What are internal controls?

Have you ever heard of the poem “A Fence or an Ambulance?” It was written in 1895 by a man named Joseph Malins, and it starts like this.

> ‘Twas a dangerous cliff, as they freely confessed,
> though to walk near its crest was so pleasant;
> but over its terrible edge there had slipped
> a duke and full many a peasant.
>
> So the people said something would have to be done,
> but their projects did not at all tally;
> some said, ‘Put up a fence ’round the edge of the cliff, ‘
> some, ‘An ambulance down in the valley.’

So the discussion raged, with arguments for and against, but finally an ambulance was purchased and was kept very busy. But that was not the end of the discussion.

> Then an old sage remarked: "It’s a marvel to me
> that people give far more attention
> to repairing results than to stopping the cause,
> when they’d much better aim at prevention.
>
> Let us stop at its source all this mischief," cried he,
> "Come, neighbors and friends, let us rally;
> If the cliff we will fence, we might almost dispense
> with the ambulance down in the valley.

So what do ambulances and fences have to do with church finance? No, we are not talking about safety procedures or liability insurance. This is about something called “Internal Controls.”

Internal controls are a set of policies and procedures, adopted by each local church, to protect the assets of the church and the reputation of the ones handling those assets.

It is estimated that in 2014, Christians stole 39 Billion dollars from churches. And now, just 11 years later, it is expected that churches will lose 60 Billion to theft and embezzlement. And yes, it happens in Adventist churches too. As auditors, when financial fraud is found, it is almost always because strategies for prevention and accountability – Internal controls – were weak or were not in place at all. When a church’s financial procedures are based on trust alone, that church may find out the hard way that trust is not an effective internal control.

When my dad was a church treasurer in the 1960s, he put the offering in a bank bag, brought it home, counted it, rolled the coins, made the deposit, all by himself. Now it is GCC policy that all tithes and offerings are counted by more than one person, working together, filling out and signing the appropriate forms. *(Tutorial #5540)* The knowledge that these safeguards are in place can serve as a deterrent, removing the temptation for a leader to “borrow” or embezzle funds. And, if a church leader is wrongfully accused, he/she will be glad that the church’s internal controls have made such an action difficult, if not impossible.

The first thing any local church needs to understand is that they are not immune to financial misconduct. When a church says “We don’t have to worry about that here!” they don’t understand the dynamics involved in financial fraud.
I know, we don’t want to think that someone we know and love could steal from our church, and yet the person committing the fraud is often one of the most loved and trusted in the church! We trust them, and they gain access to church resources through that trust.

A fraud investigation at your church is like the ambulance. If you need it, the damage is already done. But we as auditors can tell you that there is a lot less chance you will need an ambulance if you have a good strong fence at the top of the cliff.

Internal Controls are that fence.

Internal Controls are called “Internal” because they are checks and balances that the local church sets in place and maintains. Some church boards choose not to set up internal controls because they don’t want to cause conflict and hard feelings in the church. And they don’t want their leaders to think that they don’t trust them.

But, internal controls do not imply a lack of trust, any more than the fence at the top of the cliff did. It was a protection. Internal controls protect treasurers and other leaders from unfounded accusations. And if church leaders are worried that putting up a fence will cause conflict and division, just imagine the damage done to a church family when fraud is discovered!

Internal controls are just good stewardship. Even if you trust everyone at your church, would you give them all access to your bank account? In the same way, no one person should be given unlimited, unaccountable access to all of the church’s assets.

The Georgia-Cumberland Conference auditing department has a list of internal controls, each one like a fence post or fence rail, that will build you a strong fence, to safeguard your offerings and your leaders. Let’s go through them.

- ✓ **Dual counting and recording of tithes and offerings.** *(Tutorial #5540)*

- ✓ **All monies should be deposited to the bank by Tuesday following each Sabbath**

- ✓ **All reports for the month completed on or before the 10th of the following month.**

- ✓ **There should be at least 3 unrelated signers on the church bank accounts.**

- ✓ **No one should sign checks that are written to themselves.**

- ✓ **Blank, signed checks should never be given out to anyone.**

- ✓ **Check images should be a part of the Bank Statements, if possible.**

- ✓ **Every check that is written should have a statement or invoice or receipt to back it up.**

- ✓ **All Debit/Credit card receipts should be turned in on the proper report at the end of every month.** None should be missing. *(Tutorials #4520, 4530, 4570)*

- ✓ **Reimbursement checks should only be written if the Check Request form has been properly filled out, including an original receipt or invoice, and signed.** *(Tutorials #1070, 1072)*

- ✓ **The bank accounts should be reconciled every month**, and proof of that reconciliation should be presented at every board meeting. *(Tutorial #3520)*

- ✓ **Current Jewel reports should be presented to the board each month**. If the treasurer is a month or more behind, it should be addressed and brought up to date before the next meeting.

And one of the most important internal controls I have saved for last:

- ✓ **A board member should be appointed to look over the bank statement and carefully compare it to the reports** each month at the board meeting, to ensure that the Jewel reports are accurate. *(Tutorial #5520)*

It is estimated that up to 1/3 of all congregations will fall victim to fraud at some time or another. Let's build a fence so that it doesn't happen to yours.

Corresponding videos: 5.1 – What Are Internal Controls? Find at https://www.gccsda.com/auditing/10963
5.2 – Dual Counting of Offerings
5.3 – Bank Rec Comparison Steps
6.1 – Why is Reconciling So Important?
6.2 – Adjusted Bank Balance and Peace of Mind

For more tutorials on FRAUD PREVENTION FOR CHURCHES, see section 8000 on the gccsda.org auditor webpage

This information has been brought to you by the Georgia-Cumberland Conference Audit Team
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