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CERTIFIED PUBLIC ACCOUNTANT

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Dear District Affiliated Church,

Recently our office was called upon to perform accounting services for a struggling church. It quickly became apparent the church was in major financial disarray. The church lacked staff training, internal structure and knowledgeable oversight. The unrestricted flow of the church's money as well as the lack of accurate financial information left them unable to meet their financial commitments. From this experience, we created these internal control guidelines for churches. We have created this manual with you in mind regardless of your financial background.

The goal of all churches is to effectively apply biblical principals and the love of Jesus Christ to all people. To reach that goal, churches concentrate on evangelism, discipleship, and various ministries. These important elements require so much time and energy that it can be hard or seem wasteful to focus on other areas. As a result, ministry needs often overshadow the importance and significance of wisely controlling the church's money and property. Although time and resources are limited, it is vitally important to properly control and account for church resources.

Beyond spiritual matters, financial matters have one of the highest impacts or roles in a church's success or failure. When financial resources are managed in a responsible and biblical way, the church will be free to experience greater Spiritual growth. Our desire is to see District Affiliated churches develop the independence necessary to become General Council churches

As you study this guide, if you have any questions or if you need assistance, please do not hesitate to e-mail Ken Epstein or Jeff Bush at internalcontrols@socalag.org

Very Truly Yours,

Ken M. Epstein
Certified Public Accountant

Assemblies of God

Southern California District Council

Internal Control Manual

For District Affiliated Churches

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WHAT ARE INTERNAL CONTROLS?

Internal Controls are the processes and procedures put in place to manage finances and property. They will help to ensure the church is conducting business in an efficient and effective manner and bring consistency and structure to the financial process.

Strong internal controls will help:

- Safeguard church resources.
- Identify and reduce errors.
- Discourage and identify fraud and theft.
- Provide accurate financial information.
- Ensure that church resources are used as they were intended.
- Ensure that the church and church staff maintain high integrity and remain above reproach.

“The plans of the diligent lead to profit as surely as haste leads to poverty.” (Proverbs 21:5-NIV)

WHY ARE INTERNAL CONTROLS NEEDED?

Good question. Honestly, some procedures may seem redundant and unnecessary at first glance. They may seem like too many ‘rules and regulations’ to add to your already busy lives. Understanding ‘why’ should motivate you to spend the necessary time and energy.

God desires attention to the financial arena as evidenced by the hundreds of Scriptures relating to the good stewardship of money and finances. This is why your church needs to be proactive in managing the resources God has entrusted to it. The best way to achieve this is to understand and implement effective internal controls.

Let’s look to the bible for direction and guidance in this area, just as we would in all other matters. God desires us to be wise stewards with our money, both individually and as a church. How we manage, protect and control our financial resources is a major part of being wise stewards.

In Proverbs 27:23 He tells the church, “*Be sure you know the condition of your flocks, give careful attention to your herds*”(NIV).

Non-existent or lackadaisical internal controls is damaging to the church in many ways. The reality is that many churches suffer from some, if not all, of these situations:

- Financial decisions being based on weak and inaccurate information.
- Churches unexpectedly being unable to pay its bills.
- Errors being made that go undiscovered and uncorrected.
- Churches being vulnerable to fraud and theft.
- Churches losing their tax-exempt status.

An important factor in being able to make the right decisions is the presence of accurate and reliable financial information. Even the most detailed person can make errors. Strong and adequate internal controls will reduce errors and produce accurate and reliable information.

God desires the church to be in good standing in this world:

“A good name is more desirable than great riches; to be esteemed is better than silver or gold”
(Prov. 22:1 - NIV)

You’re doing it for the Lord:

“Whatever you do, work at it with all your heart, as if you’re working for the Lord, not man.”
(Colossians 3:23)

It will require discipline:

“No discipline seems pleasant at the time, but painful. Later on, however, it produces a harvest of righteousness and peace for those who have been trained by it”. (Hebrews 12:11 – NIV).

But it will be well worth the cost:

“His master replied, ‘Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master’s happiness!’ (Matthew 25:21 - NIV).

WHAT ROLES ARE NECESSARY?

The key to maintaining an effective internal control process is the creation of a system of checks and balances. Different people within your church should perform each of the positions listed below. This separation of duties will maintain the integrity of the system.

Treasurer (appointed per the D.A. Master Manual): Responsible for managing the entire financial process and insisting that all procedures are being consistently followed.

Business Manager: Responsible for paying authorized bills and keeping the accounting records up to date; reports directly to the Treasurer.

Bookkeeper: Responsible for preparing the bank deposit, agreeing the *Usher/Counter Offering Reports* to the bank deposit, updating the donor contribution records and reporting the deposit totals to the Treasurer and Business Manager.

Ushers: Responsible for collecting and counting contributions. They submit their *Usher/Counter Offering Reports* directly to the Bookkeeper.

Group/Ministry Leaders: Responsible for collecting and counting contributions within their ministry. They submit their *Usher/Counter Offering Reports* directly to the Bookkeeper.

*****NOTE REGARDING JOB POSITIONS*****

We understand that some churches may have limited staff and/or volunteers available. The internal control procedures and job functions referred to above can be customized without losing critical controls. For information on creating customized internal controls for your church, please e-mail us. We can tailor this program to fit your specific situation.

“Whatever you do, work at it with all your heart, as working for the Lord, not for men” (Colossian 3:23 – NIV).

THE INTERNAL CONTROLS

SIGNING OR INITIALING ANY DOCUMENT INDICATES YOU HAVE REVIEWED IT AND APPROVE OF IT.

INCOMING FUNDS

Ushers

There must be more than one usher during the collection and recording process to ensure all donations arrive securely and are accurately counted. *Ushers cannot honor any requests to make change or cash checks.* Once the contributions are collected, the ushers take them to a secure room for counting. Each usher separately counts the contributions. The usher team completes an *Usher/Counter Offering Report* and each usher signs or initials the report. It accounts for the total amount of incoming donations, broken down between cash and checks. This report is a permanent document and must be completed in ink. The head usher then places the contributions and contribution envelopes into the church safe or lockbox.

Groups and Ministries

The fundraising/contributions collected are the responsibility of the individual(s) leading the small group or ministry. The contributions are to be kept in a secure location until the function has ended. The Leader then counts the contributions and completes the *Usher/Counter Offering Report*, in ink. It is preferable (although it might not be possible) to have two people involved in the counting and report preparation. The contributions and report are to be given to the Bookkeeper immediately following the function.

Bookkeeper

The Bookkeeper gets the *Usher/Counter Offering Report*, the contributions and the contribution envelopes from the secure location. The money is counted and verified to the total of each *Usher/Counter Offering Report*. Any discrepancies must be immediately investigated with the signors of the report. The donor information from the contribution envelopes is entered into the church's contribution tracking program. The Bookkeeper completes the *Cash Receipts Spreadsheet* (See Appendix A), which reports the detail of the funds comprising the total deposit. For example, if the total deposit consists of \$200, (\$150 of tithes, \$25 for missions and \$25 for children's ministry), these details are reported on the *Cash Receipts Spreadsheet*. Two copies of the spreadsheet are made; one is attached to the *Usher/Counter Offering Report*, one is given to the Treasurer and the original is kept in a chronological file. At a minimum, this process should be performed weekly.

The Bookkeeper completes the deposit slip and deposits the funds into the bank. The deposit receipt is attached to the *Usher/Counter Offering Report*. The completed deposit package contains: The *Usher/Counter Offering Report*, the *Cash Receipts Spreadsheet*, and the deposit receipt. The completed deposit package is submitted to the Business Manager.

Business Manager

The Business Manager verifies the deposit receipt to the *Usher/Counter Offering Report* and the *Cash Receipts Spreadsheet* and enters the deposit into the church's accounting records. Your church should have an Accounting Procedures Manual to explain the accounting process. During the bank reconciliation process, the Business Manager will verify that the bank properly recorded the deposit.

OUTGOING FUNDS

General Expenses

The Board of the Church must approve all expenses **before** they are incurred. As an alternative to having the Board approve every expense, the Board drafts and approves a budget. The Board must approve any expenses that exceed budgeted amounts or preset individual dollar limitations.

Recurring Bills

In order to avoid the repetitive approval of ongoing bills such as utilities or mortgage payments, the Board creates and adopts an annual budget. The Business Manager places them on an 'Approved Monthly Bill' report and reviews the charges monthly to make sure they are reasonable and consistent. The Treasurer should also periodically review the bills.

Purchases Made by Charge or Church Account

A *Purchase Requisition* must be submitted to the Treasurer for approval. Permission for purchases can only be granted by the Treasurer (as evidenced by initials or signature on the *Purchase Requisition*). If the request is not in conformity with the annual budget, the request must be adopted by the Board and reflected in the minutes of the Board meeting.

Upon receipt of the order (or purchase), the purchaser verifies the quantity and items ordered have been received by initialing the packing slip or sales receipt. The packing slip is attached to the *Purchase Requisition* and is presented to the Treasurer. The Treasurer verifies all documents have been properly approved. If this was a "charge" order, the Treasurer matches the *Purchase Requisition* to the invoice. The invoice is now ready to be paid and is submitted to the Business Manager.

Reimbursements for Purchases Made With Cash

In addition to the above procedures, the person requesting reimbursement must complete a *Reimbursement Request*, provide the original receipt, and submit it to the Treasurer for approval. No reimbursement will be approved without the original receipt. The completed *Reimbursement Request* is given to the Business Manager for payment.

Other Bills

Upon receipt of invoices that do not fall into the categories referred to above, the Business Manager will forward the original to the Treasurer for approval and retain a copy in a file waiting for approval. This file should be reviewed periodically to make sure no invoices go delinquent. When the approved invoice is received, the copy can be destroyed and the invoice paid.

Credit Card Transactions

Credit cards should always be kept in a secure location. Refer to the instructions above under Purchases Made by Charge or Church Account for any and all purchases made by credit card. The Business Manager will reconcile all credit card receipts to the credit card statement, report any discrepancies to the Treasurer and provide the statement with all of the receipts attached to the Treasurer for approval.

Only purchases authorized for church use can be made with church credit cards. Individuals may not use the cards to purchase personal items even if their intent is to reimburse the church. Individual purchases must be made with personal funds. Due to the ease at which abusive use of credit cards can occur, it is recommended that the church limit access to and use of the cards.

OUTGOING FUNDS, continued

Issuing Checks Without an Invoice

Circumstances may arise where a check needs to be issued without an associated invoice, for example, benevolence, missionaries and honorariums. A *Check Request* must be completed and submitted to the Treasurer with proper approval.

Drafting Checks

The Business Manager drafts the checks for all approved expenditures. The check, along with the approved paperwork is provided to two authorized signors who take the time to verify all paperwork has been properly authorized **before** initialing the invoice and signing the check. The paperwork is returned to the Business Manager where it is marked 'PAID' and filed. The check is delivered to its intended recipient. The Business Manager should not handle the checks once both signatures are obtained.

The Internal Revenue Service has specific filing requirements regarding payments made to individuals by the church. It is the Treasurer's responsibility to make sure the church is in compliance.

Authorized Check Signors

Authorized signors must be Board approved or the Treasurer. Every check signor must be satisfied that the entire approval process has been followed prior to signing the check. All checks require two signatures. One signatory must be outside the authorization and approval process. The Business Manager CANNOT be a signatory.

Petty Cash

A designated amount of money is kept in a locked box for 'emergency' type expenditures. Receipts need to be placed in the lock box when petty cash is spent. If no receipt is given, a *Petty Cash Receipt* must be completed. In order to replenish Petty Cash, the Business Manager completes the *Petty Cash Reconciliation*. The form is provided to the Treasurer for approval. A check is made payable to Petty Cash and the Bookkeeper or the Business Manager cashes the check and replenishes the Petty Cash Fund.

Items Donated for Giving Credit

If a person does not wish to be reimbursed, a *Donated Items* form must be completed. The *Donated Items* form with the **original** receipt attached is submitted to the Treasurer for approval. The approved form is sent to the Bookkeeper to be input into the contribution tracking program. A copy of the form is sent to the Business Manager to be input into the accounting program.

If the individual is donating property that does not have a receipt (for example a used table, lawn mower, etc.), the church will issue a standard *Item Donation Letter*. The letter is to be approved and signed by the Treasurer. In order to be compliant with Internal Revenue Service regulations, the letter must state that no goods or services were exchanged for this donation. The church **will not** estimate the value of the donated property. It is the responsibility of the donor for the estimation of the fair market value for tax purposes.

Any gift that is estimated to be above \$5,000 in value falls under very specific Internal Revenue Service rules. It is imperative that the church gives account for these donations after consultation with recognized experts in this field.

GENERAL COMMENTS

Bank Statements

Bank statements are delivered UNOPENED to the Treasurer for review. The Treasurer will review all cancelled checks to verify the signatures are authentic and the payees familiar. The statements should be reviewed for unusual items, debits or charges. The Treasurer initials the statements and delivers them to the Business Manager for reconciliation.

Control Oversight

Independent oversight provides the church with assurance that the internal controls are being followed, are adequate, and are achieving the desired results. Periodically the entire financial package is to be reviewed by an independent finance or audit committee made up of people not associated with the day-to-day financial activities of the church. The review would consist of examining selected documents and verifying procedural steps.

Fund Transfers

FUND TRANSFERS IN AND OUT OF THE CHURCH ACCOUNTS ARE NOT ALLOWED.

The church bank accounts should be blocked to prevent account transfers.

Electronic Payments

Electronic payments can pose a weakness in internal controls. However, if the recurring bills referred to above were set up as electronic payments, the controls would not be compromised.

ATM Cards

THE CHURCH SHOULD NEVER HAVE ATM OR CHECK CARDS.

New Bank Accounts and/or Credit Accounts

Bank accounts are to be opened only with the approval of the Board. Credit accounts and long-term debts are only to be opened upon approval the Board and a majority of the members of the church. All church accounts are to be opened only under the official corporate name and ownership of the church. **UNDER NO CIRCUMSTANCES ARE CHURCH BANK OR CHARGE ACCOUNTS TO BE CO-OWNED BY OR CONNECTED TO AN INDIVIDUAL IN ANY WAY.**

Payroll

The process of internal controls regarding payroll has not been addressed in this manual. If your church has questions regarding payroll, please contact us.

JOB DESCRIPTIONS

Business Manager

As Business Manager, you have many important roles and hold a vital position in our church. You will be responsible for verifying the accuracy of the reports received from the Bookkeeper, Ushers, and Group Ministry Leaders, paying authorized bills and keeping the accounting records up to date. You will report to and work directly with the Treasurer. Your adherence to the internal controls is a large factor in the success of our church's internal control system as a whole and thus calls for strong character and integrity.

Responsibilities:

YOU MUST BE FAMILIAR WITH ALL OF THE PROCEDURES OUTLINED IN THE INTERNAL CONTROL MANUAL.

YOU MUST BE FAMILIAR WITH THE ACCOUNTING PROCEDURES AND PROGRAMS USED BY THE CHURCH.

YOUR SIGNATURE OR INITIALS ON ANY DOCUMENT INDICATES YOU HAVE REVIEWED IT AND APPROVE OF IT.

INCOMING FUNDS

- Verify the deposit receipt to the *Usher/Counter Offering Report* and the *Cash Receipts Spreadsheet*. Follow up on any discrepancies with the originator of the report.
- Using the *Cash Receipts Spreadsheet*, enter the deposit into the church's accounting records.
- As part of the Bank Reconciliation process, verify that the deposits on our accounting records are properly recorded on the bank statement.

OUTGOING FUNDS

- No checks are to be issued until the documents have proper approval (refer to the manual for specifics).

OTHER ISSUES

- Bank Statements: Bank statements are delivered UNOPENED to the Treasurer for review. When returned to you, perform the bank reconciliation. Notify the Treasurer of any unusual or large discrepancies.
- Petty Cash: You are responsible for maintaining the integrity of Petty Cash. You must be sure to obtain receipts for all petty cash expenditures. The receipts are to be kept in the petty cash box until you reconcile and replenish petty cash. Whenever petty cash is given out and no receipt is available, complete a *Petty Cash Receipt*. In order to replenish Petty Cash, complete the *Petty Cash Reconciliation*). Present the completed form to the Treasurer for approval.

“Whatever you do, work at it with all your heart, as working for the Lord, not for men” (Col 3:23 – NIV).

Bookkeeper

You play a vital role in safeguarding the assets of your church. You are responsible for verifying the contributions, depositing them into the bank and updating the donors' contributions record. You have a responsibility for maintaining accurate records as well as the safekeeping of contributions to the church. Your role is very important to our church and calls for strong character and integrity.

YOUR SIGNATURE OR INITIALS ON ANY DOCUMENT INDICATES YOU HAVE REVIEWED IT AND APPROVE OF IT.

YOU MUST BE FAMILIAR WITH ALL OF THE PROCEDURES OUTLINED IN THE INTERNAL CONTROL MANUAL.

Weekly Job Functions:

- Obtain the *Usher/Counter Offering Reports*, the contributions and the contribution envelopes.
- Count the money and verify the total agrees to the total on the *Usher/Counter Offering Reports*. ***Immediately investigate any discrepancies with the person who signed the report.***
- Enter the donor information from the contribution envelopes into your church's contribution-tracking program.
- Complete the *Cash Receipts Spreadsheet*.
- Make two copies of the spreadsheet. Attach one to the *Usher/Counter Offering Reports*, provide one to the Treasurer and keep the original in a chronological file.
- Complete the deposit slip. Attach a copy to the *Usher/Counter Offering Reports*.
- Deposit the funds into the bank.
- Attach the deposit receipt to the *Usher/Counter Offering Reports*. You now have a completed deposit package.
- The completed deposit package contains
 - The *Usher/Counter Offering Reports*
 - The *Cash Receipts Spreadsheet*
 - A copy of the deposit slip
 - The original deposit receipt
- Submit the completed deposit package to the Business Manager.
- For all completed *Donated Items* Forms received, enter the donation information into the church contribution-tracking program.

“Whatever you do, work at it with all your heart, as working for the Lord, not for men” (Col 3:23 – NIV).

Usher

Your role as an Usher is very important to our church and calls for strong character and integrity. Although your responsibilities range from greeting guests, seating attendees and collecting contributions, this job description will focus only on your role in the collection and counting of contributions. You play a vital role in the collection and safeguarding of church donations.

YOUR SIGNATURE OR INITIALS ON ANY DOCUMENT INDICATES YOU HAVE REVIEWED IT AND APPROVE OF IT.

Weekly Job Functions:

- There must always be more than one usher present during the collection and counting process.
- The contributions must be taken to a secure room for counting.
- Each usher must separately count the contributions.
- Complete the *Usher/Counter Offering Report* **in ink**.
- Each usher must sign or initial the *Usher/Counter Offering Report*.
- The head usher places the *Usher/Counter Offering Report* along with the contributions and contribution envelopes into the church safe or lockbox.

“Whatever you do, work at it with all your heart, as working for the Lord, not for men” (Col 3:23 – NIV).

Group/Ministry Leaders

Although as a Group and/or ministry leader you have many important roles pertaining to the leadership and execution of your ministry, the job description below will focus only on your role in the collection and handling of donations and contributions. Our goal is to maintain a uniform collection and recording process for the safekeeping and accuracy of all donor contributions. Your role as a group or ministry leader is vital to our church and requires strong character and integrity.

YOUR SIGNATURE OR INITIALS ON ANY DOCUMENT INDICATES YOU HAVE REVIEWED IT AND APPROVE OF IT.

Essential Job Functions:

- Keep the contributions in a secure location until the function has ended.
Examples of contributions you may receive are:
 - Voluntary donations
 - Fundraising income
 - Sales of food or drinks, etc.
- Immediately after the function has ended, count the contributions and complete the *Usher/Counter Offering Report*, in ink. It is preferable (although it might not be possible) to have two people involved in the counting and *Usher/Counter Offering Report* preparation.
- Provide the contributions and *Usher/Counter Offering Report* to the Bookkeeper

“Whatever you do, work at it with all your heart, as working for the Lord, not for men” (Col 3:23 – NIV).

Cash Receipts Spreadsheet

CHURCH NAME

CASH RECEIPTS

DATE:

CURRENCY

\$1.00					0.00	
\$2.00					0.00	
\$5.00					0.00	
\$10.00					0.00	
\$20.00					0.00	
\$50.00					0.00	
\$100.00					0.00	

GENERAL FUNDS

Tithe & Offerings
 Building Fund
 Church Use: Islamic, Parking Lot
 Church Use: Other

OTHER

_____ |||
 |||

TOTAL:

0.00 |||

TOTAL GENERAL FUNDS

 0

COIN

Pennies					0.00	
Nickels					0.00	
Dimes					0.00	
Quarters					0.00	
Halves					0.00	
Dollars					0.00	

DESIGNATED FUNDS

Leader's Retreat
 Children's Ministry
 Community Impact
 Encounter Assembly
 Missionary - Guest
 Missions
 Missions Designated
 Outreach
 Pathfinders
 Project Hope
 Simple Truth (Young Adults)
 Spanish Congregation
 Women's Ministry
 Youth Ministry
 Youth Ministry
 Youth Pastor

TOTALS:

0.00 |||

CHECKS:

_____ |||

TOTAL DEPOSIT:

\$0.00 |||

TOTAL DESIGNATED FUNDS:

 0

Verify Difference = 0

0.00 |||

TOTAL CASH RECEIPTS:

 \$0