Created to Serve Joyfully

Philippians 4

Administration as Ministry
Annual Conference
June 7, 2026

Agenda

Best Practices for Pastors and Lay Leaders and why they are important, including:

- Internal Controls
- Church Audits
- Budgeting
- Reporting
- Relevant Resources

Why?

- Builds trust
- Protects leaders and volunteers
- Supports mission and discipleship
- Ensures legal and ethical compliance
- Encourages generosity and transparency

Internal Controls

Internal controls are the policies, procedures, and mechanisms that an organization implements to safeguard assets, ensure the accuracy and reliability of financial reporting, promote operational efficiency, and ensure compliance with laws and regulations. Simply put, they are the systems of **checks and balances** put in place to prevent fraud, detect errors, and provide reasonable assurance that an organization's objectives will be achieved. (*See Book of Discipline ¶258.4(c)*)

"We want to avoid any criticism of the way we administer this liberal gift. 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: 20-21 (NIV)

Internal Controls

Safeguarding assets – Internal controls protect a company's physical and intangible assets, such as cash, inventory, intellectual property, and reputation.

Accurate financial reporting – They ensure that financial records are accurate, reliable, and timely, which is crucial for decision-making and for meeting legal and regulatory requirements.

Operational efficiency – Controls help streamline processes, improve the efficiency of operations, and ensure that operations are conducted in a secure and systematic manner.

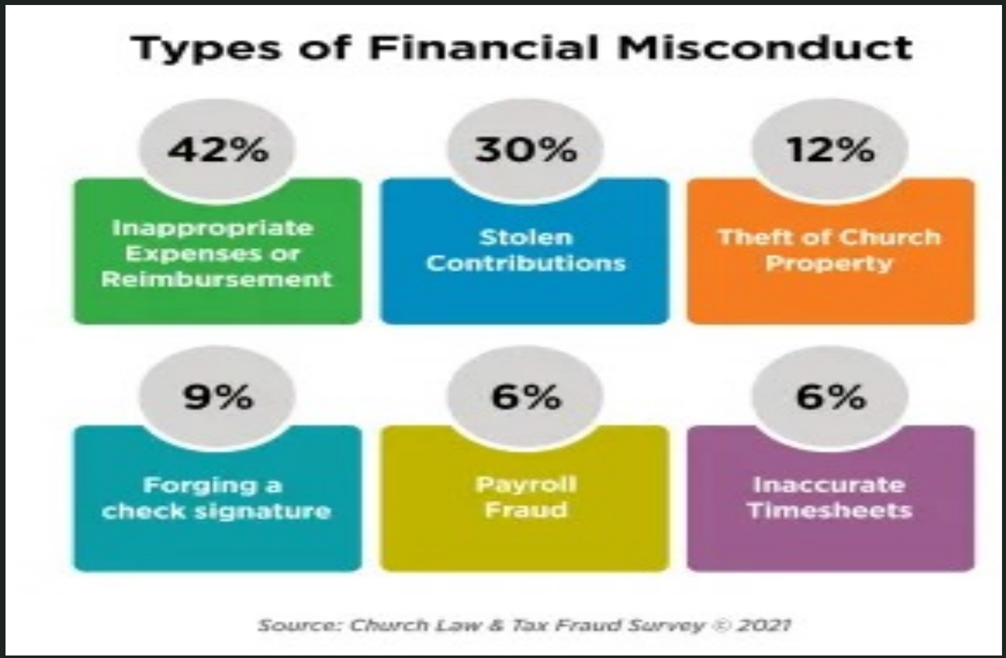
Legal and Regulatory Compliance – They help an organization adhere to all applicable laws, regulations, and internal policies.

Fraud and Error Prevention – By establishing a structured framework and clear procedures, internal controls help prevent and detect fraud, waste, and other irregularities.

"The Lord detests dishonest scales, but accurate weights find favor with him".

- Proverbs 11: 1 (NIV)

Internal Controls



Internal Controls

- **Segregation of Duties –** Splitting tasks among different people so no single individual has control over an entire transaction.
- **Authorization/Approval of Transactions –** Requiring approval for certain activities to ensure they are valid and legitimate.
- **Offering collection safeguards –** Require at least two unrelated people to count every offering (rotate teams weekly to prevent collusion). Count in a secure room with no interruptions. Use tamper-evident bags or pre-numbered envelopes. Deposit funds within 1–2 business days. Reconcile counts to donor records and bank deposits. For small churches, volunteers from the finance committee can rotate.
- **Policies and Procedures** – Documented accounting/financial procedures, e.g., internal control procedures. Provides clear direction to management and staff.
- **Bank Reconciliations –** Regularly comparing the company's bank statement with its own accounting records to identify discrepancies.

Internal Controls

- **Physical and digital security.** Lock up cash and blank checks or use your bank's secure night-drop boxes. For online giving, banking, and financial software, require multi-factor authentication. Set up notifications for any bank account or routing changes (sent to someone outside bookkeeping). Limit access to online giving portals and review user logs regularly.
- **Information Technology/Passwords/MFA –** Restricting access to accounting and other software.
- **Supervision –** The overseeing of all operations, policies, and procedures.
- **Financial Reporting and Reviews (e.g., Annual Audits) –** More on this later.

Internal Controls

Segregation of duties is a must! Segregation of Duties may be the most critical control! It helps to achieve all five goals of good internal control. Best practice – No one should be responsible for more than one of these functions:

- Custody of assets (e.g., checkbook, credit/debit card).
- Authorization to purchase/pay (e.g., approving invoices).
- Recording of transactions in accounting system (e.g., QuickBooks).
- Review bank reconciliations (e.g., comparing bank statements to accounting system).

"Two are better than one, because they have a good return for their labor: If either of them falls down, one can help the other up."

- Ecclesiastes 4:9-10 (NIV)

Internal Controls

Here are a few tips to effectively segregate duties (Book of Discipline ¶258.4):

- The Counting Team cannot be related to or part of a household with each other, the Treasurer, or the Financial Secretary.
- The Treasurer and Financial Secretary must also not be related to the same household.
- Those who approve invoices ought to be persons designated by the Finance Committee, and invoices should not come from the Treasurer or Financial Secretary.
- Bank reconciliations should be prepared by the Financial Secretary and reviewed by the Treasurer. A third party designated by the Finance Committee ought to review them quarterly.

Internal Controls

- **No-cost ways to separate duties.** Assign a board member or qualified volunteer (unrelated to staff) to perform bank reconciliations and review monthly reports. Have a board member or finance chair pre-approve all checks over a certain threshold. Use dual online banking approvals for wires or large transfers.

- **Use volunteers wisely.** Recruit retired accountants, business owners, or CPAs from your congregation to help with financial processes or reviews. Provide adequate training for offering counters and require background checks of anyone who works with money.

- **Rotate responsibilities.** Rotate counting teams, check signers, and reconciliation reviewers on a regular basis. This prevents familiarity from breeding opportunity and protects everyone's reputation.

- **Leverage technology.** Modern church management software allows role-based access: Counters enter totals only; Bookkeepers post; Board members view reports. Enable positive pay with your bank to flag unauthorized checks. Cloud-based tools with audit logs provide built-in oversight even with one staff person.

Internal Controls

What are the key financial areas of internal control?

#1 – Collection/Cash Receipts
#2 – Accounts Payable/Disbursements
#3 – Account Reconciliation
#4 – Reporting and Review

Let's explore each of these areas….

Internal Controls

Area #1: Offering/Cash Receipts. Good internal control begins at the collection plate!

- After the offering has been taken, it is received by the counting team, which should consist of two or more persons - unrelated to each other – who are neither the Treasurer nor the Financial Secretary.

- Offering totals need to then be given to the Financial Secretary to count details and record the deposit.

- A second copy needs to be given to the Treasurer. Be sure to deposit on the same or next business day.

- The Financial Secretary's deposit log ought to be reviewed by the Treasurer and compared to both the bank statement/activity and a copy of offering totals prepared by the Counting team. See GCFA's 'road map' here.

Internal Controls

Area #2: Accounts Payable/Disbursements

- Accounts Payable is the management of monies being disbursed.
- To prevent and detect fraud, vendors and suppliers should be set up by someone other than the person entering invoices and/or cutting checks.
- Invoices must be required for all payments and approved by someone other than the Financial Secretary or Treasurer. This person should be authorized by the church’s Finance Committee.
- Checks are cut only after invoices are properly approved and authorized.
- Requiring two signatures and/or reviews of all checks also improves internal controls.

Internal Controls

Area #3: Account Reconciliations

- Account Reconciliation is a period-end review of all credits and debits. It is an important process for maintaining financial integrity, ensuring accuracy, and that spending is aligned to the mission and budget.
- All balance sheet accounts and reconciliations should be reconciled at least monthly by someone other than the preparer.
- Bank accounts ideally would be reconciled at least weekly after deposits are made.
- Someone other than the treasurer or the financial secretary should review bank reconciliations quarterly or at least bi-annually.

Internal Controls

Area #4: Reporting and Reviews

- Your church treasurer should prepare financial reports monthly, comparing actual financial activity to both the current year and the prior year's budget, i.e., budget to actual reports.
- Annual Audits (Book of Discipline ¶258.4 (d)) should be performed.

Church Audits

An independent evaluation of the financial reports and records and the internal controls of the local church by a qualified person or persons.

- Audit shall be conducted for the purpose of reasonably verifying the reliability of financial reporting, determining whether assets are being safeguarded, and determining compliance with local law, local church policies and procedures, and the *Book of Discipline*.

- Members of the audit committee should be appointed by the finance committee. These members must be unrelated to anyone involved in the financial processes or record keeping of the church. CPAs, bankers, and bookkeepers are preferred candidates to serve on the audit committee.

"In God we Trust…everyone else, we audit!"

- Auditor Proverb

Church Audits

- Protection for the persons the local church elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds.

- Trust and confidence of the financial supporters of the church in the way their money is being accounted for (trust and confidence lead to improved patterns of financial support)

- Fiscal responsibility to assure that through turnover in personnel there will be continuity in accountability and transparency; and

- Assurance that gifts made to the church with restrictions attached are consistently administered in accordance with the donors' instructions and to provide checks and balances for funds received and expended.

Church Audits

GCFA guidelines – Depends on church size and activities:

- Very Small Churches, e.g., 10-20 members:
  - An *independent qualified member of the church or other volunteer from another church* can perform audit procedures and evaluate internal controls and report the results directly to the church's finance committee. *Procedures in Appendix A should serve as an example of procedures that may be performed. Depending on the nature of the church activities and assets, many procedures may not be relevant.*

- Churches with less than $500,000 in annual receipts:
  - An *independent qualified member of the church or other volunteer from another church* can perform audit procedures and evaluate internal controls and report the results directly to the church's finance committee. *Recommended procedures in Appendix A should be the minimum expected procedures. Other procedures may be considered necessary based on the nature of activities of each church.*

Church Audits

GCFA guidelines – Depends on church size and activities:

- Churches between $500,000 – $1 million in annual receipts:
  - Recommended procedures in Appendix A conducted in accordance with generally accepted auditing standards (GAAS) should be completed and reported on *by an external Certified Public Accountant every three years*…In alternate years, a review similar to small churches (10-20) should be conducted.

- Churches between $1 million and $ 2 million in annual receipts:
  - A financial statement audit conducted in accordance with GAAS should be completed and reported on *by an external CPA at least every two years*. An agreed upon procedures engagement is not permitted in the place of the GAAS audit. Similar to churches with less than $500,000 in annual receipts, in alternate years when GAAS is not performed a volunteer or member of the church could perform and report on the recommended procedures and perform the internal control evaluation.

Church Audits

Annual Audits should include (BOD ¶258.4(d)) :

- Interviews with the treasurer, financial secretary, pastor(s), financial committee chair, business manager, those who count offerings, church secretary, etc. with inquiries regarding compliance with exiting written financial policies and procedures.
- A review of the cash and investment account statements and reconciliations.
- A review of journal entries, and authorized check signers for each checking and investment account.
- Review of committee meeting minutes.
- Review of internal controls.

Church Audits

(Continued) :

- Ensuring donated funds of the congregation have been used as stipulated by the donors.

- Ensuring tax reporting requirements are met.
  - W-2s must be issued for employees, including pastors, and 1099s for nonemployee compensation by January 31st.
  - Payroll tax forms (IRS and SSA)
  - Housing allowance or exclusions approved annually at charge conference and kept on file (federal law requirement).

- Ensuring adequate insurance coverage, e.g., property insurance (property asset lists are accurate).

- Ensuring computer records are backed up.

Budgets

What is a church budget?

- *Budgets are ministry plans expressed financially*. It's a financial action plan for your church that creates clergy financial goals, holds the church accountable to those goals, and plays a crucial role in the financial health of your ministry.

Why is a church budget essential?

- Budgets help illustrate where your money is coming from and where it is spent. It enables better financial stewardship.
  - Critical for planning church activities, managing church expenses, and maintaining assets like a church building.
  - Helps enable stewardship of your financial resources to take your ministries further!
  - *Ministry/Mission should drive budget decisions, not the other way around*!

Budgets

- **Mission Driven** – Supports ministry priorities
- **Realistic** – Based on actual giving trends
- **Flexible** – Adjusts to changing needs
- **Transparent** – Easy for leaders (and church members) to understand

Budgets

Revenue Categories:

- Tithes & Offerings
- Designated gifts
- Building Use Income (e.g., rental income)
- Fundraisers
- Grants

Expense Categories:

- Staffing
- Facilities
- Worship and Ministry
- Insurance
- Technology
- Apportionments

Budgets

Do:

- Use historical trends
- Budget conservatively
- Review monthly
- Include reserves

Avoid:

- Overestimating giving
- Ignoring maintenance costs
- Using restricted funds improperly
- Underbudgeting payroll taxes

Reporting

- **Budget vs. Actual Report** - Tracks spending compared to budget.
  - Year to Date
  - Year over Year

- **Statement of Activities (e.g., Income Statement)** – Shows income and expenses.

- **Statement of Financial Position (e.g., Balance Sheet)** – Shows assets, liabilities, and fund balances.

- **Cash Flow Summary** – Tracks available operating cash.

Reporting

- Are revenues/income meeting expectations?
- Are expenses exceeding budget? If so, why?
- Is giving increasing or declining?
- Do we have adequate cash reserves?
- Are restricted funds properly tracked?

Possible Next Steps

- Conduct Internal Control Assessment
- Review/Strengthen Policies and Procedures
- Schedule annual audit/review
- Align budget with ministry goals
- Improve monthly/quarterly reporting
- Train finance volunteers

Relevant Resources

Dakotas Conference

https://www.dakotasumc.org/administration/church-committees/finance/Finance Committee

- Finance Committee
- Treasurers
- Stewardship & Generosity Resources

General Council on Finance and Administration

https://www.gcfa.org/resources

- 10 Truths About Church Finance
- Good Accounting Controls
- Church Office Best Financial Practices

https://www.gcfa.org/forms-and-assets

- Local Church Audit Guide Packet
- Local Church Finance Resources

Questions?

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