



## Internal Financial Controls: Overview

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Adequate financial internal controls are necessary to safeguard the funds you have been entrusted with. Your internal controls will also be taken into consideration if or when the church attempts to obtain a bank loan. The ideal internal controls should be developed with the following in mind.

Overview of Internal Control Procedures:

1. Separation of duties.

The people who receive and count income should not be the same person who enters income into the accounting system. Similarly, the people who authorize expenses should be different from the person who records expenses in the accounting system.

2. Written procedures manual.

A written financial procedures manual will help delineate responsibility and provide continuity during personnel transition.

3. Monitoring accounting.

Not every church will need or be able to afford an annual CPA review of their accounting, but there are still monitoring procedures that can and should be put in place.

- a. The accounting should be monitored by management for accuracy and potential budget issues. This can be done through Profit and Loss Statements and Balance Sheets.
- b. Bank account statements. Bank account statements should be received, unopened, by someone other than the bookkeeper. The person who receives the statements should review them for expenses paid out to staff, or family members of staff.
- c. Internal financial examinations. Monthly or quarterly internal financial examinations should be performed by someone who does not participate in any of the above mentioned accounting procedures. Their role could be to track income from receipt to deposit on the bank statements, review reports to ensure income was attributed to the proper fund, compare the funds reported in the donor system with the accounting system, etc.
- d. Screening of accounting personnel. Richard Vargo states that "70 percent of all embezzlers are repeat offenders." Screening of accounting staff and volunteers can be as simple as calling personal and employee references to

submitting their name for a criminal background check. We use Trak-1 for criminal background checks and the cost is approximately \$13 a person.

This is only a very brief description of the basics of financial internal controls. In future newsletters, I will write about financial internal controls pertaining to receiving donations and paying expenses.

There are a number of resources available for further information. The following are a few I have found helpful.

Books:

- The Church Guide to Internal Controls by Richard J. Vargo
- The Frieze Resource Library by Rex I. Frieze, CPA
- Church & Clergy Tax Guide by Richard R. Hammar, J.D., LL.M., CPA. In addition, Richard Hammar has online resources available at [ChurchLawToday.com](http://ChurchLawToday.com). There is a \$50 fee to sign up for weekly and monthly e-mail newsletters, but that fee also enables you to search their database for specific information.