

INTERNAL CONTROLS IN THE AREA
OF FINANCE FOR LOCAL CHURCHES

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TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION	
Statement of the Problem	1
Importance of the Study	2
Purpose of the Study	3
Preview of the Thesis	4
II. INTRODUCTORY INFORMATION ON INTERNAL CONTROL	
Definitions and Terminology	6
Purpose of Internal Control	7
Elements of Internal Control	11
III. SPECIFIC PROCEDURES	
Cash Receipts	18
Purchasing	29
Cash Disbursements	34
Control for Assets (Property)	39
Budget	43
Miscellaneous Control Procedures	46
IV. RESULTS OF INTERVIEWS WITH CHURCHES	
Development of Survey	49
Presentation of Survey Data	52
V. ANALYSIS OF DATA	

Statistics	60
Analysis of Cash Receipts	61
Analysis of Purchasing	62
Analysis of Cash Disbursements	63
Analysis of Control Over Assets (Property) . .	64
Analysis of Budget Procedures	64
Analysis of Other Controls	65
Rejection of Thesis Statement	65
VI. CONSLUSION	67
Appendix	70
BIBLIOGRAPHY	71

CHAPTER 1

INTRODUCTION

Statement of the Problem

Currently, a major problem in independent Baptist churches is that the churches are not using proper business methods in the carrying out of the administrative activities of the church. Many leaders in these churches are reluctant to use good business principles because they are used in secular businesses. Some of these leaders fail to seek out the proper procedures and, therefore, are ignorant of most good business practices. This writer sees one business practice, in particular, that has been neglected by these churches. That practice is the use of internal controls. Included in these controls are methods to safeguard assets and methods to help prevent inaccuracy and unreliability in accounting information.

When examining the use of internal controls in independent Baptist churches today, as compared to secular organizations, it seems that these churches are far behind. Why aren't independent Baptist churches using proper control procedures in the area of finance? There are several probable reasons. Included in these reasons would be that most independent Baptist churches probably do not know

about, much less use, internal controls for the finances of their church. There are probably some independent Baptist churches that are using some type of controls even though they may not have labeled them as internal controls. Another reason would be that many church leaders have relied on the assumption that all Christian workers can be trusted. It would be an ideal situation if all workers could be trusted. However, there are many cases of trusted Christian workers who have "borrowed" church funds. In these cases there was no system of internal control that would have prevented the problem or at least revealed the problem before it went too far.

The basic problem to be considered in this thesis can be stated in a question as follows: Are independent Baptist churches using internal controls in the area of finance to safeguard assets and prevent losses from theft, fraud, and misappropriations?

Importance of this Study

This study is important because churches could benefit greatly from the accepted business practice of using internal controls. This writer has seen many churches that do not use these procedures. By examining several independent Baptist churches to determine if internal controls are being used and to what extent, then the real importance of this study will be understood. The more churches

that are not using these procedures the more important this study would be. Even if all churches were using internal control procedures to the fullest extent, this study would be important in order to bring together all the particular procedures for churches.

Without the setting forth and implementing of these controls unnecessary losses will continue to be seen more and more. Also, independent Baptist churches will continue to be given a low level of confidence by the business community. Independent Baptist pastors and laymen need to be aware of procedures that can help prevent embarrassing incidents resulting from the lack of internal control. The churches that admit these weaknesses and seek improvement in this area will be the ones who benefit in the long run.

Purpose of this Study

The purpose of this study is to develop definitions, elements, standards and specific procedures of internal control that can be used by independent Baptist church leaders in the administering of their churches. The results will be used as a criterion by which certain independent Baptist churches will be measured to determine to what extent internal controls are being used. The basic intention of this study is to determine if independent Baptist churches are using internal controls and to make recommendations to those not using them.

Ultimately, this writer would like to see independent

Baptist churches effectively using internal control procedures as well as other good business practices that would be feasible to churches.

Preview of the Thesis

The first information to be presented will be introductory information on internal control. This chapter is provided for those who are not familiar with what internal control is along with different accounting terms that go along with these controls. Included in this introductory information chapter will be sections on definitions and terminology, the purpose and importance of internal controls themselves, and the basic elements of internal control.

The next chapter will set forth the specific procedures that should be used in the different areas of activity. These are the actual steps that the workers assigned to the particular area will perform. The different areas include cash receipts, cash disbursements, purchases, sales, controls for assets (property), budget, and other miscellaneous control procedures.

The fourth chapter will present the results of the individual interviews with the different churches. This includes the development of the survey and the presentation of the survey data.

The fifth chapter includes analysis of the survey data. First, different statistics are presented. Second, an analysis is made of each of the different areas of control cash receipts, purchasing, cash disbursements, control over assets, budget and other controls. Third, the thesis statement will either be accepted or rejected. The position that will be accepted or rejected is as follows: Independent Baptist churches are not using internal controls in the area of finance.

The sixth and final chapter will be the conclusion and will include problems that will be encountered by churches neglecting to use internal controls.

CHAPTER II

INTRODUCTORY INFORMATION ON INTERNAL CONTROL

Definitions and Terminology

The American Institute of Certified Public Accountants' committee on auditing procedure has made a comprehensive study of internal control and has defined it as follows:

Internal controls comprises the plan of organization and all the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.¹

The only problem in applying this definition to a local church is that it uses the term business. If the word business were changed to organization or to entity, then this definition could be better applied to local churches and to other types of organizations as well.

In this definition it can be seen that internal control deals with the accounting function, and also extends to a complete system that includes areas not directly related to the accounting function.

¹A.I.C.P.A., Professional Standards, (Chicago: Commerce Clearing House, 1978) p. 243.

Some other terms and their definitions are as follows:

Asset - anything of value that is owned. Examples would be cash, buildings, equipment, supplies, and land.

Cash Receipts - money received. For a church this will basically include money received in offerings and from donations. It could also refer to money received from the sale of items.

Cash Disbursement - any outlay of cash. Examples would be payments made to employees or for purchases.

Audit - a formal examination or verification of financial records and procedures.

Budget - a financial report with estimates of receipts and disbursements for a particular period of time.

Petty cash - a small amount of cash kept on hand to make small purchases and payments.

Fidelity bond - insurance on employees to cover thefts by them.

Counting Committee - a group of at least 3 people elected or appointed to count and deposit the church offerings.

Generally Accepted Auditing Standards - those procedures set forth by the A.I.C.P.A. that are required to be performed by the auditor in an independent audit.

This should not be considered a complete glossary of terms associated with internal control, but these are terms that have been used in this paper. The definitions were provided to clarify what is meant by these terms when they are used in this paper, and also for those reading this paper who are not familiar with these terms.

Purpose and Importance of Internal Control

This section will answer the question, Why should churches prescribe and use internal control procedures?

There are many reasons for having internal controls. These reasons can be divided into two general areas. The first area would be the Biblical reasons why a church should have controls and the second area could be classified as practical reasons.

The Biblical reasons can be found in at least three verses. First, Christians are to "abstain from all appearance of evil" (I Thessalonians 5:22). Dr. Schmitt explains this in relation to internal controls in his book on Church Administration:

A church should do all that is possible to avoid the appearance of evil in its financial matters. It should do every thing reasonable to build confidence and integrity in all financial transactions. Because this has not always been done, it is even more important that it be done now.²

Second, included in the qualifications for a church leader is the fact that "he must have a good report of them which are without, lest he fall into reproach and the snare of the devil" (I Timothy 3:7). If leaders are to have a good report of those outside the church, then it could safely be said that the church should have a good reputation in the business community. But what does a business man expect? Truman Dollar answers this question as follows:

The business community understands a performance that exemplifies good business principles. That is not inconsistent with the Biblical

²Frank J. Schmitt, Church Administration, (Lynchburg, VA: by the author, 1983), p. 223.

principles for which we stand. Honesty and performance are virtues admired even by the unconverted.³

As has been stated before in this paper the use of internal control is a good business principle. Therefore, this would be a performance the business community would understand and accept, especially when it knew a church used these.

Third, I Corinthians 14:40 states: "Let all things be done decently and in order." All things would include the finances of a church, and these should be carried out in a way that is considered decent and orderly.

Several practical reasons for internal controls exist. The first reason would be for the safeguarding of assets. The leaders of a local church have a responsibility to the membership and creditors to safeguard assets. Adequate controls will help to give reliable assurance to these two groups of people. All people involved should understand that the use of adequate control procedures will not give complete assurance concerning the protection of vital resources. However, the possibility of losses from fraud, theft or misappropriation can be minimized by the use of internal controls.

The second reason would be for the protection of the workers themselves. This reason was brought out by Marvin

³Truman Dollar, How to Carry Out God's Stewardship Plan, (Nashville: Thomas Nelson Publishers, 1974), p. 358.

Gross as follows:

.... to prevent honest employees from making a mistake that would ruin their lives. An employer has a moral responsibility to avoid putting undue temptation in front of employees. Internal controls are designed to help remove the temptation.⁴

Employers should prevent temptation, but also try to prevent placing an employee in a position that would cause suspicion as Harold Linamen states:

In order to protect the individuals involved, as well as the congregation, measures should be installed to reduce the possibilities of the wrongful use of money and to avoid the type of situation that would give cause for suspicion.⁵

The third practical reason would be to make sure the accounting data flowing through the system is correct. A system of controls, that included checks and balances, would catch and correct most inadvertent mistakes, if everyone is performing their function correctly.

The fourth reason is that a good system of internal control will reduce the time, effort and expense required for an annual audit of the church's records and statements. According to one source:

If the auditor is convinced the client has an excellent system (of internal control),... the amount of audit evidence to be accumulated can be significantly less than if the system is not adequate. On the other hand, in some instances the controls may

⁴Marvin J. Gross, Jr. and William Warshauer, Jr., Financial and Accounting Guide for Nonprofit Organizations, (Chicago: John Wiley & Sons, 1979), p. 358.

⁵Harold F. Linamen, Business Handbook for Churches, (Anderson, IN: Warner Press, 1957), p. 111.

be so inadequate⁶ as to preclude conducting an effective audit.

One of the first steps of an independent auditor is to study and evaluate the system of internal control. One of the ten generally accepted auditing standards is such a study and evaluation. If the system of internal control can be relied upon and is actually being used as prescribed, then this will cut down on the time the auditor is required to put into the audit, and this will cut down on the fee to be charged.

Some other practical reasons would be to aid in reaching the goals of the entity, to prevent duplication of effort and wasting of resources, and to encourage workers to adhere to the policies set forth by the administration.

If these purposes of internal control are going to be met, then the system must have certain characteristics that will cause the system to move toward the realization of these purposes. These characteristics or elements will be discussed in the following section.

Elements of Internal Control

Personnel

Without workers it is impossible to operate a church.

⁶Alvin J. Arens and James K. Loebbecke, Auditing An Integrated Approach, (Englewood Cliffs, NJ: Prentice-Hall, 1976), p. 20.

It is very important that a church have a competent and reliable staff. Administrators of churches need to use wisdom and great discretion in the enlistment and placement of workers, whether they are volunteer or paid staff. The placing of an incompetent worker can be a very costly venture for a church in terms of money and ministry. The added cost in salary of using qualified people can easily be justified. Also, if these same workers cannot be relied upon to perform the procedures set forth, and even if the other elements of internal control are thorough, the controls will be ineffective. Whereas, when workers are highly competent and reliable, a church can be more assured of an efficient operation. However, we must never take these characteristics for granted. A second element of internal control dealing with personnel is that of employee responsibility and accountability. "This means tracking actions as far down in the organization as is feasible, so that the results may be related to individuals."⁷ When a worker is accountable for deviations he will tend to make sure the procedure is performed correctly. The worker must be aware of what he is responsible for in order for this to be effective.

⁷Charles T. Horngren, Cost Accounting a Managerial Emphasis, (Englewood Cliffs, NJ: Prentice-Hall, 1977), p. 651.

Segregation of Duties

There should be segregation of certain duties. Basically, there are four general areas where the duties should be separated. First, the operational duties should be separate from the accounting or record keeping duties. This eliminates the possibility of "doctoring" records by a certain operational area to make its performance look better. Second, the employee who has control over an asset should not have control over the record keeping for that asset. A good example of this is the receipt of cash. The counting and recording of cash receipts should never be performed by the same individual. This will be discussed more in the next chapter. Third, the responsibility should be separated from the control over the related asset. This control would cut down on the possibility of fraud. For example, the person with the authority to hire employees should not be the person who distributes the checks to the employees. Fourth, there should be separation of duties within the accounting function. The handling of a complete transaction by one individual increases the likelihood of error. Dividing the accounting duties among different people, control over errors is increased without duplication. All of these separations should be provided for in a church, while at the same time the idea of efficiency should not be overlooked.

If it is possible, certain duties should be rotated so that the same person is not doing the same job all the time. A good example of this would be the rotation of receipts and payables, or just the rotation of people who count the offerings. This rotation will provide a check of a person's performance, when another individual takes over the particular task. Also, by having mandatory vacations a church can prevent possible cover-up of fraud by one individual if that individual knows that someone else will take over his job for a period of time.

Documents and Records

Having adequate documents and records is still another element of internal control. Transactions are summarized and entered on these. Some examples would be invoices, shipping documents, purchase orders, ledger, journals, and summary of receipts, to name a few. Without documents and records a church would have little control, because they would lack the evidence to prove anything. "The documents must be adequate to provide reasonable assurance that all assets are properly controlled and all transactions are correctly recorded."⁸

There are some basic characteristics that documents and records should possess. They should be simple enough

⁸Arens and Loebbecke, Auditing: An Integrated Approach, p. 165.

so that they can be understood. Also, they should be prenumbered consecutively, where possible, to keep from having missing documents. The particular document required should be completed as soon as possible, after the transaction occurs.

A church should have proper procedures for record keeping. These procedures should be set forth in a procedures manual. It should include the flow of documents through the organization and adequate information to facilitate record keeping.

Authorization

Proper procedures for authorization of transactions must be carried out in order for control to be satisfactory. "If any person in an organization could acquire or expend assets at will, complete chaos would result."⁹ These authorizations may be by use of either general or specific authorization. Under the general authorization procedure, the church would establish certain guidelines and employees would approve transactions that fall within the limits set forth. Under specific authorization, the procedure would be to approve transactions on an individual basis. The limits may be based on dollar amounts or frequency of occurrence of the transaction.

⁹Ibid, p. 163.

Authorization should not be confused with approval. Just because a transaction is approved does not mean that transaction is authorized. For instance, just because an invoice is approved for payment does not mean that the goods or services represented on this invoice were actually received. Proper evidence would be necessary to adequately authorize payment of the invoice.

Physical Controls

The use of physical controls is one of the most important elements of internal control and is often overlooked in churches. To some this type of control is obvious, but many times losses are incurred because of the neglect of taking the time to put the items under lock and key. Some examples of these are the use of storerooms, fire-proof safes, safety deposits, filing cabinets that lock, and restricted areas. It should be pointed out that not only valuable assets, but also important documents and records need to be physically safeguarded.

Independent Audit

This element of control is strongly recommended. No matter how big or how old a church is, an independent check on performance should be performed. This should be done by an outside auditor, preferably a certified public accountant. An audit should be performed annually.

An audit should also be performed whenever there is a change of treasurer or church business administrator. Internal control is just one of the many areas auditors will review, and the church will definitely benefit from recommendations made by these auditors for improvements in areas where the controls are weak.

Cost Versus Benefit

A final element that needs to be considered is that of the analysis of the cost versus the benefit of internal controls. Each of the elements that have been discussed thus far are important, but each church must decide whether or not the cost involved for a particular control can be justified by the particular benefit provided by that control. "The task is not the total prevention of fraud, nor is it implementation of operating perfection; rather, the task is the designing of a cost-effective tool that will help achieve efficient operations and reduce temptation."¹⁰

¹⁰ Horngren, Cost Accounting a Managerial Approach, p. 649.

CHAPTER III.

SPECIFIC PROCEDURES

Cash Receipts

The control over cash receipts is the most important area of internal control and needs to begin when the money is first received. Usually, funds are first received in the church offering and procedures for this will be discussed first.

Taking the Offering

This may seem to many people to be a routine task, but it should not be taken lightly. There are proper ways to perform this function of the service. Dr. Schmitt stated the following concerning controls in this area:

Proper financial controls should be maintained during the time the offering is being received and while in route to the counting room. A single usher should never be out of sight with any of the collection. Use special precautions in planning procedures for the balcony and the choir. Ushers should not be tempted, and contributors should be assured that every precaution is being taken to insure their gift is being used correctly. Select a route to take the offering from the auditorium to the money counting room which will provide the least opportunity for robbery. Consider varying the route

taken in a random pattern as a further safeguard.¹¹

One big problem that needs to be worked out in each church is what should be done with the offering after it is received. Some churches place it on the communion table until after the service. This is not advised because there are many opportunities for losses when this is done. The best place to put the offering is in a locked bag and then placed in a vault or locked closet. Some churches actually count the offering during the service right after it is taken. When the offering is not going to be counted until the next day, then it should be put in the church vault or placed in a night depository at a bank. Many bank managements allow the placing of uncounted receipts in their night depository.

One area that should not be overlooked is the handling of the Sunday School offerings. These offerings should be taken following the same procedures stated above. A lock bag should be provided for each class or department. Two men should be assigned to go around and collect these bags and take them to the designated area.

Counting the Offering

Many churches are weak in controlling this function.

¹¹Frank J. Schmitt, Church Administration, (Lynchburg, VA: by the author, 1983), p. 181-182.

Sometimes one person will be taking the offering home and counting it on Sunday afternoon. This should never be done. As was stated above concerning ushers also applies to counting the offering, and that is that one person should never be alone with any part of the offering. "No matter the size of the group, it is wise to have more than one person handling the funds for at least two reasons: (1) as a check against accuracy of counting, (2) as a protection for the person handling the money."¹² This writer recommends at least three people be assigned as counters. A church may have a group of six people who serve on a rotating basis.

When these designated people, called the counting committee, receive the offering they place the contents on the table in front of them. They will probably need an adding machine or calculator, preferably one with a tape. Also, they will have a summary of receipts form on which they will record the various amounts (see page 21 for an example). They will also need deposit slips.

¹²Vernon J. Westenbroek, "How to Organize a Counting Committee," Church Administration, (December 1983), p. 37.

BAPTIST CHURCH

SUMMARY OF RECEIPTS

<u>Service</u>	<u>Month</u>	<u>Day</u>	<u>Year</u>
Loose			\$ _____
Envelopes			_____
Designated:			
Building Fund			_____
Missions			_____
 Total			\$ _____ _____
 Checks			\$ _____
Currency			_____
Change			_____
 Total			\$ _____ _____
 Counted By	_____	_____	_____

The loose offering should be separated and counted first and the amount recorded on the summary of receipts form. The cash should be separated into stacks by the different denominations (\$5, \$10, etc.,). Each stack should be counted twice, preferably by different people for accuracy. If there are any checks in the offering that were not placed in an envelope, then an offering envelope could be filled out for that check. However, it may be better to make a list of all these checks including each person's name, address, and amount of check so they can be given credit for this amount on their contribution record. If an offering envelope is filled out, it should be marked as follows: "Filled out by, (preparers name)." This is done to distinguish this from those filled out by the individuals themselves. The amount for these checks should be included with the amount recorded under envelopes on the summary of receipts form.

Next, the individual envelopes should be opened one at a time. The amount inside should be verified with the amount on the envelope. If there is a difference, the correct amount should be written on the envelope and circled. This person should then be contacted by one member of the counting committee to determine the reason for the difference. This can be expected and should be taken care of as soon as possible. At this point be sure to keep separate the cash from the envelopes and the loose offering.

After the amount in the envelopes is totaled, it will be recorded on the summary of receipts form. Amounts that have been designated for certain funds, such as missions or building fund, should be kept separate and individual totals entered on the summary of receipts. Remember that these amounts should not be included in the general envelope offering because they have been designated and will be added in separately on the summary of receipts form. It is better to take the time when first counting and recording to verify that the amounts are correct than to find out that the totals do not balance and then have to search for an error.

After the amounts on the upper section of the summary of receipts form have been entered then this section can be totaled. Then the checks, cash, and coins from the total offering should be counted separately and the amounts recorded in the lower section of the summary of receipts form. The lower section should then be totaled. If the upper and lower sections are equal then each of the counters should sign the summary of receipts form and a deposit slip should be filled out in triplicate. One copy will be attached to the summary of receipts form and sent to the treasurer. The other two copies will go to the bank, and the bank will keep one and receipt the other. The receipt copy will be kept by the counters. Each check should be endorsed as follows. "For Deposit Only" and then

the name of the church. A rubber stamp can be purchased for this purpose. Coins should be placed in wrappers.

The summary of receipts form should also be filled out in triplicate. One copy going to the person who does the bookkeeping, one copy to the person keeping the individual contribution records, and one copy should be kept and filed by the counting committee.

The offerings envelopes should also be sent to the financial secretary. Some churches discard these envelopes after recording the amount. However, it is suggested that these envelopes be kept on file for at least three years. Three years is the period of time the Internal Revenue Service can audit under the Statute of Limitations. That is, a member of the church could be audited for the three prior years. Also, they are kept on file in case a member feels he gave more than the amount on his contribution statement.

The treasurer should never be a member of the counting committee. The church owes the treasurer as much protection as possible. This control should not be a reflection on the honesty and integrity of the treasurer, but is used in order to "abstain from all appearance of evil."

In choosing people for the counting committee, these people must be recognized for their ability to maintain confidentiality concerning the giving of any particular individuals. Cole had the following to say concerning this:

Of necessity some few persons must know how much money various members of the congregation give. They must respect the privacy of the donors and never discuss even among themselves, the giving habits of the members. If the time should come that any member of the counting committee divulges any information to anyone about the giving of others, he should be removed immediately from the committee. This should be clearly understood when the committee is organized, and the policy should be adhered to.¹³

Handling Money Other Than the Offering

Many times church members will mail their offering to the church, or even drop it by the church office during the week. A receipt should always be given in this case. The church members should be informed to ask for and expect a receipt. A copy of the receipt will be given to the counting committee along with the donation at the next service. Another copy of the receipt will be kept in the receipt book. One secretary should be designated to handle these donations.

A receipt should be given for any other receipts the church receives that are not offerings. A good example would be if the church has a bookstore. For each sale a receipt should be made out. A separate set of records might be maintained for a bookstore. If not, at least a separate income account should be set up to differentiate these amounts from offerings.

¹³Harper Cole, Handling Finances in the Local Church, (Kansas City: Beacon Hill Press, 1966), p. 17.

Contributor's Records

One person should be designated to keep the records for the giving of the individual members. The financial secretary should be the individual to do this, but the treasurer could also be responsible for this task and probably would be in a smaller church. This person receives the offering envelopes and a copy of the summary of receipts form. The envelopes should be placed in alphabetical order for ease in posting. The amounts are then posted to individual record forms. After all the envelopes have been posted, add the amounts from each individual's record. The total should be compared with the amount on the summary of receipts form. This is done to verify that the amounts were recorded correctly and also as a double check for the amount recorded on the summary of receipts form.

Each church should set a policy as to how often membership contribution records are to be sent out. Some churches only send one statement at the end of each year. It is recommended that these statements be sent out at least quarterly. There are a couple of good reasons why they should be sent out every three months. First, because the members should verify the amount recorded as correct. This could be done at year end, but the closer the verification is to the time of the gift the better the contributor will remember what he gave, especially if a person gives

cash. Second, people usually think they have been giving more than they actually are. If they can see what they are actually giving, then they may give more. This procedure should be publicized so that members do not feel that they are being dunned when receiving quarterly statements.

Once a church determines how often they will send out these records, then they can determine what form would be best to use. A five-part form can be purchased by churches that send out quarterly statements. The amount only has to be entered once, but is recorded on each part. At the end of each quarter, the top part is removed and mailed to the member. The fourth part will have the total giving for the year. The fifth part will then be retained by the church. Again this form should be retained for at least three years just as the offering envelopes are.

Recording Procedures

The treasurer will receive the summary of receipts form and a copy of the deposit slip from the counting committee. He will use these documents to record the proper information in the cash receipts journal (see page 30 for an example). A separate page will be used for each month as is shown in the example.

The total amount deposited will be entered in the cash column and will be a debit entry. Each of the

other entries to envelope, loose, missions and building offering accounts will be credit entries. These amounts are taken directly from the summary of receipts form. If the church has a separate bank account for the building fund or any other fund, then a separate cash account would be used to record the amount deposited into that account.

At the end of the month each column will be totaled and the amount posted to the general ledger account corresponding with the particular column. The financial statements will be prepared from the general ledger.

Special Offerings

Many times a church will take up a special offering such as a love offering for a visiting evangelist or singer. It is important to keep this offering separate from the general offering. Each church should set a policy as to how they will handle these situations. The monies themselves should not be turned over to the individual, but they should be deposited in the bank and a check written for the amount to the individual. A special column will have to be used in the cash receipts journal to record these special offerings. The name of the individual may be entered in a column next to the amount in the cash receipts journal.

Purchasing

The way in which this task is carried out could save a church a lot of money or could cost them a lot more money than is necessary. There are many examples of churches where any officer or even worker, is allowed to charge materials needed for the church on their own authority. This has gotten a lot of churches in financial difficulty. It is very important that proper procedures be carried out in any church to insure that purchasing does not get out of hand.

The purchasing cycle begins when a need has been determined. The person realizing the need will fill out a purchase requisition form (See example on page 32). This form is an internal form, that is it will not be sent outside the church. This requisition will be sent to the purchasing agent or to the person designated to authorize purchases.

By having a purchasing agent a church is centralizing its purchasing. Centralizing the authorization of purchases to one individual will avoid problems such as overstocking and the wasting of cash by buying unnecessary services. Needed cash can be tied up in inventories if every department went out and bought their own supplies. By having a purchasing agent, a church can also have a central stores or inventory of materials.

Page 20

	Initials	Date
Prepared By		
Approved By		

[illegible]

Once the purchasing agent receives the requisition, he will follow certain procedures before he makes a purchase. First, he will check the inventory to see if the needed items are on hand. If they are on hand, he will send the materials to the needed area. Second, if the materials are not in stock, he will check to see if the items are within the budgeted amounts for that area. Requisitions not within the budget will be rejected and sent back to the requester with an explanation written on it. Third, when the purchasing agent determines an actual purchase needs to be made he will issue a purchase order (See example on page 32).

Each purchase order will be prenumbered. The purchase orders should be kept only by the purchasing agent. All supply companies doing business with the church should be notified of the purchase order system used by the church. This is done to prevent the misuse of purchase orders.

Fourth, the purchasing agent will "shop around" by checking the different supply companies to see where he may purchase the item more economically. Delivery costs should not be overlooked. Fifth, the purchase order is filled out completely including the vendors name and address, terms of the order, shipping arrangement, quantity, description and price of the items and the total amount of the purchase order. The purchasing agent then signs the purchase order. Sixth, before sending the order the

Purchase Requisition Baptist Church		No. _____
Dept. _____ Budget Amount _____ Date _____		
Quantity	Description	
Ordered By _____		Approved By _____

Baptist Church Address Phone No. To: Company Name Address		PURCHASE ORDER		No. A1273 <small>Please Refer To This Number On Your Invoice Labels, and Correspondence</small>	
Deliver To: Address					
DATE ORDERED	SHIP VIA	DELIVER ORDER BY	TERMS		
QUANTITY	DESCRIPTION		UNIT PRICE	AMOUNT	
Approved by _____					

purchasing agent will check to see if the church has the cash flow to pay for the order. Seventh, the purchase order is sent out.

A purchase order will have three copies. One will be retained by the purchasing agent. The second is sent to the vendor. The third is sent back to the department where it was requested from. The head of that department will sign that copy and send it to the treasurer who will file the purchase order until other documents are sent for that particular order, such as a receiving document and invoice.

Once the materials are received, the requesting department will immediately examine the goods to determine if they are what was ordered and if they are damaged. If everything is in order the shipping document is signed and sent to the purchasing agent who will pull the corresponding purchase order and mark it received. The shipping document is then sent to the treasurer to be filed with his copy of the purchase order to wait on the invoice. A church may decide to have all materials delivered first to the purchasing agent who will then distribute the items to the various departments.

Cash Disbursements

The manner in which a church spends the money entrusted to it for the carrying out of God's ministry is also an area of great importance. Theft can also take place in this area if someone is given too much individual authority without proper checks, balances and controls. A common example of theft in this area is for a false company to send invoices to a church for materials and services and receive payment. This could be done by someone on the outside as well as inside.

Authorization

There are basically two different types of disbursements and each will have different authorization. The first would be disbursements that have a set interval for payment, usually weekly or monthly. Examples of these types of disbursements would be rent payments, salary (not hourly), and insurance. Linamen gave the following authorization procedure for these types of disbursements:

Items that occur regularly and are provided for explicitly in the budget may have standing authorization; thus specific authorization is not required each time one of these items is due.¹⁴

The second type of disbursement would be those that occur irregularly such as invoices for supplies.

¹⁴Linamen, Business Handbook for Churches, p. 115.

For each invoice received, the treasurer should have a purchase order and shipping document on file showing the purchase was properly authorized and that the materials were received in good order. If there is a dispute concerning the materials sent, the treasurer should hold the invoice until the purchasing agent gives proper approval for payment. If all the above is in order the treasurer makes out the check and attaches it to the documents and sends it to the designated person for signature. It is recommended that all checks be cosigned by the treasurer and one other person such as the chairman of the deacons or trustees. Walz suggests the following for payments: "No bills should be paid out of receipts. They should be deposited and a check written."¹⁵

Dr. Schmitt recommends, in his book Church Administration, voucher checks be used:

Voucher checks should always be used by a church. These checks have a detachable section that contains space for information such as purchase order number and invoice number.... The voucher check also comes with a carbon copy which would be stapled to the invoice, purchase order, and requisition.¹⁶

Petty Cash Fund

A small amount of cash should be kept on hand for

¹⁵Edgar Walz, Church Business Methods, (St. Louis: Concordia Publishing House, 1970), p.46.

¹⁶Schmitt, Church Administration, p. 201.

small expenses. One person should have control of this fund and is accountable for the amount entrusted to them. Generally, about one hundred dollars in this fund will be adequate.

The purpose of a petty cash fund is to provide cash for small purchases and payments. Postage due is an example of an item this would be used for. Each payment from petty cash must have a voucher prepared that indicates the budget account to be charged. Cash should not be borrowed from this fund and I.O.U.'s are not valid vouchers.

At all times the cash and vouchers should add up to the total amount in the petty cash fund. Whenever the responsibility for petty cash changes hands, the person receiving the fund should count the money and vouchers in front of the former holder in order to protect both parties. The treasurer should make periodic checks on the person handling the fund to make sure it is being handled properly.

Whenever the cash in the fund gets low, the vouchers are turned in to the treasurer who issues a check for the total amount of the vouchers to replenish the petty cash fund. This check is charged against the accounts on the vouchers.

Payroll

Payroll is one of the largest expenses of a church and needs to be adequately controlled. Most church staff will

be paid by salary and therefore the amounts will be authorized in advance. However, many churches have employees paid by the hour. There are certain procedures to authorize payments to hourly employees and these are discussed later.

In the payroll cycle there are basically four functions. Internal controls will be presented for each of these sections.

First, there is the function of employment and personnel. Alvin Arens in his book on auditing gave the following controls in this area:

The most important internal controls in personnel involve the formal method of informing the timekeeper and payroll preparation personnel of the authorization of new employees, the authorization of initial and periodic changes in rates, and the termination date of employees no longer working for the company. As a part of these controls, segregation of duties is important. No individual with access to time cards, payroll records, or checks should also be permitted access to personnel records.¹⁷

Of course it will be difficult for most churches to implement all of these controls, but an effort should be made to provide all of them possible.

Second, is the timekeeping and payroll preparation function. Hourly employees will have to have some type of time card. Larger churches will want to purchase a time clock. If a time clock is not used then a time card should be prepared and signed by the supervisor in the area the

¹⁷Arens and Loebbecke, Auditing: An Integrated Approach, p. 410.

person is working. In preparing the payroll the treasurer will have to have the needed information on the employees pay rate, withholdings, and time worked. Each employee should fill out the federal and state income tax exemption forms as well as any other authorizations for withholding such as for insurance paid by the employee. A payroll journal should be kept with a page for each employee.

Third, is the payment of payroll function. The treasurer will prepare the checks and submit them to the proper person for signing. The distribution of payroll checks should be performed by someone who is not involved in any of the other payroll functions.

Fourth, is the function of preparing payroll tax returns and payment of taxes withheld. The procedures for handling these returns should be written in a policy manual and should include the date when each return must be filed.

Recording Procedures

The treasurer will record the payments of expenses in the cash disbursements journal. Cash is being decreased when a payment is made, so it will be credited and the expense accounts will be debited. Each check will have a separate entry in this journal. Each month the columns are to be totaled and the individual accounts posted to the general ledger.

The bank statement will need to be reconciled monthly.

Someone who is removed from the cash disbursement responsibility should perform this duty. This task is not a difficult one and if performed by a neutral person will be another check on performance in the cash disbursement area.

Control for Assets (Property)

Every person in a church who uses the property or equipment of the church is responsible for its protection and care. However, it can not be assumed that everyone will take proper care of church assets. So every church should set forth controls to protect losses. There are three areas of controls for assets, physical safeguards, adequate insurance, and inventory records.

Physical Safeguards

Churches should use these without neglect. It is good to have them, but if they are not put to use, then they are a waste of money. All facilities should be locked when not being used. The purchase of a fireproof safe should be considered for safe keeping of important documents and records as well as valuable assets. Another possibility would be to rent a safety deposit box at the bank. Desks and filing cabinets that lock should be purchased. Also, any equipment stored outside should be in a fenced in area or at least locked up as well as possible.

A church should consider using certain procedures and devices to prevent fires and damages. Fire extinguishers and fire hoses should be placed in places where fires are likely to take place such as in kitchens and garages. A church might consider installing sprinkler systems. Having these will lower the cost of fire insurance. A cost benefit analysis would need to be done on this. Fire and smoke alarms should also be used where needed.

Some procedures that can be performed are to have periodic inspections of equipment to check for worn parts, especially wiring that could cause fires. Workers should avoid using improper wiring and extension cords. Also, storage rooms and closets should be kept tidy. All waste should be properly disposed of and chemicals should be stored in a safe place.

Adequate Insurance

A church should carry adequate insurance on the facilities, equipment and workers to cover losses that may occur. Adequate fire and casualty insurance should be secured by the church for the facilities and contents. The replacement cost should be considered when determining the amount of insurance to purchase. Also, a church should obtain insurance against losses from theft, burglary and vandalism. This insurance will protect the church from outsiders. Another type of insurance that should be obtained is public liability and property damage insurance. H. F.

Linamen in his book Business Handbook for Churches discussed this type of insurance:

A policy should be obtained to protect the church against any claim which may be presented because of bodily injury, or damage to another's property, resulting from the ownership, use, or maintenance of property. Although the courts are not entirely consistent on their ruling concerning the responsibility of churches for injuries caused by dark passages, faulty sidewalks, and the like, it is usually advisable to provide insurance coverage against these risks.¹⁸

One type of insurance that most churches fail to obtain is fidelity bonds on persons in position of trust. This insurance covers the theft or embezzlement of funds by workers who handle money. "The bond should be for an amount equal to the maximum amount that is subject to loss."¹⁹

There are several types of fidelity bonds that can be purchased. The first type would cover the position. It covers anyone in a certain position, such as anyone holding the office of treasurer. The second would cover only a particular individual. The third type would cover several positions. The fourth would cover everyone who would handle funds and is called a blanket bond.

Inventory Records

A church should make it a policy to keep records on items that can be inventoried. The most important would

¹⁸Linamen, Business Handbook for Churches, p. 47.

¹⁹Ibid., p. 48.

be on equipment. A listing of all equipment that a church possesses should be kept in an inventory book. A description of the items, including quantity and quality, should be included along with the purchase price, or fair market value if donated, and the date of acquisition. Large churches may want to place a prenumbered tag on each piece of equipment and include the serial number in the inventory book along with the location of the asset. A periodic inventory should be taken to determine the condition of the equipment, as well as to make sure the equipment is still on hand and hasn't been stolen.

If a church allows members to use church equipment for personal use, then a system needs to be set forth to prevent losses and to account for damage. One person should be in charge of handling these uses. A record should be kept by this individual and should include information such as the name, address, and phone number of the person borrowing the equipment. Also, what the items will be used for, where they will be used, how long, and what date they will be returned. The record should then be signed by both parties. If the equipment is not returned on the agreed date then the person responsible should follow up. There is a greater danger of loss the longer he waits to check out the situation.

Another type of inventory record a church should keep is a listing of all insurance policies. Included should

be the procedures to follow to notify the insurance company and who to contact in case of a claim. All policies should be placed in a safety deposit.

Budget

The budget is an important control that churches can use to help to plan and to use resources more efficiently. Many churches prepare budgets based totally on past experience without taking into consideration the projected future needs and plans of the church. They look to see what came in and what was spent the year before and increase each area by a set percentage. This is not a true budget. A true budget will not only consider what has been spent historically, but will also make detailed plans for the next year and less detailed plans for the next several years. Based upon these goals the church can formulate what will be expected to come in and go out.

Purpose

The first reason for having a budget is to encourage planning ahead and goal setting. A budget will force Christian leaders to plan for the future and set forth goals. The second reason is to provide blanket authority, once approved, for the disbursements provided in the budget. Without a budget congregational approval would be needed

on separate items of disbursement. The third reason is it is used to control purchases. The person in charge of purchasing will grant a requisition for a purchase based on whether or not it is in the budget.

Steps in Preparing the Budget

Some people think that the first step is to determine what the income will be and determine what can be spent. Using this method is not using good planning procedures and will tend to hinder programs. Actually the first step a church must do is to plan what they want to accomplish in the coming year. Dr. Schmitt gives three steps to be performed in determining this, establishing objectives, setting goals, and establishing priorities. "Objectives are not things to be accomplished in one year. They may never be accomplished. They are the purposes toward which the church should be striving."²⁰ Basically, the objectives will be the same from year to year, but at least they need to be reviewed. The goals will include what the church expects to accomplish the next year. Setting the goals into levels of priority would be the next step.

After all the above has been set forth, then the actual cost of the different goals should be estimated. Costs from previous years can be used as a guideline for this.

²⁰Schmitt, Church Administration, p. 158.

New programs and equipment will have to be researched more thoroughly and detailed information presented for these. Once the individual costs are determined, then the total budget amount needed can be determined.

Now the expected income of the church should be determined. In the goals set forth there should be a goal for church attendance stated. Multiplying this figure times the per capita giving figure, an anticipated weekly budget amount can be determined. There are many other ways of determining expected income, but this seems to be the simplest. This income figure is compared to the determined costs. Usually the determined costs will be more, if planning was done right, and certain costs will have to be cut. Priorities have already been established, so those costs that are lowest on the priority list would be cut first.

The budget will be determined when enough cuts have been made to get the costs in line with the income. The budget will then be submitted for approval. A church may want the congregation, the deacons, or even an appointed committee to approve the budget. Emphasis should be put on what is expected to be accomplished not merely on the costs.

Budget Comparisons

A budget is of little value if it is not used as a comparison throughout the year with the actual results of

operations. In order to make comparisons a budget needs to be broken down into weeks and months. Schedules need to be made to determine when income is expected to be high or low and when the different expenditures will occur.

When the monthly report or financial statements are prepared the budgeted amounts should also be shown along with them, together with the difference between the actual and budgeted amounts. By showing this information the administration of the church will be able to see problem areas and make necessary adjustments. If the problem areas are taken care of, then potentially great problems down the road can be eliminated.

Another report that needs to be made is a cash flow report. Many churches have a problem with cash flow. That is, not having the cash on hand when needed. By breaking the budget down into weekly amounts, and by using actual figures when they can be determined, a better picture can be developed from week to week. This will be helpful to the purchasing agent in determining if a purchase can be made at the present time or if it should be postponed to a time when cash flow is better.

Miscellaneous Control Procedures

Each of the procedures presented below are important and should be performed by a church which wants to have

adequate internal controls. First, the pastor of a church should not receive money, pay bills or record transactions. He will be actively involved in the budget and making sure internal controls are properly carried out. Even when a church is started, he should turn these responsibilities over to someone else as soon as a person can be appointed.

Second, all activities and procedures that will be performed in administering the church should be written in a policy manual. Throughout this paper recommendations have been made to set forth certain procedures in writing and these should all be brought together in a policy manual.

Third, vacations should be required. The person on vacation should be replaced while he is away. That is, another person should be assigned his responsibilities. By doing this a check will be made of the persons performance.

Treasurer and Financial Secretary

It is recommended that a church have at least a financial secretary and treasurer. The people holding these positions may be elected by the congregation or appointed. The reason there are two positions suggested is in order to have separation of duties as has been discussed previously. The responsibilities given to each of these two positions may vary, but the different elements of control should not be violated when assigning the responsibilities.

The financial secretary could have the responsibility of recording the cash receipts, performing the entries in the cash receipts journal and recording the entries for the individual contributions. He could also be the person who authorizes the purchases. The treasurer would take care of the cash disbursements. That is, the writing of checks and recording the information in the cash disbursements journal. The treasurer could also prepare the reports and the financial statements. In a larger church the reports and financial statements could be prepared by the church business administrator. He would also take the responsibility of authorizing purchases.

All the procedures presented in this chapter are important. These are the procedures that each church should implement to have an adequate system of internal control. Since each church is different some of the more specific procedures may vary. However, controls in each of the different areas of activity need to be used.

The information that has been presented thus far has been used as a foundation in analyzing the use of, or lack of, internal controls in eleven independent Baptist churches. The results are presented next.

CHAPTER IV

RESULTS OF INTERVIEWS WITH CHURCHES

Development of the Survey

The purpose of the survey was to determine if the independent Baptist churches included in the study were using internal controls, and if so to what extent. The questions included in the survey needed to cover each area of activity. These areas, as discussed in chapter III, are cash receipts, purchasing, cash disbursements, control of assets, and budget. Also, questions concerning attendance and annual budget amounts needed to be included for comparative purposes. The survey needed to be long enough to include all the areas, but could not be so long that every detail of internal control would be surveyed.

The actual formulating of questions was based on the foundational information and procedures included in the first three chapters of this thesis. In addition, the internal control checklist included on pages 103 through 105 of Loudell O. Ellis' book, Church Treasurer's Handbook, was used to obtain some of the questions in the survey. The actual questions are as follows:

1. What is your average attendance for Sunday morning worship service? (attendance)
2. What is your annual budget? (budget)

3. Are the bookkeeping and financial procedures written down? (procedures)*
4. Who performs the following functions?
 - a. Records membership contributions? (records contributions)
 - b. Writes checks? (writes checks)
 - c. Signs checks? (signs checks)
 - d. Reconciles bank statement? (reconciliation)
 - e. Petty cash fund? (petty cash)
 - f. Bookkeeping? (bookkeeping)
 - g. Counts offering? (counts offering)
 - h. How many people are present when the offering is counted? (numbers of counters)
 - i. Deposits money? (makes deposits)
5. Are offering envelopes used? (envelopes)
6. Are offering envelopes retained and, if so, how long? (envelopes kept); (how long)
7. Are receipts given for contributions mailed in or brought by the office? (receipts given)
8. Who authorizes purchases? (authorizes purchases)
9. Is an annual budget prepared? (budget prepared)
10. How is the budget determined? (budget determined)
11. Who approves invoices for payment? (invoice approval)
12. Are purchase requisitions used? (requisitions)
13. Are purchase orders used? (purchase orders)
14. Are actual receipts and disbursements compared to budgeted amounts on a monthly basis? (actual to budget)

*These words in parenthesis will be used in the charts to summarize each question. This is done to prevent having to refer back to the list of questions.

15. How often are contribution statements sent out?
(statements sent)
16. How often are financial statements or reports prepared? (reports prepared)
17. What financial reports are prepared? (reports)
18. Are written inventories of church equipment kept?
(equipment)
19. Is the use of church equipment by church members for personal use allowed? (personal use)
20. Who approves the use of equipment by members and is a record kept? (record kept)
21. Does the church have adequate fire insurance on the facilities? (fire insurance)
22. Does the church have fidelity bonds on persons in position of trust? (fidelity bonds)
23. Are annual vacations required and if so, does someone else perform the duties of the person while they are on vacation? (required vacations); (duties taken over)
24. Are you familiar with the term internal control?
(internal control)
25. Does the church have an annual independent audit?
(annual audit)

It was suggested by the graduate studies committee that personal interviews be conducted with the churches, rather than sending the survey to each of the churches. Their reasoning was that a better response would be received.

The actual survey includes eleven independent Baptist churches. The pastor of each church was contacted, and in nine out of the eleven churches the pastors actually answered the questions in the survey. In the other two churches the pastors referred the questions to an assistant. The churches that were interviewed are listed in the appendix in alphabetical order.

Presentation of Survey Data

Answers to Survey Questions
January 1984

Question	Church										
	1	2	3	4	5	6	7	8	9	10	11
1. (Attendance)	500	100	100	50	400	225	N/A ¹	25	500	250	210
2. (Budget) ²	420	42	39	N/A	170	118	N/A	N/A	300	200	80
3. (Procedures)	no	no	no	yes	no	no	no	yes	no	no	no
5. ³ (Envelopes)	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
6a. (Envelopes Kept)	no	no	yes	yes	yes	yes	yes	yes	yes	no	yes
6b. (How Long)	-	-	life	3 yrs.	5 yrs.	life	life	life	1 yr.	-	3 yrs.
7. (Receipts Given)	no	no	no	no	yes	no	no	no	no	no	no

¹N/A - Not made available.

²In thousands.

³Questions number 4a-i, 8, 10, 11, and 20 are included in separate charts because the answers were too long to be included in this chart.

Answers to Survey Questions Continued
January 1984

Question	Church										
	1	2	3	4	5	6	7	8	9	10	11
9. (Budget Prepared)	yes	yes	yes	yes	yes	yes	yes	yes	yes	no	no
12. (Requisitions)	no	no	no	no	yes	no	no	no	no	no	no
13. (Purchase Orders)	no	no	no	no	no	no	no	no	no	no	no
14. (Actual to Budget)	no	yes	no	yes	yes	no	no	yes	yes	no	no
15. (Statements Sent)	A ¹	A	not sent	A	A	A	A	A	A	A	A
16. (Reports Prepared)	M ²	M	M	M	M	M	M	M	M	M	M
17. (Reports)	R&E ³	R&E ⁴ RE	R&E	R&E	R&E	R&E	R&E	R&E	R&E	R&E	R&E
18. (Equipment Inventory)	no	no	no	no	no	no	no	no	no	yes	no

¹Annually.

²Monthly.

³Statement of Receipts & Disbursements.

⁴Statement of Retained Earnings.

Answers to Survey Questions Continued
January 1984

Question	Church										
	1	2	3	4	5	6	7	8	9	10	11
19. (Personal Use)	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
21. (Fire Insurance)	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
22. (Fidelity Bonds)	no	no	no	no	no	no	no	no	no	no	yes
23a. (Required Vacations)	yes	no	no	no	yes	no	no	no	yes	yes	no
23b. (Duties Taken Over)	no	-	-	-	no	-	-	-	no	no	-
24. (Internal Control)	yes	yes	no	no	yes	no	no	no	yes	no	no
25. (Annual Audit)	no	no	no	no	no	no	no	no	no	no	no

Answers to Survey Questions Continued
January 1984

Church	Question 4a (Records Contributions)	4b (Writes Checks)	4c (Signs Checks)
1	church secretary	bookkeeper	administrator & one deacon
2	secretary	treasurer	secretary
3	finance secretary	finance secretary	treasurer & assistant
4	clerk	treasurer	treasurer
5	church secretary	church secretary	chairman of deacons
6	treasurer	treasurer	treasurer
7	secretary	assistant secretary	treasurer
8	finance secretary	treasurer	treasurer
9	treasurer	treasurer	secretary
10	treasurer	treasurer	treasurer
11	treasurer	treasurer	treasurer

Answers to Survey Questions Continued
January 1984

Question	4d (Reconciliation)	4e (Petty Cash)	4f (Bookkeeping)
Church			
1	bookkeeper	bookkeeper	church secretary
2	secretary	secretary	treasurer
3	finance secretary	none	finance secretary
4	treasurer & clerk	none	treasurer
5	church secretary	church secretary	bookkeeper
6	treasurer	secretary	treasurer
7	secretary	none	secretary
8	treasurer	pastor	treasurer
9	treasurer	none	treasurer
10	treasurer	none	treasurer
11	treasurer	none	treasurer

Answers to Survey Questions Continued
January 1984

Question	4g	4h	4i
	(Counts Offering)	(Number of Counters)	(Makes Deposits)
Church			
1	two secretaries	2	two secretaries
2	treasurer & deacon	2	deacon
3	counting committee	3	one person

Answers to Survey Questions Continued
January 1984

	Question 8 (Authorizes Purchases)	10 (Budget Determined By)
Church		
1	pastor	planning & past records
2	pastor	past records
3	pastor	past records
4	finance committee	planning & past records
5	assistant pastor	planning & past records
6	department heads	past records
7	pastor	not prepared
8	deacons	planning & past records
9	treasurer	past records
10	pastor	not prepared
11	individuals	not prepared

Answers to Survey Questions Continued
January 1984

Church	Question 11 (Invoice Approval)	20a (Equipment Approval)	20b (Record Kept)
1	administrator & pastor	pastor	no
2	no one	pastor	yes
3	pastor	pastor	no
4	treasurer	pastor	no
5	assistant pastor	assistant pastor	no
6	pastor	pastor	no
7	no one	pastor	no
8	pastor	no one	no
9	treasurer	no one	no
10	pastor	pastor	no
11	pastor	pastor	no

CHAPTER V

ANALYSIS OF DATA

Statistics

Range of Churches for Attendance and Budget

	Low	High
Attendance	25	500
Annual budget	\$39,000	\$420,000

There were three churches for which the attendance or the budget figures were not made available. It is estimated that these churches would have been closer to the lower end of the range among the churches.

Percentages of Each Question Answered Yes and No

Question	Yes	No
3. (Procedures)	82%	18%
4e. (Petty cash)	54%	46%
5. (Envelopes)	100%	-0-
7. (Receipts given)	9%	91%
9. (Budget prepared)	73%	27%
12. (Requisitions)	9%	91%
13. (Purchase orders)	-0-	100%

Questions	Yes	No
14. (Actual to budget)	54%	46%
18. (Equipment inventory)	9%	91%
19. (Personal use)	91%	9%
21. (Fire)	100%	-0-
22. (Fidelity bonds)	9%	91%
23a. (Required vacations)	36%	64%
23b. (Duties taken over)	-0-	100%
25. (Annual audit)	-0-	100%

Analysis of Cash Receipts

In the area of cash receipts there were procedures that showed strengths in internal controls and yet there were also weaknesses. The questions in the survey that are in reference to cash receipts are 4a, 4g, 4h, 4i, 5, 6, and 7. There were three basic strengths in this area. First, every church had at least two people involved in counting the offering (see page 57, question 4h). Although, three people are recommended, it is definitely better to have two, than to place the responsibility with one person. There were 46% of the churches that had two people and 54% that had three people counting the offering. Second, in recording the membership contributions, each church had one person designated to perform this task, which proves to be a strength (see page 55, question 4a). This aids in the recording of individual contributions.

There were also three weaknesses in cash receipts. First, in handling receipts other than the regular offering, such as those mailed in or brought by the office, only 9% of the churches actually gave a written receipt for these types of contributions (see page 52, question 7). Second, of the churches interviewed, 27% actually had the treasurer involved in counting the offering (see page 57, question 4g). As stated previously, in order to prevent suspicion being placed on the treasurer, he should not be involved in counting the offering. Third, the actual deposits were made by only one person in 82% of the churches (see page 57, question 4i). It is recommended that at least two people deposit the money for protection against theft.

Analysis of Purchasing

Over all, this area was inadequate. The questions in the survey that have to do with purchasing are 8, 12, and 13. None of the churches used purchase orders and only one church actually used purchase requisitions (see page 53, questions 12 and 13). Also, the authorizing of purchases was weak. In 18% of the churches the individuals actually using the materials had authority to make purchase decisions. In 45% of the churches the pastor authorized all purchases (see page 58, question 8). These churches definitely need

to use controls in this area to prevent purchases from getting out of hand.

Analysis of Cash Disbursements

The questions in the survey that are in reference to cash disbursements are 4b, 4c, 4d, 4e, and 11. A petty cash fund was used by 46% of the churches (see page 56, question 4e). Each church using a petty cash fund had one person designated to take care of it.

The approval of invoices for payment was performed in 64% of the churches (see page 59, question 11). In the other 36%, the treasurer went ahead and paid the invoices without approval. One church shared an incident where a company billed them for materials that they had never ordered or received. If they would not have had proper approval of invoices the treasurer would most likely have paid the invoice without questioning it.

The preparing and signing of checks was performed by different individuals in 54% of the churches (see page 55, questions 4b and 4c). For these churches this is a strength, but in the other 46% of the churches these duties need to be segregated. Also, the bank statement reconciliation was done by this same person in all 46% of these churches (see page 56, question 4d). These churches should have a cosignor of checks or at least a person other than the one who writes the check to sign it. Also, the recon-

ciliation of the bank statement could easily be performed by a secretary removed from any cash disbursement duties.

Analysis of Control Over Assets (Property)

This area showed many weaknesses and only one strength. Survey questions 18, 19, 20, 21, and 22 are concerned with control over assets. The strength was that all the churches had fire insurance on their facilities. In 91% of the churches they did not have fidelity bonds on persons in position of trust (see page 61, question 22). Also, 91% of the churches did not have written inventories of church equipment and the same percentage of churches did not keep record of equipment borrowed by church members. This is one of the biggest causes of loss in equipment, because it is not kept track of.

Analysis of Budget Procedures

The survey questions that have to do with budget procedures are 9 and 10. An annual budget is prepared in 73% of the churches interviewed (see page 60, question 9). Of those that prepare budgets, 50% determined their budgets based on future planning and past records (see page 58, question 10). The other 50% base their projections solely on past records. Basically, they increase the different budget areas by a certain percentage or they may consider

accounts that were over or under budget and increase them or decrease them.

When budget procedures are used properly, from planning to comparison with actual monthly figures, they are a very useful tool in controlling finances. But, when they are not properly understood or misused they can be a hindrance to the work of God.

Analysis of Other Controls

Everyone of the churches prepared a monthly statement of receipts and disbursements and 46% of these churches compared budgeted amounts with these actual amounts (see page 61, question 14). In addition, in 91% of the churches surveyed, membership contribution statements were sent out annually, and the other 9% only gave statements if they were requested. None of the churches sent out quarterly statements. Two other areas of weakness were that procedures were not written and when annual vacations were required no one performed the person's duties while they were on vacation. Last, none of the churches had independent audits.

Rejection of Thesis Statement

As was suspected these independent Baptist churches are using some internal controls, but each church has areas

where they could improve. Some churches are much better than others in their use of internal controls.

The thesis statement as stated in the introduction on page 5 is as follows: Independent Baptist churches are not using internal controls in the area of finance. This statement is not true because some internal controls are being used as was shown above. However, it was shown that internal controls are definitely weak in the area of finance for independent Baptist churches. Since the thesis statement is not 100% correct, it is rejected.

CHAPTER VI

CONCLUSION

In many of the churches, especially the smaller ones, the ability to implement all of the internal control procedures does not exist. However, each church must determine what controls can be used and implement them. Church number 8 is a good example of a small church using many internal controls. They did have weak areas, but for a small congregation they were doing a good job. Using them as an example, it can be shown that small churches can in fact use many of the internal controls, and it is in their best interest to do so.

There are several problems that can be foreseen, and actually take place, in churches that do not have adequate internal controls. First, the church operations will continue to be under suspicion by members, prospective members, and the business community. Members may be reluctant to give when they are not sure how their contribution will be handled. Prospective members may not join the church family when they see that the church is not controlling their operations in a honorable fashion. Business men will be reluctant to do business with a church without good

business principles, which include internal controls.

Second, churches without adequate controls will inevidently suffer losses somewhere along the line. This could be from theft from the inside or the outside. Also, misappropriation of funds will take place. Without proper controls and records their losses will probably go unnoticed. This is exactly why many church leaders do not see the problems. They do not have the evidence that would show that problems exist.

Third, lack of internal controls will lead to financial difficulties for many churches. Without controls that will show difficult financial situations, churches will not be aware of the problems and will procede in a blind fashion. Internal controls are for the protection of the church in these situations.

Fourth, the churches will be faced with additional costs by not using controls in certain areas, especially in purchasing. The benefits of controls will allow churches to make sounder decisions in purchasing and in the using of church funds.

The need has been presented along with the reasons and procedures for internal controls. Now all church leaders need to do is evaluate their own church needs and determine where there weaknesses are. Then, the needed procedures can be set forth and implemented.

This writer hopes that church leaders will seek good

business procedures and put them to use in their churches.
Of course, this will include adequate internal controls.

Appendix

The following independent Baptist churches aided in the collecting of information by answering the questions in the survey:

Bible Baptist Church
Appomatox, VA

Calvary Baptist Church
Alta Vista, VA

Centerville Baptist Church
South Boston, VA

Central Baptist Church
Waynesboro, VA

Faith Baptist Church
Covington, VA

Faith Baptist Church
Lynchburg, VA

Grace Baptist Church
Madison Heights, VA

Heritage Baptist Church
Lynchburg, VA

Shenandoah Valley Baptist Church
Stephens City, VA

Temple Baptist Church
Danville, VA

Temple Baptist Church
Madison Heights, VA

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