

# FINANCIAL CONTROLS

## Do you screen the people who handle cash and checks?

Reportedly 70 percent of embezzlers are repeat offenders. With proper screening - including reference checks and background checks - repeat offenders can be kept from obtaining positions of trust involving church funds.

### **Hazard Example(s):**

A church hired a minister who, unbeknownst to it, had a history of involvement in financial scams. The minister engaged in over \$700,000 in unauthorized transactions involving church funds and wired the money to overseas bank accounts.

### **Recommendation(s):**

To guard against embezzlement, consider screening the employees and volunteers who will regularly handle church funds. Screening may include:

- An application process in which the prospective worker provides information about previous employment, church involvement, volunteer work, and references.
- A criminal background check.
- A credit check on financial employees such as bookkeeper, financial secretary, business manager, treasurer, and finance director.
- References on prospective workers from organizations where the individual has worked or volunteered with financial operations in the past. Contact the references and document their response.

### **Tasks:**

1. Financial employee/volunteer screening

Conduct appropriate screening on individuals who handle finances, including a written application, criminal background check, credit check and reference check.

## Are your employees who deal with church finances sufficiently bonded?

To provide the church with added protection from any losses stemming from embezzlement or misappropriation of funds, bonding is highly recommended for employees and volunteers who handle church funds. The topic of "bonding" can be confusing to the average person, but essentially it involves a special kind of insurance that protects against employee dishonesty. To obtain bonding, churches should contact their insurance agent to discuss fidelity or dishonesty insurance coverage to protect against dishonest acts by employees. .

### **Hazard Example(s):**

A church bookkeeper embezzled more than \$100,000 from the church over a period of years. The church's employee dishonesty insurance coverage was \$50,000; thus, the church incurred losses out of its own pocket in excess of \$50,000.

### **Recommendation(s):**

Financial workers should be bonded, meaning that the church obtain employee fidelity or dishonesty insurance coverage to protect it against dishonest acts by employees.

For additional information on this type of insurance coverage, contact your insurance agent.

### **Tasks:**

1. Financial employee/volunteer bonding  
Sufficiently bond all individuals involved with the church finances.

## Do you have written financial policies and procedures?

Written financial policies and procedures let the congregation know that you are serious about financial integrity and about protecting the security of their contributions. They also serve to let your financial workers know your expectations for them and about their responsibilities in the area of church finances.

### **Recommendation(s):**

Topics that should be addressed by financial policies and procedures include:

- Collections and counting
- Church bank accounts
- Disbursements and check signing
- Petty cash and discretionary funds
- Internal controls
- Designated and memorial gifts
- Electronic giving
- Business expense reimbursement
- Church credit cards
- Investment of funds
- Financial reporting
- Member access to financial information
- Financial organizational structure
- Audit/review of financial records

### **Tasks:**

1. Financial and accounting policy  
Develop and implement a written financial and accounting policy.
2. Financial and accounting policy training  
Train all employees and/or volunteers whose jobs are impacted by the implementation of your church's financial and accounting policy.

## **Are your collections supervised by at least two people from the time they are taken up until the funds are deposited in the bank?**

Virtually nowhere else in today's society is a collection plate of open cash passed around except in churches. Because of this, safeguards should be in place to protect against theft of offerings.

### **Hazard example(s):**

A church bookkeeper admitted to stealing small amounts of cash from the offerings over a period of years to pay bills after the death of her husband. It was confirmed that more than \$80,000 was stolen, although church representatives believed that the actual amount may have been closer to \$150,000.

### **Recommendation(s):**

To guard against the theft or embezzlement of offering funds, consider the following precautions:

- Train ushers in handling collections and maintaining a lookout for any suspicious activity during the offering.
- Offerings should be immediately secured.
- Funds should be counted and deposited with the bank by the following day.
- If counting will not take place immediately, funds should be deposited in a locked safe. The safe should be burglar resistant and securely anchored. Change the combination frequently, especially after a turnover in employees.
- Follow a policy that two unrelated persons always be present when the safe is opened and when funds are counted.
- Regularly rotate the individuals involved in collecting and counting offerings.
- Screen and bond those who will be handling cash and checks.
- Counting should take place in a secure (locked) room.
- Envelopes, cash, and checks should be kept visible at all times.
- Counting sheets should be utilized that record currency, coins, and checks received.
- Counting sheets should be signed or initialized by those involved with counting that day.
- Checks should immediately have a restrictive endorsement such as "For Deposit Only" placed on them.
- Collection funds should never be taken home for any reason and should not be removed from the offering plate and given directly to an individual or ministry.
- Figures should be double-checked and a deposit slip completed.
- Funds should be placed in a nondescript bag to be taken to the bank. Vary the time and route taken to the bank.
- A person uninvolved in counting should reconcile the offering count sheets with bank account deposit slips and monthly bank statements.

### **Tasks:**

1. Collection handling policy - Develop and implement a written policy on handling collections, including; taking up, counting, safe keeping and depositing the collection.
2. Collection handling policy training - Train all employees and/or volunteers whose jobs are impacted by the implementation of your church's policy on handling collections, including; taking up, counting, safe keeping and depositing the collection

## Do you consistently follow internal financial controls?

Internal controls consist of a system of checks and balances to prevent embezzlement or misappropriation of funds at church. Many of the controls involve separation of financial duties and having a disinterested person review the financial activities of the church. Too often embezzlement takes place when a single individual in a trusted position is given responsibility for all aspects of financial operations.

### Hazard example(s):

After a church treasurer passed away unexpectedly from a heart attack, it was discovered that she had been writing checks to herself. This individual had been a trusted employee of the church for more than 20 years and handled all the money coming in and out of the church. In total, she embezzled approximately \$250,000.

Another church found that its bookkeeper had embezzled over \$112,000 by issuing checks to her husband, entering the checks as payment to vendors, and then endorsing the checks over to herself. She was convicted of embezzlement.

### Recommendation(s):

The following basic internal financial controls should be followed:

- Written financial and accounting procedures should be in place and conscientiously followed.
- Screening and bonding of financial employees and volunteers should be performed.
- Counting should be handled by at least two unrelated persons who are rotated regularly.
- Checks should be immediately stamped with a restrictive endorsement such as "For Deposit Only."
- Use an envelope system to deter theft of loose cash or coins from the offering.
- Separate duties of those responsible for writing checks, signing checks, and preparing financial reports.
- An authorization process established for approval of expenses before payment is issued.
- A voucher system should be in place so that all checks are supported by an original invoice and requisition request for payment. Supporting documents should be canceled by stamping "Paid" on the paperwork when check is issued.
- Have a policy that no checks be made payable to "cash."
- Have more than one check-signer. Require that check-signers not be given access to blank checks and not sign checks made payable to themselves.
- Dual signatures should be required for issuing checks over a pre-determined amount.
- Keep checking account signature cards up-to-date with your financial institution.
- Bank statements opened and reviewed by a person other than the check-writer or signer.
- Canceled checks should be reviewed with an eye toward unusual patterns such as dual endorsements or unfamiliar vendor names.
- Accounting records should be safeguarded by being kept in secured location and accounting software program data should be backed up.
- An annual audit or financial review of the books should be undertaken by a qualified person not involved in the church's financial operations.

### Tasks:

1. Internal financial controls policy - Develop and implement a written policy.
2. Internal financial controls policy training - Train all employees and/or volunteers whose jobs are impacted by the implementation of your church's policy on internal financial controls.

## Does your church utilize credit cards?

While credit cards can be a useful tool in a church's financial operations, precautions are essential to preventing misuse of the card or misappropriation of funds from the church.

### Hazard example(s):

The church financial secretary obtained a church credit card in her name at the same time that cards were issued for the ministers. She used the credit card for personal expenses that were paid for by the church. Her actions were discovered when the minister's card was declined as he attempted to register for a seminar. An investigation revealed that the financial secretary had charged almost \$100,000 in personal expenses to the churches credit card account. She was arrested and criminally charged.

### Recommendation(s):

To maintain internal control with the use of church credit cards, consider the following:

- Church board or finance committee should approve the credit card program including credit limits.
- Written procedures should be in place for the credit card program, including description of appropriate and inappropriate expenditures, documentation required for reimbursement, timely submission of card statement and receipts, prohibition on personal use and cash advances, and mandating return of card upon termination of employment.
- Church should have each user sign for the credit card, acknowledging receipt of and agreement to abide by credit card policy, accepting financial responsibility for personal expenditures, and agreeing to return card upon termination of employment.
- Preclude individual users from changing credit limits.
- Prohibit transactions involving certain vendors or categories of vendors.
- Turn off cash advance options.
- Eliminate offers to users regarding additional cards, balance transfers, and/or increases in credit limits.
- Notify the card issuer immediately if the billing statement is incorrect or missing, or if a credit card is lost or stolen.
- Discuss credit card fraud protection with the card issuer.
- Prohibit credit card use by bookkeeper or other individual responsible for credit card payments.
- Have treasurer or other financial officer regularly review credit card statements and payments.
- Periodically run business credit reports.
- Educate users on protecting credit card information.
- Immediately close credit card accounts of employees who terminate employment with the church.

### Tasks:

1. Credit card policy  
Develop and implement a written policy on the use of church credit cards.
2. Credit card policy training

Train all employees and/or volunteers whose jobs are impacted by the implementation of your church's policy on the use of church credit cards

## Does your church have a financial audit conducted on a regular basis?

An independent audit of the church's finances can serve several purposes:

- It fosters accountability within the church in the area of finances;
- It provides leaders with recommendations for improving the church's financial system through a "management letter"; and
- It promotes giving by assuring members that the church leadership has a high degree of integrity in dealing with church finances and takes its responsibilities seriously.

### Hazard example:

A church bookkeeper pled guilty to embezzlement of \$365,000 by writing checks to herself over a period of years. Checks were supposed to have two signatures on them, but most of the checks were signed solely by the bookkeeper. It is generally accepted that the embezzlement would have been caught in its early stages had the church's books been audited on a regular basis.

### Recommendation(s):

- The church's financial records should be audited regularly by an outside certified public accountant (CPA). Most audits will provide a "management letter" to the church which sets out areas of weakness in the church's financial operations. The recommendations set out in the "management letter" should be taken seriously and corrective action should be taken.
- While an annual outside CPA audit is ideal, it may not be financially feasible for many churches because of the expense involved. Even if a formal audit is not accomplished every year, there are other options for having the books reviewed in the years between audits. These include:
  - CPA review or compilation: A less extensive review and analysis of the church's financial records can be conducted by an outside accountant at a lower cost. This does not provide the level of detail or management recommendations of an audit.
  - Internal audit committee: As a no-cost option, an internal church committee composed of members with finance backgrounds can review the church's financial reports and records for discrepancies or areas for concern. Selected members should have been uninvolved in church financial operations during the period of the review.
  - Review by other church treasurer or accountant: The church's books and records also can be reviewed by an outside individual with knowledge of church finances. This option still has the benefit of an "independent" review, but without the qualifications or extensive detail of an outside CPA audit. This is a church's least costly outside option.
  - Review by church member: An internal review can be completed by a church member with some financial background. The member should not have been involved in the church's finances during the period of the review. This is typically a no-cost option, although, there may be some concerns regarding maintaining confidentiality of giving records.

### Tasks:

1. Annual financial record audit

Conduct an annual audit of the church's financial records by an outside certified public accountant (CPA).