

# Financial Safeguards

Consider these newspaper articles:

- A pastor was accused, along with the bookkeeper and her husband, of stealing \$494,000
- A volunteer financial secretary was sentenced to 18 months in prison for taking \$140,000 from her church
- A former bookkeeper at a church was charged with stealing more than \$38,000
- A business manager for a religious school stole \$332,000
- A church's day-care director embezzled \$235,000

Are these all evil people who wanted to harm the ministry and the church? Do you think each set out to betray the trust of the local congregation and community from the start? It's doubtful. Most of them are probably fairly normal people who got caught up in something that got way out of hand and they get caught.

According to insurance company records, the incidents of embezzlement and theft in religious organizations are on the rise. Not only are there more cases, but the amounts of money being taken is often significant.

What can church leaders do to protect finances that the people of God have entrusted to their care? Frankly, there are many simple, common sense safeguards that are possible.

The first has to do with attitude. We must recognize that theft and embezzlement does happen in faithful congregations and it could happen in your church. This is one of those crimes where it is seldom obvious and often hard to detect, even when you are looking. Therefore, a series of safeguards that will protect all church funds should be a part of your overall policies and procedures. They should include the following areas.

## Loose and Petty Cash

Simply stated, money should not be left lying around. Collections, loose offerings and petty cash should always be locked up. Petty cash should also be reconciled regularly. Also,

when there is a large event, plan on methods to safely remove and secure large amounts of money until it can be counted. Never allow any funds to go home with a person.

## Two-Unrelated Adults

Two unrelated adults should be with the money from the time it is collected until the time it is deposited. Even when it is simply being locked up, two ushers should be present. Counters, which should be rotated regularly, should work in twos and threes. Even the deposit should be handled by two adults.

## Put It In Writing

Counters should always complete and sign a counter's sheet. One copy should stay with the cash for the deposit and the other place elsewhere. Further, the treasurer and financial secretary should make sure records are kept at the church and that all records are reconciled and reported.

## Division of Functions

There should be clear lines of division between those who collect, count, deposit, write checks and file reports. The more division there is, the less of a chance for misconduct to occur. Further, rotating these positions regularly will also reduce the possibility of theft.

## Accountability, Audits and Invoices

Employees and volunteers should make a full accounting of the funds they spend. The best practice is the use of vouchers. To uncover irregularities, an internal audit should take place regularly with an external audit being recommended every couple of years. Just knowing that an audit will happen will reduce the possibility of people thinking they can get away with theft. Further, employees and volunteers spending funds should be required to use an invoice or voucher system to receive funds.

## Ministry Protection Memo

"MPM" is a series on various topics relative to Church and safety. Send your comments and interests to Northern Illinois Conference of the United Methodist Church's Director of Risk Management.

### CONTACT INFORMATION

#### Arthur J. Gallagher & Co.

Religious Practice

2850 Golf Rd.

Rolling Meadows, IL 60008

888.285.5106

religiouspractice@ajg.com

or

#### Dwayne Jackson

Director of Risk Management

Northern Illinois Conference of the

United Methodist Church

312.783.5945

djackson@umcnic.org

"According to insurance company records, the incidents of embezzlement and theft in religious organizations are on the rise. Not only are there more cases, but the amounts of money being taken is often significant."

## Separate Accounts

Groups within the church will often have separate accounts. This is not a recommended practice. At minimum, there should be central person or committee that conducts audits of all accounts. With little or no oversight, these smaller accounts are a prime target for abuse.

## Checks and Credit Cards

Again, a system should be set up that verifies all checks and credit card account expenditures. No signed, blank checks should be issued. In addition, multiple signatures should be required on checks for larger amounts. Also, specific guidelines should be in place as to credit card procedures, limits, accounting, etc.

## Bonding, Background Checks and Insurance

For those who regularly handle funds and do the books, it is wise to have them bonded. The church will benefit from conducting a background screen, to include a credit history, on those who regularly handle funds. There may be something in their history that will alert you to potential concerns. It is also a good practice to check with your program administrator or annual conference office, as to limits and restrictions within the coverage, that you may have in regards to loss of finances.

## Pay Attention

Finally, keep your eyes open for violations. If you are paying a financial secretary \$30,000 a year and she is buying a new car every two years and taking expensive trips regularly, then a closer look may be warranted. It may be completely justifiable or it may be theft. Also, listen for those who regularly comment on their poor finances, bill collectors or who are distraught over financial concerns.

## Conclusion

Most employees, treasurers, counters, financial secretaries and ushers are good and honest people. They serve God and are above reproach. But embezzlement and theft are a sickness. It seldom will go away or get better on its own. Most of the time, it will get worse until the person is caught.

As church leaders, we are entrusted with funds to carry out God's work in the church, community and the world. Therefore, by taking these steps to take care of the funds you have, you will have a better chance to continue ministry and carry out your church's mission.

“While some local churches ask their pastor to sign checks, that practice should be discouraged to protect the pastor against false allegations and to further diffuse ‘power’ as it relates to finances avoiding the appearance of impropriety.”

## TWO-PERSON CHURCH OFFICE

Church Bookkeeper	Church Treasurer
<ul style="list-style-type: none"> <li>Record accounts receivable entries</li> <li>Mail checks</li> <li>Write checks</li> <li>Record general ledger entries</li> <li>Reconcile bank statements</li> <li>Record credits/debits in accounting record</li> <li>Approve payroll</li> <li>Receive cash</li> <li>Disburse petty cash</li> <li>Authorize purchase orders</li> <li>Authorize check requests</li> <li>Authorize invoices for payment</li> </ul>	<ul style="list-style-type: none"> <li>Sign checks</li> <li>Sign employee/vendor contracts</li> <li>Complete deposit slips</li> <li>Perform inter-bank transfers</li> <li>Distribute payroll</li> <li>Reconcile petty cash</li> <li>Approve employee timesheet</li> <li>Process vendor invoices</li> </ul>

## THREE-PERSON CHURCH OFFICE

Church Bookkeeper	Business Manager	Church Treasurer
<ul style="list-style-type: none"> <li>Record accounts receivable entries</li> <li>Reconcile petty cash</li> <li>Write checks</li> <li>Record general ledger entries</li> <li>Reconcile bank statements</li> <li>Record credits/debits in accounting record</li> </ul>	<ul style="list-style-type: none"> <li>Process vendor invoices</li> <li>Receive cash</li> <li>Mail checks</li> <li>Authorize purchase orders</li> <li>Authorize invoices for payment</li> <li>Distribute payroll</li> <li>Approval payroll</li> <li>Process vendor invoices</li> <li>Approve employee timesheet</li> <li>Disburse petty cash</li> </ul>	<ul style="list-style-type: none"> <li>Sign checks</li> <li>Sign employee/vendor contracts</li> <li>Complete deposit slips</li> <li>Perform inter-bank transfers</li> </ul>

## FOUR-PERSON CHURCH OFFICE

Church Bookkeeper	Church Secretary/Clerk	Business Manager	Church Treasurer
<ul style="list-style-type: none"> <li>Record accounts receivable entries</li> <li>Reconcile petty cash</li> <li>Write checks</li> <li>Record general ledger entries</li> <li>Reconcile bank statements</li> <li>Record credits/debits in accounting record</li> </ul>	<ul style="list-style-type: none"> <li>Distribute payroll</li> <li>Receive cash</li> <li>Disburse petty cash</li> <li>Authorize purchase orders</li> <li>Authorize check requests</li> <li>Mail checks</li> </ul>	<ul style="list-style-type: none"> <li>Complete deposit slips</li> <li>Process vendor invoices</li> <li>Authorize invoices for payment</li> <li>Approve payroll</li> </ul>	<ul style="list-style-type: none"> <li>Sign checks</li> <li>Sign employee/vendor contracts</li> <li>Approve employee timesheet</li> <li>Perform inter-bank transfers</li> </ul>

# FIDELITY INTERNAL CONTROL CHECKLIST

## Recognize the Warning Signs of Fidelity Theft and Preventing Problem Situations

### Why are consistent internal church controls important?

- Local church decisions and financial reporting rely on the accuracy of figures recorded.
- Gives church treasurers, pastors and a board of trustees of dollars in and out.
- Standardized good management practices and procedures.

### Advantages of improved internal church control:

- Can reveal errors and omissions
- Discourages staff and/or volunteer theft
- Protects church assets

### How to use the checklist:

Review the concept for each internal control area and answer the questions following each section.

Each answer identifies an area that needs stronger internal controls developed and enforced

SEGRATION OF DUTIES		BANK RECONCILIATION	
Concepts	Checklist <i>(each "Yes" answer identifies a potential problem area)</i>	Concepts	Checklist <i>(each "No" answer identifies a potential problem area)</i>
<ul style="list-style-type: none"> <li>• Certain accounting/bookkeeping functions are designed to cross-reference each other accuracy. If the same person is responsible for multiple duties, the natural check and balance of the system is removed.</li> <li>• Trust is not the issue; verifying business transactions is the issue. Giving a single person unquestioned authority of your church finances is not a wise business practice.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Is the person who handles cash also responsible for recording the cash?</li> <li><input type="checkbox"/> Does the person who pays or orders inventory also receive the materials?</li> <li><input type="checkbox"/> Are two or fewer people responsible for the accounting function?</li> <li><input type="checkbox"/> Is only one person responsible for reviewing financial statements each month?</li> <li><input type="checkbox"/> Is your review of financial journals sporadic?</li> </ul>	<ul style="list-style-type: none"> <li>• Bank statements can only flag discrepancies if they are reconciled on a timely basis. Reconciliations should be done once a month. Bank adjustments need to be tracked carefully from one month to another.</li> <li>• Segregating duties is also important in this area. Reconciliations should be performed by one person and reviewed by another. Also, the person who writes the check should not have the authority to sign checks.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Do you review canceled checks and endorsements on a monthly basis?</li> <li><input type="checkbox"/> Do you compare payroll checks with your current employee records?</li> <li><input type="checkbox"/> Do you question funds being transferred between bank accounts?</li> <li><input type="checkbox"/> Do you track the number of credit card bills you sign per month?</li> <li><input type="checkbox"/> Are bank reconciliations performed on a timely basis?</li> <li><input type="checkbox"/> Is someone responsible for reviewing reconciliations each month?</li> <li><input type="checkbox"/> Do you verify reconciled items?</li> <li><input type="checkbox"/> Does the owner receive and open the bank statement prior to turning it over to the person who performs the bank reconciliation?</li> </ul>

SUPPORTING DOCUMENTATION		SAFEGUARDING ASSETS	
Concepts	Checklist (each "Yes" answer identifies a potential problem area)	Concepts	Checklist (each "No" answer identifies a potential problem area)
<ul style="list-style-type: none"> <li>Enhances communication and serves as a final checkpoint.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Do you ever sign blank checks?</li> <li><input type="checkbox"/> Do you ever sign blank checks without original supporting documentation?</li> <li><input type="checkbox"/> Do you ever sign checks without canceling supporting documentation?</li> <li><input type="checkbox"/> Have funds ever been transferred between accounts without review or verification?</li> <li><input type="checkbox"/> Do you ever sign checks for new business vendors without knowing or verifying their name and association with your organization?</li> </ul>	<ul style="list-style-type: none"> <li>Limit and monitor access to important documents and supplies.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Are blank check stocks and signature stamps safely secured?</li> <li><input type="checkbox"/> Do you respectively endorse all checks when received?</li> <li><input type="checkbox"/> Do you deposit cash and checks daily?</li> <li><input type="checkbox"/> Do you maintain a list of office furniture, equipment and company vehicles?</li> <li><input type="checkbox"/> Do you have adequate insurance coverage for assets?</li> <li><input type="checkbox"/> Are all systems backed up on a daily basis and is backup stored off-site?</li> <li><input type="checkbox"/> Is there password protection and security for all computer systems and programs?</li> <li><input type="checkbox"/> Are passwords changed at least every six months?</li> </ul>

EMPLOYEES/PERSONNEL	
Concepts	Checklist (each "Yes" answer identifies a potential problem area)
<ul style="list-style-type: none"> <li>Know your employees/volunteers and be aware of changes in their behavior.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Are any of your employees/volunteers extremely possessive of their work?</li> <li><input type="checkbox"/> Are any of your employees/volunteers apprehensive about vacation and time off while always being the first in the office and the last out?</li> <li><input type="checkbox"/> Have you noticed a substantial change of lifestyle in any of your employees/volunteers?</li> <li><input type="checkbox"/> Do any of your employees/volunteers have a possible substance abuse problem?</li> <li><input type="checkbox"/> Are any of your employees/volunteers living beyond their means?</li> <li><input type="checkbox"/> Have you ever hired an employee/volunteer before checking references?</li> <li><input type="checkbox"/> Do you permit your accounting personnel to work longer than a year without taking a vacation?</li> <li><input type="checkbox"/> Do you have any accounting staff or key personnel who have not been secured with a fidelity bond?</li> </ul>

*The Ministry Protection Memo (MPM) series is offered as an educational tool in support of Northern Illinois Conference of the United Methodist Church's property and casualty insurance program to help you develop loss control procedures to suit your specific needs. With these publications, Northern Illinois Conference of the United Methodist Church does not seek to establish a particular standard of care or to promote legal advice. We encourage church leaders to consult with competent attorneys with regard to their specific loss control need. Northern Illinois Conference of the United Methodist Church encourages reproduction and distribution of this MPM within denomination.*