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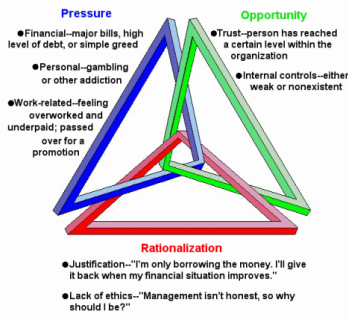
Internal Controls Defined

“methods and policies designed to prevent fraud, minimize errors, promote operating efficiency, and achieve compliance with established policies. Even more narrowly, procedures and policies designed to prevent or uncover errors and fraud.”

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The Fraud Triangle

All three components must be present at the same time for someone to commit fraud



Source: Donald Cressey

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Enablers of Fraud in the Church

1. No surprise audits/financial and bank account reviews.
2. No required vacations of staff.
3. No criminal background or credit checks of staff.
4. Same person deposits and records bank deposits.
5. No “term limits” for financial volunteers (treasurer, counters, etc.)
6. No financial expert on Finance Committee
7. Same person writes checks, deposits cash and reconciles bank accounts
8. Related persons on Finance Committee or familial relationships with financial staff
9. References are not checked when employees are hired.

In a survey of 132 churches of various sizes and denominations, 13.2% reported a fraud within the last 5 years. Due to under-reporting issues, the actual frequency is believed to be materially higher. Fraud Magazine, Jan/Feb 2012.

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Internal Control Policy

- ▶ Minimum Internal Control Standards
- ▶ Templates available on Training Materials website:
 - ▶ <https://nccumc.org/treasurer/training-materials/>

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Authorization

- ▶ Financial policy and authority guidelines should be written and approved by the Finance Committee
- ▶ Program leaders (with authority by Finance Committee) authorize expenses-not Treasurer
- ▶ Invoices required for all payments from all accounts
 - ▶ Treasurer disburses funds once invoices are approved
- ▶ At least 2 persons listed as authorized signatures on all accounts

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Recordkeeping

- ▶ Financial Secretary records offering count details received from Counters
- ▶ Offering totals should be given to the treasurer or financial secretary to record deposit
- ▶ Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer)

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Custody

- ▶ Counting team: at least two unrelated persons
- ▶ Count offerings and document totals - not treasurer and not financial secretary
- ▶ Offerings deposited the same or next business day

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Reporting and Review

- ▶ Reconcile all accounts monthly
- ▶ Someone other than treasurer or fin. sec. review bank recs at least semi-annually
 - Includes statements, invoices, checks written, financial reports
- ▶ Treasurer makes at least quarterly detailed reports of budget and designated fund activities to the Finance Committee

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Reporting and Review (cont.)

- There must be an annual evaluation of financial records
 - details >= Local Church Audit Guide
 - including **ALL** accounts of the church (but UMW may be under separate evaluation/audit)
 - ALL include the general fund, building funds, designated accounts, cemetery funds, discretionary funds, Sunday school accounts, etc.

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Reporting and Review (cont.)

- ▶ External audit of **ALL** accounts at least every 3 years for churches with disbursements > \$500k/yr
 - An annual evaluation should be performed during the interim years.
- ▶ External audit of **ALL** accounts annually for churches with disbursements > \$1 mil/yr

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Segregation of Duties

- Ideally, 4 individuals needed for regular financial procedures:
 - Treasurer
 - Financial Secretary
 - Invoice review and approver
 - Bank reconciliation reviewer

3 possible with proper segregation

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Local Church Audits

- Local Church Audit Guide and Frequently Asked Questions
- What is an audit? (pg 1)
 - “an independent evaluation of the financial reports and records and the internal controls of the local church”
 - Not a symbol of distrust!

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Local Church Audit FAQs

- ▶ Who can do an audit? (pg 2)
 - ▶ Independent
 - ▶ Qualified
 - ▶ Not necessarily a CPA

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Local Church Audit FAQs

- ▶ Restricted Gifts (pg 3)
 - ▶ Temporarily Restricted
 - ▶ Permanently Restricted
- ▶ Designated Fund (pg 4)
- ▶ Even for small churches? (pg 12)

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Questions?

Thank you for coming!

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