

AN ANALYSIS  
OF THE ACCOUNTING INTERNAL CONTROL PROCEDURES  
OF WELS CONGREGATIONS:  
AS THEY SHOULD BE  
AND AS THEY ARE

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A pastor confers with his church council. Things look bleak. It has just been discovered that the treasurer of the congregation has stolen the building fund. Over \$25,000 was spent by the treasurer on riotous living. The man was arrested but the money is gone. There is no way to recover it.

Another pastor confers with his church council. Things here also look bleak. The congregation is hopelessly in the red. There is no way the congregation will make its next mortgage payment; it will be lucky to pay the pastor his monthly salary. The pastor and the council resolve to begin an emergency fund drive. In the middle of the drive, however, it is discovered that the financial condition of the congregation was not as hopeless as originally thought. The fund drive, it turns out, was unneeded. The pastor's credibility is undermined.

Someone might say that the last thing WELS pastors should ever have to concern themselves with is the internal accounting control of their congregations. After all, we are dealing with Christians, aren't we? We do not have to worry about money being stolen, do we? Good accounting control is definitely needed in our churches. The two examples with which this paper began illustrate that point. The first illustration is true. One of our WELS congregations in Canada lost its building fund not many months ago. I have been told on good

authority that cases of theft like the one mentioned happen about once or twice a year in our synod. The second illustration of the unneeded fund drive is hypothetical but not farfetched.

All people are sinners. Sinners make mistakes. These mistakes are of two types: intentional and unintentional. The first illustration shows an intentional mistake. A man stole several thousand dollars. The second illustration shows an unintentional mistake. The accounting system was so ineffective the pastor and the council could not make an intelligent estimation of the congregation's financial condition.

In both cases, the worship life of God's people was unnecessarily interrupted. One of the purposes of good internal control procedures is to guard against these unnecessary interruptions.

Bad internal control invites theft. A person with unrestricted access to the assets of the congregation is being tempted -- almost dared -- to steal. We can all be thankful to God that our congregations do not have greater problems with stealing than what has been reported.

It would be proper at this point to adopt a working definition of internal control:

A system of internal control consists of all measures employed by a business for the purposes of (a) safeguarding its resources against waste, fraud, and inefficiency; (b) promoting accuracy and reliability in accounting

and operating data; (c) encouraging and measuring compliance with company policy; and (d) judging the efficiency of operations in all divisions of the business. (1)

Internal control encompasses more than just safeguarding cash. It encompasses all of a congregation's operations and assets. For the purpose of this paper the definition of internal control must be narrowed. There are basically two types of internal control -- administrative and accounting. Administrative control has been defined in the Statement of Auditing Standards as:

Administrative control includes, but is not limited to, the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions. (2)

The administrative control in a congregation includes the constitution and how all of its bylaws are carried out. The requirements for membership in the congregation and the Christian Day School's enrollment policy are other examples of administrative control.

Accounting control, on the other hand, is defined this way:

Accounting control comprises the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that:

(a) Transactions are executed in accordance

with management's general or specific authorization.

(b) Transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and to maintain accountability for assets.

(c) Access to assets is permitted only in accordance with management's authorization.

(d) The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. (3)

There is some inevitable overlap between administrative and accounting control, but accounting control more directly relates to the church's financial records and the safeguarding of assets. The focus of this paper will be accounting control. Another extensive paper could be written on administrative control as employed by WELS congregations. Henceforth in this paper "internal control" will relate only to accounting control.

The purpose of this paper is threefold:

- (1) To provide a general summary of good internal control procedures and practices, especially as they relate to WELS congregations.
- (2) To describe in some depth the internal control procedures employed in four WELS congregations and to offer constructive criticisms for improvements. (Here again, the scope of the paper is limited; the main area of focus will be the operations of the church itself, not the Christian Day School.)

- (3) To provide a practical guide to WELS pastors in evaluating and improving internal control procedures in their congregations.

#### PART I -- A GENERAL SUMMARY OF GOOD INTERNAL CONTROL

Every organization has some form of internal control. Control is naturally developed on a trial-and-error basis as things go wrong. Three factors considered essential to good internal control are:

- (1) A logical plan of organization which establishes clear lines of authority and responsibility and segregates the operating, recording and custodial functions.
- (2) An adequate accounting structure, including budgetary and cost accounting techniques, a chart and text of accounts, procedural manuals, and charts depicting the flow of transactions.
- (3) An internal auditing staff reporting to a member of the top management group and charged with the responsibility of continuous survey, evaluation, and improvement of internal control. (4)

The ultimate goal of internal control is to insure "that no one person should handle all phases of a transaction from beginning to end." (5) Internal control aims to make it difficult for one person to make and conceal aberrations -- intentional or unintentional. Internal control inherently tries to bring in more than one person. Arnold Johnson emphasizes this point in his definition

of internal control:

The accounting work of one employee is complemented and verified by the work of another employee -- both employees working independently and without duplication of each other's work. (6)

Even the strongest internal control is helpless against collusion. Two or more key individuals in an organization acting in concert could get away with a great deal. The Equity Funding fraud a few years ago was perpetrated by only a few individuals in a large company. These men defrauded the stockholders of Equity Funding of several million dollars.

In order to produce strong internal control, an accounting system should have all the following elements:

- (1) A chart of accounts classified in accordance with the responsibilities of individual supervisors and key employees.
- (2) A manual of accounting policies and procedures.
- (3) A budget or master operating plan, consisting of a detailed forecast of operations with provision for prompt reporting and analysis of variations between actual performance and budgetary standards.
- (4) Well-designed documents and forms controlled by serial numbering. (7)

The level of strength of internal control is determined not only by the procedures in effect but also by how well those procedures are employed. It is the responsibility of the pastor and of the officers of the

congregation to insure that those procedures are carried out. Management responsibility has been described as this:

The establishment and maintenance of a system of internal control is an important responsibility of management. The basic concepts implicit in the definition of accounting control are discussed in the context of that responsibility. The system of internal control should be under continuing supervision by management to determine that it is functioning as prescribed and is modified as appropriate for changes in conditions. (8)

What follows is an expansion of an internal control questionnaire I developed (Attachment #1). The questionnaire is somewhat deficient because most of the questions require positive responses. A more fine-tuned questionnaire would require negative as well as positive responses. An internal control examination in a large firm embraces many areas. Those areas include: cash, notes and accounts receivable, inventory, investment in securities, prepaid expenses, fixed assets, intangible assets, current liabilities, long-term liabilities, ownership, and income and expense. Because even the largest WELS churches are really only small businesses, this paper will concern itself specifically with cash receipts, cash disbursements, and property, plant and equipment. My expansion of the internal control questionnaire will describe which procedures ought to be employed.



### In General

All employees should be bonded. The pastor, all church workers, and the chief officers of a congregation should be covered by a fidelity bond. An all-encompassing theft provision in the casualty insurance might suffice. A fidelity bond is not a substitute for good internal control, but it does help to fill in the cracks and it protects the congregation against collusion.

There should be a budget. A detailed forecast for the upcoming year should be drawn as carefully as possible. Every month the forecast should be compared to actual activity. This will likely be done at the church council meeting.

One way to make a budget more useful is to categorize receipts and disbursements by the month in which they are expected to be received and disbursed. Redeemer Ev. Lutheran Church in Cedarburg, WI uses a budget similar to that just described (Attachment #2). Snow removal expenses, for example, are normally not paid in July. A congregation expects higher offerings in December than August. A month-to-month budget would make mishandled expenses more apparent and would give the congregation's leadership a clearer picture of the congregation's financial condition.

Many WELS congregations have a high turnover of their financial personnel. Oftentimes the men who take

on these duties have little or no accounting background. Because of the turnover and lack of training it is important for congregations to have detailed written procedures for the treasurer, the financial secretary, and the finance committee. No one likes to write job procedures, but they should be done. A good time to take on the task is when the congregation is blessed with a treasurer who has accounting expertise. Good standardized procedures could be established at that time. Then it is up to the congregation's leadership to insure that the procedures are strictly adhered to and modified when necessary.

One thing essential to good written procedures is a chart of accounts. Accounts should be standardized with descriptions of the types of transactions each account is to contain. A good example of a chart of accounts is found in a book entitled, "A Standard Accounting System for Lutheran Congregations."<sup>(9)</sup>

Every congregation should have an active audit committee. The activities of counting money and auditing could be combined in a single finance/audit committee. The books of the treasurer and financial secretary should be audited on a regular basis; four times a year would be adequate. The audit committee should report to the president, the pastor, or to the congregation directly at quarterly meetings.

I do not know of a single congregation that does it, but I believe that a periodic audit by a Certified Public Accounting firm would be quite helpful. The expense of a yearly audit would probably be too prohibitive for most congregations, but an audit every five years would be in order. The resultant increase in efficiency would be well worth the cost.

Most congregations have adopted an envelope system of collecting offerings. This is helpful in the control of receipts and it allows for more orderly bookkeeping. Statements are mailed quarterly or semi-annually. Members should be encouraged to scrutinize their statements carefully but their inquiries should not go directly to the financial secretary. The pastor or an officer should field the inquiries and then refer the parishioner to the financial secretary. If the financial secretary is falsifying records or doing a slipshod job, this procedure will bring it to the attention of the congregation's leadership. The members of a congregation can help maintain control of cash receipts by carefully going over their statements.

Few people today are without checking accounts. Most people pay at least some of their bills with checks. Members should be encouraged to make their offerings by check. At least once a year, perhaps in early January, the pastor should make a point of encouraging his members

to contribute with a check. Time could be taken at that point to encourage the congregation to examine their contribution statements as well. Reasons for using a check are:

- (1) Checks are useless to steal if they are made out to the congregation. If stolen, forged and cashed, the congregation can collect from the bank that accepted the forgery and need not find the thief to get its money back.
- (2) The amount on the check is set. A person who normally contributes two ten-dollar bills may make a mistake and put only one in the envelope. When the contribution statement lists \$10, the man may claim a \$10 theft has occurred. With checks, there is no question as to how much a person has contributed.

There must be no overlap in function between the treasurer and the financial secretary. They must not help each other or cover for each other. Yet there should be communication between the two. Every month they must make sure their respective reports agree. It would also be helpful to limit the time any one man could serve in either of these two offices. Most embezzlers have been on the job several years.

#### Cash Receipts

There is a far greater chance for fraud or misappropriation of funds in cash receipts than disbursements. A congregation can control the money it spends simply by appointing one man to spend it. A congregation

cannot control its receipts nearly as easily. Receipts can come in from many sources. Thus there must be a wider set of control mechanisms with receipts than disbursements.

The primary source of cash receipts for a congregation is the Sunday collection. The key to maintaining control of the collection during the service is to NOT allow one person to be alone with the collection. Typically, the collection plates are brought forward by the ushers and placed on the altar by the pastor. The plates remain in the plain view of everyone in church until the close of the service.

After the service, the collection plates should be brought into a secluded, preferably locked room for counting. There must be at least two people involved in the counting. Loose collections should be separated from the envelopes. Cash and checks should be removed from the envelopes and checks stamped with a restrictive endorsement. The amount of the cash or the check is compared with what is written on the envelope. If nothing is written on the envelope the amount is written on it by the counter. The counter should take special note of any incorrect amounts written on the envelopes. The counting should be done by a separate finance committee. Neither the treasurer nor the financial secretary should be involved in the count in any way.

An adding machine tape should be run of the money in the envelopes and of the envelopes themselves. The tapes

must agree. A report is then prepared showing the amount of coin, currency and checks. The report should be done in triplicate with copies going to the treasurer, the financial secretary, and the audit committee.

In large congregations it may be impractical to count the collection immediately after the service. It takes many manhours to arrive at an accurate count in a large congregation. The finance committee may meet on Sunday or Monday night to count the collection. In the case of a delayed count, one of two procedures should be followed:

- (1) The collection is put in a locked bag and driven -- with two men in the car -- to the bank and placed in the night depository. It can be pre-arranged with the bank that the collection bag will be picked up to be counted at a certain time. The collection can be counted and then returned to the night depository for regular processing.
- (2) If the congregation has a safe, the collection is put in a bag and placed in the safe until it is convenient to do the count. The combination to the safe must be classified information. At most, only three or four people should know the combination. These people should be encouraged to have the combination memorized and not to have it written down ANYWHERE. A one-way trap door on the safe would allow the collection to be placed IN the safe by anyone.

The more quickly the collection is counted and deposited, the more safe it will be. A count and deposit immediately after the service reduces the chances of theft

and gives the congregation the use of that money that much sooner. Interest is earned and bills are paid only on money that has been deposited.

The bank should be instructed to bring deposit errors to the treasurer's attention. The bank may bring the errors to the financial secretary's attention only if the financial secretary has no involvement in counting the money. Whoever receives the notice must communicate the errors to the other parties involved. Deposit errors should be reported on the monthly report.

From time to time cash and checks are received in the mail. The person who opens the mail should prepare a sheet showing the amount received and from whom it was received. The money should be kept in a safe or at least in a locked desk drawer. Copies of the tally sheet will go to the treasurer, the financial secretary and the audit committee. A special notation should be made for memorials received so they are not co-mingled with regular receipts.

The Sunday School collection should be counted in with the regular offerings. Although the amounts involved are usually not great, care should be taken so that one person is not alone with the collection. It is unwise to maintain a separate Sunday School fund. Receipts and disbursements should be a part of the congregation's regular operations.

Receipts from the Christian Day School will not be discussed in this paper. The wide variety of receipts makes it difficult to speak in a general way of the control needed. The fundamental need in control is to separate recording and collecting as much as possible.

#### Cash Disbursements

All disbursements should be made by check. The treasurer should sign the checks with a provision for a dual signature for large amounts, perhaps over \$1,000. The checks should be pre-numbered. It would be a good idea for a congregation to invest in a check protector machine. If there is no check protector, the treasurer must take care not to leave any blank space in the line where the amount is written.

The authorization system for paying bills will vary greatly depending upon the size of the congregation. In small congregations, the pastor will likely be the one who opens the mail. He will review the invoices received and probably know at a glance if the bill is legitimate or not. He will then turn the invoice over to the treasurer for payment.

Large congregations need a more elaborate system. It is unlikely that any one person will be able to judge the validity of every invoice that comes in for the church, school, and all the various organizations. The secretary who opens the mail in a large congregation should refer



invoices to the person indicated on the bill. Experience will quickly teach the secretary who should be authorizing each type of bill. The authorizer should review the invoice, initial it as authorized for payment, and write the proper account name and number to which the amount should be charged.

Once the treasurer has received the invoice authorized for payment, he should write the check but maintain physical control of the check. In no case should the check be returned to the authorizer. The treasurer reviews the invoice for the payment due date, taking notice of any discounts for early payment. The payment is mailed three business days before the due date. Copies of paid invoices should be kept on file, categorized by vendor.

The checking account will require a monthly bank statement reconciliation. It is best if the check writer, who is probably the treasurer, does NOT perform the bank reconciliation. This job should be given to another officer in the congregation. Perhaps members of the audit committee could take turns during the months they are not doing a regular audit. The bank should be instructed to send the monthly statement to the church and not to the treasurer. The person doing the reconciliation should use the following procedure:

- (1) Foot the columns of the check register.

- (2) Examine the checks for alterations and compare the endorsement to the payee named on the face of the check.
- (3) Trace the checks and deposits to the check register comparing the deposits to the finance committee report.
- (4) Trace the deposits in transit on the previous statement reconciliation to the present bank statement.
- (5) Prepare a bank reconciliation report.

Many congregations maintain one or more petty cash funds. It is imperative that only one individual be responsible for each fund. The amount of cash in the fund should be limited to the cash needs for short periods of time, two weeks to a month. Signed and dated vouchers should be required for each petty cash disbursement. The treasurer should replenish the fund only for the amount of the vouchers he receives.

#### Property, Plant and Equipment

Even the smallest congregation owns property worth thousands of dollars. Larger congregations with schools have property worth millions. Older congregations that have held property for several years have seen the value of their investments double, triple, and quadruple. It is imperative that congregations maintain control over their investments.

A congregation must have adequate casualty insurance, especially for fire. The church council should make a point of annually re-evaluating the insurance coverage.

A congregation would do well to place an amendment to their constitution to require the council to do this.

An inventory of all congregation property should be taken once each year. This might be a good project for the ladies' society or the youth group. A subsidiary ledger should be maintained of all physical assets. One 3 x 5 card with the asset number, a description, the amount paid, and the date purchased, along with any other pertinent information, will be sufficient for each asset. The ledger should be kept in a remote or fireproof location. The assets themselves should have some type of asset number with a label attached or etched on. As a minimum, and perhaps in addition to the ledger, a congregation should have pictures of all its major assets. A photo album or video cassette tape would suffice. These also would be kept in a remote or fireproof location.

PART II -- A DESCRIPTION AND EVALUATION OF THE INTERNAL CONTROL PROCEDURES USED IN FOUR WELS CONGREGATIONS

RISEN SAVIOR -- MILWAUKEE, WI

Risen Savior began in 1971 on the extreme northwest side of Milwaukee. There are approximately 175 baptized members with the pastor as the only called worker. Risen Savior's annual budget is \$54,000.

### In General

Risen Savior's officers are not bonded.

Risen Savior has a budget that is reviewed against actual activity by the church council on a monthly basis.

There are no detailed written procedures for the treasurer and the financial secretary, nor is there a regular chart of accounts. Two years ago Risen Savior lost a Maundy Thursday offering when the deposit bag was inadvertently left in the church overnight. There was some confusion over whose responsibility it was to deposit the collection. The following morning the pastor discovered that the deposit bag had vanished. The procedures for treasurer and financial secretary are passed down by word of mouth.

There is no separate audit committee but the father-in-law of one of the members does an informal audit about once a year. Risen Savior has never been audited by an independent firm.

Risen Savior has an envelope system with statements mailed quarterly. The members have never been urged to pay with a check nor to scrutinize their quarterly statements. Many members, however, do seem to look over their statements. Requests for clarification come into the church from time to time.

There is a separation of duties for treasurer and financial secretary. Both men, however, are occasionally

involved in counting the weekly offering. There is a limit of three years of consecutive service on the church council. Therefore a treasurer or financial secretary could hold office only for three years at a time.

#### Cash Receipts

After the offering, the collection plates are brought forward and placed on the altar. Following the service, the financial secretary and one other man take the plates downstairs to a secluded room and count the collection. The treasurer assists in this from time to time. There is no separate finance committee to count the collection. Contribution amounts are written on the envelopes that do not already have them and restrictive endorsements are stamped on the checks. A collection report and deposit slip are prepared.

Usually the financial secretary puts the collection in the night depository of the bank. The treasurer does this at times also. The collection is deposited intact with the treasurer receiving notice from the bank of any deposit errors.

The pastor opens the mail. Since receipts through the mail are infrequent at Risen Savior, a list of mail receipts is not kept. When mail receipts are received they are given to the financial secretary to be included in the Sunday collection.

A Sunday School collection is taken each Sunday but the money is kept in a separate fund.

Cash Disbursements

All disbursements are made by pre-numbered checks signed by the treasurer. A check protector is not used.

Invoices that come in are approved by the pastor and passed to the treasurer for payment. The treasurer writes the check and pays the bill. Only single signatures are required for checks of any amount.

The treasurer does the monthly bank statement reconciliation.

There is no petty cash fund.

Property, Plant and Equipment

Risen Savior's insurance agent has taken an active interest in keeping its fire and casualty coverage current. There is no resolution to review the coverage annually.

There has never been an inventory of Risen Savior's assets and no subsidiary ledger is maintained. There are no asset numbers attached to nor markings of any kind on the equipment.

Reaction

These are the weaknesses I see in Risen Savior's internal control along with my recommended improvements:

WEAKNESS

No bonding of officers.

No chart of accounts or written procedures.

IMPROVEMENTS

Officers and employees must be bonded.

A standardized chart of accounts with account descriptions

WEAKNESS

No standing finance/audit committee.

Members are never urged to contribute with a check or to scrutinize their quarterly statements.

Poor counting procedures.

Separate Sunday School fund.

The treasurer does the bank reconciliation.

No inventory.

IMPROVEMENTS

should be written along with detailed instructions for the treasurer, financial secretary, and finance/audit committee. These procedures should be approved by the church council.

A standing finance/audit committee should be appointed to count the weekly collections, deposit the money, and audit the treasurer and financial secretary on a quarterly basis. This committee should report to the congregation at quarterly meetings.

This should be done at least once each year.

The treasurer and financial secretary should never be involved in counting or depositing the collection. The finance/audit committee should handle these functions with at least two men involved at all times.

The Sunday School collection should be counted with the general collection.

Someone other than the treasurer should be doing the bank reconciliation. Members of the finance/audit committee could take turns each month.

An inventory should be taken once each year. Each piece of equipment should have an asset number attached and a subsidiary ledger card. The ledger should be kept in a remote or fireproof location.

ST. PAUL -- MUSKEGO, WI

St. Paul's is a very large congregation with a baptized membership over 2200 and a school enrollment of 235. The congregation just celebrated its 125th anniversary. St. Paul's employs 25 people and has a budget over \$500,000.

In General

The officers and employees are bonded.

St. Paul's has a budget that is reviewed monthly against actual dollars spent.

St. Paul's does not have detailed written procedures nor a standard chart of accounts. The duties of the treasurer and the financial secretary are passed down by word of mouth.

There is no audit committee but there is a finance committee which meets to count the collection. St. Paul's has not been audited by an independent accounting firm in anyone's memory.

There is an envelope system with contribution statements mailed on a quarterly basis. From time to time members have been encouraged to contribute with a check. The quarterly statements contain a suggestion urging the contributor to compare the statement with his own records. Inquiries come into the church office and are fielded at first by the church secretary. Problems she cannot answer are referred to the recording secretaries.



There are separate functions for the treasurer and the financial secretary. Sometimes, however, both men are involved in the preliminary rough sort of the weekly collection.

#### Cash Receipts

After the offering, two of the collection plates are brought forward and placed on the altar. The other two are taken by two ushers and placed in the elder's room which is in front of the church. No one could enter this room without being seen by everyone seated in the nave. After the service, the plates on the altar are brought into the elder's room by at least two men. A "rough sort" of loose offerings and envelopes is done at this time. The offering is placed in deposit bags and locked in the safe. Several people at St. Paul's have the combination for the safe.

On Monday (or, on alternating weeks, Tuesday), the collection is counted. One finance committee meets on Monday, the other Tuesday; each committee has ten members. The finance committee is regularly rotated with a 33% turnover each year. The group leader removes the collection from the safe. Contribution amounts are put on the envelope if not already there. Restrictive endorsements are stamped on checks. The count is finished when agreement is reached between the calculator tape of the envelopes and the tape of cash and checks. A report is completed along with deposit

slips. The treasurer, financial secretary and senior pastor receive copies of this report. The finance committee group leader and one other from the committee go together to the bank to drop the collection in the night depository.

The collection is deposited intact. Deposit errors are handled by a bank phone call to the treasurer. The treasurer reflects the overage/shortage on his monthly report.

The church secretaries open the mail and turn over any money receipts to the senior pastor. He records the receipts on a sheet and turns the money over to the finance committee when it meets.

The Sunday School, Christian Day School, Church Picnic Committee Fund, and Cemetery Fund all have separate mechanisms for receipts and disbursements.

#### Cash Disbursements

Cash disbursements are made from pre-numbered checks signed by the treasurer. A check protector is not used and dual signatures are not required for any amount.

Incoming invoices are authorized by the pastors, secretaries, or the person most familiar with the purchase. The treasurer receives the authorized invoice and reviews the documentation. Questionable expenditures are brought up by the treasurer at the council meeting. The treasurer writes the check and mails it three business days before its due date.

There is an assistant treasurer who handles the payroll, which is about \$17,000 per month. This man calculates the withholding and writes the checks. The regular treasurer reviews the documentation each month. There is no separate payroll account.

The treasurer does the bank reconciliation.

There are two petty cash funds. The senior pastor has one and the school principal the other. Each has exclusive control of his fund. The balance of each is \$100. Two weeks to two months pass before the fund is replenished. The fund is replenished for the amount of the vouchers supplied.

One good practice at St. Paul's is keeping gift certificates for a major food store on hand. Because St. Paul's is located on a busy street, people who are "down and out" stop in frequently to ask for charity. These gift certificates enable the beggar to buy food but they cannot be used for alcohol or tobacco.

#### Property, Plant and Equipment

The fire and casualty insurance was reviewed recently but there is no set procedure for annual review.

There has never been an inventory of St. Paul's assets and no subsidiary ledger is maintained. (The value of St. Paul's property has been appraised at over \$3,000,000.) The equipment has no asset numbers attached nor markings of any kind.

Reaction

These are the weaknesses I see in St. Paul's internal control along with my recommended improvements:

WEAKNESS

No chart of accounts or written procedures.

No standing audit committee.

Delay in counting collection.

Multiplicity of funds.

No separate payroll account.

IMPROVEMENTS

A standardized chart of accounts with account descriptions should be written along with detailed instructions for the treasurer, financial secretary and finance/audit committee. These procedures should be approved by the church council.

A standing audit committee should be appointed to audit the books of the treasurer and financial secretary four times per year. The audit committee should report to the congregation at the quarterly meetings. In a congregation the size of St. Paul's, the lack of an audit committee is a serious deficiency.

It is dangerous to leave a collection in a safe overnight. The collection should be counted as soon as possible. If the collection is to be left for any time at all in the safe, the combination should be changed and entrusted to only two or three individuals. A one-way trap door could be installed on the safe to allow the collection to be put into the safe without the depositor knowing the combination. The collection could also be put in the bank's night depository in accordance with the procedures outlined in Part I.

All of the funds within St. Paul's (Sunday School, Christian Day School, Picnic, Cemetery) should be centralized as much as possible.

A congregation as large as St. Paul should have a separate payroll account that is funded on payday from the general account.

WEAKNESS

The treasurer does the bank reconciliation.

No inventory.

General confusion.

IMPROVEMENTS

Someone other than the treasurer should perform the bank reconciliation. Members of the audit committee could take turns each month.

An inventory should be done once each year. Every piece of equipment should have an asset number attached and a subsidiary ledger card. The ledger should be maintained in a remote or fireproof location. This would be a mammoth task the first year but easier in subsequent years.

Because of the phenomenal growth St. Paul's has experienced over the last twenty years, it has become extremely difficult for any one person to grasp all aspects of its operations. Controls that are adequate for small congregations are not good enough for a congregation as large as St. Paul's. I would strongly recommend that St. Paul's employ the services of an outside financial consultant (perhaps a CPA firm) to examine its financial operations from top to bottom. The consultant could then make recommendations on setting up a comprehensive financial responsibility program. The recommendations I made would be helpful but they are incomplete; a total revamping would be in order in this congregation.

REDEEMER -- CEDARBURG, WI

Redeemer is a small young church, much like Risen Savior. There are about 200 baptized members with the pastor the only employee. There is no Christian Day School and the annual budget is about \$67,000.

In General

Redeemer's pastor and officers are not bonded.

Redeemer has a budget which is reviewed monthly against actual activity. One good feature of Redeemer's budget (as mentioned in Part I) is that projected receipts and disbursements are based upon the month of the year they are expected to be received or paid (Attachment #2). This adds another dimension to the control feature of the budget.

Redeemer's constitution provides general guidelines for the treasurer's and financial secretary's duties. There are not, however, specific written instructions nor is there a chart of accounts.

There is no separate finance/audit committee. The incoming treasurer will, however, audit the books of his predecessor. New procedures for 1983 provide for the vice president to audit the books of the treasurer and financial secretary once each month. There has never been a formal audit by an independent accounting firm although the congregation's president, a Certified Public Accountant, has informally reviewed the books from time to time.

Redeemer has an envelope system and semi-annual contribution statements are mailed. The membership has never been urged to contribute with a check but the cash offering is not large. The semi-annual contribution statements urge the contributor to compare the statement to his own records and bring any questions to the vice president.

There is a separation of duties between treasurer and financial secretary. At times, however, the treasurer

assists in the count of the collection. Redeemer has a six-year limit to continuous church council service. Therefore, a treasurer or financial secretary could serve only six years.

#### Cash Receipts

After the offering, the collection plates are brought forward and placed on the altar. After the service, the plates are brought to the church office for counting. Amounts on the envelopes are compared to actual amounts enclosed. Restrictive endorsements are stamped on the checks. The collection report and deposit slips are prepared and given to the treasurer and financial secretary. After the count the financial secretary drops the collection into the night depository of the bank on his way home.

The pastor opens the mail. As with Risen Savior, mail receipts are rare. When they do occur, they are turned over to the financial secretary.

The Sunday School collection is counted along with the regular collection.

#### Cash Disbursements

Redeemer makes disbursements with pre-numbered checks signed by the treasurer. Only one signature is required for checks of any amount, and there is no check protector.

Invoices are received by the pastor and passed to the treasurer for payment. The treasurer writes the check after reviewing the documentation and mails the payment.

The treasurer does the bank statement reconciliation.

There is no petty cash fund.

#### Property, Plant and Equipment

There has not been a re-evaluation of Redeemer's fire or casualty insurance in the recent past. There is no resolution to do this on an annual basis.

Redeemer has never taken an inventory of its assets. Thus, there is neither a subsidiary ledger nor asset numbers attached to its equipment.

#### Reaction

These are the weaknesses I see in Redeemer's internal control along with my recommended improvements:

#### WEAKNESS

No bonding of officers.

No chart of accounts or written procedures.

No standing finance/audit committee.

#### IMPROVEMENTS

All officers and employees must be bonded.

A standardized chart of accounts with account descriptions should be written along with detailed instructions for the treasurer, financial secretary and finance/audit committee. These procedures should be approved by the church council.

A standing finance/audit committee should be appointed by the vice president to count the weekly collection, deposit the money, and audit the treasurer and financial secretary on a quarterly basis. The committee should report to the congregation at every quarterly meeting.



WEAKNESS

Members are never urged to contribute with a check.

Poor counting procedures.

The treasurer does the bank reconciliation.

No fire insurance re-evaluation.

No inventory.

IMPROVEMENTS

Even though Redeemer has a small cash offering, it would be good to remind the people once each year to contribute with a check.

The treasurer and financial secretar should not be involved in counting o depositing money. The finance/audit committee should handle this task. At least two men should go to deposi the collection.

Someone other than the treasurer should be doing the bank reconcilia-tion. This could be done by the vice president or by someone on the finance/audit committee.

Fire insurance should be reviewed as soon as possible and then on an annual basis.

An inventory should be taken once each year. Every piece of equip-ment should have an asset number attached and a subsidiary ledger card. The ledger should be kept in a remote or fireproof location.

ST. STEPHEN -- ADRIAN, MI

St. Stephen is a large congregation with 800 baptized members and a school enrollment of 110. St. Stephen congrega-tion was established in 1861. St. Stephen employs ten people and has a yearly budget of about \$250,000.

In General

All employees and officers are bonded. This is a part of the general casualty insurance policy.

St. Stephen has a budget that is reviewed monthly against actual activity by the church council.

There are no detailed written procedures for the treasurer, financial secretary, or finance/audit committee. There is a chart of accounts but there are no detailed account descriptions.

St. Stephen has a finance/audit committee that counts the collections and audits the treasurer and financial secretary four times per year. The finance/audit committee reports to the congregation at its quarterly meetings. This is a strong point of the St. Stephen accounting system. The congregation has not been audited by an independent accounting firm within memory.

The congregation has an envelope system with contribution statements mailed twice per year. The members have never been urged to contribute with a check and there has been no emphasis placed on scrutinizing the contribution statement.

St. Stephen has a clear separation of treasurer and financial secretary duties. There is no time limit to their service.

St. Stephen has a burglar alarm and smoke detector system. The burglar alarm is activated during non-use hours.

#### Cash Receipts

The collection plates are brought forward by the ushers and placed on the altar. After the service the collection plates are brought into the church office by the financial secretary and one member from the finance committee. A rough sort of the collection is performed and then it is placed in the safe.

On Monday evening the finance committee meets to count the collection. Two men from the committee take the collection to the church office for counting. The drapes are drawn and the door is locked. Contribution amounts on the envelopes are compared to the money inside. Restrictive endorsements are stamped on the checks. A report is completed with copies given to the treasurer and financial secretary.

The collection is deposited intact by one member of the finance committee. One other member of the committee follows the depositor to the night depository in his own car. Deposit errors are handled through the treasurer. The present treasurer is an officer of the bank in which St. Stephen keeps all its accounts.

The church mail is opened by the secretary or the pastor. Receipts are placed in a file safe in the church office and are counted the following Monday evening. A special tally sheet is completed for memorials but not for other receipts.

A Sunday School collection is taken by each teacher and put into the principal's office. On Monday morning the vicar counts the collection and gives the money and the amount to the principal. The principal records the amount of the collection and places the collection in the safe for the finance committee.

Christian Day School receipts are received by the principal and turned over the finance committee once each month.

The receipts are itemized on a monthly report given to the Board of Education.

#### Cash Disbursements

Disbursements are made from pre-numbered checks signed by the treasurer. The treasurer has access to a check protector. Payments are authorized by the pastor, principal, or person most familiar with the purchase. The authorizer signs the invoice with his name, the date, and the account to be charged. The treasurer prepares the check and mails the payment.

The treasurer performs the bank statement reconciliation.

The petty cash fund is maintained by the church secretary. The box is kept in the safe. The treasurer replenishes the fund once each month for the amount of the vouchers he receives.

#### Property, Plant and Equipment

Two insurance men on the church council review the casualty and fire insurance coverage once each year. There is no constitutional requirement for this.

An inventory was done a few years ago. Ledger cards were made up at that time but have not been kept current. The cards are stored in a fireproof safe. There are no asset numbers or markings on any of the equipment.

#### Reaction

The following page lists the weaknesses I see in St. Stephen's internal control along with my recommended improvements

WEAKNESS

No account descriptions or procedures.

Mail receipts.

Members are never urged to contribute with a check or to scrutinize their semi-annual statements.

Delay in counting the collection.

Sunday School collection.

The treasurer does the bank reconciliation.

IMPROVEMENTS

St. Stephen has a chart of accounts but there are no descriptions. Descriptions should be written along with detailed procedures for the treasurer, the financial secretary, and the finance/audit committee. These procedures should be approved by the church council.

St. Stephen currently has two addresses, one for the church and one for the school. There should be one address and one mailbox controlled by the secretary. In this way the collection of receipts will be more centralized. A tally sheet should be drawn up showing all receipts, the amount, and where they came from. Any receipts received should be put in the safe at the close of the day.

This should be done at least once each year.

As discussed previously regarding St. Paul's, Muskego, WI, it is dangerous to leave a collection in a safe overnight. If possible, the finance committee should meet Sunday evening to count the collection.

Two people should be given the responsibility of counting the Sunday School offering immediately on Sunday morning. The amount should be given to the vicar for recording and the money placed in the safe.

Someone other than the treasurer should perform the bank reconciliation. Members of the finance/audit committee could take turns each month.

WEAKNESS

Treasurer.

No inventory.

IMPROVEMENTS

St. Stephen is vulnerable because their present treasurer is an officer of the bank in which the congregation holds all its accounts. This man has access to all the money and all the records. Although he has shown himself to be a man who can be trusted, the temptation he is faced with is enormous. St. Stephen should do one of the following: (a) Move all its accounts to another bank.

(b) Elect a new treasurer.

(c) Require dual signatures for any amount over \$1000 and at the same time adopt bank reconciliation improvement mentioned on previous page

An inventory should be taken once each year. The present subsidiary ledger should be brought up-to-date. Each piece of equipment should have an asset number attached.

SUMMARY OF CONGREGATIONS STUDIED

The four churches I studied are the four WELS congregations in which I have held membership. In general, I found their internal control to be deficient. Two of the four congregations did not have fidelity bonds for their officers and employees. I personally feel fidelity bonds are mandatory.

All four churches had separate offices for treasurer and financial secretary. Three of the four, however, had overlap in these functions because the treasurer assisted in the collection count.

All four congregations lacked written procedures for the treasurer, the financial secretary, and the finance/audit

committee. Considering the high turnover of people and the lack of accounting knowledge, written procedures are very important.

Three of the four congregations lacked an audit committee. An active audit committee can do a great deal to keep things running smoothly in a congregation.

The treasurer does the bank reconciliation in all four congregations. This is unthinkable in all but the smallest of businesses. Normally, an invoice is approved by the management, payment is ordered by the general accountant, the finance department prepares the check and mails it, and then the general accountant received the bank statement. Although our congregations do not have finance departments and accounting departments, it would not be hard to separate check writing from check reconciliation.

In varying degrees, all four churches lacked control over their plant and equipment. None of the four had a yearly inventory. One of the four had a subsidiary ledger but it was out of date. Considering the total value of the property, plant, and equipment of these four congregations approaches \$5,000,000, a lack of financial control over property is of great concern.

PART III -- PRACTICAL GUIDELINES FOR THE WELS PASTOR IN  
EVALUATING CURRENT AND PROPOSED INTERNAL CONTROL PROCEDURES

Role of the Pastor

The internal accounting control practices of a congregation should definitely be of concern to its pastor. Many pastors adopt a "hands off" policy. They choose to ignore all aspects of their congregations' financial operation. This is a mistake.

A pastor must concern himself with every stumbling block that comes in the way of his congregation's faith. "Make up your mind not to put any stumbling block or obstacle in your brother's way (Romans 14:13, NIV)." It is the concern of the pastor that needless temptations not be placed before the congregation's financial officers. In a situation with inadequate control, the person in a position to defraud the congregation may be completely trustworthy today, but what about tomorrow? Tomorrow that same person may suffer a financial reverse that makes the temptation to steal harder to resist. Another consideration is the next man to hold the offices in question. The officers at the present time may be trustworthy, but what about their successors?

A pastor must concern himself with internal control to protect the reputation of honest men. In a congregation in which only one man deposits the collection, that man could be robbed on his way to the bank. If the man was alone, no one would be able to collaborate his story. Even though the



man really was robbed, many people will be suspicious of him unless the thief is caught.

Furthermore, the pastor will concern himself about internal control because of the effect a fraud would have on outsiders. I am sure that the theft in the congregation in Canada mentioned at the beginning of this paper was "big news" in that town for weeks. Just as David's sin caused God's enemies to show contempt for the Lord, so an embezzlement in a Christian congregation gives unbelievers ammunition to attack God's church. Anyone on the verge of joining a congregation in which an embezzlement takes place would probably think twice, and the members themselves will be greatly troubled.

Good internal control is part of good stewardship. The Holy Spirit has motivated Christians to give generously of their money. It is important that the chosen leaders of the congregation not squander or misuse that money in any way. Good internal control helps insure that the resources a congregation has will be used to the glory of God.

The pastor should concern himself with every area of his congregation's activity. He should gain an understanding in money matters but direct involvement should be reserved for laymen. Small congregations, like small businesses, cannot always have the strongest internal control. There are not always enough top men to take on many different tasks in a mission congregation. In such situations the pastor's role

becomes even more important. "A major control available in a small company is the knowledge and concern of the top operating person, who is frequently the owner-manager." (10) Clearly an involved pastor can make up for a multitude of errors.

Internal control boils down to common sense applied. "Can anyone get away with anything?" is the first and last question to be asked. "Although it is well to recognize that internal control can never be adequate in a small business, this limitation is no justification for ignoring those forms of control which are available." (11) Pastors must do what they can to promote sound internal control practices.

One danger to watch for is over-control. It is possible that a congregation would have so many controls that the only thing people ever do is fill out forms. The cost of any proposed control must be weighed against the benefit. Based upon my observations, however, it is unlikely that any congregation will be guilty of over-control.

Attachment #3 is a question and unofficial answer from the May, 1971 Uniform Certified Public Accountant examination that relates to internal control in a congregation. It is beneficial to read through this question and answer.

#### Detection of Fraud

I want to say a few specific things about fraud. As covered earlier, the financial impact of a fraud is greatly decreased if there is a fidelity bond for officers and employees. Bonding plugs the holes in internal control and protects a congregation from financial ruin.

Very often when fraud takes place in a WELS congregation, it was allowed to happen because one man held different offices at the same time. The situation in Canada and a more recent case of fraud in California were brought about because one man was both treasurer and financial secretary. "The possibilities of fraud are greatly increased if a single department head were given the authority to place an order, receive the goods, approve the invoice for payment and record the transaction."<sup>(12)</sup> Financial responsibilities must be divided up as much as possible.

I have developed a checklist for fraud. The following maxims should be shared with the auditing committee and kept in mind by all the employees and officers of the congregation.

- (1) When something does not look right, be persistent in running it down.
- (2) Recognize improper actions, entries, and figures when you see them.
- (3) Remember bits of information and try to place them in a pattern.
- (4) Dishonest people generally are poor liars; listen for double-talk.
- (5) Do not trust an informant's allegations -- but do not ignore them, either.
- (6) Be alert to false documentation.
- (7) Do not be satisfied with unreasonable answers.
- (8) Beware of a financial officer with great personal financial needs.
- (9) Beware of a financial officer living beyond his means.
- (10) Beware of a financial officer who has held his job for a long time.

Should it happen that a financial officer steals and is discovered, the pastor will look for repentance. If the man is penitent, the pastor will pronounce absolution. But whether the man repents or not, the pastor must ask for a resignation. Statistics show that once a person has stolen he is likely to steal again. The sin need not be publicly exposed, but it is imperative that the man step down from office.

Many bonding companies will refuse to insure anyone who has stolen. In fact, if a treasurer steals, confesses his sin and is re-instated -- then later skips town with the building fund -- the bonding company may refuse to indemnify the loss. Thus, by re-instating an officer who has stolen, a congregation may forfeit its fidelity bond.

#### Computers

Since more and more of our congregations will be using computers in the coming years, something should be said about the special problems of internal control computers present.

Personally, I think that the proper use of computers will be a great aid to our congregations -- especially the larger ones. The word processing capability of computers can help a pastor write his sermon or do a conference paper. Computers can help teachers by tutoring students in basic skills. Computers can help church secretaries to maintain up-to-date information. Computers can help the pastor cut the time necessary

to update communion records. Computers can help formulate budgets and make projections for the coming years. And, of course, computers can help treasurers and financial secretaries maintain their records.

In a large congregation, such as St. Paul's, Muskego, WI, a computer could help to centralize all the bill-paying operations. Thus the need for separate funds could be more easily eliminated.

Computers can present problems in maintaining good internal control. Having one computer with several different users increases the chance that the machine will break down or that files may be destroyed inadvertently.

Access to the records must be limited in some way. It is not desirable to have school children gaining access to the financial secretary's contribution records, for example. The treasurer and financial secretary must not have access to each other's records.

Questions about duplicate records must be considered. Computers can be fragile things. At the company where I am employed part-time, an air conditioner in the computer room sprang a leak one night this past winter. Super-cold freon gas sprayed over several computer tapes rendering them useless. It took days of around-the-clock processing to retrieve the destroyed records. Fortunately, the back-up system allowed the computer department to reconstruct all the files that were destroyed. Congregations that use computers must be sure that

duplicate records are made and are stored in a remote location. Minor accidents that would have no effect on conventional accounting records may destroy computer records.

CONCLUDING REMARK

Based upon the conversations I had with congregational treasurers and synod representatives, our pastors are woefully uninformed on basic accounting procedures. I am convinced that this is a topic which will demand attention in the coming decades.

## FOOTNOTES

- (1) Meigs, Walter B., PhD, CPA. Principles of Auditing. 3rd Edition. (Homewood Illinois: Richard Irwin, 1964). Page 77.
- (2) Statement on Auditing Standards. (New York: AICPA, 1973). Page 320.27.
- (3) Ibid.
- (4) Meigs, Page 83.
- (5) Meigs, Page 84.
- (6) Johnson, Arnold W., Auditing: Principles and Case Problems. (New York: Holt, Rinehart and Winston, 1964). Page 48.
- (7) Meigs, Page 86.
- (8) Statement on Auditing Standards, Page 320.31.
- (9) Meitler, Neal D., and Linda M. LaPorte. A Standard Accounting System for Lutheran Congregations. (Milwaukee: Northwestern Publishing House, 1980). Pages 53-68.
- (10) Arens, Alvin A. and James K. Loebbecke. Auditing: An Integrated Approach. 2nd Edition. (Englewood Cliffs: Prentice-Hall, Inc., 1980). Page 225.
- (11) Meigs, Page 103.
- (12) Meigs, Page 85.

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INTERNAL CONTROL QUESTIONNAIRE

Background Information

Church Name and Location  
Size                      Age                      # Buildings  
School?                      Size  
Annual Budget Amount                      # Employees

General Questions

Are all employees bonded?

Is there a budget?

Is it reviewed monthly against actual activity?

Are there detailed written procedures?

Are they adhered to?

Is there a chart of accounts?

Is there an audit committee?

To whom does it report?

Are there periodic audits by an independent firm?

Is there an envelope system?

Are quarterly statements mailed?

Are members urged to contribute with a check?

Are they specifically told to scrutinize their quarterly statement?

Is there a clear separation of financial secretary and treasurer duties?

Describe any overlap in functions.

Is there a time limit to holding these offices?

Cash Receipts

Describe the procedures for handling the collection during and after the service.

Describe the procedures for counting money:

When and where is the collection counted?

Where is the collection kept until then?

Is there a separate finance committee in charge of counting and depositing the collection?

Is the door locked during the count?

Is the contribution amount on the face of the envelope compared to the amount of cash or check inside?

Are restrictive endorsements stamped on checks?

Is a report made of the count?

How many copies are made?

Who receives the report and how is it used?

Are members of the counting committee regularly rotated?

Attachment #1 (page 2 of 2)

By whom is the collection deposited?  
Is it deposited intact?  
How are deposit errors handled?

Who opens the mail?  
Is a list maintained of mail receipts?  
How are mail receipts eventually recorded and deposited?

What is the procedure for recording and depositing memorials?

Is there a Sunday School collection?  
Describe collection procedures.  
How do these receipts reach the accounting system?  
Is there a separate Sunday School fund?

Who collects the Christian Day School receipts?  
How are these receipts recorded and deposited?  
Is there a clear separation of the recording and collection functions?

Cash Disbursements

Are all disbursements made by check?  
Who signs?  
Are the checks pre-numbered?  
Is a check protector machine used?  
Are dual signatures required for large amounts?

How are payments authorized?  
Does the check signer maintain physical control of the check?

Who does the bank reconciliation?

Is there a petty cash fund?  
Who is in charge of it?  
Does only one person have control of the fund?  
Are disbursements made to the fund limited to two weeks or less?  
Are vouchers required before the fund is replenished?

Property, Plant and Equipment

Is there an annual re-evaluation of the fire insurance coverage?

Is there an annual inventory of all congregation assets?

Is a subsidiary ledger maintained for property, plant and equipment?  
Is the ledger maintained in a remote or fireproof location?  
Does the equipment have an asset number attached or etched on?

REDEEMER EVANGELICAL LUTHERAN CHURCH  
1983 RECEIPT AND DISBURSEMENT PROJECTED BUDGET

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL	1982
<b>RECEIPTS</b>														
*****														
ENVELOPES	5,024	4,939	6,124	5,621	6,764	4,667	5,418	4,048	4,653	6,303	5,559	8,644	67,764	60,409
IMPROVEMENT FUND	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUN/VAC BIBLE SCHOOL	118	94	173	225	156	90	67	131	161	204	160	375	1,954	1,970
PLATE COLLECTIONS	15	180	15	18	15	12	15	12	12	15	18	155	482	481
INTEREST & MISC.	-	-	-	-	-	-	-	-	-	-	-	-	-	1,305
WELL REPAIR	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL RECEIPTS	5,157	5,213	6,312	5,864	6,935	4,769	5,500	4,191	4,826	6,522	5,737	9,174	70,200	64,606
<b>DISBURSEMENTS</b>														
*****														
PASTOR'S SALARY & ALLOW.	1,750	1,340	1,340	1,340	1,750	1,340	1,340	1,750	1,340	1,340	1,750	2,340	18,720	18,913
PARS UTILITIES & MAINT.	202	212	219	285	193	121	85	70	92	104	326	191	2,100	1,698
ORGANIST & CHOIR FEES	75	90	135	75	75	60	60	75	60	75	75	120	975	960
GUEST PREACHING FEES	25	-	25	25	-	-	25	25	25	25	25	25	225	125
SYNOD OFFERING	770	770	770	770	770	770	770	770	770	770	770	770	9,240	9,240
KMLHS OPERATING FUND	405	405	405	405	405	405	405	405	405	405	405	405	4,860	4,500
KMLHS BUILDING FUND	400	400	400	400	400	400	400	400	400	400	400	400	4,800	4,800
DAY SCHOOL TUITION	-	1,320	-	1,320	-	-	-	-	-	1,800	-	1,800	6,240	5,910
WIS LUTH COLLEGE	-	-	275	-	-	275	-	-	275	-	-	275	1,100	1,000
SUN/VAC BIBLE SCHOOL	-	44	-	-	39	5	56	98	174	-	120	26	562	502
PRINTING & SUPPLIES	268	111	46	60	225	29	16	63	81	16	142	186	1,243	1,094
CHURCH & EQUIP MAINT.	-	100	100	100	350	85	60	35	50	70	100	50	1,100	717
CHURCH UTILITIES	413	434	352	342	304	114	153	146	103	145	192	305	3,003	2,550
SNOW PLOWING	100	160	160	110	-	-	-	-	-	-	-	100	630	735
INSURANCE	-	246	-	-	-	-	-	754	-	-	-	-	1,000	699
CEF DEBT PAYMENT	1,032	1,032	1,032	1,032	1,032	1,032	1,032	1,032	1,032	1,032	1,032	1,031	12,383	12,000
SPECIAL CEF PAYMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-
STEWARDSHIP 1982	200	200	200	200	200	100	100	100	200	200	200	-	1,900	-
MISC.	10	10	10	10	10	10	10	10	9	10	10	10	119	114
WELL REPAIR	-	-	-	-	-	-	-	-	-	-	-	-	-	980
TOTAL DISBURSEMENTS	5,650	6,874	5,469	6,474	5,753	4,746	4,512	5,733	5,016	6,392	5,547	8,034	70,200	66,537
FINAL TOTAL	(493)	(1,661)	843	(610)	1,182	23	988	(1,542)	(190)	130	190	1,140	-	(1,931)

**Number 3 (Estimated time—25 to 30 minutes)**

You have been asked by the board of trustees of a local church to review its accounting procedures. As a part of this review you have prepared the following comments relating to the collections made at weekly services and record-keeping for members' pledges and contributions:

- The church's board of trustees has delegated responsibility for financial management and audit of the financial records to the finance committee. This group prepares the annual budget and approves major disbursements but is not involved in collections or record-keeping. No audit has been considered necessary in recent years because the same trusted employee has kept church records and served as financial secretary for 15 years.

- The collection at the weekly service is taken by a team of ushers. The head usher counts the collection in the church office following each service. He then places the collection and a notation of the amount counted in the church safe. Next morning the financial secretary opens the safe and recounts the collection. He withholds about \$100 to meet cash expenditures during the coming week and deposits the remainder of the collection intact. In order to facilitate the deposit, members who contribute by check are asked to draw their checks to "cash."

- At their request a few members are furnished prenumbered predated envelopes in which to insert their weekly contributions. The head usher removes the cash from the envelopes to be counted with the loose cash included in the collection and discards the envelopes. No record is maintained of issuance or return of the envelopes, and the envelope system is not encouraged.

- Each member is asked to prepare a contribution pledge card annually. The pledge is regarded as a moral commitment by the member to contribute a stated weekly amount. Based upon the amounts shown on the pledge cards, the financial secretary furnishes a letter to requesting members to support the tax deductibility of their contributions.

**Required:**

Describe the weaknesses and recommend improvements in procedures for:

- Collections made at weekly services.
- Record-keeping for members' pledges and contributions.

Organize your answer sheets as follows:

<i>Weakness</i>	<i>Recommended Improvement</i>

**Answer 3**

Weakness

- a.
1. Financial secretary exercises too much control over collections.
  2. Finance committee is not exercising its assigned responsibility for collections.

Recommended Improvement

To extent possible, financial secretary's responsibilities should be confined to record-keeping.

Finance committee should assume a more active supervisory role.

Weakness

3. The auditing function has been assigned to the finance committee, which also has responsibility for the administration of the cash function. Moreover, the finance committee has not performed the auditing function.
4. The head usher has sole access to cash during the period of the count. One person should not be left alone with the cash until the amount has been recorded or control established in some other way.
5. The collection is vulnerable to robbery while it is being counted and from the church safe prior to its deposit in the bank.
6. The head usher's count lacks usefulness from a control standpoint because he surrenders custody of both the cash and the record of the count.
7. Contributions are not deposited intact. There is no assurance that amounts withheld by the financial secretary for expenditures will be properly accounted for.
8. Members are asked to draw checks to "cash," thus making the checks completely negotiable and vulnerable to misappropriation.

Recommended Improvement

An audit committee should be appointed to perform periodic auditing procedures or engage outside auditors.

The number of counters should be increased to at least two, and cash should remain under joint surveillance until counted and recorded so that any discrepancy will be brought to attention.

The collection should be deposited in the bank's night depository immediately after the count. Physical safeguards, such as locking and bolting the door during the period of the count, should be instituted. Vulnerability to robbery will also be reduced by increasing the number of counters.

The financial secretary should receive a copy of the collection report for posting to the financial records. The head usher should maintain a copy of the report for use by the audit committee.

Contributions should be deposited intact. If it is considered necessary for the financial secretary to make cash expenditures, he should be provided with a cash working fund. The fund should be replenished by check based upon a properly approved reimbursement request and satisfactory support.

Members should be asked to make checks payable to the church. At the time of the count, ushers should stamp the church's restrictive endorsement (For Deposit Only) on the back of the check.

Weakness

Recommended  
Improvement

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| 9. No mention is made of bonding.   | Key employees and members involved in receiving and disbursing cash should be bonded.   |
| 10. Written instructions for handling cash collections apparently have not been prepared.   | Particularly because much of the work involved in cash collections is performed by unpaid, untrained church members, often on a short-term basis, detailed written instructions should be prepared.   |
| b. 1. The envelope system has not been encouraged. Control features which it could provide have been ignored.   | The envelope system should be encouraged. Ushers should indicate on the outside of each envelope the amount contributed. Envelope contributions should be reported separately and supported by the empty collection envelopes. Prenumbered envelopes will permit ready identification of the donor by authorized persons without general loss of confidentiality. |
| 2. The church maintains no permanent record of amounts pledged and contributed. These records are needed to (1) provide valid support for tax deductibility, (2) permit better planning for fund drives and (3) provide a basis for direct confirmation of amounts contributed. | A members' contribution record should be prepared by the financial secretary from the pledge cards and collection envelopes.  |
| 3. No investigation is made of differences between the amounts pledged and contributed.   | All members should be furnished with periodic written advice of the amounts pledged and contributed. If properly handled by the audit committee, this procedure can be combined with direct confirmation of the amount contributed. Not only will control be better, but members more likely will fulfill <i>their pledges.</i>                                   |

Weakness

Recommended  
Improvement

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| 4. Letters certifying to amounts contributed are being furnished to members based upon the amounts shown on pledge cards. This is improper because actual contributions may not equal pledges. | The maintenance of the members' contribution record and the furnishing of periodic advices to members will correct this weakness.   |
| 5. No provision is made for the receipt of contributions by mail. This method of giving should be encouraged, but the financial secretary should not handle these receipts.                    | Mail should be opened by a church employee other than the financial secretary. This employee should list the receipts, maintain a copy of this listing and deposit the receipts. Checks should be stamped with the restrictive endorsement when received. |