

Key Components to a Financial Safeguard Program

KEEPING TRACK OF YOUR FINANCES

Developing a Financial Policy

The first step to putting financial safeguards into place is to develop a policy that identifies how money is handled, counted, deposited, reported, and audited. The policy should address procedures for handling funds from the time collections are taken until money is disbursed. Instituting a policy that includes this information will help prevent the misappropriation of funds and ensure that both staff members and volunteers are protected if an accusation is ever made against them. In addition, a financial policy is more likely to deter individuals from embezzling funds because they know that the cash management system is being carefully observed.

Taking the Collection

In most churches, ushers play a key role in the collection process. It is important that ushers are trained in more than handing out bulletins and seating congregation members. Safeguarding funds begins with them. Ushers should be trained on what to do to safeguard the collection during and after it is taken. They should watch for anyone who seems out of place or suspicious and should use visual and verbal communication between them. Once the collection is taken, it should be secured, instead of remaining unattended in front of the church. Two ushers should take the collection and lock it up in a safe or other secure location until the money is counted.

Safekeeping and Depositing of Collection

From the time it is collected to the time it is deposited, the two-unrelated-person rule should apply to the handling of funds. Once the collection is secured, several options are available. Some churches choose to count the collection immediately following the services, where others count the funds the following day.

For those who count after church, this should be conducted in a locked room. At least two people should be present when the collection is moved from the safe to the counting area. For those who count the following day, the collection should remain in a safe (or double locked area) or safely taken to the bank by two adults. The bank bags should be placed in another nondescript bag when taken to the bank. (Continued page 2)

Varying routes to the bank are suggested. Look around the bank area for suspicious cars or individuals.

Only place the collection in the night deposit once the area is safe.

Counting of Collection

It is important that a team of people count the collection. Again, this should be done in a secure room. Counting teams should be rotated weekly or monthly. Envelopes, cash, and checks should be kept visible at all times. Double checking figures and balancing the funds is important. A signed and dated form that lists all currency, coins, and checks should be listed. A deposit slip should be completed. Collections should never be taken home. Key Components to a Financial Safeguard Program 2

Internal Controls

It is important to have separation of duties between the counting team, the treasurer, and the financial secretary. For example, the person who prepares the checks should not have authority to sign the checks. Likewise, blank checks should not be available to those with check signing authority; and those signing checks should never sign a blank check or a check made out to "cash." Dual signatures should be required for all checks over a specified dollar amount. The bank statement should be first opened and reviewed by someone who is not involved in writing the checks. Not only do these safeguards offer financial integrity, but they can reduce the appearance of impropriety.

Screening Workers

Volunteers and employees who handle funds need to be screened by running criminal background checks and/or checking financial references. Some churches have chosen to conduct credit checks on those handling moneys. At a minimum, people with high integrity should be selected. They should have the ability to be discreet with sensitive financial information. Rotating people in these positions is helpful to ensure safeguarding of funds.

Purchases

To ensure accountability, all purchases should be made through a voucher system in which check requests are accompanied by appropriate paperwork supporting the expense. Purchases over a specified amount should require the approval of a church or ministry leader. If anything is purchased with personal funds, a receipt and form for reimbursement should be used.

(Continued page 3)

Petty Cash Funds

The purpose of a petty cash fund is to cover small, unanticipated expenses that are needed immediately, such as postage due and COD deliveries. Funding larger expenditures should be planned and handled through the church's regular purchasing process discussed above. For petty cash funds, establish a small cash limit that is kept in the custody of designated office personnel. Guidelines concerning appropriate uses of the fund should be communicated to those personnel. The fund should be stored in a locked location. Distributions from the fund should be documented. When the fund balance falls below a predetermined limit, documentation of the expenditures should be submitted for the fund to be replenished. The fund should be subject to periodic, unannounced audits.

Pastor's Discretionary/Benevolent Fund

Many churches utilize a pastor's discretionary or benevolent fund for the minister to address cases of special financial need within the congregation. Churches should be very careful in establishing such funds because there can be income tax implications to the pastor if they are not set up correctly. Consultation with the church's tax advisor is recommended. Other controls for such funds include a monetary account limit, documentation of all expenditures, prohibition on cash gifts, bank account reconciliation, and periodic audits of the fund.

Special Funds

Often there are special funds and accounts held by groups in the church. In addition to these, one time or ongoing collections of money (bazaars, craft fairs, dances, and dinners) also can leave the funds vulnerable. Every effort should be taken to safeguard these funds and accounts as well. Again, the two-person rule should apply. Monies should never be taken directly from a collection and given to an individual or ministry group. They should be counted, deposited, and disbursed according to the church's regular financial procedures. These special accounts should be audited periodically on an unannounced basis.

Reporting

To preserve integrity in a sensitive area, financial reporting is necessary. The donors in the congregation have a right to know their funds are being used. Some churches offer a monthly financial statement, while others do it quarterly. Regardless, some method of accountability and reporting should be a part of every financial program.

(Continued page 4)

Audit of Financial Records

To continue a program of safeguarding finances, regular audits should be conducted. Someone other than the financial secretary or treasurer should conduct these audits. A congregation member who is a CPA or has a strong financial background might be a good candidate. While these audits should be done annually, some churches elect to have an outside firm do a complete audit every two or three years. In the intervening years, a financial review by someone uninvolved in the church's finances is recommended. It is especially important to complete an audit before a new person steps into the role of church treasurer or financial secretary. Regarding the audit, it is important that the church address any recommendations provided by the auditor(s) in their "management letter."

Bonding

Churches may reduce the financial impact of embezzlement losses by securing a fidelity or employee dishonesty bond on those people who handle funds. It also is possible to purchase insurance coverage that blankets all officers and employees.

Responding to Incidents

If an accusation or suspicion is reported, it is important to act promptly and with care. The suspected embezzler or thief should be confronted and asked to provide a full accounting of the situation. If not already completed, an audit should be performed. If sufficient information or a confession points to guilt, church leaders then need to decide whether to turn the matter over to the police. Church leaders also must remember that they owe a responsibility to the members and donors to be good stewards of the church's resources.

Reduce the Chances of Robbery or Embezzlement

By ensuring that the above components are in place, the chances of robbery or embezzlement can be reduced. It is important to remember that we are called to take care of those people and resources God has entrusted to our care. This includes the finances that keep ministry alive in our churches.

The Aardsma Agency is making this material available to you for information only. It is not intended to provide legal or professional advice, and assumes no liability in its use.

You are encouraged to consult with your own attorney or other expert consultants for a professional opinion specific to your situation.