5-2012

External Stakeholders and Internal Controls in Churches

David Myers
University of Arkansas, Fayetteville

External Stakeholders and Internal Controls in Churches

by

David Wesley Myers

Advisor: Dr. Vernon Richardson

An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of Science in Business Administration in Accounting.

Sam M. Walton College of Business
University of Arkansas
Fayetteville, Arkansas

May 11, 2012

Introduction

Internal controls serve a straightforward purpose: to detect fraud and errors (Kieso, 2010 and Ortman and Schlesinger, 1997). This is especially important for non-profit organizations, which rely on public trust more than other organizations (Wilhelm, 2006), and particularly for religious non-profit organizations, which rely on people's faith as well (Mulder, 1999). Non-profit management control has traditionally been a very under-studied field, as most focus on financial control has tended to stay in the for-profit sector, where the concepts originated (Duncan, Flesher, and Stocks, 1999).

Management control by internal controls, studied rarely enough in a non-profit context, has an additional issue to deal with when placed in a religious non-profit context, an issue called the sacred-secular divide. This divide is considered to lie between the spiritual issues at hand in a religious non-profit (the sacred issues within the organization), and the secular business systems that exist merely to support the sacred and therefore more important matters of the organization. This leads to a distinct sense of the inferiority of accounting issues to any non-monetary issues, which often results in ignoring managerial control of an organization's (especially a church's) finances (Booth, 1993).This may be complicated by non-contractual, often voluntary, relationships and obligations when dealing with financial matters (especially volunteer workers); additionally the partners in those relationships and obligations may be bound together due more to theological rather than financial concerns(Laughlin, 1990, and West and Zech, 2008).

Although the partnerships and relationships between a non-profit religious organization and its vendors and denominational association may be voluntary or informal, often an organization outside the local organization or congregation can affect the financial actions of a local organization. This paper deals specifically with churches, a subset of religious non-profit organizations chosen due to their near-ubiquity in the United States, specifically how an external organization can affect the internal control environment of a local congregation's financial system.

Internal Controls

Internal Controls should be financially important to churches, since trust is an important part of non-profit organizations. Donors may react to internal control problems by decreasing the amount of their donations, which has been found to occur in general non-profits (Petrovits, Shakespeare, and Shih, 2011).

One of the most important and difficult internal controls for churches is separation of duties. This is due to the volunteer nature of many churches' organizational structure, particularly their business and administrative support organization (Chaves, 1999). This is often due to the limited personnel able to be involved in the financial organization of the church (Duncan, Flesher, and Stocks, 1999). Another important general control is an annual audit and accompanying independent audit committee. An annual audit has been found to be correlated with more stringent internal controls, but is more common in larger churches due to the cost of the audit (Flesher and Duncan, 1999).

Guaranteeing the security of incoming cash (normally in the form of donations from congregants) is also an important concern, usually ensured by segregation and duplication of duties: more than one person counts the offering, then someone who does not physically handle the cash receipts or deposits maintains the records; this separation and duplication still has the problem of usually requiring the cooperation of several volunteers, which may be difficult to obtain. The envelope system, where donors are encouraged to use envelopes that allow confidentiality and verification of the amount given, helps those counting the money to verify that no money has been removed from the envelope, and sometimes allows donors to designate to what purpose the amounts of their gift should be used (Wooten, Coker, and Elmore, 2003 and West and Zech, 2008).

Assuring that money is disbursed for only church business is also an important part of a financial system, both for managerial and tax purposes as well as to verify that money is not being dispensed fraudulently. Likewise ensuring that contributions and expenditures approximately match up to expected offerings and disbursements allows for additional verification that offerings are spent as donors intended, and regularly informing donors of their contributions allows donors to be sure that their gifts were actually received by the church (Wooten, Coker, and Elmore, 2003).

Review of Literature

Although the field of accounting has had a field of study of non-profit organizations, generally religious non-profits were not studied specifically, and churches in particular tended to be ignored, likely due to the large number of churches and the fairly small size of most churches compared to other non-profits. When the accounting literature did concern churches, it usually addressed inadequacies in the accounting systems, and prescribed improved accounting practices (Booth, 1993). Peter Booth (1993) laid out a research framework and agenda that focused on the effects of beliefs on accounting systems, members and occupational groups involved in the accounting of churches, and organizational resources (both money and number of people) involved in the church. Booth based some of his framework on Laughlin’s study of the Anglican Church, which primarily looked at the sacred/secular divide (Booth, 1993 and Laughlin, 1990).

Duncan, Flesher, and Stocks (1999) followed Booth’s framework by sending surveys about accounting systems and church government to churches in and around their homes and universities in several southern states. They asked these churches about the churches’ size, and their polity, which is the system of rules that govern an organization, in ecclesiastical matters normally meaning church government. Church governments tend to fall into three categories, congregational (the congregation has the final authority, usually decided by majority vote), episcopal (a bishop is charged with authority over a number of local congregations, and delegates power downward; local congregations or parishes are indivisible from the rest of the denomination, effectively forming a single large, nationwide church), and presbyterian (authority rests with elders in the local church, but often with the power of review and control resting with higher governing bodies, usually made up of elders from different congregations). Duncan, Flesher, and Stocks surveyed churches from specific denominations to represent the different polities. Churches associated with the Southern Baptist Convention represented the congregational polity, churches of the United Methodist Church represented the episcopal polity, and churches of the Presbyterian Church (USA) represented the presbyterian polity; this somewhat limited the breadth of the results, as conclusions would not necessarily be applicable in different denominations, or in independent churches (Duncan, Flesher, and Stocks, 1999).

The Duncan, Flesher, and Stocks survey showed that a larger church usually had higher internal controls (size of the church being defined either by cash receipts or by church membership), and that the churches of the Presbyterian Church (USA) and of the United Methodist Church tended to have better internal controls than the Southern Baptist churches. The authors suggested that the denominational differences were due to the more centralized nature of the denomination in the Methodist and Presbyterian churches, compared to Southern Baptist churches, which are autonomous and are associated with the denomination voluntarily. This does not hold up entirely, as the authors pointed out that small Methodist churches had the least stringent internal controls in the survey, although they also tended to be the smallest churches in the survey, which shows what could be an interaction between the two variables of polity and size (Duncan, Flesher, and Stocks, 1999).

Wooten, Coker, and Elmore (2003) closely followed the model of Duncan, Flesher, and Stocks by sending out a similar survey of internal controls, although with a different goal: the survey was to test how much financial controls varied based on church size and based on whether the records were audited, expecting that engaging an external auditor would encourage greater internal control. This later survey questioned more basic internal controls, ignoring some more subtle aspects of the internal control environment addressed in the earlier survey, and was sent to Southern Baptist churches in a southern state, which likely overlapped with the earlier survey. Wooten, Coker, and Elmore found that internal controls were correlated with church size (determined either by number of members or amount of cash receipts), and that churches were more likely to have better internal controls if audited by a CPA. Since larger churches were more likely to engage a CPA, it is difficult to say that the audit improved internal controls without clarification of church size (Wooten, Coker, and Elmore, 2003).

West and Zech (2008) conducted a study on internal controls in Roman Catholic parishes and dioceses in the U.S., comparing different internal controls with detection of embezzlement. They found that dioceses with written fraud policies experienced less fraud than dioceses without such a policy, and that increased frequency of reporting financial data from parish to diocese increased the likelihood of the detection of fraud (West and Zech, 2008).

External Stakeholders

Duncan, Flesher, and Stocks theorized that the uniformity and unity of Methodist churches and to a lesser extent Presbyterian churches, particularly the control exercised by higher-ranking authorities over lower-ranking authorities, caused a more secure internal control environment due to the ability of higher authorities to legislate accounting practices from above; this was contrasted with Southern Baptist churches, whose local congregations were autonomous of each other and of the denomination, which could only give recommendations to local congregations (Duncan, Flesher, and Stocks, 1999). However, the idea that the internal control environment can be affected by having an authority, outside the congregation, that causes a stronger control environment does not necessarily need to be limited to a denominational authority. Likewise, the outside entity that could affect the internal control system may not be an authority at all, rather a lender, outside donor (not a member of the congregation), or returns on endowments or investments from earlier times that would likely be managed by someone outside the congregation. If the outside entity is a denominational authority, it may also give funding to the local congregation or parish (see Laughlin, 1990).

Hypothesis

From the idea that an external stakeholder could change the way a local congregation functions financially, the hypothesis, stated in the null form, is:

Hypothesis: There will be no significant differences between the internal controls of a church that claims an external stakeholder and those that do not claim an external stakeholder.

This is stated in the null form, but the expectation of the statistical relationship is that churches with an external stakeholder, whether an outside donor or denominational authority that could exert some influence on the local congregation's accounting personnel to improve their financial controls, will have more stringent internal controls than those without an external stakeholder.

Methodology

Like previous studies (particularly Wooten, Elmore, and Coker, 2003 and Duncan, Flesher, and Stocks, 1999), a survey was sent out to local churches (the survey is included in the appendix). The survey was developed from several different sources on recommended internal controls for churches (from Wooten, Coker, and Elmore, 2003; Duncan, Flesher, and Stocks, 1999 and Rice, 2011) and split up into five sections, general controls, cash receipts, cash disbursements, performance review, and two questions at the end to determine if the respondent's church has an external stakeholder present; this was determined by asking if any outside institution has the authority to change the local congregation's expenditures, and then asking if the local congregation receives any funding outside of congregant giving; each question was answered yes or no, in order to determine if the specific internal control was present and if an external stakeholder was present.

Unlike the earlier surveys, this was sent out only to churches in a single county in Arkansas, rather than an entire state in the case of Wooten, Elmore, and Coker, or to churches in several states in the case of Duncan, Flesher, and Stocks. Also, these churches were selected based on their presence in the phonebook rather than denominational directories. This helps to ensure that denominational differences are representative of the population of churches in this county, although non-responses could limit such equal representation. If non-responses do limit the representation of denomination, it will not be detected since the survey is completely anonymous; it is also likely that churches with and without external stakeholders will be split along denominational lines, simply due to differing denominational financial rules and practices. The broad array of denominations involved in the study contrasts with earlier surveys, where denomination was either specifically one of the independent variables (in the case of Duncan, Flesher, and Stocks) or was held constant (in the case of Wooten, Elmore and Coker).

The survey was sent with a cover letter addressed to the pastor (also included in the appendix), asking that whoever in the church is most knowledgeable about the financial system to fill out the survey, either mailing the survey back or filling it out online usingQualtricssurvey software. The cover letter noted the anonymity of the survey response, and that participation is voluntary. The formats of the survey and cover letter were similar to previous surveys (cf. Duncan, Flesher, and Stocks, 1999 and Wooten, Elmore and Coker, 2003).

Table 1 - Statistical Differences in Early and Late Returns

F-Test Two-Sample for Variances

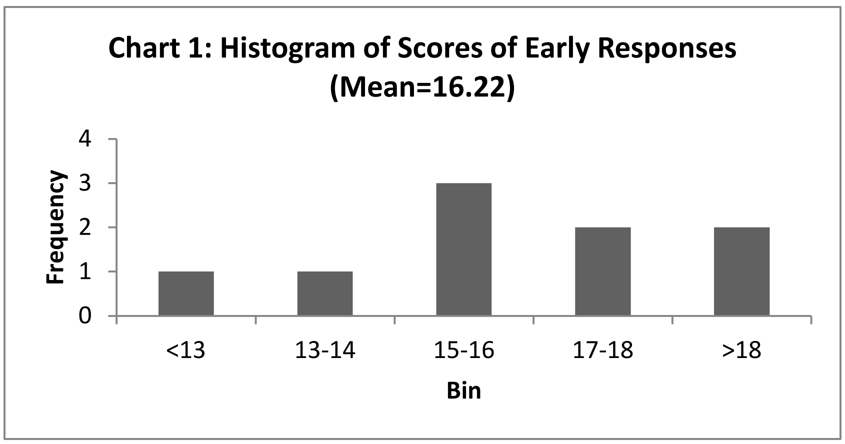
	Variable 1	*Variable 2*
Mean	16.2222	15.9
Variance	6.44444	16.9889
Observations	9	10
df	8	9
F	0.37933	
P(F<=f) one-tail	0.09348	
F Critical one-tail	0.29515	

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	*Variable 2*
Mean	16.2222	15.9
Variance	6.44444	16.9889
Observations	9	10
Pooled Variance	12.0268	
Hypothesized Mean Difference	0	
df	17	
t Stat	0.20222	
P(T<=t) two-tail	0.84214	
t Critical two-tail	2.10982	

Results

Of 184 letters sent out, 42 were returned as undeliverable, marked no such number, not deliverable as addressed, or no mail receptacle. This was likely due to the use of Post Office Boxes rather than on-site mailboxes (probably due to the belief that mail should sit in a post office for a few days rather than unattended outside a facility that may only be used once or twice every week; unfortunately, P.O. box addresses are difficult to locate since the physical address is used in the phone book). Of the net of 143 successfully sent out, 22 responses were returned, for a 15.4% response rate. Due to the anonymity of the survey, no second requests were sent, since there was no identification of those who had already responded. Of the respondents, 16 claimed that no institution outside of the local congregation could affect the budget or normally gave additional funding, and the other 6 claimed some form of external stakeholder. All but one of the six listed an extra-congregational funding source, and two of those six also claimed outside budgetary control.For aggregate comparisons of the results, the responses to the questions of the survey were coded as “1” for yes and “0” for no. Unfortunately, this left question 5 in the awkward position of being a question in which a “No” response showed the presence of the separation of the duties of gift recording and check handling, in contrast to the other 24 questions, in which a “Yes” answer indicated the presence of the internal control. Therefore, questions 1 through 4 and 6 through 25 were added together (with one point for an answer of yes and zero for no), and question 5’s response (already coded as 1 for yes and zero for no) was multiplied by negative one, meaning that the possible aggregate score of internal controls range from -1 (no internal controls listed on the survey) to 24 (every internal control listed on the survey).



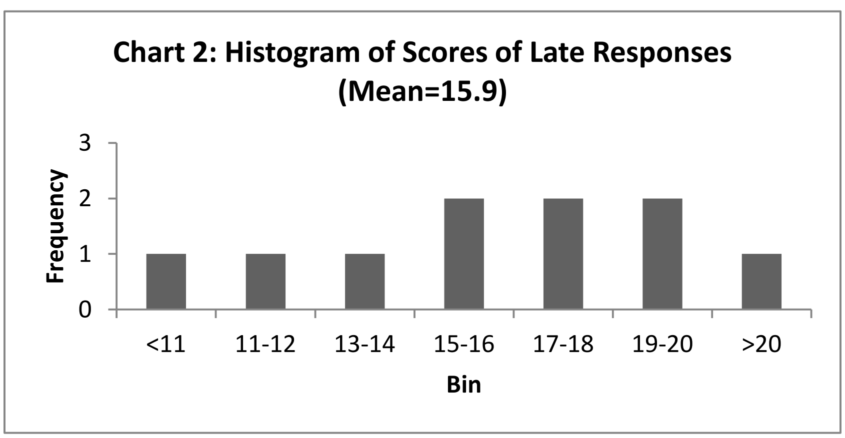


Table 2 - Statistical Differences in Responses with and without External Stakeholders		
F-Test Two-Sample for Variances		
	W/O Ext. St.	*W/ Ext. St.*
Mean	15.0625	17.8333
Variance	12.8625	2.96667
Observations	16	6
Df	15	5
F	4.33567	
P(F<=f) one-tail	0.05681	
F Critical one-tail	4.61876	
t-Test: Two-Sample Assuming Equal Variances		
	W/O Ext. St.	*W/ Ext. St.*
Mean	15.0625	17.8333
Variance	12.8625	2.96667
Observations	16	6
Pooled Variance	10.3885	
Hypothesized Mean Difference	0	
Df	20	
t Stat	-1.7958	
P(T<=t) one-tail	0.04383	
t Critical one-tail	1.72472	

Pace (1939) suggests that non-response bias may be tested by comparing early with late responses, under the theory that late respondents are part of a continuum of resistance to participation. Pace found the method only partially adequate, and later research found it unsuitable (Ellis, Endo, and Armer, 1970), but provided no better method of finding non-response bias. Without a better method, the responses were split up into early and late responses. Since both mail and electronic responses were used, electronic responses were given the date on which the response was recorded, and mail returns were given the date of postmark, in order to more closely match the dates used for electronic returns and mail returns (Table 1).

There was no statistically significant (at the p=.05 level) difference in the variances of the early and late responders, with a one-tailed p-value of .0935 for the f-test. There appears to be no significant difference in the mean of the first half of the respondents to the second half as well, with a p-value of .8421.[1] These tests both assumed normal distribution, determined through histograms (Charts 1 and 2).

[1] This p-value was found using a t-test two-sample assuming equal variance. Equal variance was determined using the F-test two-sample for variance test mentioned above, which gave a one-tailed p-value of .0935 that the variance

To find the likelihood of statistically significant differences between the responses that claimed an external stakeholder and those that did not, yet again a t-test for two-samples assuming equal variance was used, since an f-test showed no significant differences in variance of the two (Table 2). Yet again, this was dependent upon the data being normally distributed, as shown via histogram in Charts 3 and 4. The mean of the non-external stakeholder internal controls present was 15.063, and the mean of the responses of those churches with external stakeholders was 17.833. This produced a p-value of .0438, which is statistically significant at the .05 level. This means that there is a significant difference between the number of internal controls present within a church accounting system with an external stakeholder and within a church without an external stakeholder (Keller, 2005).

The responses to two individual questions showed a significant difference based upon the presence of an external stakeholder. The first of these questions was about separation of duties, which was asked: “Does the person who records the receipt of gifts also deposit the gifts or write checks?” The responses to this question showed that all but one of the churches with an external stakeholder would not allow one person, who records the receipt of gifts, to deposit those gifts or write checks; however, three quarters of churches without an external stakeholder would allow one person to record and either deposit or write checks. This correlation showed a p-value of 0.0396 (Table 3).

The second of these two specific questions asked if the accounting records and underlying internal controls were audited annually by a CPA who is not normally involved in the audit procedure. Every church with an external stakeholder was audited annually, compared to fewer than a quarter of churches without external stakeholders; this large difference led to a

---

of the first half of the responses was equal to the variance of the second half. If a t-test two-sample assuming unequal variance is used, the p-value changes to .8385.

Table 3 - Statistical Difference for Lack of Segregation of Duties

F-Test Two-Sample for Variances

	W/O Ext. St.	*W/ Ext. St.*
Mean	0.66667	0.16667
Variance	0.2381	0.16667
Observations	15	6
Df	14	5
F	1.42857	
P(F<=f) one-tail	0.3675	
F Critical one-tail	4.63577	

t-Test: Two-Sample Assuming Equal Variances

	W/O Ext. St.	*W/ Ext. St.*
Mean	0.66667	0.16667
Variance	0.2381	0.16667
Observations	15	6
Pooled Variance	0.2193	
Hypothesized Mean Difference	0	
df	19	
t Stat	2.21037	
P(T<=t) two-tail	0.03955	
t Critical two-tail	2.09302	

Table 4 - Statistical Difference for Annual CPA Audit

F-Test Two-Sample for Variances

	W/O Ext. St.	*W/ Ext. St.*
Mean	0.25	1
Variance	0.2	0
Observations	16	6
Df	15	5
F	65535	
P(F<=f) one-tail	N/A	
F Critical one-tail	4.61876	

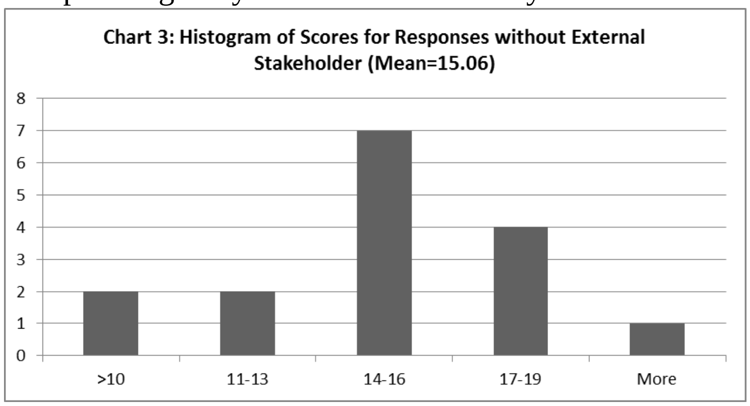
t-Test: Two-Sample Assuming Unequal Variances

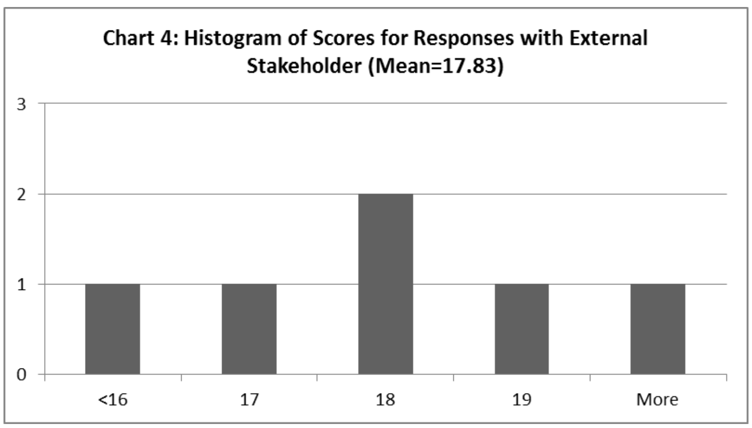
	W/O Ext. St.	*W/ Ext. St.*
Mean	0.25	1
Variance	0.2	0
Observations	16	6
Hypothesized Mean Difference	0	
df	15	
t Stat	-6.7082	
P(T<=t) two-tail	7.00E-06	
t Critical two-tail	2.13145	

negligible p-value (7×10^{-6}, Table 4). This finding is very loosely related to the finding of Wooten, Coker, and Elmore, who found that “larger organizations tend to have stronger internal controls and are more likely to use an external audit by a CPA firm to validate their internal controls” (Wooten, Coker, and Elmore, 1999). The question of larger churches and their use of internal controls and audit services was the main question of their research, but in this case the use of a CPA was simply incidental in determining the use of internalcontrols and their interactions with external stakeholders, and the significant correlation is interesting but not as pertinent in testing the hypothesis as it was for Wooten, Coker, and Elmore. It is important to note that in a set of 25 questions, it is unsurprising that a significant difference would appear at the p=.05 level, without necessarily having a correlation throughout the entire population (Keller, 2005).

Conclusions

The extremely low number of responses greatly limits the value of any conclusions drawn from the data collected. Since there are only 16 responses by churches without an external stakeholder, and only 6 responses by churches with an external stakeholder, any statistical significance is severely limited simply because there are not enough responses to guarantee a representative sample of the population of churches in Washington County with an appropriate amount of statistical variation. Additionally, the use of 16 responses without an external stakeholder compared to 6 responses with an external stakeholder limits the assurance of correlation that would disprove the null hypothesis because there is a tendency away from p-value conservatism as the imbalance of the data increases (Keller, 2005).





Excluding the low return rate, the data does suggest that churches with an external stakeholder will have more stringent internal controls on average than a church without outside budgetary control or funding.However, there is no guarantee of that, due to the low return rate. It is also possible that external stakeholders become involved at a church only after the accounting system has appropriate internal controls; this would be a flip of the expected cause and effect that this study was meant to discover.

It is also difficult to rate each of these churches' internal control environments as weaker or stronger, even relative to each other, simply based on the simple sum score of the responses. This difficulty occurs because the internal controls themselves are not necessarily created equal, and have different goals; the score of a response is simply an approximation for the strength of the internal control environment. Additionally, a church (or any institution) may have very weak controls for accuracy (e.g. a non-computerized system) but very strong controls for fraud prevention purposes; this would result in a very high-numbered response on the survey (since a majority of the internal controls listed were concerned with fraud prevention), but could still allow very serious problems in the accounting system if mathematical errors occur, even if fraud does not. Furthermore, the questions asked of these churches were not appropriate for determining definitively the sufficiency of the internal controls. Additionally, these results do not clearly reflect what is or is not a sufficient internal control environment, meaning that the difference in the mean score of responding churches that have an external stakeholder and those without an external stakeholder may or may not be the difference between a sufficient and insufficient internal control environment.

It is also inappropriate to look at these results and suggest that churches should have an external stakeholder; churches have had their reasons either for being part of a denomination where the local congregation that is indivisible from the rest of the diocese, and those reasons are considered more important than a potential decrease in fraud risk. Likewise, churches have non-financial reasons being part of a denomination that cannot impose any constraints upon a local congregation except from the denomination; even outside donors are likely to be accepted or rejected by churches for reasons beyond the internal control environment (Hoge, Zech, McNamara, and Donahue, 1999).

It is nonetheless likely that churches that have financial stakeholders outside their congregations have more stringent internal control environments than churches that are completely independent financially, although that does not mean that financial dependence upon an outside institution or donor is something to be sought. Still, this potential relationship between external stakeholders and the churches affected by them should be considered when examining aggregate church finances in the future.

Bibliography

Booth, Peter. Accounting for churches: A research framework and agenda.*Accounting, Auditing & Accountability Journal*, 1993 Vol. 6, No. 4, pp. 37-67.

Chaves, Mark. “Financing American Religion.” In Chaves and Miller (eds.), *Financing American Religion*. Walnut Creek, CA: AltaMira Press, 1999pp 169-188.

Duncan, John, Dale Flesher, and Morris Stocks.“Internal Control Systems in U. S. Churches.”*Accounting, Auditing & Accountability Journal*, 1999 Vol.12 No. 2, pp. 142-163.

Ellis, Robert, Calvin Endo, and Michael Armer.“The Use of Potential Nonrespondents for Studying Nonresponse Bias.”*Pacific Sociological Review*, Spring 1970 Vol. 13 No. 2 pp. 103-109.

Flesher, Dale and John Duncan. “Control in Volunteer Organizations.” *Internal Auditor*, Dec. 1999, pp. 45-47.

Hoge, Dean, Charles Zech, Patrick McNamara, and Michael Donahue.“Giving in Five Denominations.”In Chaves and Miller (eds.), *Financing American Religion*. Walnut Creek, CA: AltaMira Press, 1999 pp 3-10.

Keller, Gerald. *Statistics for Management and Economics*. Belmont, CA: Thomson South-western, 2005.

Kieso, Donald, Jerry Weygandt, and Terry Warfield.*Intermediate Accounting*. Hoboken, NJ: John Wiley & Sons, 2010.

Laughlin, Robert. “A Model of Financial Accountability and the Church of England.”*Financial Accountability and Management*, Summer 1990 Vol. 6 No. 2 pp. 93-114.

Mulder, J.M. “Faith and Money: Theological Reflections on Financing American Religion.” In Chaves and Miller (eds.), *Financing American Religion*. Walnut Creek, CA: AltaMira Press, 1999pp 157-168.

Ortman, Andreas, and Mark Schlesinger.“Trust, Repute and the Role of Non-Profit Enterprise.”*Voluntas: International Journal of Voluntary and Nonprofit Organizations*. 1997, Vol. 8 No. 2, pp. 97-119.

Pace, C. R. “Factors Influencing Questionnaire Returns from Former University Students.” *The Journal of Applied Psychology*, 1939 Vol. 23 No. 3 pp 388-397.

Petrovits, Christine, Catherine Shakespeare, and Aimee Shih.“The Causes and Consequences of Internal Control Problems in Nonprofit Organizations.”*The Accounting Review*.2011 Vol. 86 No. 1 pp. 325-357.

Rice, Lori. Internal Controls/Best Practices.*Southwest Conference of the United Church of Christ*, March 8, 2011. Accessed 4/6/12. <http://uccswc.org/Resources/tuesdays/Internal%20Controls-Best%20Practices.pdf>

West, Robert and Charles Zech.Internal financial controls in the U.S. CatholicChurch.Research study of the Villanova University Center for the Study of ChurchManagement, January 2007. Accessed 4/6/12. <http://www.villanova.edu/business/assets/documents/excellence/church/catholicchurchfinances.pdf>

Wilhelm, Ian. “Fraud Investigations Raise New Questions for Beleaguered Red Cross.” *Chronicle of Philanthropy* 4/6/2006, Vol. 18 Issue 12, pg. 46. Accessed 4/6/12.<http://0-web.ebscohost.com.library.uark.edu/ehost/detail?sid=2b2df994-b251-4005-b7a2-

bd0f5dd6b51b%40sessionmgr11&vid=6&hid=10&bdata=JnNpdGU9ZWhvc3QtbGl2ZQ%3d%3d#db=a9h&AN=20522788>

Wooten, Thomas, John Coker, Robert Elmore. "Financial Control in Religious Organizations: A Status Report." *Nonprofit Management and Leadership*, Summer 2003 Vol. 13 No. 4 pp. 343-365.

Appendix 1 – Cover Letter

Dear Pastor,

My name is David Myers, and I am a senior majoring in Accounting at the University of Arkansas. The research of my senior thesis concerns the internal control environment of churches, and I have sent this survey to churches in Washington County. I hope to learn if external institutions affect the local church's internal controls, and I hope that this information can be useful to churches setting up and evaluating accounting systems in the future.

I would like to ask whoever in the church is most knowledgeable about the financial system used in the church to fill out the enclosed survey by circling "Y" for yes and "N" for no, and mail it back to the following address:

David Myers
University of Arkansas
Department of Accounting
WCOB 401
Fayetteville, AR 72701

If it would be easier, or you would like to save the postage, the survey may also be filled out online, at (waltonuark.qualtrics.com/restofURL). Participation is voluntary. Please either return the mail survey or fill out the online survey, as filling out both will result in duplicate results. Please note that all information is strictly anonymous, and will not be connected to the church or the person filling out the survey in any way.

I would like to thank you for your cooperation.If you have any questions or concerns about this study, please do not hesitate to contact me atdwmyers@uark.edu, or my Faculty Advisor, Vernon Richardson, at (479) 575-6803 or by e-mail at vjricha@uark.edu. For questions or concerns about your rights as a research participant, please contact Ro Windwalker, the University's IRB Coordinator, at (479) 575-2208 or by e-mail at irb@uark.edu.

Thank you,

-David Myers

Appendix 2 – Survey

Are the following controls present in the accounting system used by your Church?

General Controls
Y N 1. Does the church have its up-to-date accounting procedures in writing?
Y N 2. Are all accounting records computerized?
Y N 3. Are reconciliations of all bank accounts prepared monthly by a person who is not involved in writing checks?
Y N 4. Are incoming-mail and in-office contributions handled by people who are not responsible for the accounting records?
Y N 5. Does the person who records the receipt of gifts also deposit the gifts or write checks?
Y N 6. Are bank statements reconciled within two weeks or receiving the statement?
Y N 7. Are the accounting records and the underlying internal controls audited annually by a CPA who is not normally involved in the accounting procedures?
Y N 8. Is there an audit committee, independent of the treasurer and/or finance committee, who oversees an annual audit?

Cash Receipts
Y N 9. Is all cash received deposited in the bank by the next business day after being received?
Y N 10. Is cash safeguarded in a safe, lock box, or similar protective container when at the church?
Y N 11. Is the handling of offerings always controlled by at least two people?
Y N 12. Are all employees and members who have access to cash bonded?
Y N 13. Are members encouraged to use offering envelopes?
Y N 14. Do the people who count the offering verify that the contents of the offering envelopes are identical to the amounts written on the envelopes by the members?

Cash Disbursements
Y N 15. Are all voided checks marked and retained?
Y N 16. Are invoices for goods and services verified and approved by a qualified person before payment is made?
Y N 17.Is documentation required to accompany all requests for checks?
Y N 18. Do all check signers inspect all supporting documents before signing?
Y N 19. Are at least two signatures required for all checks?

Performance Review
Y N 20. Are budgeted expenditures periodically compared to actual expenditures to insure that funds are being spent as authorized?
Y N 21. Are differences between expected and actual contributions and offerings regularly reported to the congregation?
Y N 22. Are differences between budgeted and actual expenditures regularly reported to the congregation?
Y N 23. Are contribution records maintained for members?
Y N 24. Do members receive periodic notices of their contributions?
Y N 25. Are gifts designated for a specific purpose placed in a restricted account (e.g. building fund)?

Y N 26. Does any institution outside the local congregation (denomination, higher church authorities, lender) have the authority to change expenditures in the local congregation?
Y N 27. Does the local congregation receive any regular funding for operations outside of congregant giving (from the denomination, from investments or endowments)?