

Financial Controls Self-Assessment: 10 Questions to Ask

By Rollie Dimos, CIA, CISA, CFE

Every day, church leaders face decisions that affect the health of their church. When these decisions relate to financial operations, these choices can have lasting impact. Making the right choices, adopting proper procedures and implementing adequate financial controls will go a long way to ensuring a healthy church.

Financial controls, or internal controls, are tools that increase accountability, transparency and integrity of financial operations. These controls are the tools that promote good stewardship.

As I have talked with pastors and visited various churches, I've observed conditions that hinder strong controls. These include not recognizing the importance or need for controls, poor segregation of duties, having a small bookkeeping staff, or the frequent override of established controls.

Many times, these can be strengthened or corrected with a simple change in policy. But in some situations, the weakness can only be corrected by adding more financial tools, reports and accountability.

One of the most important responsibilities for the pastor and church board is ensuring that strong internal controls and procedures are in place.

How do your processes measure up? Answer these 10 questions to find out:



1. *Have we adequately segregated key duties?*

The most important way an organization can protect itself from misuse or abuse of funds is to properly segregate financial duties. This simply means that no one person has custody of assets or the ability to authorize and record transactions. As an example, bank reconciliations should be performed by someone who doesn't have the ability to write checks. In a smaller office, another staff member or board member may have to perform the reconciliation and review the bank statement activity.

2. *Do we properly handle contributions and cash receipts?*

At a minimum, there should be 2 people who receive, count and record donations. Deposits should be reconciled to contribution records for accountability, and bank accounts should be reviewed by someone who doesn't make the deposits. For proper accountability, no one person should do two or more of the following: receive cash, record cash, deposit cash, and reconcile cash.

3. *Do we require support for all disbursements?*

All checks should be properly supported with an invoice or approved purchase request. Invoices must be reviewed and approved to ensure goods and services were actually received. Checks should be reviewed and signed by someone other than the preparer and blank checks should never be signed.

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Whether you have one or two check-signers, at least one should not have the ability to create the check or post the transaction to the financial records. If a petty cash fund is used, access should be restricted to only one person, and the fund should be reconciled before replenishment is made.

4. *Do we handle payroll expenses appropriately?*

Each week's payroll should be reviewed to ensure only approved employees are paid, and amounts paid equal hours worked. For ministerial staff, ensure salary, housing allowance, and other forms of compensation (like bonuses and gifts) are properly handled when computing income. For non-salaried staff, there are many "wage and hour" regulations that must be followed. Enlist help from a local accountant if necessary, or consider outsourcing the payroll function.

5. *Do we properly handle gifts and other fringe benefits?*

When purchasing gift cards, you should document the names of the people who will receive the gift cards and the purpose. These types of purchases are easily abused and need to have more accountability and transparency. If these gift cards are given to employees, they need to be reported as compensation. Additionally, cash gifts for church staff, such as Christmas or birthday bonuses, should be treated as compensation.

6. *Have we adopted an accountable reimbursement plan?*

Make sure business expense reimbursements are documented properly. An accountable reimbursement plan ensures that when the

church reimburses an employee for business expenses, the reimbursement is not considered taxable income. Reimbursed business expenses include those paid for by the employee or purchased with a church credit card. Both have to be adequately reported and supported.

7. *Do we properly document travel and entertainment expenses?*

Make sure travel and entertainment expenses are approved and documented as a proper business expense (in accordance with an "accountable reimbursement plan"). If not properly documented, it may be necessary to add the amounts to the employee's W-2 at year-end.

As an example, meals and entertainment purchases must include the names of the people entertained and the purpose of meeting. Include the names of the employee and spouse if applicable. If the meal is during an authorized business trip, then note the business trip on the receipt. While local hospitality meals may be an appropriate business expense when entertaining a guest, meals between employees should only occur occasionally, according to the IRS.

8. *Do we adequately monitor the use of credit cards?*

Consider limiting access to credit cards and establish purchase limits. Review monthly statements and make sure each transaction is supported with receipts. Ensure each transaction has a proper business purpose, and make sure approval guidelines are followed just like any other purchase.

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9. *Have we created a budget and monitored its execution?*

Create a financial budget at the beginning of the year that includes estimates of revenue and expenses for all operations and ministries of the church. The budget should be monitored during the year as a financial tool to help manage expenses. An intentional budget process is a necessary component to effectively manage and control church funds. To be effective, the budget should be based on ministry needs and reflect the priorities of the church board. Additionally, each month's revenue and expense activity should be compared to the budget projections to help the board effectively manage the current year's priorities.

10. *Do we prepare and review monthly financial reports?*

In order for the board to have complete and timely financial information, financial reports should be created each month showing the income and expense activity for the month and current year.

Most financial software packages can provide adequate financial statements. At a minimum, these financial reports should include a summary of activity for all accounts, including beginning balances, income and expense activity and ending balances. A detailed listing of every transaction during the period should be available if more information is needed.

How did you do?

Could you answer "yes" to each question? If not, consider reviewing your processes and making some changes. Implementing these 10 best practices will make a lasting impact on the health of your church's finances, while increasing accountability, transparency and financial integrity.

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Would you like an in-depth assessment?

Go to [http://ag.org/top/General Treasurer/](http://ag.org/top/General_Treasurer/) and click on the Financial Controls Assessment link. This 10-minute assessment tool will review your financial processes and determine the strength of your controls.

After you take the assessment, we'll provide a list of resources that will help you improve your processes, if needed.

About the Author:

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