

# James L. Ulvog, CPA

## Internal control



Here are some very basic internal controls that should be in place for even the smallest church:

Extract from Once Upon Internal Control – A tale of good and bad ways to implement internal controls in a local church.  
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### Lessons learned

Let's revisit the two churches to process some of the procedures that should be in place.

**Protect the offering and the safe.** Probably the most important issue for a local church is to maintain dual control over the offering from the time it is collected on Sunday morning until the deposit is ready. This is the most common place where churches have a struggle in maintaining good procedures. The goal is to prevent the situation where one person could get to the offering alone. Space does not allow a full discussion of this issue now. However, here are a few basic ideas to get you started in the right direction:

Restrict access to the offering until it is counted. Two ushers should work together until the offering is in the safe.

To keep the offering secure once it is in the safe, some churches have two locks on the safe. Some use heavy-duty bank bags combined with a drop safe that allows sliding

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things through a trap door without a key. Once dropped, the contents cannot be accessed without the key to the bag and the combination to the safe. One church, which has a need to maintain high security throughout its campus, has a separate alarm circuit on the safe.

A simple yet effective method is to use non-resealable, tamper-evident plastic bags. After the ushers collect the offering, together they place the whole offering into one of these bags, pull off the tab, and seal the bag. Two ushers sign the bag to document that they were both present from collection of the offering until it went into the bag. Then the bag is put in the safe. If anyone tears or cuts the bag to gain access, it will be exquisitely obvious and should trigger an immediate investigation. This does not physically prevent someone from doing something improper, but it helps prevent concealment of wrongdoing, which, in itself, is a strong deterrent.

**Keep duties separate.** The bookkeeper should never sign checks. *Never!* In one casual sentence, here is the essence of internal control: *Prevent someone from having both the opportunity to do something wrong and the means to hide it.* People who approve disbursements, those who sign checks, ushers, and anyone else that can get their hands on the money have the opportunity to do something wrong. Bookkeepers have the means to hide it. Do not mix the two.

If there is any way possible, have someone other than the pastor sign checks. A local church cannot afford to have a cloud of suspicion hang over the pastor.

Someone other than the preparer should review the bank reconciliations. This second person does not need to do the reconciliations again, just look at them quickly to make sure they were actually prepared and seem to be complete. It takes only a few moments to see that the reconciliation agrees with the bank statement, agrees with the general ledger, and does not have any unexpected items. A few months of experience doing this will allow the reviewer to learn what the reconciliations should look like and what they usually contain.

**Monitor incoming bank statements.** Have a senior-level person look at the bank statement for just a few minutes. Scan the canceled checks. Look at any returned items. Browse the statement for unusual items, odd amounts, or unexpected wire transfers.

Initial and date the bank statement to document the review was done. This is an extremely powerful and very quick internal control.

Consider having the bank statements mailed directly to the home of the reviewer to avoid possible interception and tampering with the statements or contents.

**Get it in writing.** All disbursements should be documented and approved in writing by an appropriate person. There should be good support for every transaction. Even if the only support is a check request prepared and approved by the office staff, there is no reason for any disbursement of a church not to be documented. Examples of using a check request might be benevolence support, musician honorariums, or a few hours of childcare.

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