We’re All Family - Why Waste Time and Money on Unessential Internal Controls

Reed McKnight, University of New Mexico
Roy Cook, Fort Lewis College

Disclaimer: This case was written by the authors and is intended to be used as a basis for class discussion. The views presented here are those of the authors based on their professional judgment and do not necessarily reflect the views of the Society for Case Research. The names of individuals, the not-for-profit, and its location have been disguised to preserve anonymity. Copyright © 2015 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

Introduction

A job description for a new office administrator that Ken Jephson and the rest of the church’s finance team had been asked to critique had a problem. Its approval would sanction internal control deficiencies that previously had been brought to leadership’s attention. Uncorrected, Ken though those deficiencies had potential to produce significant financial loss for the church and make its leadership financially responsible.

Ken’s discussion with the church’s Pastor Paul had made it clear that he thought Ken’s concerns were unwarranted and would result in unnecessary costly changes with no real benefits. Ken wondered. Did circumstances and the environment in which the church operated mitigate the need for changes that he thought were necessary?

What should be done? Should Ken and the finance team support leadership and approve the job description thereby sanctioning what might not be right or demand changes that would better protect the church and its leadership?

The Dilemma

Ken, a new member of the church finance team, had been elected co-chair of the team. He had only been on the team a couple of months when he felt the need to draft a memo regarding internal control. He had noted what he thought were deficiencies while participating in the counting of the church’s weekly offerings. The memo had been presented as a discussion item at a finance team meeting. Without amendment, and with the unanimous support of the team, the outgoing finance chair had forwarded it to head pastor, Paul Carlton, and other church leaders for their consideration. More than a month had passed since then. However, the memo had not generated any feedback. That was certainly understandable; such considerations took time and there were a lot of changes being made at the church.

But, when Pastor Paul asked Ken to spearhead a review of the job description for a new office administrator that seemed to endorse some of the internal control violations included in the memo, Ken became upset. Had anyone in church leadership even considered the memo and
what he thought were serious internal control problems? Ken was concerned that there might be consequences for himself, other finance team members, and members of church leadership if the job description were not modified.

He was distraught. Pastor Paul, in conjunction with other church leaders, had made many improvements in the last couple of years. Why wasn’t leadership embracing internal control changes that would only make the church stronger? At least for Ken, what he thought were internal control deficiencies were a major stumbling block that required changes to reduce unnecessary avoidable risks and possible losses. Was he wrong? Were what Ken thought to be deficiencies only his perceptions and not so serious that changes were required?

Church Background

It was a small vibrant church located in a sleepy rural town with a population of a few thousand people. Neither it nor its members were affluent. Nevertheless, it committed 20 percent of its annual budget to supporting missionary efforts. Most of its members were not highly educated but were hard-working folks who scraped to make a living, (e.g. farmers, ranchers, and construction workers) and were heavily committed to their families.

A change at the top of church leadership (pastor and associate pastor) a few years ago had resulted in a revival and significant church growth. One result was that the church’s physical plant had become too small and the church had embarked on a plan to build a new facility even though it had very limited financial resources. Knowing that money would be a significant constraint for building a new facility, church leadership was frugal in spending the church’s money. If something was not absolutely essential, it could wait; the new facility was priority one.

Perhaps, in part, to overcome its lack of financial resources, church leadership had embarked on a multiyear, multipronged effort to grow fellowship among church members and their personal commitments of time and talents to the church. The church finance team was a part of this overall program and was likely to become increasingly important when construction of the new church facilities began. Pastor Paul’s request of the finance team to assume the extra responsibility of critiquing and recommending changes to an office administrator job description drafted by himself and the church’s decision making, servant leadership team was a small step in that direction.

Previously, the finance team had been confined to preparing the church’s annual budget and, more recently, counting its weekly tithes and offerings. Even before the finance team’s involvement, the counting process had been standardized long ago and had become an unquestioned tradition.

Counting Contributions and Discovering the First of Some Internal Control Problems

Each week, two members of the finance team’s six members lingered while the church emptied out. When emptied, or nearly so, they retrieved currency and check contributions from the two unlocked contributions boxes located near the exits at the front and back of the church sanctuary.
The count team put the contributions into a clear plastic box. They then walked the box through the back of the church and parking lot and across the street to the bookkeeper/secretary’s office in an old house that was also used for children’s ministry. Though a low traffic, quiet place most of the week, on Sundays, the old house and office area were beehives of activity. No access restrictions, surveillance, or security measures existed, and people of all ages constantly came and went while the count team performed its weekly chores.

With an adding machine tape, the count team documented their count that averaged about $6,000, of which about 3 - 10% was currency. The tape was placed in a bank bag along with the currency and checks. The team then put the bank bag in the locked church safe, to which the bookkeeper had unrestricted access, in the bookkeeper/secretary’s office. In addition, a copy of the adding machine total of the weekly contributions was put into one of the unlocked contributions boxes in the church sanctuary for Pastor Paul’s information. However, he made no use of that information and did not retain it. Instead, from the convenience of his home office (the church was too small to provide an office for either him or the associate pastor), he used online banking to observe the amount of each week’s deposit. The deposit was made by the bookkeeper (soon to be office administrator) every Monday in the local bank just a few blocks from the church.

At a finance team meeting, Ken had said that he had concerns about the counting process and wondered if anyone else did. Like most other volunteer teams, the finance team, was strictly advisory to the Pastor and the church’s servant leadership team. Perhaps in part because of that, and perhaps in part because most team members had little business experience, a majority of the team members were ambivalent. They expressed feelings that as long as they did what Pastor Paul asked, it did not much matter what else the finance team did or didn’t do. But Ken felt otherwise, and that had led him to draft the memo describing his concerns.

**The New Office Administrator, - Creating Efficiency or Sanctioning Internal Control Problems**

When Ken was asked to spearhead the finance team’s review of the new job description, Pastor Paul had told Ken that the new office administrator’s job really was just taking two part-time jobs (see Appendices A and B) and combining them into one. The duties would just combine those of the part-time secretary and part-time bookkeeper. As described by Pastor Paul, the new office administrator would be a good deal for the church. Office efficiency should increase and the church also should save a few thousand dollars.

But after receiving and reading the job description (see Appendix C), Ken was very disappointed. Ken felt that approving the office administrator’s proposed duties would sanction internal control deficiencies that had been documented in the finance team’s earlier memo. Such approval could potentially put the church, its leadership, and maybe finance team members at risk if a financial loss occurred. So, before convening the finance team to consider the request, Ken both emailed and phoned Pastor Paul about the proposed office administrator’s position. In Ken’s mind, approving the job description would serve to put the office administrator in a position of trust and power that could lead to temptation and possible financial loss. As best Ken
could, he communicated those thoughts to Pastor Paul. But Ken’s best efforts weren’t good enough.

Pastor Paul was not convinced that Ken’s concerns were warranted. After all, it wasn’t a business. It was a church, and the pastor and small staff were “family” who worked closely together in a mutually supportive, trust relationship. Paul wanted to know why it was so hard for Ken to understand that FCC was different, and that its differences justified what was included in the job description. On the phone, Pastor Paul just wouldn’t budge on the new office administrator’s duties, and that left Ken wondering what should be done.

Were Ken and the finance team obligated to do more in an attempt to strengthen the internal controls of the church? Was that even possible? Or, should the finance team approve the job description so that the church could get on with hiring the new office administrator that leadership thought would produce both increased efficiency and cost savings?

Putting Ken’s Concerns to Rest

With his busy schedule, Ken really didn’t need the added stress of confronting Pastor Paul or the servant leadership team. Perhaps just backing off for a while would be best. But, as he soon discovered, Pastor Paul was anxious to move things forward.

Typical of good leaders, he wanted to bring closure to his disagreement with Ken so that the office administrator job search would not be derailed. Pastor Paul called together a small group to meet in the church’s cramped business office to focus on the issues that Ken thought were problems. The group included Paula, the church pianist who was also the church’s bookkeeper. It also included its non-church member accountant, Trudy. Paula and Trudy were the people most knowledgeable of the church’s accounting system. Also present, handpicked by Pastor Paul as representatives of the finance team, were Ken and Katie. Katie was a respected CPA with considerable non-profit experience who had become a finance team member at the same time as Ken. Ken was an inactive CPA who was no longer licensed to practice accounting. Major purposes of the meeting were to enlighten Ken and Katie as to the internal workings of the church’s financial system and controls and to put to rest the issues about which Ken was so concerned.

Prior to the meeting’s start, Pastor Paul had minced no words in letting Ken know that he was being unrealistic about demanding separation of duties (i.e. separating bookkeeping from access to church cash). Including his time as associate pastor, Pastor Paul had been part of the church for ten years, and the church bookkeeper had always made the bank deposits and paid the church bills. It wouldn’t be any different in the future, except that the two part-time positions of secretary and bookkeeper would be combined under the new title of office administrator. Because church leadership intended to hire from within (a member of the church’s own congregation) a person who was well-known among leadership and above reproach, Ken’s concerns were doubly unrealistic. The church just would not put itself in the position of hiring someone who would put the church at risk.
Pastor Paul went on to say that separation of duties was not realistic because the church had so few employees, all of whom already were too busy. There would be only one full-time employee (Pastor) and three part-time employees (associate pastor, Steven, the children’s ministry leader, June, and the new office administrator). The children’s ministry leader only worked ten hours per week, and neither the pastor nor the associate pastor had time to invest in mundane daily office duties like signing checks to pay the bills that had been proposed in the internal controls memo.

Nor, did Pastor Paul want to ask the finance team volunteers to do even more. He stated that he took pride in not unnecessarily imposing on volunteers. Like leadership, volunteers too were already busy with making a living, raising their families, and participating in other valuable church activities. Hence, it just was not realistic to think that the church could implement the proposed internal control changes. When the group convened, Pastor Paul took the lead in the meeting.

After making introductions, he, Paula, and Trudy briefly described the church’s processes for dealing with bookkeeping, bill paying, and making deposits (see Appendix B for details of these duties). Pastor Paul reiterated that the church had a history of hiring people from within who were beyond reproach, and that the intention was to fill the new office administrator position with the same kind of person. Hence, in his opinion, there was no need to impose on others and make the effort or invest the extra money to implement what he perceived to be the inefficient and costly separation of duties for which Ken was asking.

Though it was left unsaid, the implication was clear in Ken’s mind - wasn’t it obvious that Ken’s concerns were blown out of proportion? After Pastor Paul, Trudy, and Paula had expressed themselves, Ken and Katie were asked if they still had questions or concerns. Ken inquired about the bill paying process. Could he and Katie see an example of a typical bill and the supporting documentation for the check that Paula had both prepared and signed to pay the bill? Paula immediately retrieved one from the filing cabinet and showed it to them. Asked by Ken what would prevent the supporting documentation from being used again to support the preparation of a second check to pay the bill again, Paula responded that she would never have thought to do that, and asked why anyone would do so.

A few more questions were asked; the ensuing brief discussions reflected two perspectives. Pastor, Trudy, and Paula’s perspective was that bill paying had always been done that way and there had never been any problems. Why should something be fixed that wasn’t broken? Katie and Ken’s perspective focused more on internal controls. Although there may not yet have been any losses, the system really was broken and needed to be fixed before, not after, the church experienced a financial loss.

By the meeting’s end, the tone of Pastor Paul’s comments had softened somewhat. And, as the meeting came to a close, Ken agreed to convene the church’s full finance team to consider the proposed office administrator’s job description and possible amendments. As most finance team members had little business experience and internal controls knowledge, Ken and Katie would recommend changes they considered appropriate.
Filling a Need

The need for the new office administrator had come up somewhat unexpectedly and was being created as the result of turnover in the office. The secretary’s position had just been vacated to allow her to become a full-time mom who could devote herself to her growing family. She had been bringing her two infants to work. They were naturally disruptive and meeting their needs challenged not only her job efficiency but also the bookkeeper’s because her desk was in the same cramped office. With the secretary’s resignation, Paula, the bookkeeper, temporarily agreed to pick up the secretarial duties in addition to her own. But the church could not count on Paula doing that for very long. Paula had previously announced her retirement. It was to become effective at the start of the new year, now just five months distant, so that she and her husband could spend more time with their children and grandchildren.

Although both the secretary and bookkeeper were highly trusted, valued employees, Pastor Paul and the servant leadership team were excited by the opportunity that their departures would create for hiring the new office administrator. They expected increased efficiency not only because of the possibility of fewer office distractions but also because of the hope that someone could be hired that was more technologically current. And, as a bonus, if the office administrator had ministerial training or experience, then he/she also could help serve the needs of some of the congregation when Pastor Paul and Associate Pastor Steven were not available to help with a member’s immediate spiritual needs.

After the meeting, Ken mulled over what had transpired. Was Pastor Paul’s apparent softening of attitude towards possible internal control changes real or illusory? But given the close “family” environment in which the church operated, would it really be a big deal if changes were not made? Were changes really necessary, and if so, what changes were critical?
Appendix A

Secretary

<table>
<thead>
<tr>
<th>Ministry Area/Department</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Secretary</td>
</tr>
<tr>
<td>Accountable to</td>
<td>Pastor, SLT, congregation</td>
</tr>
<tr>
<td>Ministry Target</td>
<td>N/A</td>
</tr>
<tr>
<td>Position is</td>
<td>Paid Staff: Part-time</td>
</tr>
<tr>
<td>Purpose</td>
<td>To staff office; membership rolls, and visitor information; to produce newsletters &amp; weekly bulletins; misc. office things</td>
</tr>
<tr>
<td>Qualifications</td>
<td>Stable, maturing Christian; Member of the church; Regular attendee of Sunday morning services</td>
</tr>
<tr>
<td>Talents or Abilities Desired</td>
<td>Good organizational skills; good administrative skills; good communication</td>
</tr>
</tbody>
</table>

- Check phone messages and emails.
- Answer phones, relay messages, keep Pastor informed.
- Get mail from the Post Office, open and distribute it to the various ministry heads.
- File Prayer Requests, information about visitors.
- On the ACS (church member management and accounting software) program, add (maintain) people and envelope numbers as required. Post weekly contributions.
- Publish weekly bulletin with up-to-date information.
- Retrieve sermons, print off labels, run off sermons, keep track of who request them, put them in the sanctuary. Monthly, send CD’s to people that have requested them not at church.
- Maintain website - keep information current, keep calendar up to date, upload weekly sermons and monthly newsletters, keep pictures current.
- Keep Welcome Packet up to date and in supply.
- Keep front bulletin board decorated and current.
- Publish and distribute monthly newsletter.
- Check supplies for both buildings and keep list for purchase of supplies.
- Maintain Sunday slides.
- Serve on the computer/tech team.
- Attend staff meetings as needed.
- Maintain church directory and coordinate new directory.
- Coordinate activities and Information from various ministries by keeping calendar current, order materials, make phone calls, request newsletter articles as needed.
• Keep information on tables in the Sanctuary current and available.
• Keep files current.
• Learn Bookkeeper’s job and duties for back up in case of an emergency.

Appendix B
Bookkeeper

<table>
<thead>
<tr>
<th>Ministry Area/Department</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Bookkeeper</td>
</tr>
<tr>
<td>Accountable to</td>
<td>Pastor, SLT, and Congregation</td>
</tr>
<tr>
<td>Ministry Target</td>
<td>N/A</td>
</tr>
<tr>
<td>Purpose</td>
<td>To staff office; keep books, financial records, misc. office things</td>
</tr>
<tr>
<td>Qualifications</td>
<td>Stable, maturing Christian; Member of church; Regular attendee of Sunday morning services</td>
</tr>
<tr>
<td>Talents or Abilities Desired</td>
<td>Good organizational skills; good administrative skills; good communication</td>
</tr>
</tbody>
</table>

• **Deposits:**
  Make weekly deposits
  Record Deposit totals on Peachtree
  Record individual contributions

• **Pay Bills:** Pay bills on time each month

• **Distribute** missions support monthly

• **Payroll:** Make out payroll checks on the 15th and the last day of each month; distribute checks

• **File:** File financial records, bills, bank statements, multiple copies of receipts, check stubs, etc.

• Check phone messages and emails when alone at office.

• Answer phones, relay messages, keep Pastor informed when alone at office.
Appendix C
Office Administrator

<table>
<thead>
<tr>
<th>Ministry Area/Department</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Office Administrator</td>
</tr>
<tr>
<td>Accountable to</td>
<td>Pastor, SLT, Elders, Congregation</td>
</tr>
<tr>
<td>Ministry Target</td>
<td>N/A</td>
</tr>
<tr>
<td>Position is</td>
<td>Paid Staff: Part-time</td>
</tr>
<tr>
<td>Purpose</td>
<td>To administrate the office at church</td>
</tr>
<tr>
<td>Qualifications</td>
<td>Stable, maturing Christian; Member of church. Regular attendee of Sunday morning services</td>
</tr>
<tr>
<td>Talents or Abilities Desired</td>
<td>Good organizational skills; good administrative skills; good communication skills</td>
</tr>
</tbody>
</table>

- **Keep office hours Monday – Thursday 9am - 4pm**
- Check phone messages and emails.
- Answer phones, relay messages, keep Pastors informed.
- Get mail from the Post Office, open and distribute it to the various ministry heads, pay bills as they come in.
- FILE: receipts, employee information, credit card records, visitor information.
- **Contributions from Sunday offering:**
  Make deposits on Mondays unless it is a holiday.
  Record contributions and post the deposits in the General Journal.
  Add (maintain) people in software. Post contributions weekly.
- **Pay bills and missionary support**
- **Produce weekly bulletins for Sunday services**
- **CD’s:**
  Transfer audio sermons from tech booth computer to tech computer in the office.
  Copy services to CD’s. Send CD’s to people that have requested them on a quarterly basis. Post services on website.
- **Maintain church website**
- **Write “thank you” and visitor letters.**
- **Produce and distribute monthly newsletters.**
- **Coordinate Activities and Information from various ministry teams.**
  Maintain church calendar
  Order materials, make phone calls, request newsletter articles as needed.
• Check the Sanctuary Daily
• Assist Accountant:
  Find files, answer questions about posted checks and deposits, make copies as needed.
• Maintain Sunday slides
• Serve on the computer/tech team
• Attend staff meetings
• Maintain church directory and coordinate new directory
• Maintain Files
• Other duties as needed to support the ministry of church