

Keeping Internal Controls in Check During a Pandemic—Q&A

Answers and resources for questions asked during the live webinar Q&A.

During the live webinar “Keeping Internal Controls in Check During a Pandemic” on August 19, 2020, attendees submitted a number of questions. We weren’t able to answer all the questions during the event, and therefore we’re providing answers to you now. CPA Vonna Laue—along with our editors—gathered your unanswered questions and provided links to existing content that addresses the topic or answered your question directly. Those are listed here:

Question:

Do you recommend advanced approvals BEFORE purchases are made rather than just before the bill is paid?

Vonna:

If the church is experiencing cash flow difficulties, we would definitely encourage advanced approvals. If that is not a concern, the budget process should drive approvals. Budget owners would approve those expenses that are charged to their budget rather than the business administrator or accounting department.

Question:

During the pandemic when we worked remotely from home, we did the check signing with signature stamps. And that process is still going on now. As a financial administrator, I submit the check register for every check processing and the bank GL balance. Do you think that process is sufficient from the internal control standpoint?

Vonna:

Keep in mind that whoever has control of the signature stamp has “custody of the asset.” If you have access to the check stock, the signature stamp, and the accounting system, someone else should review the bank statement and canceled checks. This is better than reviewing the check register which could exclude certain transactions depending on how the report is run.

Question:

What check amount do you feel warrants two signatures?

The editors:

This is addressed in [“Safeguard the Church Treasury”](#) by Dan Busby:

More than one signature should be required on checks over a certain amount. The dollar amount (\$500, \$1,000, \$5,000) could vary, depending on the size of the church. One signature is generally adequate on checks of a modest amount.

The level of a church’s controls on expenditures should help you determine when more than one signature is necessary. For example, if a large church has a business administrator who approves purchases, and all check requests

require the approval of the church treasurer before checks are written, then one signature may be sufficient for most checks. However, if a church has no budget and no written procedures for disbursing funds, requiring two signatures on all checks should help offset the missing controls.

Question:

For separation of duties, we have one person authorizing expenses/invoices and another person preparing/signing checks and recording into QB. Is that sufficient controls for cash disbursements?

The editors:

Refer to the answer above that addresses "[Safeguard the Church Treasury](#)" by Dan Busby. Also, look to Vonna Laue's [article](#), which offers some good general guidance for the separation of duties.

Question:

We always had two non-related people count our offerings each week. However, when the stay-at-home order was issued by the governor, only one person was able to come in to count mailed-in offerings. Two people are not allowed to be together, even with a mask. What is a good way to maintain control when only one person is able to count?

Vonna:

If you have detailed deposit records for the past, you can compare cash amounts received and verify the trends are similar (is there significantly less cash in the deposit when a particular individual is the counter?) The person counting the offering should not be entering into the donor system. If it is necessary for that person to enter in the donor system, someone else should review the system to make sure there were no unusual credits or corrections posted each week.

Question:

How important is it to have expense reimbursements or credit card reports approved by both employee and supervisor? If they are within their authorization limits, does the supervisor need to approve?

Vonna:

The supervisor should approve especially to verify an appropriate ministry purpose. This protects both the church and the individual.

Question:

What do you do if you don't have personnel to distribute responsibilities as you are describing? (We're a mission board, not a church.)

Vonna:

If the mission board only has one employee, you will need to use volunteers. That could be as simple as having the board treasurer review the bank statement or online banking activity regularly. This would include any electronic payments/transfers as well as reviewing all check copies. If there is no one else involved in the cash receipts process, a volunteer should also review the donor system to verify there are no unusual credits or corrections.

Question:

Our question is about the separation of duties for cash receipts: Our organization had a lock box which our bank opened and made the deposit, then mailed copies of checks

and paperwork to the corporate office, and was then posted into the accounting program to the individual congregations. The bank will be stopping lockbox in October, and we're trying to determine the best internal controls. Is the best practice to have one person open the envelopes, scan checks directly to the bank and another person still post into the accounting program?

Vonna:

If you have two people involved in the process, it would be helpful if they both ran a tape on the amounts to be deposited and those totals were agreed to the deposit and the amount in the donor system. If that's not possible, the second person should review the donor system to make sure there were no unusual credits or corrections.

Question:

So, the elected disbursing officer needs to have someone review his payments on a monthly basis? Then that second person should also reconcile the bank statement?

Vonna:

If the person making the disbursements has access to the whole process (writing checks, signing checks, and entering in the accounting system), it is very important for a second person to review all bank activity including electronic payments and check copies. In this situation, either individual could perform the actual bank reconciliation.

Question:

Embezzlement is a crime. Should churches always involve law enforcement when discovered, or should churches apply "grace" and give the bad actor a pass?

Vonna: I really encourage churches to talk about this before there is an issue to do so in a non-emotional environment.

The editors:

The [new forum](#) offers guidance on involving law enforcement and on applying grace. See questions in [the article](#):

- You will get requests to show grace and mercy to the accused. How should your church respond?
- Should a church enter into a restitution agreement in lieu of prosecution?
- What advice or guidance do you have when it comes to insurance coverage and communicating embezzled funds? (stresses that to receive an insurance claim, the embezzlement must be reported to authorities)

Also, see the subhead "Should fraud be reported to law enforcement?" in Richard Hammar's [new article](#)."

Questions:

1. Do you have guidelines/manual for all the areas we would need to address to have strong internal controls and recommendations on how to improve them?
2. Do you have suggestions on an accounting policy/procedure manual that we could use as a starting point for our organization?

The editors:

- [Church Finance](#). See chapter 7, "Maintaining Sound Internal Control." Chapter 10, "Financials" (along with the various appendices that show examples) should prove helpful.
- [Internal Controls for Church Finances](#)

Question:

What best practices have you seen for cash/donation procedures?

The editors:

The [Church & Clergy Tax Guide](#) should have helpful information, as well as these two downloadable resources:

- [Best Practices for Receiving Charitable Contributions](#)
- [Receipts for Donors](#)

Question:

I have a question about internal audits. Is an annual audit done by church members enough to oversee record keeping? Do you recommend best practices for audits?

The editors:

Refer to chapter 8 in [Church Finance](#).

Question

Is it worth it to start a scanning process of invoices/bills etc. that need to be paid instead of keeping that paper copy in a file cabinet? Do you see this in churches/companies you work with—are they changing over to this?

Vonna:

Many churches are moving this direction. It minimizes the amount of physical storage space required and makes the information more readily accessible. Keep in mind that the record retention policy you use should apply to both physical and electronic records.

Questions:

1. Please discuss controls over bank automated bill pay systems our church uses instead of manual produced checks. Our church uses this for most transactions.
2. Any tips on digital documentation? It is easy for someone to submit a reimbursement for an Amazon purchase twice without knowing it because digital receipts are readily available. (With paper once you provided it, it limited the ability to submit twice.)

The editors:

The “[Electronic funds transfer](#)” section in [this article](#) might help answer the question. While [this article](#) focuses on e-giving, it might offer some helpful insights.

Question:

With submission of electronic versions of receipts and invoices, what controls do you recommend be implemented to prevent or detect manipulated documents?

Vonna:

It is not too difficult to manipulate or falsify an invoice today whether it is hard copy or electronic. I would encourage you to watch for duplicate submission of expenses because the individual retains the original when submitting electronically and could submit again whether it was intentional or accidental. It is also good to review the vendor list and make sure there are not vendors with the same address or vendors with an address that matches an employee's address.

Question:

In order to pay bills, they are brought to where I'm working remotely. After they are paid, the bills go back to the office to be filed. Is that okay?

Vonna:

This process is not concerning.

Questions:

1. How is the best way to communicate to the congregation that this important task of internal controls is being dealt with? Especially when there are problems with the filing system and the controls....

2. Any tips for getting leadership to work on controls? I do everything. Any internal controls are things I have set up myself. If anything happened to me, no one would know how to do anything.

The editors:

Basic fraud and embezzlement education would be the answer. Our new [interview article](#) is a powerful example that mere trust is not good enough. And many other articles mentioned above explain how and why fraud can happen in any church. [Richard Hammar's legal developments on embezzlement](#) are certainly solid/scary "teaching tools."

Question:

When records are deficient or conflicting, how can you get people past "we'll never figure this out completely, let's just move on"?

The editors:

Sounds like maybe a CPA audit is in order—or a professional bookkeeper. Letting this problem go is never the answer. Churches that struggle with these issues might do well considering outsourcing finance tasks. Here are a couple of articles that might help:

- [Q&A: What Do We Need to Know About Outsourcing Financial Tasks?](#)
- [The Outsourcing Option](#)
- [Reduce Your Church's Expenses](#)—see especially the outsourcing section.

Question:

I am looking for a records retention policy for all the financial files in my church: Bills, expenses, deposits, bank statements, payroll runs, annual financial reports, tax filings, etc.

The editors:

See Mike Batts' [Church Finance](#), chapter 2 ("Retention of Church Records" section, pages 50 - 57).

Question:

What if records are kept at people's home? Is this a good time to go digital?

The editors:

Here's a good Q&A on the problem of taking records home—with some other valuable guidance.

- [Q&A: Who Owns A Church's Accounting Records?](#)

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