



Evangelical Lutheran Church in America

God's work. Our hands.

Guidelines for Congregations

Internal Control Best Practices

**A resource provided by the Office of the Treasurer of the
Evangelical Lutheran Church in America**

Guidelines for Congregations – Internal Controls Best Practices

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Congregations should establish and maintain good internal control and accounting policies in order to exercise good stewardship and care of the resources entrusted to them. This document describes major financial activities and related best practices to aid the congregation in establishing its own system.

Policies and procedures governing the following activities should be in place and reviewed by the finance committee and updated on an annual basis:

- Receipts (Sunday and special offerings);
- Bank reconciliation process;
- Authorized bank signers;
- Capital expenditures;
- Disbursements;
- Loans;
- Payroll;
- Taxes;
- Data security;
- Asset classification;
- Purchasing;
- Records retention;
- Regulatory and legal compliance;
- Code of ethics;
- Endowments and other restricted funds;
- Travel expenses;
- Budget process; and
- Annual congregational audit or review

Procedures should be established in a manner that ensures proper segregation of duties. For example, the invoice approval process should be separated from the accounts payable process. Likewise, the bank reconciliation process should not be performed by anyone authorized to process an invoice or anyone that is an authorized signer on the bank account.

- **Receipts** – The receipts processing policies and procedure should address congregational offerings, gifts and donations and include the following:
 - All mail containing money should be opened and counted in dual custody in a secured area.
 - All offerings should be tallied on a preprinted form, signed and dated by the people conducting the count.
 - The receipts should be deposited promptly or kept in a safe until deposited.
 - The receipts should be deposited by a person independent of the people performing the count and the bank reconciliation process.
 - The signed tally sheet for the receipts should be given to the congregation's treasurer.



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- The deposit receipt should be reconciled to the tally sheet for all offerings and the bank statement should be reconciled to the deposit ticket on a monthly basis by a person that is not an authorized bank account signer.

- **Bank reconciliations and authorized account signers** –
 - All bank reconciliations should be performed by a person who is not an authorized signer on the account, is independent from the invoice approval process and has no access to the general ledger.
 - Reconciliations should be performed on a monthly basis, signed and dated by the preparer.
 - Reconciliations should be reviewed by a knowledgeable employee independent of the process. Note: if staff size does not allow for such segregation of duties, it is recommended that each step of the process be reviewed by another congregational employee.
 - Outstanding reconciliation items should be researched and adjusting entries done promptly to bring the account in balance.

- **Capital expenditures** –
 - All capital items (such as furniture, equipment or capital improvements) should be approved by the pastor and/or congregation council and purchased through a competitive bidding process to obtain the best price or service.
 - Once purchased, these items should be placed on the congregation's books and depreciated in accordance with generally accepted accounting principles.
 - Proper approval should be granted by the finance committee or congregation before an asset is disposed. After disposal, the congregation should consult current market guidelines to establish a fair market value and sale price for the asset.

- **Disbursements** – All expenditures should be handled as follows:
 - All expenditures should be supported by proper documentation (i.e., receipt and notation of business purpose).
 - All invoices should be approved by an authorized signer independent of the accounts payable process.
 - Any expenditure presented for payment should not be processed unless properly approved and supported.
 - The person processing the invoice for payment and cutting the check should be independent of the check signing and bank reconciliation process.
 - All check stock should be kept in a secured location when not in use.
 - All expenditures should be reviewed by a person independent of the accounts payable process on a quarterly basis to ensure there have been no duplicate payments made during the period.
 - All new vendors should be approved by an authorized employee independent of the accounts payable process. 1099 vendors should be flagged in the system in order to ensure that year-end reporting is accurate.



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- Before issuance, invoices should be matched to the checks presented for signing, by someone other than the preparer of the checks.
 - If the invoice is for the purchase of tangible items (i.e., supplies, computers) rather than services, ensure all receipts are verified by a person independent of the ordering process.
 - All service related or individual contractor vendors that are paid more than \$600 per year must receive a properly completed 1099 at the end of each year.
- **Loans** – If the congregation is considering borrowing funds, it is imperative to have the following controls:
- All loans should be approved by the Congregation Council.
 - An approved signer list should be maintained to control the disbursement of the loan funding.
 - The loan statement from the lender should be reconciled to the general ledger on a monthly basis.
 - When loan disbursements are received, the funds should be immediately deposited in the appropriate bank account. Disbursements from this account should require two signatures.
 - Separate financial reporting should be established to monitor the proceeds and expenditures of the loan and reported to the Congregation Council on a regular basis.
- **Payroll and taxes** – The payroll process should be handled as follows:
- Any new hire should be supported by formal documentation approved by someone independent from the payroll process. This documentation should include the employee's rate of pay, W-4, W-9, approved benefits, and benefits elected and paid for by the employee (i.e., 403b, IRA, education account, etc.).
 - Each payroll check run should be reconciled to the general ledger and reviewed by someone independent of the payroll process to ensure accuracy.
 - Any change of status (i.e., position or salary change) should be fully documented and approved by a person independent of the payroll process prior to any change being made.
 - If the congregation has hourly employees, time cards should be reconciled to the payroll checks each time payroll is run. This reconciliation should be performed by someone independent of the payroll process and approved by management.
 - All employee W-2 forms should be reconciled to the general ledger prior to being issued. This reconciliation should be executed by a person independent of the payroll process.
 - All W-2 forms should be issued within 30 days of year-end.
 - All Forms 941 issued should be reconciled to the general ledger prior to being paid. This reconciliation should be executed by a person independent of the payroll process.
 - Each Form 941 and corresponding payment is to be transmitted to the proper governmental entity promptly.
 - If an employee is terminated, the termination process should be fully documented and approved by a person independent of the process. In addition, the person in charge of the payroll process should be responsible for collecting all congregation-owned property



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- (i.e., access card, computer), ensuring the person is immediately removed as a bank account signer (if appropriate), calculating the employee's final paycheck and having all documentation and final paycheck approved by a supervisory person independent of the process.
- Each congregation should have an organized system where representatives are responsible for checking for compliance on filing dates for 941s, 1099s, W-2s, W-3s, any state tax forms or other forms that need to be filed throughout the year. Filing may be added for real property exemption reports or other governmental reports and certifications.
 - **Data processing, data security and Controls over Personal Identity Information (PII)** – Personal Identity Information (PII) is data that, if stolen, could be used to steal a person's identity. PII includes such things as names, addresses, birthdates, social security number, credit card numbers and bank routing numbers which are used to automatically make authorized deductions from a donor's bank account. In respect to data processing and data security over this information, the following controls need to be in place:
 - All software programs and data files need to be password protected and each employee needs to have a unique password.
 - All security software should be current and all updates installed as soon as they are received.
 - Access should be restricted commensurate with job responsibilities.
 - All software and data files should be backed up on a regular basis and backups should be kept off-site.
 - All computers should have anti-virus software installed and running.
 - There should be a current computer and Internet use policy highlighting the congregation's position on the personal use of the computer and, if allowed, forbidden websites.
 - All documentation containing Personal Identity Information (PII) should be handled on a need-to-know basis.
 - All paper documentation should be kept under lock and key when not being worked on.
 - When no longer needed, paper documentation containing PII should be shredded or stored in a secured archive location. For more information, please see the records retention policy on the ELCA Office of the Secretary's website at www.ELCA.org.
 - A policy should exist that prohibits downloading any confidential documentation or PII unless specifically authorized.
 - The person approving the download should be responsible to ensure its proper use and ultimate destruction.
 - This policy should also provide for controls over the use and protection of all data downloaded to portable media devices (i.e., laptops, flash drives, CDs and other external drives) and the cloud as well as forbid email of any confidential documentation.
 - Finally, this policy should include a definition of confidential documentation and PII. It is essential to make it clear to all congregation staff that this information is not to be emailed to anyone without prior written authorization.



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- **Asset classification** – All donations and receipts should be properly classified in accordance with the donor’s intent. Designated funds should be approved by the Congregation Council.
- **Purchasing** – If the invoice is for the purchase of tangible items (i.e., supplies, computers) rather than services, ensure all receipts are received and verified by a person independent of the ordering process. (Also see page 2 – Disbursements).
- **Records retention** – A policy should exist stating that all documentation should be properly stored and destroyed in compliance with an established procedure. This policy should also include guidelines regarding when documentation is to be stored in a safety deposit box or other off-site means (for more information, please see the records retention policy on the ELCA Office of the Secretary’s website at www.ELCA.org).
- **Regulatory and legal compliance** – The congregation is responsible for ensuring compliance with all applicable legal and regulatory pronouncements.
- **Code of ethics** – A code of ethics should be in place covering all lay and ordained personnel and should be reviewed regularly by congregational leadership. This document should cover:
 - Duty of care – Good faith and best efforts in the execution of all job functions
 - Duty of loyalty
 - Conflict of interest
 - Gifts
 - Duty to disclose breaches of the code of ethics
- **Endowments, bequests, gifts and memorial funds** – Procedures for receiving and distributing money from endowments and memorial funds should include controls to ensure:
 - Money is properly received and credited in accordance with the donor’s intent
 - The gifts and endowments are properly classified (i.e., unrestricted, restricted, temporarily restricted)
 - Mailing or wiring of funds should be completed in dual custody to ensure that money is sent to the intended recipient
- **Travel Expenses** – With respect to travel expenses, the following controls should be in place:
 - A standard form should be utilized that breaks travel expenses into categories such as airfare, hotels, mileage, parking, phone expense and meals.
 - For mileage, it is recommended that the standard IRS mileage rate be used.
 - Receipts should be attached to the expense statement over a pre-determined threshold (usually \$25).
 - A business purpose must be noted for every expense.
 - There should be a policy regarding expensing the cost of gifts, constituted of circumstances and thresholds that are considered within the congregation’s tolerances.
 - The expense report should be signed by the traveler and approved by their supervisor.



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- The pastor's travel statement should be approved by the treasurer, finance committee or their designate.
- **The budgeting process** – An annual budgeting process should be in place and managed by the treasurer, pastor and the congregation's finance committee. The budgeting process should include:
 - A review of the congregation's revenue sources and a projection of revenue by category for the coming year.
 - A process to review expenditure proposals and commitments for the coming year.
 - A process for reducing planned expenditures to match projected income.
 - Review of draft budget by the pastor.
 - Presentation of draft budget to congregation.
 - Approval of budget by congregation.

Actual results should be monitored against the approved budget on a monthly basis and explanations of variances must be presented to the pastor and Congregation Council.

- **Congregational audit** – All congregations should have an annual audit, whether internal (done by congregational members independent of the financial functions) or external (by a CPA) as appropriate, based on the magnitude of the financial transactions and resources of the congregation.
 - Audit guidelines for congregations and a model audit plan can be found at www.ELCA.org/treasurer/congregations.

