



Evangelical Lutheran Church in America

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Synod Guidelines

Internal Control Best Practices

**A resource provided by the Office of the Treasurer of the
Evangelical Lutheran Church in America**

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In order to exercise good stewardship and care of the resources entrusted to it, the synod should establish and maintain good internal control and accounting policies. This document describes major financial activities and related best practices in order to assist the synod in establishing its own system.

Procedures governing the following activities should be in place, reviewed by the finance committee and updated on an annual basis:

- Receipts (Sunday and special offerings);
- Bank account reconciliation process;
- Authorized bank signers;
- Capital expenditures;
- Disbursements;
- Congregational loans;
- Payroll;
- Taxes;
- Data processing/data security/Personal Identity Information (PII);
- Asset classification;
- Purchasing;
- Records retention;
- Regulator and legal compliance;
- Code of Ethics;
- Endowments;
- Travel expenses; and
- The budgeting process.

These procedures should be set up in such a way that proper segregation of duties is ensured. For example, the invoice approval process should be separated from the accounts payable process. Likewise, the bank reconciliation process should not be performed by anyone authorized to process an invoice or that is an authorized signer on the bank account.

1. **Receipts** – A procedure governing the receipt and processing of such things as synod receipts, gifts, and donations should be put in place and include the following:
 - All mail containing money should be opened and counted in dual custody in a secured area;
 - All receipts should be tallied on a preprinted form and signed by the people performing the count;
 - The signed tally sheet for the receipts should be given to the synod’s treasurer;
 - The receipts should be deposited by a person independent of the people performing the count and the bank reconciliation process;
 - The receipts should be deposited in a timely manner or kept in a safe until deposited;



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- The deposit receipt should be reconciled to the tally sheet for all offerings; and
 - The bank statement should be reconciled to the deposit tickets once a month by a person that is not an authorized bank account signer.
2. **Bank Reconciliations and authorized Account Signers** – All bank reconciliations should be performed by a person who is not an authorized signer on the account, is independent from the invoice approval process and has no access to the general ledger. These reconciliations should be performed on a monthly basis, signed and dated by the person performing the reconciliation and reviewed by a knowledgeable employee independent of the process. Note: if staff size does not allow for such segregation of duties, it is recommended that each step of the process be reviewed by another synod employee.
3. **Capital Expenditures** – All capital items (such as furniture, equipment or improvements) should be approved by the bishop and/or synod council and purchased through a competitive bidding process to obtain the best price or service. Once purchased, these items should be placed on the synod's books and depreciated in accordance with accounting rules. When sold, the synod should consult current market guides to establish a fair market value and obtain the best possible price for the asset.
4. **Disbursements** – All expenditures should be handled as follows:
- All expenditures should be supported by proper documentation (i.e. receipt and notation of business purpose);
 - All invoices should be approved by an authorized signer independent of the accounts payable process;
 - Any expenditure presented for payment should not be processed unless properly approved and supported;
 - The person processing the invoice for payment and cutting the check should be independent of the check signing and bank reconciliation process;
 - All check stock should be kept in a secured location when not in use;
 - All expenditures should be reviewed by a person independent of the accounts payable process on a quarterly basis to ensure there have been no duplicate payments made during the period;
 - All new vendors should be approved by an authorized employee independent of the accounts payable process;



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- Before issuance, invoices should be matched to the checks presented for signing, by someone other than the preparer of the checks;
 - If the invoice is for the purchase of tangible items (i.e. supplies, computers) rather than services, ensure all receipts are received and verified by a person independent of the ordering process; and
 - Ensure all service related or individual contractor vendors that are paid more than \$600.00 per year receive a properly completed 1099 at the end of each year.
5. **Loans** - If the synod is considering borrowing any funds, it is important to have the following controls in place:
- All loans should be approved by the Synod Council;
 - An approved signer list should be maintained to control the disbursement of the loan funding to the synod;
 - The statement from the lender should be reconciled to the general ledger on a monthly basis;
 - When loan disbursements are received, the funds should be immediately deposited in the appropriate bank account. Disbursements from this account should require two signatures; and
 - Separate financial reporting should be established to monitor the proceeds and expenditures of the loan and reported to the Synod Council on a regular basis.
6. **Payroll & Taxes** – The payroll process should be handled as follows:
- Any new hire should be supported by formal documentation approved by a person independent from the payroll process. This documentation should include the employee's rate of pay, W4, W9, approved benefits, and benefits elected and paid for by the employee (i.e. 403b, IRA, education account, etc.);
 - Each payroll check run should be reconciled to the general ledger and reviewed by someone independent of the payroll process to ensure it is accurate and proper;
 - Any change of status (i.e. position or salary change) should be fully documented and approved by a person independent of the payroll process prior to any change being made;
 - If the synod has hourly employees, time cards should be reconciled to the payroll checks each time payroll is run. This reconciliation should be performed by someone independent of the payroll process and approved by management;



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- All employee W2s should be reconciled to the general ledger prior to being issued. This reconciliation should be executed by a person independent of the payroll process;
- All W2s should be issued within 30 days of year end;
- All Form 941s issued should be reconciled to the general ledger prior to being paid. This reconciliation should be executed by a person independent of the payroll process;
- Each Form 941 and corresponding payment is to be transmitted to the proper governmental entity in a timely manner; and
- If an employee is terminated, the termination process should be fully documented and approved by a person independent of the process. In addition, the person in charge of the payroll process should be responsible for collecting all synod-owned property (i.e. access card, computer), ensuring the person is immediately removed as a bank account signer (if appropriate), calculating the employee's final paycheck and having all documentation and final paycheck approved by a supervisory person independent of the process.

7. **Data Processing/Data Security/ Controls over Personal Identity Information (PII)** - Personal Identity Information (PII) is data that, if stolen, could be used to steal a person's identity. PII includes such things as names, addresses, birthdates, social security and credit card numbers, and bank routing numbers used to automatically make authorized deductions from a donor's bank account. With respect to data processing and data security over this information, the following controls need to be in place:

- All software programs and data files need to be password protected and each employee needs to have a unique password;
- All security software should be current and any updates installed as soon as they are received;
- Access should be restricted commensurate with job responsibilities;
- All software and data files should be backed up on a regular basis and backups should be kept off-site;
- All computers should have virus software installed and running;
- There should be a current computer and internet use policy spelling out the congregation's position on the personal use of the computer and if allowed, what type of websites are strictly forbidden;
- All documentation containing Personal Identity Information (PII) should be handled on a need-to-know basis;
- All paper documentation should be kept under lock and key when not being worked on;



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- When no longer needed, paper documentation containing PII should be shredded or stored in a secured archive location. For more information, please see the records retention policy on the ELCA Office of the Secretary's website; and
 - A policy should exist that prohibits downloading any confidential documentation or PII unless specifically authorized by the bishop of their designate. The person approving the download should also be responsible to ensure its proper use and ultimate destruction. This policy should also provide for controls over the use and protection of all data downloaded to portable media devices (i.e. lap tops, flash sticks, CD's) and forbid emailing any confidential documentation. Finally, this policy should include a definition of confidential documentation and PII and make it clear to all synod staff that this information is not to be emailed to anyone without prior written authorization.
8. **Asset Classification** – All donations and receipts should be properly classified in accordance with the donor's intent. Designated funds should be approved by the Synod Council.
 9. **Purchasing** – If the invoice is for the purchase of tangible items (i.e. supplies, computers) rather than services, ensure all receipts are received and verified by a person independent of the ordering process. (Also see Section 5 - Disbursements)
 10. **Records Retention** – A policy should exist stating that all documentation should be properly stored and destroyed in compliance with an established procedure. This policy should also include guidance regarding when documentation is to be stored in a safety deposit box or other off-site means. For more information, please see the records retention policy on the ELCA Office of the Secretary's website.
 11. **Regulatory and Legal Compliance** – The synod is responsible for ensuring compliance with all applicable legal and regulatory pronouncements.
 12. **Code of Ethics** – A code of ethics should be in place covering all lay and ordained personnel. This document should cover:
 - Duty of Care - Good faith and best efforts in the execution of all job functions;
 - Duty of loyalty;
 - Conflict of interest;
 - Gifts; and
 - Duty to disclose breaches of the code of ethics.



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For more information, a sample of an operational ethics policy can be found on the ELCA website.

13. **Endowments** – Procedures for receiving and distributing money from endowments should include controls to ensure:

- Monies are properly received and credited in accordance with the donor's intent;
- The gifts and endowments are properly classified (i.e. unrestricted, restricted, temporarily restricted); and
- Mailing or wiring of the funds should be completed in dual custody to ensure monies are sent to the intended recipient.

14. **Travel Expenses** – With respect to travel expenses, the following controls should be in place:

- A standard form should be utilized that breaks travel expenses into categories such as airfare, hotels, mileage, parking, phone expense and meals;
- For mileage, it is recommended that the standard IRS mileage rate be used;
- Receipts should be attached to the expense statement over a pre-determined threshold (usually \$25);
- There should be a policy regarding expensing the cost of gifts, including the circumstances and thresholds that are considered within the synod's tolerances;
- The expense report should be signed by the traveler and approved by their supervisor. The bishop's travel statement should be approved by the treasurer, finance committee or their designate; and
- For further reference, please see the ELCA's travel policy, available on line.

15. **The Budgeting Process** – An annual budgeting process should be in place and managed by the treasurer, bishop and the synod's finance committee. The budgeting process should include:

- A review of the synod's revenue sources and a projection of revenue by category for the coming year;
- A process to review expenditure proposals & commitments for the coming year;
- A process for reducing planned expenditures to match projected income;
- Review of draft budget by the bishop;



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- Presentation of draft budget to Synod Council;
- Approval of budget by Synod Assembly;
- The actual results should be monitored against the approved budget on a monthly basis and explanations of variances presented to bishop and Synod Council.

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