person independent of and unrelated to the Church Treasurer, Financial Secretary, and/or person completing bank reconciliations (if possible a CPA) should audit all church funds
  - a. During this time, internal controls should also be verified
  - b. If person is not a CPA, they should consult the Local Church Audit Guide and the Fund Balance Report from GCFA ([www.gcfa.org](http://www.gcfa.org))
5. Audit report should be approved by the Finance Committee and copies of the audit should be submitted to the Pastor, Finance Committee Chair, and District Superintendent's office

### **Discovery of Suspected Fraud**

1. Examples of possible fraud that proper internal controls and an audit should catch
  - a. Skimming

- b. Theft of donated merchandise
  - c. Credit card abuse
  - d. Fictitious vendor schemes
  - e. Ghost employees
  - f. Overstated work hours
  - g. Fictitious expenditures
2. If a suspected fraud is discovered, the Finance Committee should be immediately notified
  3. An investigation should be performed and can include (but not be limited to) use of: internal/external auditors, certified fraud examiners, legal counsel.
    - a. Be sure to preserve any potential evidence
    - b. Keep in mind discretion and confidentiality are crucial during a fraud investigation
  4. If fraud is confirmed, immediate action should be taken
    - a. Remove the person from their duties, appoint new person to position
    - b. If necessary, remove person from bank accounts
    - c. Obtain any keys, information person could use to gain unauthorized access
    - d. Inform your District Superintendent
    - e. Consult legal counsel
    - f. Inform your insurance carrier in accordance with the terms of your policy
    - g. Preserve all evidence
    - h. Repair the breach in internal controls
    - i. In certain cases, inform law enforcement or appropriate government authorities