

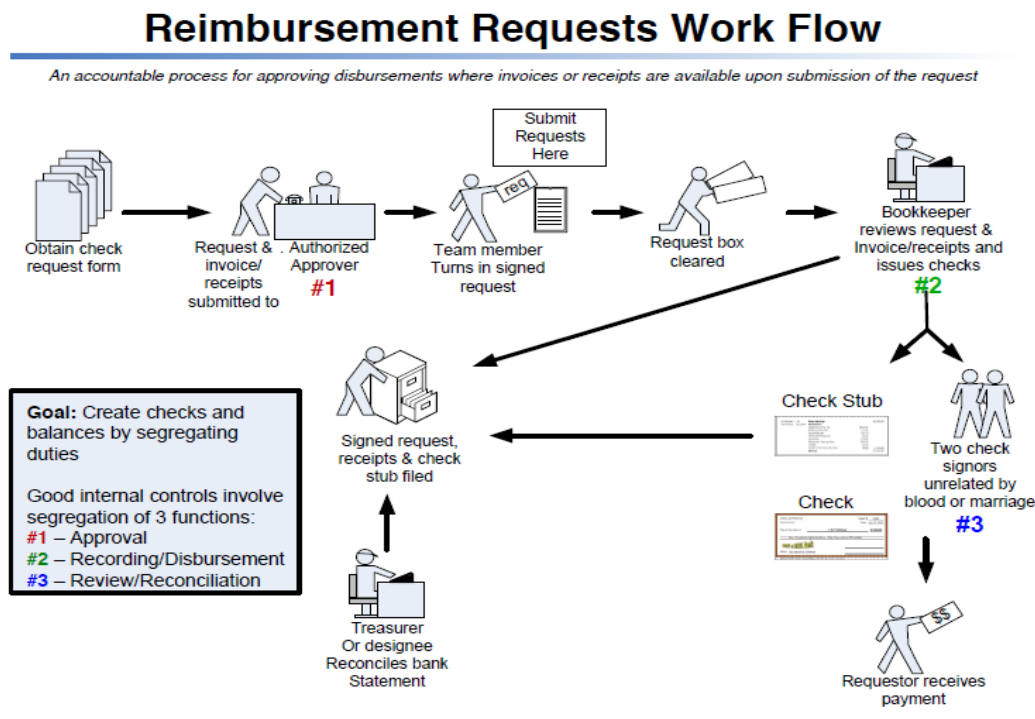


THE FOURSQUARE CHURCH

Internal Controls - Disbursing Funds

What church leaders need to know upfront

The workflow diagram below illustrates a process to approve, record and disburse expenditures of church funds using strong internal controls that result from a proper segregation of duties where three separate individuals hold the three distinct roles.



Important elements of this process:

- **Check request forms** - Provide the basis for a paper trail and document that an authorized approver has reviewed the request and verified that it is appropriate and within the budget. The approver should sign the check request; this is proof to the other participants in the internal control that the authorized approver step has been fulfilled.
- **Recording the expense in password-protected accounting software** - The bookkeeper reviews the request, invoice, or receipts, logs the transaction in a secured bookkeeping software and prints the checks. The person who enters the transactions into the bookkeeping software should not be a check signer, so no individual can issue and sign their own check and potentially go back into the accounting ledger to alter information. The check signers should not

have access to blank check stock. The blank check stock should be held securely at the church. Anyone with access to accounting software other than read-only access should not handle money physically or electronically.

- **Dual signatures on every check** - The Foursquare bylaws require two signatures on all check disbursements by individuals unrelated by blood or marriage. The senior pastor and treasurer must be signers on the church bank account, and the church council may authorize additional secondary signers. This requirement is a prescribed internal control to ensure that two people review every check disbursement.
- **Voucher-style checks** - Voucher-style checks can be printed on laser or inkjet printers, and two check stubs can be generated indicating the recipient, check number, amount, and disbursement date. These stubs are convenient since one can be provided to the recipient, and the other can be attached to the invoice as proof of payment and kept in the church records.
- **Reconciliation** - Modern accounting software makes bank reconciliation a straightforward process. Reconciliation only happens once per month and takes approximately 30-40 minutes, depending on the quality of the bookkeeping and the number of transactions. Reconciliation is necessary as it verifies that the information entered into the accounting software is reconciled to outside source documentation (the bank statement).
- **Filing** - Following this system results in a bulletproof set of records collectively called the "voucher package." This package includes the check request, a check stub, receipts or invoices and a packing slip (in the case of shipped goods). This package effectively documents that the disbursement was appropriately approved, disbursed, and verified for the intended ministry purpose.

Electronic Options: There are electronic systems for submitting, paying bills, and making reimbursements. Some great options can be set up with strong internal controls. Please contact your district office for more information about PEX and Bill.com.

Internal control warnings:

- **Avoid using signature stamps** - these can be stolen or used without approval, thus compromising internal controls, and putting the ministry at greater risk for fraud or embezzlement. Along the same lines, **signing blank checks** in advance undermines internal controls and could result in the same result.
- **Documentation requirements** - If proper documentation for reimbursements is not maintained, the church could be subject to private inurement sanctions that could result in fines of up to 225% of the undocumented reimbursements if audited by the IRS.
- **Beware of organizational myths** - There is no amount threshold for the two-signature requirement. A check for \$1.00 still requires two signatures.
- **Segregate duties based on function** - Team members can be involved in multiple financial processes if the functions are separate. For example:

- The person authorizing disbursements could be involved in counting the offering since these are separate functions.
- Foursquare requires two signers on checks; one of these signers could authorize cash disbursements.
- The bookkeeper, signers on the bank accounts and the person who reconciles the account should not handle the offering, mail containing cash or checks, make online bank transfers, enter the account number in the electronic giving system, etc.
- People with signing authority over the bank accounts or those counting the offering should never have administrative rights to make entries or changes to the accounting software.

Does this sound a little inconvenient? - That's because it is! Staying above reproach requires some processes that may be inconvenient or seem like overkill (at first) and will necessitate the involvement of multiple team members. However, it is like trying to lift something too heavy for one individual. Trying to do it on your own can cause injury to yourself or people around you. So, it is important to get many people involved and set up the right systems from the beginning. It can save your church a lot of pain down the road.