

# Internal Controls Assessment



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**Expertise**

**Clarity**

**Confidence**

## Internal Controls Assessment

The checklist that follows will assist you in determining both your current risks, as well as a roadmap to dealing with any exposures you discover. As you work through each category, determine which "state" your ministry currently resides in; then total up the results on the last page. Don't be discouraged if your ministry has high scores in the wrong categories. The point of the exercise is to help strengthen areas of weakness, and that can only happen by careful examination and going through the process.

While no amount of internal controls or policies can guarantee that your ministry will be fraud-free, we can, and must, do the best job possible to limit the opportunities for it to happen.

Gather your ministry, leadership, and financial teams and fill out the form looking for ways to strengthen your ministry. By making the changes necessary to move our ministries from being a Fire Hazard to being Fireproof, we have taken some excellent steps. The ministry you save might just be your own!

## About Miller Management

Miller Management has exclusively served churches and non-profits for over 30 years with value added accounting and administrative services. Our company is solely focused on serving churches and nonprofit organizations. We offer full turn-key accounting services as well as consulting, training and database management services. Our company's exclusive focus on churches and non-profits has allowed us to become a leading resource for ministries in accounting and administrative services in the United States.

For information regarding accounting or other services:

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## Cash Disbursements

	Fire Hazard	Fire Resistant	Fireproof
Check Signatures	<ul style="list-style-type: none"> <li>□ We only have one person sign checks. On larger checks, we have two people sign. We may utilize signature stamps that are held by the person preparing the checks.</li> </ul>	<ul style="list-style-type: none"> <li>□ We normally require two signatures on our checks, but sometimes we only have one signer available so we make exceptions.</li> </ul>	<ul style="list-style-type: none"> <li>□ Two signatures are required on every check – no exceptions. We have “requires 2 signatures” printed on our checks to help the bank enforce this. It also reminds check signers that two signatures are required.</li> </ul>
	<ul style="list-style-type: none"> <li>□ We require one check signature on some or most of our checks.</li> </ul>	<ul style="list-style-type: none"> <li>□ We have two check signers, but we sometimes allow relatives, and staff who are in subordinate relationships, to sign checks together.</li> </ul>	<ul style="list-style-type: none"> <li>□ Our check signers are not related to each other, and checks are not signed by a staff member and his/her supervisor. As often as possible, we have at least one check signer sign most of the checks so they can check for trends and other issues.</li> </ul>
	<ul style="list-style-type: none"> <li>□ Because our check signers are sometimes unavailable we occasionally leave a few signed/blank checks available in case there’s an emergency.</li> </ul>	<ul style="list-style-type: none"> <li>□ We don’t allow signed/blank checks, but in an unusual circumstance that justifies it, we will pre-sign a check.</li> </ul>	<ul style="list-style-type: none"> <li>□ We never, <u>ever</u>, sign blank checks in advance for any reason.</li> </ul>
Separation of Duties	<ul style="list-style-type: none"> <li>□ The same person prepares and signs checks.</li> </ul>	<ul style="list-style-type: none"> <li>□ The person who prepares the checks signs them along with someone else.</li> </ul>	<ul style="list-style-type: none"> <li>□ We make sure the person who generates checks does not sign them.</li> </ul>
Check Documentation	<ul style="list-style-type: none"> <li>□ We try to have supporting documentation for all checks but it doesn’t always work.</li> </ul>	<ul style="list-style-type: none"> <li>□ We have good documentation on most things, but sometimes it’s attached after the checks are signed.</li> </ul>	<ul style="list-style-type: none"> <li>□ We have clear backup documentation for every check attached to the check, before it’s signed.</li> </ul>

## Cash Disbursements (continued)

	Fire Hazard	Fire Resistant	Fireproof
Manual Checks	<input type="checkbox"/> We write all manual checks.	<input type="checkbox"/> We do most of our checks on a computerized accounting system, but write several manual checks per month.	<input type="checkbox"/> We have eliminated the use of “emergency” manual checks since we’re on a computerized accounting system. It helps improve our record keeping.
Expense Reimbursements	<input type="checkbox"/> One person approves our expense reimbursements.	<input type="checkbox"/> Our Finance Committee approves <i>all</i> expense reimbursements. It’s become somewhat of a formality.	<input type="checkbox"/> We ensure correct handling of timely expense reimbursements. This includes a formal accountable reimbursement plan with proper documentation.
Voided Checks	<input type="checkbox"/> We throw away voided checks to make sure they’re never used.	<input type="checkbox"/> We write “void” on the checks and then shred them. Our computer system keeps track of which checks have been voided.	<input type="checkbox"/> Our voided checks are marked “Void” and kept on file in a secure location.

## Payroll

Compensation Changes	<input type="checkbox"/> We don’t keep track of changes in payroll.	<input type="checkbox"/> Someone on the Personnel Committee keeps all of that information.	<input type="checkbox"/> All compensation changes are approved by the personnel committee and documented with all necessary details and secured in the personnel file.
Compensation Processing	<input type="checkbox"/> We’re not really doing the withholding thing for our employees. We just write checks like a 1099 situation.	<input type="checkbox"/> We process all employee payments through payroll unless it’s a bonus, special gift, or benevolence situation.	<input type="checkbox"/> All compensation is processed through the payroll system, including love offerings, special gifts, and Christmas bonuses.
Payroll Documentation	<input type="checkbox"/> I’m not entirely sure what a W-4, W-9, and an I-9 are and when to use each.	<input type="checkbox"/> We have W-4s for our employees but we don’t have I-9s for everyone. W-9s??	<input type="checkbox"/> A current W-4 and I-9 are on file for every staff member. W-9s are obtained for all contract laborers before payments are made to them.

<b>Payroll (continued)</b>			
	<b>Fire Hazard</b>	<b>Fire Resistant</b>	<b>Fireproof</b>
<b>Housing Allowance</b>	<input type="checkbox"/> We allow our staff to change their housing allowance allocation throughout the year as their circumstances change. It's not approved by anyone or it isn't included in our board minutes.	<input type="checkbox"/> We always approve our ministers' housing allowances in the board minutes but on a rare occasion they are approved retroactively.	<input type="checkbox"/> We require our ministerial staff to complete housing allowance forms each year and have the amounts formally approved in the board meeting minutes by December 31 for the coming year. Changes are always approved prospectively.
<b>Compensation Laws</b>	<input type="checkbox"/> We pay all of our staff a straight salary regardless of hours worked.	<input type="checkbox"/> We pay our ministers a straight salary and we pay all other staff by the hour, and we pay time and a half for overtime.	<input type="checkbox"/> We follow all federal wage and hour regulations relating to exempt and non-exempt staff.
	<input type="checkbox"/> We tell our staff not to work overtime, so if they do, we only have to pay them straight time.	<input type="checkbox"/> We pay overtime only for staff who are paid by the hour. We sometimes allow them to volunteer their time if they work more than 40 hrs/week.	<input type="checkbox"/> As required, we pay overtime to non-exempt staff for all hours worked, regardless of whether they are hourly or salaried.
<b>Payroll Taxes</b>	<input type="checkbox"/> We don't withhold taxes on non-ministerial staff but we pay them extra so they can pay in taxes themselves.	<input type="checkbox"/> We properly withhold state and federal taxes and then remit them when we have the funds available.	<input type="checkbox"/> We always have correct and timely filing of all payroll taxes and reports, including quarterly 941 payroll tax forms, annual W-2 and W-3 forms, etc.
	<input type="checkbox"/> We remit our payroll tax withholdings when we have enough cash.	<input type="checkbox"/> Since we always have a hard time paying payroll taxes on time, we only collect and remit federal payroll taxes.	<input type="checkbox"/> All federal, state, and local payroll taxes are properly withheld and remitted on a timely basis.
<b>W-2s &amp; 1099's</b>	<input type="checkbox"/> We process payroll as W-2 payments unless someone only works a few hours a month.	<input type="checkbox"/> We properly issue 1099s to all contract laborers unless we don't have their social security number.	<input type="checkbox"/> We ensure correct classification of employees vs. contractors and the timely distribution of W-2s and 1099s.

<b>Bank &amp; Investment Account Management</b>			
	<b>Fire Hazard</b>	<b>Fire Resistant</b>	<b>Fireproof</b>
<b>Bank Accounts</b>	<input type="checkbox"/> We allow each committee in the church to maintain its own bank account so they can keep tabs on their own money. We have at least one account not listed on our monthly financial statements.	<input type="checkbox"/> Only our Finance Committee is authorized to oversee the several designated and restricted bank accounts within the church.	<input type="checkbox"/> We maintain a minimum number of bank accounts and keep track of designated and restricted funds through the accounting system. Committees are issued reports on a monthly basis regarding their funds.
<b>Bank Reconciliations</b>	<input type="checkbox"/> Our checking account is balanced but we don't do a formal bank reconciliation.	<input type="checkbox"/> One of the persons who creates or signs checks or makes deposits is responsible for reconciling the bank account.	<input type="checkbox"/> Monthly bank reconciliations are made by someone not responsible for writing checks or making deposits.
<b>Bank &amp; Investment Accounts</b>	<input type="checkbox"/> We reconcile our bank account monthly and adjust the investment account balance when we sell or purchase investments.	<input type="checkbox"/> We tie our bank and investment account reconciliations to the GL just before preparing our quarterly Finance Committee report.	<input type="checkbox"/> Bank and investment account balances are reconciled on a monthly basis and matched to the penny to the GL.
<b>Offerings, Deposits, &amp; Contribution Recordkeeping</b>			
<b>Offering Count Guidelines</b>	<input type="checkbox"/> Our offering counting committee is trained how to do their job, but the Finance Team isn't aware of their procedures.	<input type="checkbox"/> The people involved in counting the offering are taught by those who already know how to do it. One of our Finance Team members used to be involved in counting.	<input type="checkbox"/> Written instructions are made available to everyone involved in counting the offering and to those who have oversight responsibility for the finances.
<b>Offering Counting</b>	<input type="checkbox"/> When the offering is counted, there is always someone nearby.	<input type="checkbox"/> We always require two people to count the offering but we allow one person to leave the room during the counting.	<input type="checkbox"/> At least two to three are actively involved in counting the offering.
	<input type="checkbox"/> We've had the same people counting offering together for years.	<input type="checkbox"/> We rotate our offering counters when they no longer want to be on the team and we have to find someone new.	<input type="checkbox"/> We require our offering counters to serve 1-3 times per month on a rotating basis-not always with the same team.

## Offerings, Deposits, & Contribution Recordkeeping (continued)

	Fire Hazard	Fire Resistant	Fireproof
<b>Offering Counting</b>	<input type="checkbox"/> Some of our counters are related to each other.	<input type="checkbox"/> Some of our counters are related to those who have responsibility for other finance duties (prepare/sign checks, do bank reconciliation, etc.)	<input type="checkbox"/> No one in our offering counting team is related to each other or to anyone else with responsibilities for finance.
	<input type="checkbox"/> Offering count records are not signed by the counters.	<input type="checkbox"/> Some or most of the offering count records are initialed by the counters.	<input type="checkbox"/> All offering count records are signed by all counters involved when finalized.
	<input type="checkbox"/> Deposit slips are taken with the deposit to the bank.	<input type="checkbox"/> Deposit slips are taken to the bank and the bank sends a copy of it back to us.	<input type="checkbox"/> One copy of the deposit slip is delivered with the deposit to the bank while the other one is kept with another responsible person who doesn't go to the bank.
<b>Offering Reports</b>	<input type="checkbox"/> If there are errors in our offering, we know that when the bank sends us a deposit correction notice.	<input type="checkbox"/> The accountant matches the offering report to the list of donations entered in the data base.	<input type="checkbox"/> The accountant matches the offering report to (1) the deposit slip processed by the bank, (2) to the contribution data base, and (3) to the GL.
<b>Security of Offerings</b>	<input type="checkbox"/> After the offering is collected it is stored in a lockable filing cabinet under some files. Only two people have a key to this cabinet.	<input type="checkbox"/> We deposit our offerings in a drop safe that only the officers of the Finance Committee have access to.	<input type="checkbox"/> Offerings are deposited in a drop safe that requires two separate individuals to open. No single person has access to the funds.
<b>Financial Reporting</b>			
<b>Financial Statements</b>	<input type="checkbox"/> We produce a statement of income and expenses every month.	<input type="checkbox"/> The Finance Committee receives an income and expense comparison report once a quarter.	<input type="checkbox"/> The board or committee with fiscal responsibility receives a Statement of Activities (Income Statement) report monthly.

<b>Financial Reporting (continued)</b>			
	<b>Fire Hazard</b>	<b>Fire Resistant</b>	<b>Fireproof</b>
<b>Financial Statements</b>	<input type="checkbox"/> We do not use a budget.	<input type="checkbox"/> We have a budget but don't use it very well.	<input type="checkbox"/> Those with fiscal responsibility review a monthly comparison of income & expenses to budget monthly.
	<input type="checkbox"/> Financials are prepared when the person responsible has time.	<input type="checkbox"/> Financials are prepared within at least six weeks of the reporting period ending.	<input type="checkbox"/> Financial reports are prepared and distributed at least by the 20 <sup>th</sup> of each month.
<b>General</b>			
<b>Audits</b>	<input type="checkbox"/> Our organization has never had an audit.	<input type="checkbox"/> We have had an audit but it has been a while since we had one.	<input type="checkbox"/> We are on a schedule of regular audits.
<b>Treasurer Role</b>	<input type="checkbox"/> The Pastor or a pastor's relative serves as our Treasurer.	<input type="checkbox"/> A paid staff member, or a relative of a paid staff member, serves as the Treasurer.	<input type="checkbox"/> We have a Treasurer who is not a paid staff member and is not related to any paid staff member.
<b>Sales Tax Exemption</b>	<input type="checkbox"/> We don't have a sales tax exemption letter.	<input type="checkbox"/> We have a sales tax exempt letter but don't use it all the time.	<input type="checkbox"/> A tax exempt letter is used for all purchases.
<b>Insurance</b>	<input type="checkbox"/> We have had the same insurance coverage for years.	<input type="checkbox"/> We review our insurance coverage whenever we are prompted by a major change in our ministry.	<input type="checkbox"/> We perform an annual review of all insurance coverage and cost.
	<input type="checkbox"/> We do not carry worker's compensation insurance.	<input type="checkbox"/> I'm not sure if we carry worker's comp insurance.	<input type="checkbox"/> We carry worker's compensation insurance.
<b>Records Retention</b>	<input type="checkbox"/> We just keep everything for a really long time!	<input type="checkbox"/> We might have a records retention policy but don't really take the time to follow it.	<input type="checkbox"/> We have a records retention policy. We review files annually and take appropriate action according to our written retention schedule.

<b>Our Ministry's Score</b>	<b>Fire Hazard</b> _____	<b>Fire Resistant</b> _____	<b>Fireproof!</b> _____
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*What steps need to be taken to move all aspects of our organization toward the Fireproof rating?*

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**Visit [GoodFaithAccounting.com/Resources](https://www.GoodFaithAccounting.com/Resources) for forms and documents to help improve internal controls. We recommend starting with these documents:**

- ✓ Check Signer Standards / Protocol
- ✓ Accountable Expense Reimbursement Plans
- ✓ PAN - Churches
- ✓ W-4
- ✓ I-9
- ✓ W-9
- ✓ Ministerial Dual Status Employee
- ✓ Ministerial Compensation Package Worksheet
- ✓ Housing Allowance Worksheet
- ✓ FICA as a part of Minister's Compensation
- ✓ 1099 NEC/MISC Information
- ✓ Employee or Contractor
- ✓ Ministry Description for Offering Counters
- ✓ Offering Team Confidentiality Agreement
- ✓ Records Retention Guidelines

**Scan the QR code to find all these resources and learn more about Miller Management.**

