

Internal Controls

Source: [*Church Accounting, The How-To Guide for Small & Growing Churches* by Lisa London](#)

The most basic start for establishing internal controls begins at the governing body level (whether a vestry, council, or board). A strong governing body with transparency, stewardship, and accountability sets the tone and is the first defense against fraud. (In case you think this would not be a problem in your church, do an Internet search on “stealing money from a church”. The over 1.4 million results should disavow you of that notion!)

Vestry’s Responsibility

The governing body or vestry has a very important role to play in setting the tone for financial management. Besides serving as counsel for the rector/church planter and offering direction for the church’s mission and goals, the members of the vestry are responsible for the assets of the church. To maintain good stewardship

- Financial statements should be reviewed by the vestry on a regular basis, monthly or quarterly.
- Annual budgets should be prepared and variances reported on a regular basis.
- There should be a designated treasurer who is NOT the bookkeeper.
- Any notices from the IRS must be given unopened to someone who is NOT the bookkeeper.
- A conflict of interest policy needs to be established. (This does not mean church on vestry members can’t do business with the church. It simply limits the level of related party transactions and determines steps to make certain the most appropriate price is paid.)
- An annual audit or financial review must be performed. If the church cannot afford an outside auditor, designate an audit committee composed of members not associated with the accounting part of the church.

The person with access to the records MUST NOT have access to the funds

This means the person entering the data in the accounting system or tracking donor contributions should not have access to the checking account or plate collections. In the accounting world, this is referred to as a “separation of duties”. It will not stop all fraud and error, but makes it more likely to be discovered.

A church is never too small to have the basic controls to protect your staff and assets. The church planter can be the treasurer or the bookkeeper, but not both. If (s)he receives the bills and knows which program should be charged, allow bill entering, check writing and entering donations. But designate someone else from the leadership team to sign the checks.

If there is a volunteer or part-time assistant in the church office, you can train that person to enter the bills and donations and allow the rector/church planter to be the treasurer/check signer.

As long as the church planter has at least one other person (s)he can call on for help, the church can separate the access to the funds from the access to the records.

Controls for Receiving Cash & Donations

Money received during services:

The main thing to remember with this collection is the cash should be in sight of two unrelated people (i.e. not husband and wife) until it is counted.

Once the service is over or once the money has been removed to another location, two people should count the cash and checks. Next, they need to fill out a summary form showing the amounts and any special donor notes for the cash collection. Each counter will then sign the form. If possible, copies should be made of the checks so any notes or additional info can be seen by the bookkeeper later. A deposit slip should be filled out and copied. The deposit will then be taken to the bank and put in the night deposit. One person can do this as there is a record of the receipts at the church. When the bookkeeper comes to work later that week, he or she will have the copy of the deposit as a record of what to input into each member's account.

Money received through the mail:

A P.O. box is a good idea if someone might be able to steal checks from the church's mailbox. Designate someone without access to the accounting records to pick up the mail. That person should open the mail and record or copy the checks immediately. The copied checks or records should be given to the bookkeeper to enter into the accounting system. A bank deposit should be prepared by someone who has no access to the accounting records.

Electronic payments received through the website:

The most important thing to do with electronic payments is to safeguard the link to the bank account. It is recommended that the account be linked to an email address administered by your church (admin @yourchurch.org) and assigned to someone who has no access to the members' records. That person would have the authorization to change the bank deposit account number and permit transfers from PayPal (if used) to the bank.

Donor Acknowledgements

One way to assure the same amount of money donors have given has been recorded in the accounting records is to send donor acknowledgement forms on a regular basis. At a minimum, this should be done at year end for the donor's tax purposes. Add a sentence near the bottom of the statement for the donor to contact the treasurer or rector with any questions or differences from the statement. (This assumes neither the treasurer nor the rector are the bookkeeper.)

Check Signers:

The bookkeeper must not be an authorized check signer. This might seem difficult for a small church, but here again, you may need to utilize the members of the leadership team, vestry, or other volunteers. No one should ever sign a check made out to themselves. If the rector is the check signer and needs to be reimbursed, the treasurer or other check signer should sign the check.

You need at least two check signers in case one is on vacation or leaves the church. Three is safer but you would probably not need more than three.

Paying Bills:

Bills should not be entered into the accounting system without documentation and approval from someone other than the bookkeeper. This could be the rector/church planter or the treasurer. Sometimes the documentation is as simple as the bill from the utility company or a handwritten note asking the supply musician to be paid \$100. Most importantly, all bills to be paid must be approved before they are entered into the accounting system and the check prepared.

Credit Cards:

If the church uses a credit card, appropriate procedures need to be documented so volunteers and employees understand how and when the card can be used. Once you have determined who can use the card and when it is appropriate, you'll need to decide how often you would like the receipts brought in.

Some bookkeepers prefer the receipts be brought to them as soon as possible so cash requirements can be monitored. Others prefer to have the user fill out a form once a month before the bill is due with all of the receipts attached. Either way, the receipts need to be approved by an appropriate person before the credit card bill is paid. Personal expenses should not be allowed to be charged to the church's card.

Payroll

The best control for payroll is to require employees to use direct deposit. This assures the check goes directly to the employee's bank account.

If a payroll service is used, the rector/church planter or treasurer should be the point person to authorize additions of new employees, not the bookkeeper.

The rector or treasurer must also be certain that all withholding and taxes are submitted to the government. Look for electronic payments or checks written monthly or quarterly.

Strong internal controls are necessary to keep the church's assets, employees, and volunteers safe. Remember, no organization is too small for strong controls.