

## Chapter 2

### *Checks and Balances – Internal Controls*

Checks and balances (or internal controls) are procedures that safeguard the church from deliberate or accidental mishandling of money. They reassure contributors and the public that the church is trustworthy. They can also spare the financial team from accusations of mismanagement.

### Alliance Manual Regulations

The *Manual of the Christian and Missionary Alliance* specifies that official church records are church property. Church officers may change because of resignation. When the church elects or appoints a successor, the current records of the church pass to the new officer. Keep all records in a secure place selected by the governance authority.

All financial records should be audited annually, or at any time a change in treasurer occurs. The church governance authority (or district Church Planting director) also may require audits more frequently.

The church needs a system of checks and balances in several areas, but procedures for the handling of cash are the most critical. Churches operate on a cash basis. The financial team handles money every week. Therefore there must be a good system of internal controls.

### Basic Concepts

It is impossible to develop a complete list of checks and balances that will satisfy every situation in all churches. Churches are different in their size and make-up. However, all persons involved in the financial management of the church should understand the following basic concepts.

**Segregation of Duties** – Wherever possible, do not assign the same person responsibility for more than one of the following tasks:

- counting the offering
- recording individual contributions
- writing checks
- reconciling the bank statement

In a small church, the treasurer and assistant treasurer may have to handle all of these responsibilities. If this is the case, then the individual counting the offering should not record the contributions and the person writing checks should not reconcile the bank statement.

**Confidentiality of Information** – It is very important that *anyone* who has access to the giving records of individual donors keeps this information strictly confidential. This includes the persons who count and record the offerings. It also includes the assistant treasurer, who

transfers information to the *Individual Donor Records*. Keep the number of people with access to individuals' giving records to a minimum.

**Handling Offerings** – At least two persons should always be present with an offering until it is counted and either a recording of the offering is made on a **Cash Receipts Summary** form or the bank deposit is prepared. It is easy to see why two or more people should be present while the offering is counted. It is just as important that two people be present to take the offering from the sanctuary to the counting room.

**Counting the Offering** – We have already noted that two or more people must be present when you count the offering. If these are not the treasurer and the assistant treasurer, they should be persons appointed by the governance authority, unless the church bylaws or governance authority policy specify differently.

Count the offering and record it on a **Cash Receipts Summary** form. (A sample of this form is available.) Prepare a separate **Cash Receipts Summary** for each offering that is taken by the church.

The governance authority may choose to use a computerized system of accounting records. If so, enter the offering information directly into the computer for each donor and for the loose cash contributions. (See **Appendix C** for a list of computer software programs for churches.)

Whichever method is used, determine the total. This may be the total of either the **Cash Receipts Summary** or a summary report produced by the computer after you have entered all the receipts. Compare this to the total of all cash and checks received. The two totals must agree. Find and correct any errors. The persons counting and recording the offering should sign and date the summary report. They then submit it to the assistant treasurer, who reviews and signs it.

**Recording the Offering** – Next the totals for the envelope and cash offerings are transferred to the **Cash Receipts Journal**. These totals are taken from the information on the **Cash Receipts Summary**. (A sample of a **Cash Receipts Journal** is available.)

The assistant treasurer also should record the individual giving information from the **Cash Receipts Summary** to the **Individual Donor Records**. He or she should do this within one week of receiving the offering. (A sample of an **Individual Donor Record** form is available.)

The church should keep copies of the **Cash Receipts Summary** reports and a copy of the year-end **Individual Donor Records** for seven years. This will help to verify donor contributions if the IRS ever challenges the giving of an adherent in the church. (See **Appendix E** for information on how long to keep records.)

**Offering Envelopes** – The governance authority should provide the congregation with offering envelopes and urge people to use them. Using envelopes is a help to the financial team. The assistant treasurer can verify the amount of an individual's giving on the **Cash Receipts Summary** when he or she transfers this information to the **Individual Donor Records**. It also provides verification if the donor questions the recording of a contribution. Keep these envelopes for several months after you furnish the donors with a report of their contributions. This is in

case there are questions about an individual gift. The length of time you keep the envelopes will depend on whether you give these reports quarterly, semi-annually, or annually.

Inexpensive offering envelopes are available through Christian Publications, Inc. For accounting purposes, it is best to use a system of pre-numbered envelopes, assigning each donor an individual number. Also, encourage the church people to use personal checks rather than cash when making their offerings.

**Prompt Deposits** – Count all offerings and deposit them promptly after you receive them. Deposits can be made in the night deposit box or on the next banking day. This control reduces the amount of time you keep cash in the meeting place and reduces the chance of loss or theft.

**Designated Gifts** – Gifts that are designated for a particular exempt purpose *should* (morally and, possibly, legally) be used for that purpose, if at all possible. If this is not possible or practical, the donor should be contacted, if identifiable, to determine whether he/she wants to designate an alternative use for the funds. Under IRS regulations, in order for any donation to be legitimate it must be given without the donor retaining control and therefore it is normally not appropriate to return donations even when designated unless such donation can be returned in the current year given and the tax deductible receipt corrected.

**Weekly Reports** – Give the congregation a summary of the prior week’s offering. A sample report is shown in **Chapter 5**.

**Monthly Reports** – Prepare and present monthly reports to the governance authority and to your congregation. **Chapter 5** discusses monthly reports to the governance authority and the church congregation. Later, we will discuss the importance of these reports.

**Monthly Bank Reconciliation** – The bank will send monthly statements and they need to be reconciled to the accounting records. The reconciliation should list all items being accounted for. Follow up at once on all disputed charges or questioned items. This process ensures that errors are discovered quickly, and that the church’s records agree with the actual cash in the bank. It also provides a good tool for tracing receipts and disbursements during your annual church audit. See **Chapter 5** for “how to” instructions for preparing a bank reconciliation.

Whenever possible, the monthly bank reconciliation should be done by someone who has no responsibility for signing or issuing checks.

**Annual Reports** – The Treasurer is required to prepare a complete financial report for the year and include it in the Annual Report of the church. This will often be formatted in three columns:

- the current year budget
- actual expenses for the year
- the proposed budget for the coming year

A sample report is available.

**Annual Audit** – The business world accepts an annual audit as a prudent practice. It is also a good practice for churches.

The audit consists of a variety of tests, questions, and review procedures. These help determine whether all financial transactions have been properly accounted for, and have been represented fairly in the financial reports. Usually, the audit also evaluates the procedures the church is using to account for finances.

The audit is not a reflection on the competence or integrity of the treasurer. Rather, it is a routine procedure designed to protect both the treasurer and the church.

The governance authority will normally appoint several individuals to conduct the audit each year. It is helpful if the people who are appointed are knowledgeable in finance or accounting. However, this is not critical, especially if the auditors use the sample checklist provided in **Appendix F**.

The church also may consider having a professional, independent audit or review performed by a certified public accountant. Many churches do this periodically, such as every two or three years. While this is expensive, it may be worthwhile if:

- you value the suggestions this kind of audit can generate
- the church's finances are complex (for example, if your church has a school, day care center, or investments)
- the church is obtaining bank financing or considering other transactions where independently audited financial statements are required

## Conclusion

Second Corinthians 8 and 9 outline basic principles of Christian giving. From God's perspective, giving to the Lord through the church is an act of worship to Him. It brings a variety of blessings, as does all obedience to God's principles. Those who serve as the caretakers of His offerings have great responsibility to safeguard the church's assets. This system of checks and balances helps you to serve God with excellence.