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A DIVISION OF Carr, Riggs & Ingram

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Best Practices for Preventing Fraud at Your Church

It's vital to take steps to safeguard your church's resources and reduce the risk of fraud. The likelihood of preventing fraud or detecting it promptly if it does occur substantially increases if the proper internal controls are in place.

Consider the following best practices as you evaluate and design your church's internal controls over contributions, accounts payable and cash disbursements, credit cards and expense reimbursements, and payroll.

Contribution Processing

General Contribution Controls

DON'T

- Allow one individual to have access to all three of these processing areas:
  - Authorization
  - Recordkeeping
  - Custody of the funds

DO

- Ensure proper segregation of duties.
- Send contribution statements to all donors at least annually. This can serve as a detective control if a contribution was never deposited or posted to a donor's account, as donors would notify your church of the discrepancy.

Contributions Received Through the Offering

DON'T

- Leave an offering collected by ushers unattended without mitigating controls in place, such as:
  - Placing the offering in a dual-combination safe.
  - Using video surveillance to monitor the room where the offering is stored.

DO

- Have at least two people count the offering.
- Restrictively endorse all checks.
- Require the counters to complete and sign a count sheet with the offering total.
- Have a member of the finance team (not the person who prepared the deposit) reconcile the signed count sheets to the bank deposits during the bank reconciliation process and document the review.

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Contributions Received Through the Mail

DON'T

- Have the mail forwarded to an employee's home.
- Leave mail unattended and accessible before it is counted.
- Allow one person to open and process mailed contributions alone.

DO

- Have two people present while opening the mail.
- Restrictively endorse all checks.
- Require the counters to complete and sign a count sheet with the offering total.
- Have a member of the finance team (not the person who prepared the deposit) reconcile the signed count sheets to the bank deposits during the bank reconciliation process and document the review.

Contributions Received Through Your Website

DON'T

- Overlook who has access to your account.
- Overlook key controls.

DO

- Regularly review the user access list to ensure only authorized personnel have access to your account.
- Review the controls provided by your third-party processor to ensure they are adequate and operating effectively.
  - Ask to see the processor's Service Organization Controls (SOC) audit, if they have one.
  - Make sure any user entity controls listed in the SOC are in place at your church.

Accounts Payable and Cash Disbursements

General Considerations

DON'T

- Assume that segregation of duties—or mitigating controls to address a lack of segregation of duties—cannot be achieved due to limited staff size.

DO

- Design controls to ensure proper segregation of duties so that no one individual has:
  - Access to record transactions in the general ledger;
  - Access to bank accounts; and
  - The ability to approve and authorize payments.
- Document key accounting processes and internal controls in an accounting manual.

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Recording Invoices and Preparing Payments

DON'T

- Allow individuals who are responsible for recording activity to the general ledger and preparing payments to also have access and authority to sign checks or authorize and process electronic payments.
- Return signed checks to the preparer for mailing. This presents the opportunity for a payee to be altered after a check is signed.

DO

- Have individuals with the authorization to make purchases on behalf of the organization review and approve invoices for payment to verify that each invoice is:
  - Accurate and related to goods or services received.
  - Not a duplicate.
- Set up your accounting system to flag duplicate invoice numbers.
- Consider mitigating controls in cases where segregation between authorization and recording duties is not possible, such as:
  - Automatic notifications of electronic payments or bank transfers sent to an appropriate individual.
  - Additional review procedures (see below).
- Ensure signed checks are mailed by the signatory or another individual who does not have access to prepare and record transactions in the general ledger.

Reconciliation and Review Process

DON'T

- Allow the individual tasked with preparing bank reconciliations to have access to record or modify transactions in the general ledger.

DO

- Have a supervisor of the individual preparing bank reconciliations:
  - Review and approve the bank reconciliations, including a detailed review of cleared check images or electronic payment data for evidence of changed payees.
  - Receive copies of statements directly from the bank.
- Implement additional review procedures if a small staff size creates a lack of segregation of duties. Additional review procedures include (but are not limited to) a responsible individual periodically reviewing:
  - Vendor payment detail and summaries for indication of any unusual vendors or amounts.
  - A vendor change log (if your accounting system generates one) for indication of any unusual modifications to vendor information.
  - The accounting system audit trail for indication of any transactions that have been modified in an unusual manner.
- Ensure proper supervisory approval is documented for all review procedures.

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Church Credit Cards and Expense Reimbursement

Acceptable Use and Accountable Expense Reimbursement Policies

DON'T

- Give out credit or purchase cards without cardholders signing an acceptable use policy.
- Permit unauthorized or personal purchases on a church credit card.
- Allow staff to mix personal and business expenses on a church credit card.

DO

- Create a written accountable expense reimbursement plan and credit card acceptable use policy. Review them periodically to ensure:
  - Current practices follow the written policy.
  - The policy meets IRS guidelines.
- Make sure all staff understand and sign their acknowledgment of the approved accountable expense reimbursement plan.

Access to Church Credit Cards

DON'T

- Give anyone unrestricted access to church credit cards. Everyone should be held accountable and submit to the church-wide review and approval processes.

DO

- Review and update the list of cardholders who need access to make purchases. This should be done at least annually.
- Centralize purchasing where possible to reduce risk and the number of cardholders.

Manual vs. Automated Processes

DON'T

- Overlook the option of electronic, automated platforms.
- Have an "we've always done it this way" mindset.

DO

- Consider what technology or processes can relieve bottlenecks and pain points.
- Investigate whether your credit card offers an app or online option for cardholders to code expenses and automate some of the approval process.
- Consider any software that may integrate into your accounting system and automate reimbursement.

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Review and Documentation

DON'T

- Cut the process for a detailed review of charges or requests for reimbursement.
- Be hesitant to question charges or reimbursement requests.
- Let subordinates or family members review purchase or reimbursement activity.

DO

- Ensure proper supervisory approval process for all employees, including senior or lead pastors and other top management:
  - Review expenses promptly.
  - Document approval.
  - Require the board or finance committee to periodically review the senior or lead pastor's charges.
- Require supporting documentation, including:
  - Original receipts or invoices.
  - Detailed information about the expense to substantiate the business or ministry purpose according to IRS guidelines.

Timeliness of Reimbursement

DON'T

- Allow staff to compile reimbursements for months and submit them in one large request.

DO

- Make sure reimbursement requests are made promptly. (Under IRS guidelines, 60 days is considered timely.)

Personal Use vs. Church Property

DON'T

- Allow staff to purchase equipment and use it for personal means or sell it for personal profit.
- Allow purchases to be shipped to an employee's house rather than to the church.

DO

- Require equipment purchases to be shipped to the church and tagged as church property to be used only for church operations.
- Institute an inventory or check-out system for purchased equipment.

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Payroll

Payroll Process

DON'T

- Allow one person to have complete access to payroll and the general ledger system.
- Review payroll before processing, when it can still be manipulated.

DO

- Have an employee with no access or read-only access to the payroll system review payroll after submission and post it to the general ledger.
- Consider outsourcing payroll functions to a third party.
- If you use an outsourced provider, obtain their Service Organization Controls (SOC) audit report to ensure their controls and your complementary user controls are working properly.
- Reconcile IRS Form 941, *Employer's Quarterly Federal Tax Return*, to your general ledger quarterly and ensure that the employer tax portion is properly remitted to the IRS.

HR Files and Documentation

DON'T

- Assume you have complete HR files. All employers are required to have certain documentation in their employee files to comply with applicable employment laws and the Health Insurance Portability and Accountability Act (HIPAA).

DO

- Review employee files to ensure they are complete. Create a standardized employee file checklist to help maintain uniformity and compliance.
- Review and approve housing allowances annually:
  - Require housing allowances to be approved by the board prior to being paid, and changes approved only on a prospective basis, per IRS requirements.
  - Document the review and approval in the board minutes.
- Review fringe benefits to ensure proper tax treatment.

Additional Fraud Prevention Resources

CapinCrouse can help you strengthen your organization's fraud prevention controls with our fraud and forensic accounting **resources and services** tailored to the unique considerations and needs of churches and other nonprofit organizations. **Contact us today** to learn more.

†This is not a CPA firm.
*Assurance, attest, and audit services provided by Capin Crouse, LLC