In most churches, risk management is addressed in piecemeal form, and on a reactive basis.

With risks increasing in both number and complexity, churches should consider a more holistic, proactive, and collaborative approach to risk management...starting with the board itself.
Overall church risk management is typically considered (either explicitly or implicitly) one of the many duties of a particular staff member.

The staff member charged with risk management is, more often than not, occupied with day-to-day obligations and rarely has the opportunity to rise above the “tyranny of the urgent” to proactively address and manage risk.

The result in many cases is that the church does not proactively and systematically address risk.
Significant Risks Faced by Churches Today

- Physical security risks
  - Violent acts
  - General safety
  - Theft / embezzlement

Significant Risks Faced by Churches Today

HR claims, policies, and practices

Significant Risks Faced by Churches Today

Lawsuits and major liabilities for sexual/child molestation, especially for organizations that serve children
General economic conditions (revenue downturns and other economic challenges)

• As the group ultimately legally responsible for the affairs of the church, the governing body has ultimate responsibility for risk management.
• In reality, the operating details of risk management are carried out by the church's staff.

• Risk management should be carried out by staff pursuant to a framework or plan endorsed by the board.
The board should, either directly or by use of a committee, oversee and monitor the organization-wide process of identifying, assessing, prioritizing, and responding to risk.

**Risk Oversight – The Process**

- Identification
- Assessment
- Prioritization
- Response

**Identify** key risk areas.

- Examples to consider:
  - Corporate structure
  - Governing documents
Examples of areas to consider (continued):

- Policies / policy manuals
- Tax status and compliance
- Financial controls
- Insurance coverages

Examples of areas to consider (continued):

- Physical security
- IT / data security
- Child safety
- Succession planning
- Other key operational areas

Engage legal, financial, and other experts to advise / assist.

- Special outside expertise and resources may be needed in certain areas of operations.
• **Identify** and articulate specific risks.
  - What could happen?
  - Example – a vehicle accident could occur due to one of the church’s employees texting while driving.

**Risk Oversight – The Process**

**Assess Probability**

• How likely is it to happen?
  - Consider mitigating factors.
  - Inspection, observation, and testing may be required to adequately assess the probability of occurrence.

**Assess Impact**

• How bad would it be if it happened? (Financially, reputationally, etc.)
  - Consider mitigating factors.
Prioritize the risks using some appropriate method.

Consider, for example, assigning scores for Probability and Impact. (See sample graph)

You might refer to the combination of Probability and Impact as the “Magnitude” of the risk.

Items with highest combined scores, or highest magnitude, are highest priority.

Use whatever approach best fits your church to prioritize risks.
• Keep board-level involvement to oversight and policy matters and set policy where appropriate.

• (The board or committee shouldn’t micro-manage or interfere with operations.)

Risk Oversight – The Process

• Have staff develop a proposed framework and plan for risk management.

• Evaluate and approve the framework and plan, as well as progress in carrying it out.

Next Steps for Board/Committee Engagement

• Ensure that the risk assessment process is continuously updated, including the identification, assessment, prioritization, and response to risks.
Introduction to Internal Controls over Cash Transactions

Why are internal controls important?

A Biblical Standard

18 And we are sending along with him the brother who is praised by all the churches for his service to the gospel. 19 What is more, he was chosen by the churches to accompany us as we carry the offering, which we administer in order to honor the Lord himself and to show our eagerness to help. 20 We want to avoid any criticism of the way we administer this liberal gift. 21 For we are taking pains to do what is right, not only in the eyes of the Lord but also in the eyes of man.

2 Corinthians 8:18-21

Why are internal controls important?

Importance to the church

As a matter of appropriate biblical stewardship, leaders are obligated to protect the assets, reputation, and people of the church.
Importance to people

- Lead us not into temptation
- Deliver us from evil
- Protect the innocent from false accusation

Importance to congregation

Sound internal control promotes trust by the church’s congregation in its leadership.

The opposite can also be true.

Some organizations minimize the importance of internal controls by saying

We’re too busy
Some organizations minimize the importance of internal controls by saying:

- We're too small

Let's start with the premise that your people are trustworthy. If that weren't true, you should probably participate in some HR training immediately after this presentation.

Trust in People

- Of course you trust your people.
- Maintaining sound internal control is not a practice based on mistrust.
- Finance/accounting employees and volunteers must be appropriately screened/vetted.
Ronald Reagan was known for his expression, “Trust but verify,” during the Cold War.

In a nutshell, that sentiment sums up a healthy internal control environment.

Having sound internal control not only protects the assets of the church, it also protects the reputations of those involved in administering the assets of the church.

Mildred the bookkeeper has signatory authority over the church’s checking account, keeps all the books and records, produces the financial reports, reconciles the bank account, and processes the weekly offerings for deposit alone.
Imagine this scenario

One day, someone in the church accuses the church of mishandling offerings and says that money has been taken from the offering and not accounted for.

What defense will Mildred have?

What is internal control?

Internal control over cash transactions –
*The processes and systems designed to reduce the risk that embezzlement or misappropriation could occur and not be detected in a timely manner.*

(Note that not all misappropriations or embezzlements can be prevented – consider check signature forgery.)

What is internal control?

Internal controls come in two primary forms:
- Prevention controls
- Detection controls
There are three primary overarching principles for sound internal control:
1. Dual control over “live” funds,
2. Adequate segregation of duties, and
3. Appropriate oversight and monitoring.

How do we implement effective and efficient internal controls?

As we explore how your church implements specific internal controls, please consider the following responses to these objections:

“We’re too busy”
- First, this is a terrible excuse. (It’s like saying we are too busy to take time to check the brakes on the church bus.)
“We’re too small”

- Common sense approach – even with two people, you can implement basic controls to reduce risks
- Use of volunteers
- Treasurer/board members

How do we implement effective and efficient internal controls?

- Solutions
  - Use of volunteers
  - Study processes, looking for duplicated or inefficient work
  - Ensure adequate staffing
  - Utilize workers from outside finance for aspects that are not time-consuming to help when dual control or segregation of duties is the concern
    - You don’t have to be an accountant to count money or add checks on a calculator.

We are going to focus on the following areas:

1. Receipts
2. Disbursements
3. Storage
4. Reconciliation
Sound controls over receipts – funds received from physical collection

Problem scenario: After funds are collected, one person is responsible for securing/counting/depositing funds. It is especially problematic if this person has accounting responsibilities for cash receipts.

Possible scheme: Stealing “from the plate”

Implementing effective and efficient controls

Appropriate controls

• Dual Control: Have at least two people accompany the funds at all times through counting and preparation of deposit/summary forms (which should be signed off by two people) – this becomes the “log.”
• A separate accounting person should match the log to deposit records.

• Married couples or others with close relationships are considered “one” person when it comes to dual control.
• Secure the processing location and consider the use of security cameras.
Sound controls over receipts – funds received through the mail

**Problem scenario:** One person is responsible for collecting, logging, sorting, and distributing the mail. This setup is particularly problematic if this person also has accounting responsibilities for cash receipts.

**Possible scheme:** Skimming

Large organization controls:
The organization may have sufficient capacity in terms of staff size to allocate at least two employees to the mail function (dual control). Many large organizations maintain entire departments devoted to this purpose, with the employees involved in this process having no accounting duties related to cash receipts or access to such records (segregation of duties).

Consider securing the processing location and using security cameras.

Smaller organization controls:
- Assign two non-accounting individuals to handle incoming mail.
- Restrictively endorse checks immediately.
- Make deposit immediately (through remote capture or physical delivery) or store funds under dual control.
- Deliver a list of receipts to an employee with no access to cash for later comparison to deposit records.
- Alternative: If dual control over incoming mail is truly not practicable, rotate duties of person assigned to mail process. Make sure the staff members involved do not have accounting roles.
- Note that dual control over incoming mail is a “layered” control on top of other controls. A good analogy is the use of safety belts and airbags.
Implementing effective and efficient controls

Sound controls over receipts – funds received through electronic means

**Problem scenario:** One person sets up accounts, downloads transactions, and reconciles accounts (i.e. merchant accounts, ACH transactions).

**Possible scheme:** Diverting funds to personal accounts

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Appropriate controls

Segregate duties:
• Set up separate depository accounts for electronic commerce.
• Make sure the person authorized under the merchant services agreement to make changes to the authorized accounts has no accounting responsibilities.

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Sound controls over disbursements

**Problem scenario:** One person is responsible for approvals, preparing checks, signing checks, and reconciling the bank account. Oversight by others is minimal.

**Possible schemes:** Creating false invoices for payment; preparing unauthorized checks; forgery
Appropriate controls
- Segregate the duties of authorization, custody, and recordkeeping so that one individual cannot complete a transaction from start to finish.
- Do not allow signers to access the blank check stock.
- Do not give signers the ability to enter the transaction into the accounting system or edit transaction details.
- Consider using a paperless electronic A/P management system.

Sound controls over electronic disbursements
Dual control over electronic disbursements (wire, ACH, etc.). No one person should be authorized to make electronic disbursements alone.
The persons responsible for initiating transactions should not be responsible for the related accounting.

Monitoring
Top-level official (or designee) [authorized signer] should receive the bank statements directly (unopened), review the bank statements (especially debits) and the check images, and follow up on unusual items.
Consider online review as an alternative to paper review.
Sound controls over payroll disbursements

Problem scenario: One person is responsible for all phases of payroll processing, including maintaining personnel records, processing payroll details, and making payroll disbursements. No other parties closely review payroll reports.

Possible schemes:
Fictitious employees
Manipulation of pay amounts

Appropriate controls
- Do not have one person responsible for all aspects of payroll maintenance, preparation, and approval.
- The person executing direct deposit transactions should be separate from the person who prepares payroll, and should review the payroll detail for propriety before submitting the file for direct deposit.
- Payroll details should be reviewed by an appropriate (and independent) official for each payroll, in a controlled manner.

Sound controls over storing cash

Problem scenario: One person has access to the safe.
Possible scheme: Theft by unauthorized access

Appropriate controls
All funds, whether processed or unprocessed, should be secured in a manner requiring dual control access (or deposited immediately). The device itself could require dual control, or the manner of accessing the device could require dual control.
Reconciling and control over accounts

Problem scenario: Bank account reconciliations not completed timely.

Possible scheme: Improper activity concealed in accounting records.

Implementing effective and efficient controls

Appropriate controls

• Reconcile bank accounts in a timely manner.
• Make sure an appropriate official reviews the reconciliations and compares reconciled balances to amounts in financial reports.

Implementing effective and efficient controls

What’s next?

Remain vigilant and continue to be laser-focused on areas susceptible to fraud. Be on the lookout for vulnerabilities.
• If your organization may be vulnerable – Start by identifying specific risks.
• Develop specific controls to address the risks.
• Educate employees.
• Implement the new controls.
• Follow up with staff regularly to make sure the controls are consistently applied.

What’s next?

Today’s presentation slides are available for download at:


Note: URL is case sensitive

The End