

Best Financial Practices for Churches

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charges with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use or disposition of the entity's assets.

Internal control objectives should include:

- Proper Authorization and Approval
- Proper Documentation and Accurate Recording
- Proper Physical Security
- Effective Detection

Listed below are some best practices and applied internal controls for churches:

General Controls

- a. Annual budget prepared
- b. All employees screened/background checks prior to hire
- c. Employees must take an annual vacation
- d. Financials statements submitted and reviewed by the Pastor/Minister/Clergy and finance council on a monthly or at least quarterly basis.
- e. Clean and thorough explanations and documentation are retained for all journal entries.

Computer Controls

- a. All computer files should be backed up on a regular basis at minimum, weekly and should be stored off site.
- b. Passwords should be used to restrict usage of computer programs. They should never be shared or documented where others may find them.
- c. Password should be changed regularly and should have numbers, symbols, and characters or a combination of all.

Bank Accounts

- a. Whoever reconciles the bank statement should not be an authorized check signer on the account.
- b. All bank reconciliations should be signed by preparer and reviewer.
- c. The sequence of all check numbers should be accounted for.
- d. Examine the paid checks for the date, name, endorsement and comparing them to the cash disbursements journal (checkbook)
- e. Compare the detail of bank deposits to the cash receipts records.
- f. Investigate other reconciling items
- g. Follow up on old outstanding checks.
- h. The number of bank accounts should be kept to a minimum.

Cash Receipts

- a. The person opening the mail should be independent of the accounting records.
- b. Pre-numbered receipts should be issued to individuals who bring money to the office for fees/donations, etc. Receipt should contain the date, name, amount and purpose of funds and be signed by the employee/volunteer who received the funds.
- c. Receipts should be accounted for in numeric order.
- d. Deposits for various tithing and offerings should be identified by source of income.

Cash Disbursements

- a. All cash disbursements should be made by pre-numbered checks with the exception of petty cash.
- b. All bills should be approved and evidenced in writing.
- c. Blank checks should never be signed.
- d. All paid bills should be filed by vendor or by month by fiscal year.
- e. Voided checks should be marked VOID and retained.
- f. Check stock should be kept in a locked cabinet/safe and inventoried on a regular basis.
- g. All supporting documents should be given to the check signer to review before signing the check.
- h. A check to CASH should be prohibited.
- i. Individual checks should clearly identify the specific expenditure for the disbursement.
- j. Dual signature over cash disbursement for amounts over \$___ should be required.

Offertory Collection Counting

- a. Cash count procedures should be in writing and furnished to each member of the count team.
- b. Church employees and their families should not be involved with the offertory collection.
- c. No fewer than 2 unrelated individuals should count the collections and members of count teams should be rotated.
- d. The collection should be counted in a secure location.
- e. The count team should immediately restrictively endorse all checks.
- f. The count should be entered on a summary sheet and signed by all count team members.
- g. The count sheet should be prepared in ink.
- h. The count team should prepare the deposit slip in duplicate. One copy for the bank and the other for the bookkeeper.
- i. A member of the Finance Council (or equivalent) should compare the bank statement to the weekly count sheets.
- j. An annual statement should be sent to the donors.

Administration of church finances is a sacred trust and it is important that a strong system of internal control be established. Every church should have an outline of Internal Controls that will help to train new staff, volunteers, finance committee members and clergy of what is expected of them to maintain the integrity of the organization and trust of the congregation. Internal Controls are essential to protect the assets of the church from waste, fraud, and inefficient use.

Because each church is different, this letter is designed to lay the groundwork for further discussion within your organization.