

How to Establish Financial Review Practices for Your Church

By Kimberly Phegley

- 1. Have your financial records reviewed by a knowledgeable independent party.**
Your church should have a finance committee or knowledgeable deacon who oversees the organization's finances. This individual or group should review the financial statements for unusual trends, balances, or relationships and also review any supporting detail to provide assurance that the financial records support the statements.
- 2. All staff responsible for financial and accounting matters should be required to take periodic vacations.**
Other staff members or volunteers should be trained to serve as back up to the accounting and finance staff. Fraudsters often refrain from taking vacation to minimize the opportunity for others to detect their improprieties. Back up personnel have been known to find such things as theft of outgoing checks causing payable balances to be overdue, theft of customer checks causing customer account balances to be overdue, etc.
- 3. Someone other than the primary accountant or bookkeeper should prepare bank reconciliations and review bank statements** for large, old, or unusual reconciling items and suspicious transactions. Review of the cleared checks or check images could detect checks fraudulently made payable to the accountant or an entity or alias controlled by the accountant.
- 4. Have checks signed by someone other than the one who prepares the checks and who is not related to the preparer.**
Signed checks should be secured to prevent access by the preparer or record keeper. If the preparer or record keeper obtains the signed checks, checks could be altered allowing the individual to cash the checks or apply the funds to a personal account, such as with a telephone or electric bill.
- 5. Segregate duties including not assigning incompatible responsibilities to related parties.**
When proper segregation of duties occurs, recordkeeping, custody, and reconciliation are each performed by different individuals. For instance, best practice dictates that one person would post disbursement entries, another person would have access to the check stock and signature plates or sign checks, and a third person would reconcile the bank accounts to the general ledger.
- 6. Church offerings should be counted and agreed upon by two or more parties and money should not be left unattended or in the control of only one person.**
These measures will reduce the risk of allegations that can neither be supported nor refuted. It will also eliminate the opportunity for theft. The fraud triangle consists of opportunity, need or motive, and a dishonest individual. As Christians, we should seek to eliminate the opportunity for theft so that we do not put church members or employees in a tempting situation that may be more than they can bear.
- 7. Ask detailed questions and review the budget by comparing it to actual results.**
Inquiry can serve as both a deterrent and detective control; fraudsters look for opportunities where they are not likely be questioned, call attention to themselves, or call attention to the unusual activities.

8. Checks and money should be received, logged, then posted by a separate individual.

Generally the person who first touches the mail should open and log the incoming checks. The checks can then be passed along to the person who will prepare the deposit. The remaining process depends on how many people are available in the office. If there is only one other person, the person who prepares the deposit can post the checks received and then balance the totals posted with the person who logged the checks. If there are two additional people available to be involved, the log and the summary of posted incoming checks would both be presented to a third individual who would balance the two.

9. Perform an external audit.

External financial statement audits are conducted in accordance with generally accepted auditing standards. Those standards require that the audit be planned and performed to obtain reasonable assurance whether the financial statements are free of material misstatement.

- An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- Finally, an external audit expresses an opinion that the financial statements present fairly, in all material respects, the financial position of the company and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

10. Document policies and procedures related to financial transactions and reporting.

Documentation of policies and procedures is part of holding someone accountable. Policies and procedures are only effective if monitored and enforced.

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Kimberly Phegley, CPA, CIA is the Internal Audit Manager of LifeWay Christian Resources. As a certified public accountant and certified internal auditor, Kimberly has performed financial, operational, and compliance audits. Past experiences include being a manager in public accounting and an internal auditor with a large insurance company.