

**Southwest Conference of the
United Church of Christ
Internal Controls/Best Practices**

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Introduction

As we work to fulfill our missions, one important responsibility is to be good stewards of our resources. One way to be responsible stewards is through effective management structure and internal financial controls. The most critical step in limiting risk is to reduce or limit the conditions or practices that expose the church to loss. The potential for loss can take many forms including loss of property, loss through personal injury, liability for non-observance of civil laws, and loss of public trust.

Due to the limited staff size in most churches, it is at times difficult to implement an ideal internal control system. In any size church, however, it is very important that appropriate and reasonable controls be implemented to protect the temporal goods of the Church.

The policies and procedures that follow are not intended to be all-inclusive or applicable to every possible situation but, to the extent possible, if implemented will assist the Church to design effective internal controls.

Financial Advisory Councils

Each church should have an active financial advisory council that consists of at least four unrelated members, whose mission is to focus on the financial affairs of the Church. All members elected to the council must exercise prudent judgment with regard to the confidentiality of any church (or school) financial records to which they may have access. Failure to observe this requirement would result in the immediate termination of membership on the advisory council. Those individuals appointed or elected to this council should have expertise in regard to finance, accounting, management and applicable laws. The advisory council or financial subset thereof should perform the following duties:

- 1) The Council must meet as needed, ordinarily monthly, but at least quarterly. An agenda is helpful in conducting an efficient meeting. These meetings should include a detailed review of financial statements, i.e. balance sheet and income statements which includes a comparison of actual to budget. A detailed ledger and trial balance should also be available for review.
- 2) The Council should be consulted prior to committing to any extraordinary expenditure or the disposal/sale of any Church property, in excess of a threshold to be established by each Church.
- 3) The Council should be involved in the budgeting process and approve the budget prior to its presentation to the congregation for approval.
- 4) A member of the Council (independent of the reconciliation process) should review the bank account reconciliations on a monthly basis. As part of this process, the complete check register should be made available, as well as supporting documentation if requested. After the review is completed, the individual should denote his/her approval on the face of the monthly report.
- 5) A member of the Council (independent of the individual performing substantial accounting functions) should review the line items included in the general ledger, cash disbursement ledger, and cash receipt ledger. That individual should be allowed access to source documents (invoices, cancelled checks, etc.) as deemed necessary based on his/her review. After the review is completed, the individual should denote his/her approval on the face of the monthly reports.
- 6) If QuickBooks is used as the Church's accounting platform, a member of the Advisory Council should review the audit trail on a periodic basis.
- 7) A member of the Council should be responsible for recording and maintaining minutes for each meeting of the advisory council. Copies of the minutes should be kept in a secure location in the Church Office.
- 8) The advisory council should establish and document a document retention policy for the church.

Budgets

One of the most effective internal controls is the use of a budget which should be compared to actual balances (of income and expenses) on a monthly basis. If deviations from the budget are carefully followed up by the Church council (or financial advisory council), the likelihood of a large misappropriation taking place without being detected in a reasonable time is reduced considerably. This type of overall review of the financial statements is very important and every member of the Church council should ask questions about any item that appears out of line with the budget or with what would have been expected to be in the actual figures. The financial advisory council should have original financial statement print outs from the accounting utilized.

Financial Reporting

- 1) Prepare monthly financial statements (Statement of Financial Position/Balance Sheet and Statement of Activities/Income and Expense Statements) for review by the Church Council or financial advisory board.
- 2) Maintain a detailed set of transaction records in an orderly and timely manner.
- 3) Maintain current subsidiary ledgers for cash receipts, cash disbursements, payroll, fixed assets, and custodial accounts (Special Collections). Reconcile subsidiary ledgers to the general ledger on a monthly basis.
- 4) Provide clear and thorough explanations for all journal entries and supporting documentation, if available.
- 5) Require that all employees with financial reporting, cash receipts or disbursement responsibilities be out of the office on vacation for a minimum of a full week at a time annually.
- 6) Maintain minutes of all finance council and church council meetings as a part of the permanent records of the church.
- 7) Prepare an accurate and complete statement of the financial activities of the church for members on an annual basis. Every operating entity [and subset, depending on the structure of the Church] needs to prepare an accurate and timely financial statement in order to provide the Church Council members the tools necessary to make sound business decisions. The financial statements must be supported by accurate and complete records substantiating all financial transactions.

Bank Accounts

For bank accounts using the Church's federal tax ID number:

- 1) All accounts must be authorized by the advisory council prior to opening an account a bank. All bank accounts must be recorded on the church Statement of Financial Position/Balance Sheet. Bank statements are to be mailed to the church office as opposed to someone's residence.
- 2) At least two individuals must be authorized check signers on all accounts. The signers should be determined by the advisory council based on the logical need and access to the individuals.
- 3) All bank accounts must be reconciled to the Church records monthly. Someone independent of reconciling the bank account should receive the bank statements unopened and review them before being reconciled. The reconciliations should be reviewed by a member of the advisory council, independent of the individual preparing the reconciliation.
- 5) The check supply [for all church bank accounts, including church organizations] should be secured on premises when not in use. Access to the check stock should be limited to those with a logical need to have access. The check stock should be counted at a minimum on a quarterly basis to ensure no checks are missing.
- 6) Voided checks should be defaced by removing the signature portion, and then retained to as to maintain proper sequential integrity.
- 7) Once a year, the advisory council should obtain a list of all bank accounts held under the church name and tax identification number directly from each of the banks with which the church does business as well as authorized signers on the accounts.

Cash Receipts

Minimum Requirements

- 1) No one individual is to be in sole possession of the collection proceeds or any cash at any time.
- 2) The weekly collection should be counted by a team of individuals. Each church should have at least 2 teams that rotate on a regular basis. There should be at least two unrelated individuals on the count team.
- 3) The count team should prepare a collection count report (i.e. a count sheet). The total amount recorded on the count sheet should agree with the deposit total. All count team members participating in a given count should sign the count sheet verifying the accuracy of the figures presented. Original, signed count sheets must be maintained as part of the church records.
- 4) Checks must be restrictively endorsed for deposit to the church account when received.
- 5) All receipts must be deposited to the bank intact. Neither cash nor checks are to be removed from the collection for any reason. Cash should not be converted in any way. Checks must not be “cashed” from the collection or other cash receipts at any time for any reason.
- 6) No part of the collection is to be used to pay church expenses directly (i.e. prior to deposit into the bank) or to cash checks.
- 7) All receipts must be deposited to an appropriate church account.
- 8) All mid-week receipts should be recorded in a daily log, held in a secure location (preferably a safe) and counted by the cash count volunteers. For any large or unusual mid-week receipts, consult with the advisory council as to the timing of deposit.
- 9) Donations received are to be recorded in the donor’s name, as presented. Annual and quarterly giving statements are to be made available to members for total contributions.

Procedures for Counting and Preparing Weekly Receipts

The procedure established over the control and processing of cash receipts is very important. Since a substantial part of church receipts are in currency, it is incumbent on the entity to implement the best procedures possible to safeguard these funds. To reiterate the above requirement, all cash receipts must be deposited to the bank intact, as soon as possible.

Church Collection

The guiding principal and objective behind implementing internal controls over the collection is: 1) To eliminate the situation where a single individual has exclusive control or access to the offertory collection, even for brief periods. 2) To eliminate the ability to convert the collection proceeds to personal use without detection, i.e. theft.

Two or more unrelated individuals must retain possession of the collection from the time it is taken up during service until the funds are deposited to the bank. Once collected, the donations must be counted or locked up and made inaccessible until counted. The collection should be counted and deposited to the bank preferably by Monday or the first banking day of each week.

The collection should be escorted by two individuals to a safe area and placed in secure bags or pouches, preferably tamper-evident bags. These secure bags may be delivered immediately to the count team, if the team elects to count on Sundays. If not delivered to be immediately counted, the bags must be placed in a secure location, preferably a safe, until the count team is prepared to count the collection proceeds.

The counting teams should consist of at least two unrelated individuals. If the teams are larger than three, two people may be related to each other (e.g. husband and wife). Once the counting is complete and the count sheet is signed by all count team members, the deposit slip must be prepared and verified by the cash count team. The count sheet, envelopes, copies of checks and a copy of the deposit slip are to be given to the individual responsible for entering contribution data into donation and accounting records.

Two people are to take the prepared deposit immediately to the bank. If the church uses a bank lock box to deposit the collection, the individuals taking the collection to or from the bank should not have access to bank bag keys (if locking bank bags are used). An armored car service can be another option to consider.

Finally, an option to minimize revenue activities would include monthly charges to Church member's checking or credit card accounts (automatic withdrawals and/or use the remote deposit equipments offered by your bank.

Procedure for all Other Cash Receipts

Churches and other church entities normally receive donations or payments during the week by mail or delivered to the office. Procedures should be implemented to protect and secure these receipts as well. Two people should be present when the mail is opened to reduce the risk that funds may be inappropriately used before the income is properly recorded. Two people opening the mail also reduce the risk of possible theft. This practice may present a burden on small churches, but it is important for responsible internal control.

All receipts should be recorded in a daily log, and then given to the appropriate authorized person for safekeeping. Checks are to be restrictively endorsed immediately “for deposit only” to the appropriate church account upon receipt. If receipts are significant, they should be deposited to the bank as soon as possible. The daily receipt log should be summarized by an appropriate individual for use in a Cash Receipts journal entry.

The log, like the collection count sheet, is to be retained with the Cash Receipts as part of the church records. At the end of the month, copies can also be provided to the designated advisory council member for comparison with the respective deposits on the bank statement. A member of the church advisory council should compare all cash receipts detail to the bank statement each month (typically during their regular reconciliation review). When reviewing the cash receipts reconciliation, along with the bank account reconciliation, the council member should sign and date all reports reviewed.

Volunteer Organizations

At most churches there exists volunteer organizations that conduct fund raising or social activities in the name of the church. All these activities should be properly reflected as a part of the church financial statements. Funds collected by these groups are held by the church until needed. If a separate bank account must be used, a member of the advisory council must be an established signer on the account. Bank accounts held by any of these groups must be subject to the same review and controls as all other church accounts.

Cash Disbursements

The basic objective in establishing internal controls over disbursements is to ensure that all disbursements are for bona fide, church-related expenses, that the expenses are promptly and accurately recorded, and that all expenses are authorized by appropriate individuals (i.e. those authorized to withdraw funds, enter into contractual agreements, or encumber the entity in any way) prior to commitment of funds.

The risk of an unauthorized use of church funds can be significantly reduced if procedures are established to determine what documentation is required to substantiate an expense and who is authorized to approve the expenditure.

- 1) All payments (i.e. disbursements) must be made by check, with the exception of minor petty cash transactions under a specified threshold (i.e. \$30). Payments to individuals or vendors representing compensation or payment for services due is not a petty cash transaction.
- 2) Checks drawn on the church account must be pre-numbered and imprinted with the church name and account number property secured. All checks must be accounted for and, when necessary, voided checks are to be property defaced and retained.
- 3) The bookkeeper/business manager (i.e. the individual responsible for preparing the disbursements or completing the bank account reconciliation) may not be an authorized signer on bank accounts.
- 4) The church is to obtain completed, signed IRS W-9 forms from all vendors, indicating tax identification numbers. An annual IRS 1099 form should be issued to all vendors where applicable. IRS W-9 and IRS 1099 forms can be accessed via the IRS website, www.irs.gov.
- 5) Expenditures over a specified threshold (which should be determined by the advisory council) must not be made without permission from the advisory council.
- 6) Signature stamps for checks should not be used.
- 7) All disbursements must be made by check and original invoices and/or check requests attached to support each transaction. This procedure is to ensure that a permanent record of the transaction is retained, including how much and to whom any payments are made and the reason for disbursement. If you chose to make disbursements electronically, remember that two individuals must be involved with each transaction.
- 8) No payments are to be made in cash, with the exception of minor petty cash items.
- 9) Petty cash funds may be established at churches for incidental expenses where a check is impractical or unacceptable. Petty cash funds should be kept at a manageable limit that is easily and regularly reconciled.
 - i. Original receipts for petty cash expenses must be maintained as support for the petty cash fund.
 - ii. Petty cash funds are to be reconciled regularly and reviewed by individual independent of the reconciliation.
- 10) Checks are not to be made payable to “cash” at any time.

Credit Cards

- 1) Church credit cards should be maintained only in the Employer Identification Number of the church and not using an individual's social security number.
- 2) Church credit card statements should be reconciled monthly by an individual without authorization to use the credit card. Original itemized receipts for all purchases should be received and reconciled at this time.
- 3) Credit card statements should be paid only for the statement amount due indicated on the monthly statement and substantiating, itemized receipts should be attached.
- 4) Access to credit cards should be limited to individuals with the logical need to have access.

Investments

Churches maintain certain investments. The church should establish a written formal investment guideline in accordance with the Uniform Prudent Management of Institutional Funds Act to establish investment mix, risk, safety, liquidity and targeted investment returns. In addition, the advisory council should continue to monitor investment performance compared to the established guidelines. Periodically, the advisory council should document evidence that they have reviewed investment financial performance in their minutes. This documentation should be done at least semi-annually. A member of the advisory council should review the recording the investments in the general ledger to ensure that they have been recorded appropriately and the activity has been correctly recognized.

Property, equipment and furniture

- 1) All capital expenditures over a designated limit (to be determined by the advisory council) should be properly recorded as a fixed asset on the Statement of Financial Position/Balance Sheet.
- 2) Limit access to facilities and equipment through the use of locked rooms and cabinets.
- 3) Safeguard permanent records through the use of fireproof files and/or safes.
- 4) Annually inventory physical assets to ensure they have not become lost, misplaced, damaged or obsolete. This can be performed using photos or video.
- 5) Periodically review insurance coverage to ensure all assets are listed at their full value.
- 6) Fixed asset records should be maintained and an inventory taken annually. The permanent records should contain a description of the asset, cost or value at date of acquisition, date acquired, location, serial number (if applicable), and other pertinent information.
- 7) Personal items owned by the pastor or other employees should be clearly tagged for ownership identification. Untagged items will be presumed to be church/agency property.

Other Guidelines

Where risk of loss through vandalism or non-compliance with civil buildings codes exist, review the need for additional security and/or fire equipment to adequately protect the church property, employees, and members of the church.

Information Systems

- 1) All computer files must be backed up on a regular basis, at a minimum weekly, as determined by volume of transactions. An additional back up of files is to be kept in a secure, off-site location.
- 2) Restrict access to computer programs and files through use of passwords, login records, and limited access menus.
- 3) Maintain supporting documentation for all transactions for a reasonable period of time.
- 4) Change passwords on a regular basis.
- 5) Provide training and cross-training to employees where appropriate to prevent errors, avoid processing delays, and utilize computer technology to its full advantage. Where computers are used, sufficient training and security measures must be in place to ensure data integrity and security.

Personnel/Payroll

The objective in establishing sufficient internal controls over personnel and payroll procedures greatly exceed the usual concern of safeguarding the assets of the church against misappropriation. The system of internal controls must also extend to ensure that employment practices are in compliance with applicable federal and state labor laws.

- 1) Maintain a complete personnel file for each church employee, including application, employment agreement/contract, job description, annual personnel evaluations, emergency contact forms, and payroll withholding forms (IRS W4, AZ A-4).
- 2) Private, confidential medical related information (information governed by Federal law) should be kept in a separate confidential file.
- 3) Maintain properly completed and witnessed Eligibility for Employment forms (I-9) in a completely separate file for all employees hired after November 6, 1986.
- 4) All payroll and personnel related files must be maintained in a secure location at the Church Office. Limit access to the files based on those individuals with a logical need to have access.
- 5) All churches are required to submit federal and state tax deposits and report in a timely and accurate fashion.
- 6) Wages paid to non-exempt employees must be supported by approved time cards indicating hours worked. Payments for sick leave, vacation leave and paid holidays should be documented for all employees. Time cards should be reviewed and approved by the employee's supervisor.
- 7) All employee wages should be paid by payroll checks and /or direct deposit and earnings history updated regularly. At year-end, all employees are to be given an accurate W-2 Statement of Earnings.
- 8) An individual, independent of the payroll process, should review and approve payroll reports. Confidentiality must be exerted with this function.
- 9) Written authorization must be obtained from the advisory council, or its delegate, for all changes to an employee's status or wage rate. Copies of each authorization are to be kept in the appropriate employee's personnel file.

Risk Management

Church-owned Vehicles

- 1) Drivers should be 21 years of age or older.
- 2) If minors are transported, driver should be 25 years of age or older.
- 3) Drivers must have a valid driver's license and no physical disability that could in any way impair their ability to drive the vehicle.
- 4) Annual driving records should be obtained for frequent or regular drivers of church or school vehicles. The record can be obtained from www.azdot.gov. The form is titled "Motor Vehicle Record Request."
- 5) All vans and buses must meet Federal Motor Vehicle Safety Standards (FMVSS) for visibility, bus body structure requirements for rollover accidents, strength of body panel joints and occupant protection requirements for passenger seating and barriers.
- 6) Seat belts must be used at all times. Each occupant must have a seat belt. No passengers are permitted in the bed of a pick up or in the cargo area of a vehicle. This requirement does not apply to buses which are not equipped with seat belts, provided they meet the federal requirements as stated above.

Personal Vehicles used for Church Business

- 1) Drivers should be 21 years of age or older.
- 2) If minors are transported, driver should be 25 years of age or older.
- 3) Drivers must have a valid driver's license and no physical disability that could in any way impair their ability to drive the vehicle.
- 4) The vehicle must be currently registered and in good operating condition and have all safety equipment as required by law.
- 5) The vehicle must be insured for the minimum liability limits as prescribed by the advisory council.