

# **FINANCIAL CONTROLS IN THE CHURCH**

*. . .How to Avoid Money Related Scandals, Meltdowns,  
And Visits from the IRS. . .*

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## **I. INTRODUCTION**

### **1. Three Key Pre-Suppositions**

- A church's level of spirituality does not automatically translate into better and more effective **stewardship** or **accountability**.
- Embezzlement most often occurs on the **expense** side via improper checks being issued; generally by a highly **trusted** and **empowered** individual.
- Fraud, embezzlement, and misuse of assets are all too frequently a problem in the **local church**.

### **2. Financial (Internal) Controls Defined**

- **Definition:** A **process** sanctioned by the governing board.
  - Designed to provide reasonable **assurance** that the church's financial and business matters are carried out in an ethical and effective manner.
  - Consistent with **godly principles**, in line with stated objectives and purposes of the organization, and in full compliance with applicable laws and regulations.
- Two Major Components
  - Separation of Duties
  - Independent Verification

### 3. Case Study:

## II. GRACE FELLOWSHIP'S STORY

**May 2002: Move from 3 Cerone Commercial Drive to present location at 20 Delatour Road**

- Mom and Pop to Mega-Size Church
  - Attendance: Increased from 1,200 to 1,500 (25%)
  - Staff: Increased from 11.5 FTE to 15 FTE (30%)
  - Building Size: Increased from 14,500 ft<sup>2</sup> to 65,000 ft<sup>2</sup> (350%)
- Major Construction/Renovation Project

## III. PRINCIPLES LEARNED and PRACTICAL SUGGESTIONS

1. Counting/Handling Income
  - Two persons involved in all transactions
  - All income processed through church records
2. Check signers should have no record keeping responsibilities
  - Dual signatures – should consider over a set dollar amount
  - Check signers should be knowledgeable about day to day operations and should review supporting documentation
  - Bank Reconciliation – Make separate function/responsibility
3. Independent Oversight by Board or Financial Committee

4. Who Is Asking The **Important Questions?**
5. Monthly Financial Report for Ministry Leaders and Congregation
6. Annual CPA Audit
7. Procedures Should Be In Written Form
8. Background Checks & Confidentiality Agreement

#### **IV. OVERVIEW OF GRACE FELLOWSHIP'S PROCESS and CONTROLS**

##### 1. Budget

- Vision-driven
- Standardized Worksheets and Account Codes

##### 2. Income

- General offering – Volunteer counters (minimum of 2), they count, enter, and record for donor receipt purposes
- Business Office – Entry in financial software, banking documentation
- Standard Income Form – 2 signatures required

##### 3. Expenses

- Standard Reimbursement Form – 2 signatures
  - Senior Pastor expenses approved by an Elder
- Data Entry and Check Writing – Business Office
- Check Signing – Executive Pastor (plus Elder if over \$5,000)

##### 4. Bank Reconciliation

- Initial Review – Elder

- Actual Reconciliation in Accounting Software – Business Office with sign off by Executive Pastor

5. Monthly Reports

- Ministry Leaders
- Congregation

6. Audit and Accountability Initiatives

- Financial Oversight Committee
  - Monitor/verify effectiveness of internal controls
  - Quarterly Audit with report to Elders
- Annual external CPA audit
- Evangelical Council of Accountability (ECFA)