



## **2.1 Cash Handling Procedures**

(reprinted with permission)

Churches need to be diligent in handling money to encourage integrity and positive stewardship. Every step should be taken to make sure everything done regarding church finances helps facilitate and enhance the ministries of the church. One would like to think churches would be immune from fraud, but it can occur. Whether on a small or large scale, the cost cannot be measured solely by the dollars lost. Fraud can occur when three things are present:

### **1. Incentives and Pressure**

Example: someone who handles the money regularly has a major financial need in their life.

### **2. Opportunity**

Example: a lack of basic internal controls leaves someone the opening to access money for personal use.

### **3. Rationalization**

Examples include thinking "I don't get paid enough anyway", "It's just a loan – I'll put it back later" etc.

The church cannot totally control the first and last but through adequate internal controls they can significantly reduce the opportunity for fraud or mishandling of money. Below are some basic internal controls that every church should use to be good stewards of church finances. This does not eliminate the element of trust that should be a part of the church setting. Instead, it can enhance that trust. Those persons we can trust typically appreciate the value these protections provide.

### **1. Segregation of Duties Is Essential**

Persons handling money coming in, until it is deposited, should never include anyone who handles disbursements and financial records. Thus, a treasurer should not be on the counting committee and person(s) who record lists of incoming cheques should not reconcile the bank statement. Without separation, a person could manipulate information and cover up discrepancies (whether intentional or through sloppy record keeping). And fraud could occur with little fear of detection.

### **2. Two or more unrelated counters always present**

At least two (better to have three) unrelated individuals should always be present when handling and counting church offerings until it has been deposited in the bank. One individual should never be alone with the church's money, including the ushers. Tellers should be rotated periodically.

### **3. All disbursements by cheque**

All disbursement (except for very limited petty cash) should be made by cheque. Using cash significantly reduces the ability to track how the church's funds are being used.

#### **4. No blank cheques or cheques payable to cash**

Avoid using blank cheques and no cheque should ever be written payable to cash. It is essential to always be able to identify the use of all funds. (All blank cheques should be kept in a locked place.)

#### **5. Use original invoices to make payments**

Payments should be based on original invoices and supporting documentation. Mark all supporting documents paid. Otherwise, there is increased opportunity for use of "doctored" invoices and/or duplicate use of invoices.

#### **6. Limit authorized cheque signers**

The number of authorized cheque signers should be limited. Two signatures are required on cheques and signers would be in the roles of clergy, wardens, treasurer and one or two members of Parish Council. Office staff should never be authorized to sign cheques.

#### **7. Bank statement reviewed by someone who does not handle cash or disbursements**

This relates to the need for segregation of duties. Ideally bank statements would be reconciled by someone other than a treasurer who writes cheques. Realizing this may not be practical in many smaller churches, at a minimum someone else should at least receive and review the bank statements before giving them to the treasurer for reconciliation.

#### **8. Use a church budget efficiently**

All expenditures should be consistent with a planned budget and should be authorized by the appropriate person. Ideally the person approving purchases should not be the person who prepares cheques for payments. (i.e. approval for cheques from the church Youth Program budget should be approved by those responsible for the Youth Program and not by the treasurer.) Unanticipated expenses should be approved by a finance committee or other appropriate leadership specified by church policy.

#### **9. Cash handling procedures should be in writing**

Having written policies reduces the chance of abuse and misunderstandings about church finances. These policies should be comprehensive and updated regularly. All persons handling the money need to be aware of all the policies. If only one person understands how everything works, that is a potential vulnerability.

#### **10. Receive and acknowledge all charitable contributions according to CRA rules**

See the documentation on CRA website under Charity tab.

#### **11. Computer controls**

If using computers for record keeping, safeguard the computer data. Save data frequently and make regular backups. Use passwords and restrict access to a limited number of appropriate people to protect information maintained on the computer.

**An example on handling offerings:**

1. Immediately following the service, two persons carry the contents of the offering plates to a room for counting or placed in an adequate safe for counting the following day. Church funds/offerings should never be taken to a private home for counting. These persons should be unrelated and should rotate on a regular basis.
2. The envelopes are immediately opened by at least two persons. Envelopes are marked as to intent and purpose if for other than undesignated offerings.
3. Balances between envelope totals and cash/cheque totals are reconciled.
4. A summary report outlining the various accounts income is to be credited to, is prepared and initialed by at least two persons.
5. A deposit slip is prepared and if possible at least two persons bring the deposit directly to the bank (one person is still acceptable). Cash should not be stored at the church unless locked in a safe.
6. A copy of the deposit slip and the summary report are given to the treasurer and to the financial secretary.
7. It is understood that the recording of income/gifts from individuals of the congregation is a confidential matter and such records are available on limited basis.