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Church Accounting and Internal Controls

BY MALCOLM M. DEVORE
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Presented before the Third Annual Conference of the National Association of Church Administrators, Los Angeles—July 1959

At the outset of my talk I should like to pay tribute to you gentlemen for the important rôle I feel you are playing in the ongoing program of our churches.

Yours is not the leading rôle, for you are the men behind the scenes so to speak. Yours is a *supporting* rôle but, in my judgment, a most important one.

Being dedicated men you realize fully that the primary function of the church is to further God's work here on earth. This work, the program of our churches, is carried on by our ministers and by our dedicated lay workers. They are the ones primarily who bring our people into a better relationship with God and thereby extend and strengthen His Kingdom.

Basically it is your rôle to free these persons of as much of the temporal problems of our church operations as you can. In this manner you thereby free them for their primary responsibility of carrying on God's program.

In the efficient performance of your tasks as business administrators you, as members of the team, are therefore having a vital part in winning persons to the Kingdom.

Your responsibilities are many and varied. One of them is the maintenance of accounting records and internal controls and the preparation of related reports. This is the area about which I speak to you today.

I think it might be well if we first set down our objectives in the area of church accounting and internal controls. This may seem quite elementary, yet I believe you will agree it is of fundamental importance, for if we do not have clearly in mind the result we are seeking, we will not, except by fortunate circumstance, achieve that result.

Accordingly, I would list our objectives as setting up and maintaining:

- Records of the monies received

- Records showing how the monies received were used
- Records showing accountability of assets
- Records for enabling church officers and administrators to carry on the church program more effectively
- Internal controls contributing to the effectiveness of stewardship of funds
- Records for achieving these stated objectives as simply and economically as possible

I trust the objectives mentioned above sound simple, for they are in fact, as they should be. There is nothing complicated about church record-keeping and we should not permit it to become so.

Essentially, church accounting is but a matter of accounting for cash receipts and disbursements and of maintaining accurate records of pledges-receivable.

With our objectives now in mind, let us see how we can accomplish them.

MONIES RECEIVED

Monies received fall into three general categories:

- Collections on pledges
- Plate (loose) offerings
- Other receipts

The largest source of income is, of course, collection of pledges. That our accounting be accurate and reliable in this area is most important, for here we have a problem of basic internal public relations. No doubt all of you have had experiences where members of your congregations have become perturbed over differences between your record of amounts due on their pledges and their conception of the amounts due.

I would recommend the following procedures:

- Deposit all receipts intact in bank.
- Make certain that for all receipts, other than plate offerings (loose offerings), you know from whom and for what the monies have been received.

To illustrate the first recommendation, if you have received \$1,000 during the week you deposit \$1,000 in the bank. (You may wish to

make deposits more frequently than weekly; this is, of course, optional—just make sure you deposit the same amount shown by your record of cash receipts.)

It is frequently useful to have more than one bank account; for example, separate accounts for a building fund or for benevolences are advantageous. Such separate accounts facilitate the separate accountability required and, I think, give the donor assurance that an earmarked payment (building fund, for example) has been applied as intended.

Controlling collections on Sunday until they can be counted and deposited in bank on Monday poses a problem. In our church we are now placing all Sunday collections in a container secured with a one-time metal seal, which is broken at time of counting on Monday; the container itself, of course, is carried in the safe overnight. This method insures that there has been no tampering with the collections during the interval between their receipt and the count and deposit on Monday.

Using cash receipts to make small disbursements is one of the best ways I know to confuse and complicate your accounting. An imprest fund should be maintained for purpose of small cash disbursements and replenished periodically to the extent of expenditures made.

As to the second recommendation—that we maintain a record of persons from whom the collections have been received—the problem chiefly concerns collections on pledges.

Most collections on pledges are received in envelopes. (I assume here that your churches use the envelope system.) At the time the envelopes are opened the amount of the pledge collection should be noted thereon and, of course, the envelope should indicate the name or number of the person making the payment.

These marked envelopes now serve two purposes: 1) they show the detail of the collections on pledges, and 2) they serve as a posting medium to pledge-receivable cards.

As I have indicated heretofore, accuracy in this procedure is of fundamental importance.

Using your pledge envelopes as the record of detail of collections on pledges obviates the necessity for separately recording individual collections in the cash-receipts record. Your cash-receipts record in this case merely indicates daily totals.

Remember, one of our objectives is to keep our records simple and economical.

RECORDS SHOWING HOW WE HAVE USED THE MONIES RECEIVED

Monies received will be accounted for in one of two ways:

1. Expended in carrying out the church's program.
2. Not yet expended—reserved for carrying out the church's future programs.

The first accountability, namely, expenditures for purpose of carrying out the program of the church, requires the maintenance of a record of cash disbursements. This simple record merely lists the checks drawn and shows for what particular purpose the money was expended.

Here is a good place to comment on two things I believe all churches should use: 1) a chart of accounts, and 2) a budget. These tools are possibly familiar to and used by all present; nevertheless, some comments on them are warranted.

Essentially, a chart of accounts simply indicates the various accounts in which your expenditures should be recorded. Preferably the chart should have narrative explanations of the types of items that should be recorded in particular accounts. The use of a chart of accounts will give reasonable assurance that the same type of expenditure will be recorded in the same account even though you may have a change in personnel responsible for the record-keeping.

There is a definite relation, too, between a chart of accounts and a budget. I shall comment later on the use of a budget but it is obvious that unless we can correlate expenditures with budget we cannot know how we stand in relation to budget nor can we take whatever remedial steps might be necessary. A chart of accounts is most helpful here.

RECORD SHOWING ACCOUNTABILITY OF ASSETS

The receipt of cash or other property initiates the need for accountability.

I have already spoken somewhat on the flow of cash, and under the caption of internal controls I shall have more to say on this subject.

Cash not yet expended, but held for future programs, is, of course, an asset for which we are accountable. Other than for the working imprest fund, the unexpended cash should be on deposit. Any amounts not currently needed might be placed in savings ac-

counts (banks or savings and loan associations as the officers decide) so as to earn income until needed.

A part of your accountability requires you to reconcile periodically the balances shown by your records with those shown by the depositaries. This should be done not less often than monthly.

Accountability for non-cash assets is also required.

The principal non-cash assets will usually be the church plant. Aside from having a record of original cost, and of later additions to plant, little else is required.

The main problem on other non-cash assets—furniture, fixtures, equipment, etc.—is mainly physical control. This is not always easy, as you know, for many church activities are carried on in the homes of members, which means of course there are legitimate reasons for removing chairs, dishes, silverware, from the church premises. The problem is to see that the articles borrowed are returned.

Exercising common-sense control over these matters is about the best you can do.

I think it's a good idea to take a physical inventory once a year. This has a value in deciding how much insurance should be carried and also has collateral value in good housekeeping and control of assets.

RECORDS TO PERMIT CARRYING ON PROGRAMS MORE EFFECTIVELY

Keeping records has two main purposes: 1) to account for our stewardship, and 2) to assist us in carrying out our program more effectively.

It is this latter purpose I wish to consider now.

I believe you will agree that we always have more programs to carry out than we have dollars to use. This means that we must make our dollars work for us with maximum effectiveness.

A carefully thought-out budget, properly correlated with operations during the budget year, will assist in making your dollars work most effectively for you. Budgets should be prepared early, well in advance of the beginning of the year to which applicable.

Rather than attempt to deal with this in the abstract I have prepared some hypothetical financial statements for your consideration; these should be in your hands now.

I suggest we look first at the statement of income and expenditures on Exhibit II on page 225. You will notice that column 1

shows operations of the current month, that column 2 shows operations for the year to date, and that column 3 shows the budget for the year. Column 4 you will find particularly interesting since it shows the percentage of actual accomplishment to budget for the year to date; also note that the percentage at the head of the column shows how much the percentage possibly should be for the year to date (determined on an elapsed-time basis).

In the example I have assumed that we are reporting on the first half of the year; accordingly the over-all, pro-rata percentage is 50%.

Broadly speaking, therefore, if we have received *less* than 50% of our income for the year, but have expended *more* than 50% of our anticipated expenditures for the year, we may be in trouble. These percentages help to locate our troublesome areas more readily so that remedial action can be taken on a timely basis.

Again referring to the example at the top of Exhibit II, you will note that incomewise we have collected 53.3% of our year's budget requirements; since the year is half over our pro-rata percentage is accordingly 50%. It would seem, therefore, that we are in good shape incomewise.

Another test that can be applied here is to compare the remaining amount we need to collect on pledges for the year with the balance of our uncollected pledges. Reference to the income statement, at the top of Exhibit II, shows that we must collect \$125,000 more in the remainder of the year (\$270,000 total budgeted collections for the year less the \$145,000 we have collected to date); reference to the footnote to the balance sheet shows the amount of uncollected pledges to be \$130,000 at June 30, 1959, or \$5,000 more than we must collect to achieve our budget on pledge collections for the year. Recognizing that we will probably have some uncollected pledges it would appear that for the year 1959 our income will be close to our budget requirements; however, this matter will bear watching the rest of the year.

Referring to the expense portion of the income statement you will note, near the bottom of Exhibit II, that, on an over-all basis, we have spent 48.8% of our year's budget; since this percentage is less than our 50%, pro rata it would appear to be all right.

However, reference to the individual details shows that three major groupings (Christian Education program, Ministry of Music, and furnishings and equipment) have percentages of more than 50%; also that certain individual items in two additional major groupings

(Minister and general staff and property maintenance) have percentages of more than 50%.

Each item calls for individual inquiry. For example, possibly the Christian Education program was planned to expend most of its budget in the first half of the year and, for the year as a whole, it still expects to be within budget. On the other hand this may indicate that expenditures have, in fact, gotten out of hand and remedial action is needed.

The statistical data shown on Exhibit III on page 226 I believe you will also find interesting.

The data on church membership will give your officers ready information about whether or not your church is growing and how rapidly.

The data on average annual collections per family unit are quite useful for showing the extent to which stewardship is being practiced by your members. I like to think of these data not as cold figures but as reflections of the vibrant life of the church.

If the average annual collections are increasing I would interpret this to mean we have a good ongoing program. If the average annual collections are decreasing we have a real reason to be concerned, not only with the dollars uncontributed but more particularly with the soundness and vigor of our program.

MAINTAINING INTERNAL CONTROLS THAT WILL CONTRIBUTE TO YOUR STEWARDSHIP OF FUNDS

The nature of church operations is such that effective internal controls are not possible to the same degree they are in commercial enterprises. There are two reasons for this: 1) Most churches are just not large enough to justify having a sufficient number of employees to permit effective segregation of accounting duties, and 2) the source of income is not independently determinable.

But this does not mean that no controls are possible, so let us consider a few suggestions.

Since our principal source of income is from pledges, I suggest that at the completion of your annual every-member canvass, you, as the business administrator, independently establish what the total amount of pledges for the new year is. This then is the control figure for the year, for which the accounting department is responsible.

Over the pledge-year, then, this predetermined total (as adjusted for new pledges) must be accounted for either through cash collec-

tions or by cancellation of pledges. The cash collections will, of course, be deposited in your bank accounts and there controlled. Any cancellations, or other adjustments, should be approved in writing by you or some one independent of the direct accounting function (your initials on the journal entry or on the pledge-receivable card will suffice).

Periodic statements to your members on the status of their pledge accounts is desirable from many standpoints, not the least important of which is the degree of internal control this represents.

In our church we are now using a combination pledge-receivable, statement-of-account form with carbon-paper inserts, following the write-it-once principle. This form permits sending quarterly statements to each member, which in effect is a copy of his pledge-receivable detailing all collections received on the pledge for the year to date.

Incidentally, we have found it to be productive also to send a statement at the beginning of the last month of our year (December); this has helped in "cleaning up" any pledges remaining uncollected.

I have spoken earlier of the desirability of reconciling your bank accounts monthly. I should also like to stress the need for agreeing the details of your pledges receivable with their controls on at least a monthly basis. This I regard as most important.

It is easier to obtain good controls on disbursements than on collections.

Expenditures should be made on the basis of approved invoices, properly reviewed for prices, terms, mathematical correctness, and receipt of goods. It is preferable, and not too difficult in practice, to have double-signature checks.

As to both income and expenses, we can also exercise a considerable measure of control through the use of budgets and the preparation of operating statements compared with budgets (as discussed earlier) as well as by the use of the statistical data, also mentioned earlier.

An annual audit of your accounts by a certified public accountant is also good business. This audit can be handled either by members of your church who are certified public accountants or by an outside CPA retained on a fee basis.

Exhibits we discussed earlier appear immediately following.

PROTESTANT CHURCH
BALANCE SHEET, JUNE 30, 1959
ASSETS (See footnote)

CASH:

General funds	\$ 50,000.00	
Restricted funds	20,000.00	\$ 70,000.00

PROPERTY:

Land and improvements	100,000.00	
Buildings	1,000,000.00	
Furniture and equipment	150,000.00	1,250,000.00

TOTAL		\$1,320,000.00

LIABILITIES AND NET WORTH

LIABILITIES—Deposits received (summer conferences, etc.)	\$ 1,000.00
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NET WORTH:

Balance, January 1, 1959	\$1,306,500.00	
Excess of income over expenses for year to date (from Exhibit II)	12,500.00	1,319,000.00

TOTAL		\$1,320,000.00

NOTE: The above balance sheet does not include pledges receivable, since such pledges are taken into income as collected; at June 30, 1959 the amount of uncollected pledges was \$130,000.

PROTESTANT CHURCH
STATEMENT OF INCOME AND EXPENSE FOR THE SIX MONTHS
ENDED JUNE 30, 1959 AND COMPARISON WITH BUDGET

	June 1959	Year to Date	Year's Budget	Per Cent of Budget (pro rata 50%)
INCOME:				
Collections on pledges	\$23,000.00	\$145,000.00	\$270,000.00	53.7
Loose offering	1,500.00	11,000.00	20,000.00	55.0
Other	1,000.00	4,000.00	10,000.00	40.0
Total	<u>\$25,500.00</u>	<u>\$160,000.00</u>	<u>\$300,000.00</u>	53.3
EXPENSES:				
I Minister and general staff:				
Minister	\$ 1,500.00	\$ 9,000.00	\$ 18,000.00	50.0
Assistant ministers	1,666.67	10,000.00	20,000.00	50.0
Secretaries	1,000.00	6,000.00	10,000.00	60.0
Other	2,000.00	14,000.00	32,000.00	43.8
	<u>\$ 6,166.67</u>	<u>\$ 39,000.00</u>	<u>\$ 80,000.00</u>	48.8
II Christian Education program:				
Director	\$ 583.33	\$ 3,500.00	\$ 7,000.00	50.0
Secretaries	500.00	3,000.00	5,000.00	60.0
Other	1,000.00	5,000.00	8,000.00	62.5
	<u>\$ 2,083.33</u>	<u>\$ 11,500.00</u>	<u>\$ 20,000.00</u>	57.5
III Youth program:				
Director	\$ 583.33	\$ 3,500.00	\$ 7,000.00	50.0
Secretary	333.33	2,000.00	5,000.00	40.0
Other	600.00	3,000.00	8,000.00	37.5
	<u>\$ 1,516.66</u>	<u>\$ 8,500.00</u>	<u>\$ 20,000.00</u>	42.5
IV Ministry of music:				
Minister of music	\$ 333.34	\$ 2,000.00	\$ 4,000.00	50.0
Organist	250.00	1,500.00	3,000.00	50.0
Other	300.00	2,000.00	3,000.00	66.7
	<u>\$ 883.34</u>	<u>\$ 5,500.00</u>	<u>\$ 10,000.00</u>	55.0
V Furnishing and equipment (replacements)				
	<u>\$ 700.00</u>	<u>\$ 4,000.00</u>	<u>\$ 5,000.00</u>	80.0
VI Property maintenance:				
Utilities	\$ 350.00	\$ 3,500.00	\$ 8,000.00	43.8
Repairs	100.00	2,000.00	6,000.00	33.3
Insurance	1,000.00	3,000.00	4,000.00	75.0
Taxes	500.00	500.00	2,000.00	25.0
Other	700.00	4,000.00	10,000.00	40.0
	<u>\$ 2,650.00</u>	<u>\$ 13,000.00</u>	<u>\$ 30,000.00</u>	43.3
All other operating expenses (not detailed)	<u>\$ 2,500.00</u>	<u>\$ 16,000.00</u>	<u>\$ 35,000.00</u>	45.7
Total	<u>\$16,500.00</u>	<u>\$ 97,500.00</u>	<u>\$200,000.00</u>	48.8
Benevolences	<u>8,500.00</u>	<u>50,000.00</u>	<u>100,000.00</u>	50.0
Total	<u>\$25,000.00</u>	<u>\$147,500.00</u>	<u>\$300,000.00</u>	49.2
EXCESS OF INCOME OVER EXPENSES (to Exhibit I)	<u>\$ 500.00</u>	<u>\$ 12,500.00</u>		

PROTESTANT CHURCH
STATISTICAL DATA, JUNE 30, 1959

Month	Number of Members Beginning of Month		Average Annual Collection on Pledges and Offerings Per Family Unit (<i>cumulative year to date</i>)*	
	1958	1959	1958	1959
January	2,500	2,750	360	400
February	2,510	2,780	302	330
March	2,530	2,800	273	300
April	2,550	2,820	223	248
May	2,580	2,850	212	232
June	2,590	2,860	202	222
July	2,600		192	
August	2,600		183	
September	2,630		180	
October	2,680		180	
November	2,690		181	
December	2,700		187	

* Based on an average of 2.0 members per family unit.

MAINTAIN RECORDS AS SIMPLE AND
ECONOMICAL AS POSSIBLE

I hope all of you will agree with my earlier statement that maintaining records in as simple a manner as possible should be one of our goals, and that this goal is attainable for church record-keeping. As we have previously noted it is essentially a matter of accounting for cash receipts and disbursements and maintaining accurate records of pledges-receivable.

Limitation of time does not permit my speaking at length on this point of my topic, or for that matter on any of the steps about which I have spoken. In all cases I have had to leave more unsaid than said.

Concerning all of these measures, however, I have a good suggestion to make—one that will be much more useful than anything I could tell you in the few minutes available. My suggestion is that you ask one of your church members who is a certified public accountant—and the congregations of most of you have several—to spend some time with you reviewing your records, your methods, and your procedures.

Working together you may well be able to improve and simplify your record-keeping, to strengthen your controls and, all in all, contribute to a more effective, businesslike administration of your church.