

# **Guidelines for Church Financial Review**

Catawba Presbytery - October 2016

The following are suggested procedures to be used by churches when they have their financial review to meet Presbytery/ Synod's directives. Some churches may not need to complete all aspects; however these guidelines should assist in keeping your church aware of its responsibilities and accountability to the congregation.

Conducting a Financial Review is a mark of Responsibility; Good Stewardship demonstrated for all to see; and a message to the church donors that you care about their gifts.

The purpose for a Financial Review is:

To protect the person(s) the local church elects to office of financial responsibility from unwarranted charges of careless or improper handling of funds;

To build trust and confidence of the financial supporters of the church in the way their money is being accounted for;

There will be a continuity in accountability when there is a change in personnel

To assure gifts to the church with special conditions attached are consistently administered in accordance to the donor's instructions;

To provide checks and balances for sums received and expended.

Reviews of financial reports require that individuals performing the review have a reasonable familiarity with terms, concepts, and practices of the financial world. For the review to be useful and effective, the person or persons performing it must do so in an objective and impartial fashion, and with the highest degree of integrity.

A Review should include examination of all of the funds of the Church, not just the operating accounts; Capital and other special funds, endowment and trust funds, assets of the church, organizations, investments, discretionary funds, and any other assets, liabilities, revenues, and expenses of the church.

## **Planning stage of the review:**

Planning involves understanding of the church's financial operations and assembling the various documents that are needed for the review.

Obtain a copy of the previous audit if available along with the Management's letter which details past review findings and provides suggestions on how to improve the church's financial operations.

Obtain a copy of the annual financial statements

Review procedures which are being used to account for church money. Identify individuals with responsibility for financial operations and decisions and verify with them all funds of the congregation have been included in the statements.

Identify all bank accounts and authorized check and withdrawal signers.

Request that all accounting records of all funds be presented together including:

Organization Chart

Chart of accounts  
 General Ledger  
 Cash Receipts Journal  
 Cash Disbursements Journal  
 Bank Statements including canceled checks  
 Check Register  
 Blank checks are accounted for  
 Paid invoices  
 Individual payroll records including Forms W-4 and I-9  
 Federal and State payroll withholding reports  
 Passbooks and evidence of other investments  
 Pledge records by individual and total

Perform a preliminary analytical review of financial statements. This may consist of comparison of the current records to the previous year balances and to budget amounts. If needed, arrange a meeting with the Treasurer to review any variances, or clarifications.

Review internal controls: policies, procedures, and commitment to reasonably prevent material errors and irregularities from occurring or going undetected.

## **Internal Control Questionnaire:**

### **GENERAL:**

This will provide general information for an understanding of the overall accounting and internal control system.

Circle the appropriate answer of YES, NO, N/A

- |  |     |    |     |
|--|-----|----|-----|
| 1. Are prior internal control questions available?                   | YES | NO | N/A |
| 2. Have recommendation of prior reports been implemented?            | YES | NO | N/A |
| 3. Is a complete and current chart of accounts available?            | YES | NO | N/A |
| 4. Is the accounting system using a double entry bookkeeping method? | YES | NO | N/A |

### **BUDGET:**

- |  |     |    |     |
|--|-----|----|-----|
| 5. Is the budget approved by the church?                       | YES | NO | N/A |
| 6. Are all changes to the budget authorized by the Deacons and |     |    |     |

|                            |     |    |     |
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| recorded in their minutes? | YES | NO | N/A |
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| 7. Is there a periodic review of the Budget? | YES | NO | N/A |
|--|-----|----|-----|

## **REPORTING:**

|   |     |    |     |
|---|-----|----|-----|
| 8. Is a Treasurer's detail report submitted to the Deacons monthly? | YES | NO | N/A |
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| 9. Does it present actual to budget information? | YES | NO | N/A |
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| 10. Is there a quarterly report of all other funds and activities? | YES | NO | N/A |
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## **CASH RECEIPTS:**

|  |     |    |     |
|--|-----|----|-----|
| 11. Are there safeguard to protections collections from time collected,<br>counted, and deposited? | YES | NO | N/A |
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|--|-----|----|-----|
| 12. Are collection receipts and deposits receipts made Weekly? | YES | NO | N/A |
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|--|-----|----|-----|
| 13. Are there at least two unrelated persons responsible for counting<br>and depositing funds? | YES | NO | N/A |
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| 14. Are persons counting receipts rotated periodically? | YES | NO | N/A |
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| 15. Are there standardized forms for counting? | YES | NO | N/A |
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| 16. Are counters sheets retained and reconciled with actual deposits? | YES | NO | N/A |
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|                                      |     |    |     |
|--------------------------------------|-----|----|-----|
| 17. Is cashing of checks prohibited? | YES | NO | N/A |
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| 18. Are Third party checks returned to donors? | YES | NO | N/A |
|--|-----|----|-----|

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| 19. Are Pledge envelopes or other memoranda retained and<br>reconciled to recorded amounts? | Yes | no | n/a |
|---|-----|----|-----|

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| 20. Are other cash receipts recorded and deposited on a timely basis? | Yes | no | n/a |
|---|-----|----|-----|

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| 21. Are all checks received restrictively endorsed "for deposit only"<br>immediately upon receipt? | YES | NO | N/A |
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| 22. Are there procedures which will highlight or identify the fact<br>that some receipts/income has not been received or recorded? | YES | NO | N/A |
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| 23. Are periodic statements provided to donors of their contributions<br>at least quarterly? | YES | NO | N/A |
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| 24. Do acknowledgements in excess of \$250 include a receipt from the organization describing itself as “any goods or services provided consist solely of intangible religious benefits? | YES | NO | N/A |
| 25. Are discrepancies investigated?  | YES | NO | N/A |

### **CASH DISBURSEMENTS:**

|   |     |    |     |
|---|-----|----|-----|
| 26. Are all disbursements made by check, except for small expenditures made by petty cash?                                | YES | NO | N/A |
| 27. Are all checks pre-numbered and used in sequence?   | YES | NO | N/A |
| 28. Are all voided checks clearly canceled and retained?  | YES | NO | N/A |
| 29. Are all checks made payable to specified payees and not to cash or bearer?  | YES | NO | N/A |
| 30. Are all disbursements supported by original documentation?  | YES | NO | N/A |
| 31. Is the original vendor’s invoice or other documentation marked at time of signature to prevent duplication?           | YES | NO | N/A |
| 32. Is the signing of blank checks prohibited?  | YES | NO | N/A |
| 33. Is the use of a signature stamp or preprinted signatures prohibited?  | YES | NO | N/A |
| 34. Does all supporting documentation accompany checks for signature?   | YES | NO | N/A |
| 35. Are all account signers authorized by the church?   | YES | NO | N/A |
| 36. Is more than one signature required for any check?  | YES | NO | N/A |
| 37. If not, do checks over \$500 require more than one signature?   | YES | NO | N/A |
| 38. If signature imprint machines used, are the keys kept under lock and key except when in use?                          | YES | NO | N/A |
| 39. Are all disbursements requiring special approval of fund sources properly documented in the church committee minutes? | YES | NO | N/A |

### **JOURNAL ENTRIES:**

|   |     |    |     |
|---|-----|----|-----|
| 40. Is there an appropriate explanation accompanying each journal entry?  | YES | NO | N/A |
| 41. Are all journal entries approved by a knowledgeable person of authority other than the person initiating the entry? | YES | NO | N/A |
| 42. Is adequate documentation maintained to support each journal entry?   | YES | NO | N/A |

## **BANK ACCOUNTS:**

|  |     |    |     |
|--|-----|----|-----|
| 43. ARE ALL BANK ACCOUNTS RECONCILED WITHIN 10 DAYS OF RECEIPT?  | YES | NO | N/A |
| 44. Are the task of opening and reconciling the bank statements performed by two different people?                                       | YES | NO | N/A |
| 45. Are the bank account reconciliations completed by someone other than the person who participates in receipt or disbursement of cash? | YES | NO | N/A |
| 46 . Does the reconciliation procedures provide for:   |     |    |     |
| A. comparison of dates and amounts of deposits as shown on the bank statement with cash receipts journal?                                | YES | NO | N/A |
| B. Investigation of bank transfers to determine that both sides of the transactions have been recorded?                                  | YES | NO | N/A |
| C. Investigation of all bank debit and credit memos?   | YES | NO | N/A |
| D. Review of all checks outstanding over 90 days?  | YES | NO | N/A |
| E. Voiding of outstanding checks during the year-end reconciliation?   | YES | NO | N/A |
| F. Is the bank immediately notified of all changes of authorized check signers?  | YES | NO | N/A |

## **PETTY CASH:**

|  |     |    |     |
|--|-----|----|-----|
| 47. Is the responsibility for petty cash fund assigned to only one person?   | YES | NO | N/A |
| 48. Are all petty cash funds maintained on an imprest basis?<br>(the total amount of the vouchers paid or disbursed, plus cash, will always equal the amount of the fund). | YES | NO | N/A |
| 49. Is there adequate review of the documentation before the fund is reimbursed?   | YES | NO | N/A |
| 50. Is the petty cash fund reimbursed at least monthly?  | YES | NO | N/A |
| 51. Is the cashing of checks and loans to employees prohibited?  | YES | NO | N/A |
| 52. Is the actual petty cash protected from theft or misplacement?   | YES | NO | N/A |

## **INVESTMENTS:**

|   |     |    |     |
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| 53. Are all investment instruments held in the name of the church only? | YES | NO | N/A |
| 54. Is authorization for sale and /or purchase of investments provided  |     |    |     |

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| for by the authorized committee/church?   | YES | NO | N/A |
| 55. Are all investment instruments adequately protected from<br>FIRE, THEFT, OR MISPLACEMENT? | YES | NO | N/A |
| 56. Are interest, dividends, and unrealized gains or losses recorded?                         | YES | NO | N/A |

### **PROPERTY AND EQUIPMENT:**

|   |     |    |     |
|---|-----|----|-----|
| 57. Is formal approval required for all property and equipment<br>additions and dispositions?               | YES | NO | N/A |
| 58. Is a detail inventory of all property, furniture, fixtures, and<br>Equipment maintenance showing:       |     |    |     |
| A. Date Acquired?   | YES | NO | N/A |
| B. Detail description?  | YES | NO | N/A |
| C. Cost or fair market value at time of donation?   | YES | NO | N/A |
| D. Any funding source restrictions?   | YES | NO | N/A |
| 59. Is a periodic review conducted to:  |     |    |     |
| A. Compare the actual property, furniture, and fixtures<br>and equipment to the recorded inventory listing? | YES | NO | N/A |
| B. Ensure the adequacy of the insurance coverage?   | YES | NO | N/A |
| C. Improve loss prevention?   | YES | NO | N/A |

### **LIABILITIES AND OTHER DEBT:**

|   |     |    |     |
|---|-----|----|-----|
| 60. Is all borrowing or indebtedness authorized by the<br>appropriate committees?                   | YES | NO | N/A |
| 61. Are all loan agreements and/or lease agreements in<br>writing and properly safeguarded?         | YES | NO | N/A |
| 62. Are there periodic reviews conducted to determine<br>compliance with any debt/lease provisions? | YES | NO | N/A |
| 63. Are all liabilities noted on Financial Statements/Reports<br>to the appropriate committee?      | YES | NO | N/A |

### **RESTRICTED GIFTS AND CONTRIBUTIONS:**

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| 64. Are records maintained of all bequest, memorials, |  |  |  |
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endowments, or other restricted gifts to include:

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| A. Date, amount, and donor of Gift?   | YES | NO | N/A |
| B. Any restrictions or limitations?   | YES | NO | N/A |
| 65. Are all restricted gifts and grants approved by the appropriate body?               | YES | NO | N/A |
| 66. Are the income and other transaction periodically reported to the appropriate body? | YES | NO | N/A |
| 67. Are written acknowledgements issued for all contributions other than pledges?       | Yes | no | n/a |

### **PAYROLL:**

|   |     |    |     |
|---|-----|----|-----|
| 68. Are personnel files maintained to include:  |     |    |     |
| A. Employment application and /or letter of employment?   | YES | NO | N/A |
| B. Authorization of pay rates and effective dates?  | YES | NO | N/A |
| C. IRS FORM W-4?  | YES | NO | N/A |
| D. Department of Justice Form 1-9   | YES | NO | N/A |
| E. State Withholding Forms?   | YES | NO | N/A |
| 69. Is there a written record of hours worked and approved by a supervisor when applicable?   | YES | NO | N/A |
| 70. Are there adequate records to:  |     |    |     |
| A. Show computation of gross pay?   | YES | NO | N/A |
| B. Account of all deductions from gross pay?  | YES | NO | N/A |
| C. Support payroll tax returns filed on a timely basis?   | YES | NO | N/A |
| 71. Are payroll tax returns filed on a timely basis?  | YES | NO | N/A |
| 72. Are payroll tax deposits made on a timely basis?  | YES | NO | N/A |
| 73. Are all employees, clergy, and lay receiving a Form W-2?  | YES | NO | N/A |
| 74. Are Forms 1099 being provided for all individuals who are not employees, and for all unincorporated entities paid \$600 or more annually? | YES | NO | N/A |
| 75. Are Forms W-2 wages reconciled to the general ledger  |     |    |     |

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| accounts, and all four quarterly payroll tax returns?   | YES | NO | N/A |
| 76. Are Clergy housing allowances recorded in the minutes of the appropriate committee no later than the first meeting of the year? | YES | NO | N/A |

### **COMPUTER SYSTEMS:**

|   |     |    |     |
|---|-----|----|-----|
| 77. Are current or duplicate copies of the operating system and programs maintained off premises?                       | YES | NO | N/A |
| 78. Are files backed up at least weekly and the backups maintained off premises?  | YES | NO | N/A |
| 79. Is access to the computer and computer programs limited to authorized persons?                                      | YES | NO | N/A |
| 80. Is there adequate documentation, including user manuals, available on-site for all computer programs?               | YES | NO | N/A |
| 81. Is a printed copy retained of all journals, general ledger, FINANCIAL STATEMENT AND ANY OTHER COMPUTERIZED RECORDS? | YES | NO | N/A |

## **FOLLOWING ARE SUGGESTED GUIDELINES/PROCEDURES** **FOR THE DETAIL REVIEW**

### **CASH RECEIPTS AND BALANCES:**

1. Obtain a list of dates of Sundays and other services during the year at which collections were taken.
2. From this list choose a representative sample of dates. For each date chosen, obtain the documentation prepared by the counters.
3. Verify by addition the total amount recorded on the count sheet for each date. Note the amounts designated as pledge income and loose offering income.
4. Trace these amounts into the accounting records as cash receipts and note any discrepancy.
5. For each date, trace the total amount collected to a bank deposit slip and to the next subsequent bank statement. Note any discrepancy.



6. Obtain a summary of collection amounts by week, and verify by addition the yearly total of all weekly collections. Compare this total to the total pledge and loose offering income in the annual financial reports. Investigate and significant discrepancies.
7. Obtain a summary of restricted or designated contributions by week, and verify by addition the yearly total of all weekly contributions. Compare this total to the total recorded in the annual financial reports or alternately trace a sample of weekly amounts to the accounting records.
8. Obtain or prepare a list of all bank accounts owned by the church and compare to last year's list, noting any changes. Trace any openings or closures to the minutes of the church governing body.
9. Obtain year end statement for all savings accounts and determine the fiscal year- end balance. Compare this balance to the balance listed in the annual financial report and investigate any differences. Optionally, request a confirmation of closing bank account balances for each account and compare these balances to those recorded in the financial report.
10. For each checking account, obtain the year-end bank reconciliation and the bank statements for the last month of the year and the first month of the new fiscal year. Trace the "bank balance" from the reconciliation to the bank statement.
11. Trace any normal reconciling items such as deposits in transit or outstanding checks to the first bank statement of the new fiscal year, looking for any undue delays in clearing.
12. Investigate any unusual or non-recurring reconciling items, obtaining documentation of legitimacy. If such items exist, examine prior months' reconciliations to see if the items have been carried forward from month to month.
13. Once reconciling items are verified, compare the "book balance" from the reconciliation to the balance in the accounting records as of the fiscal year-end and to the balance reported in the annual financial reports.
14. Count the petty cash fund and determine that the fund is intact.
15. Choose one prior reimbursement of the fund and examine the documentation in order to establish the validity of items and amounts expended from the fund.

### **CASH PAYMENTS:**

1. Obtain a list of all bank accounts used to make payments and a list of persons authorized to sign checks or make withdrawals for each account. Compare the list to that from prior years and verify the authorized check signers with the church governing body.
2. Obtain the cash disbursements journal or other listing of all disbursements for the year and choose a sample of disbursements for examination.
3. For each item chosen, obtain all supporting documentation and the canceled check.
4. Examine supporting documents for evidence that the item is a legitimate obligation of the church, and for evidence of approval for payment.
5. Examine the canceled check noting the authorized signature and the payee, and determine that the endorsement is consistent with the payee.
6. Determine the appropriate account to be charged for each item and trace each item to an entry in the accounting records to determine that the correct account was charged.

7. Scan the numerical sequence of checks issued during the year. Investigate any missing numbers.
8. Examine all checks listed as "Void" in the checkbook or disbursements journal.
9. Scan cancelled checks for irregularities (i.e. second endorsements).
10. Investigate and ensure financial statements reflect long-term commitments such as leases and contingencies such as lawsuits.

### **PAYROLL:**

1. Choose one or more employees and compare actual rates of pay with authorized rates from the church governing body.
2. Examine withholdings and deductions from pay checks of chosen individuals and examine documents authorizing any voluntary deductions.
3. Examine payroll tax returns and compare amounts reported thereon for one or more employees to the amounts reported on the employee's T-4 form. Investigate any discrepancies.

### **INVESTMENTS:**

1. Obtain copies of the church's approved investment policy, investment statements, and a copy of the minutes from investment committee meetings.
2. Verify that the balances on the investment statements match those recorded in the accounting records and the balance reported in the annual financial reports.
3. For one or more transactions chosen, analyze the investment to ensure that it meets the criteria of the investment policy that the decision to buy or sell the investment was appropriately documented within the minutes and that the transaction was authorized appropriately.
4. For one or more transaction chosen, trace the correct recording of capital and interest in the accounting records.

### **PROPERTY, INSURANCE & MISCELLANEOUS:**

1. Obtain a master list of all real and personal property owned by the church and compare to last year. Determine that any additions or disposals were properly authorized.
2. For any new items on the list, examine the items to determine that they are present. Spot check older items to be certain they are present.
3. Examine current insurance policies for dates and amounts to determine that adequate coverage exists.
4. Obtain year-end statements for any mortgages or loans and determine the correct year-end balance. Trace this amount to the annual financial report.
5. Determine for all mortgages and loans that payments are up to date.

Prepared By:

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Catawba Presbytery