

Episcopal Diocese of Minnesota MODEL AUDIT PROGRAM

GUIDELINES FOR AUDITORS:

The following worksheets are provided for use by your audit committee. This model program can be followed step by step and should be the basis of your audit. You may also wish to review the chapter on Parish Audits (Chapter VI) in the *Manual of Business Methods in Church Affairs*. The actual worksheets that are contained herein need not be submitted to Diocese with the Certificate of Audit but should be retained as a reference for next year's audit committee.

Three copies of the Certificate of Audit are provided. One should be submitted to the Vestry/Executive Committee when you make your report and should be filled with the minutes. One copy is to be filed with the Bishop, and one copy should be retained with your worksheets for next year's Audit Committee.

All recommendations you make as a result of your audit should be recorded in writing on the Certificate of Audit in the place provided. In addition, your recommendations should be given to the parish treasurer. Before beginning your audit, review the audit guidelines found in Chapter VI in the *Manual of Business Methods in Church Affairs*. Once you are ready to begin, secure from the Treasurer the following records:

1. **Receipts and Disbursements Records**
2. **Check Book Register**
3. **Files of Paid Vouchers**
4. **Records of Cash Receipts from Sunday offerings (count sheets)**
5. **Record of pledges and payments**
6. **Duplicate deposit slips, bank account statements, and/or passbooks.**
7. **Record of endowment and investment fund transactions**
8. **Copy of Treasurer's Report to the Annual Meeting for both the year being audited and the prior year.**
9. **Copy of Annual Parochial Report**
10. **If your parish is not part of the Diocesan Insurance Program, obtain a schedule of all insurance coverage and policies.**
11. **Minutes of all Vestry meetings held during the audit year.**

Request from all banks a confirmation of balances on deposit as of December 31 audit year. Request from lending institutions (banks, the Episcopal Church Building Fund, others) to which the congregation is indebted, a confirmation of balances due on any outstanding loans as of the December 31 audit year.

You are now ready to begin the audit. A good place to begin is to use the Internal Controls Questionnaire to review with parish leaders the internal controls that are in place. Then, the following audit program is designed to be a thorough audit. Follow the instructions and answer the questions. If additional space is required, attach additional sheets. A place is provided on the right side of the model program for the initials or signature of the person performing each step in the audit.

Finally, the audit provides the opportunity to review Vestry Minutes to insure that certain decisions, especially financial decisions, have been carried out as directed. In other instances, you might wish to make sure certain matters have been approved by the Vestry as required. For example, if the parish pays a Housing Allowance to ordained staff, you might satisfy yourself that the Vestry has adopted a resolution approving the amount of the allowance. The IRS requires such a vestry resolution if the parish is paying a Housing Allowance.

I. PRELIMINARY

- A. Were any financial records you requested missing or refused?
- B. If so, what reason or reasons were given for the omission?

II. REVIEW INTERNAL CONTROL To review parish internal controls, you can either use the enclosed questionnaire which is taken from the Internal Controls section of the *Manual of Business Methods in Church Affairs*, Chapter III or you can use the questionnaire which follows. It would be a good idea to review the entire Internal Controls Questionnaire with the Vestry or Finance Committee once every other year. In other years, this set of questions should be asked and the answers considered. All of these questions are designed to allow you, the members of the Audit Committee to determine if good internal controls are in place.

A. Cash receipts and collection procedures

- 1. Who is responsible for counting the weekly offerings?

- 2. If two persons are not assigned to perform this task, state the reason. (Proper internal control requires at least two people to handle the cash)

- 3. Who is responsible for making up deposits?

- 4. Are all receipts deposited intact? _____
- 5. Who maintains pledge records? _____
- 6. Are pledge statements sent periodically? _____

B. Cash Disbursements

- 1. Who signs checks and how many signatures are required?

- 2. Are bills and invoices approved for payment and properly maintained on file?

- 3. Who prepares checks and maintains bill files?

C. Is there a cash receipt and disbursements journal that is posted at least monthly?

D. Are all bank accounts reconciled monthly?

E. Are satisfactory payroll records maintained?

F. Who receives and opens mail? _____

G. Are all special funds accounted for properly?

H. Are monthly reports (financial statements) presented to the Vestry or Executive Committee and made a part of the minutes? _____

I. If financial records are kept on a computer, what backups are maintained?

J. What are your conclusions concerning the adequacy of internal control?

State your recommendations for improvement and give copies to the Vestry/Executive Committee and the Treasurer. _____

III. CASH ON HAND IN BANKS

- A. Review bank reconciliations. Initials and date: _____
1. See that the year-end reconciliation agrees with the actual bank statement and to the annual report included in the Vestry or Executive Committee minutes and submitted to the Diocese.
 2. Test to see if all bank accounts have been reconciled monthly. *
 3. See that all checking accounts and savings accounts are included in financial reports to the Vestry or Executive Committee and Diocese. *
 4. Review reconciling items on the year-end reconciliations carefully and trace to the succeeding month's bank statement any significant or unusual items.
- B. If a cash fund (petty cash) is maintained, count on a surprise basis and verify balance with appropriate records.
- C. See that the amount shown on the annual financial statement as beginning cash (January 1 cash balance) agrees with the prior year's annual statement ending cash balance.
- D. Year end bank reconciliations should be checked for mathematical accuracy. Outstanding items should be checked to the subsequent month's bank statement.

IV. CASH RECEIPTS

- A. Entries in the cash journal should be traced to validated deposit slips.* Initials and date: _____
- B. Cash receipts entries in the cash journal should be traced to individual pledge records.* Initials and date: _____
- C. Run a total of the year end pledge statements and compare the total to the total pledges reported in the annual report. Initials and date: _____
- D. Compare the total of special offerings (Easter, Thanksgiving, Christmas, etc.) received and reported and compare the total to prior years for reasonableness. Initials and date: _____
- E. Prepare a schedule of investment income by source and review for reasonableness. Initials and date: _____
- F. Compare all revenues to budgeted amounts and examine all variances.* Initials and date: _____
- G. Select a random sample of weekly deposits (perhaps one per month) and review the reasonableness of loose cash offerings. Initials and date: _____

*** For all items noted with an asterisk, you may wish to test two (or more) months records, rather than performing the work for all twelve months. If discrepancies are found in your test months, additional months should be audited.**

V. CASH DISBURSEMENTS

- A. Compare expenses to budget and ask for an explanation of significant variances.*
Initials and date: _____
- B. Select a random sample of checks and examine paid bills, canceled checks, and entries in the cash disbursements journal. *
Initials and date: _____
- C. Examine canceled checks for authorized signatures, proper endorsements, and expense classification. Initials and date: _____
- D. Examine payroll checks and determine if tax, insurance, and other withholdings are properly handled.* Initials and date: _____
- E. Review payroll tax records and see that all payroll taxes are being paid.*
Initials and date: _____
- F. Trace cash transfers (e.g., savings account withdrawals to deposit in checking accounts). Initials and date: _____

VI. SAVINGS ACCOUNTS

- A. Review all savings statements and passbooks carefully. Trace withdrawals to deposits in other church accounts. (Expenses and other disbursements should be made from checking accounts, not savings accounts).* Initials and date: _____
- B. Determine that interest earned is properly accounted for. *
Initials and date: _____
- C. Confirm savings account balances (use the sample form enclosed) if statements or passbooks are not available. Initials and date: _____

*** For all items noted with an asterisk, you may wish to test two (or more) months records, rather than performing the work for all twelve months. If discrepancies are found in your test months, additional months should be audited.**

VII. LOANS AND OTHER OBLIGATIONS

- A. Confirm the balance of all outstanding debts if statements are not available. (use the sample form enclosed). Initials and date: _____
- B. Review payments to be sure they are made on time and that interest and principal are properly recorded. Initials and date: _____

VIII. DESIGNATED RECEIPTS AND DISBURSEMENTS (examples of designated receipts are special offerings such as those for the Presiding Bishop's Fund for World Relief, the Bishop's Discretionary Fund, etc.).

- A. Determine that receipts are properly recorded and reported to the Vestry or Executive Committee. Initials and date: _____
- B. Determine that disbursements are properly reported and in accordance with the receipt designation. Initials and date: _____
- C. Determine the accuracy of carried over designated receipt balances.
Initials and date: _____

IX. INVESTMENTS

- A. Review investment reports. Verify income with financial reports and review recording of income. Initials and date: _____
- B. Review the minutes for proper authorization for trading of investments. Initials and date: _____

X. INSURANCE [Parishes that are part of the Diocesan Insurance Program can omit this part of the audit.]

- A. If your parish is not part of the Diocesan Insurance Program, we believe you should review your insurance coverage as part of the audit. [If you are part of the Diocesan Insurance Program, you can be assured your parish is adequately covered.] Your review might consist of a review to determine if you have the following coverage:
 - 1. Fire Insurance on plant and equipment
 - 2. General Liability (Public liability & property damage)
 - 3. Boiler Insurance
 - 4. Umbrella Liability
 - 5. Burglary
 - 6. Fine Arts
 - 7. Malpractice
 - 8. Sexual Abuse
 - 9. Workers' Compensation
 - 10. Disability Benefits
 - 11. Fidelity Bond/Treasurer's Bond
 - 12. Non-ownership liability insurance for cars owned by others when used for church business
 - 13. Other special policies held by the churchInitials and date: _____
- B. How often is the insurance coverage reviewed and by whom?

- C. Determine that all policies are in force and all premiums paid. Initials and date: _____

XI. DESIGNATED FUNDS

- A. For any designated funds, use a copy of these work papers and fill in the sections that would apply to the various designated funds that the parish might have.

XII. MINUTES

- A. Review the minutes of the Vestry or Executive Committee for authorization for the annual budget, for financial transactions and for an indication that monthly reports are being prepared and reviewed. Initials and date: _____
- B. If the parish pays its ordained staff a housing allowance in lieu of providing a rectory, review the minutes of the Vestry or Executive Committee to ensure that the amount of the housing allowance has been adopted by the Vestry in the form of a resolution. Initials and date: _____

XIII. GENERAL

- A. Check the mathematical accuracy of the cash receipts and disbursements journal.* Initials and date: _____
- B. Determine that monthly totals are used in preparing monthly and annual financial

- statements.* Initials and date: _____
- C. Determine the mathematical accuracy of monthly financial statements.*
Initials and date: _____
- D. Determine that the budget was properly approved by the Vestry or Executive Committee. Initials and date: _____
- E. Check the accuracy of the financial information on the Parochial Report.
Initials and date: _____

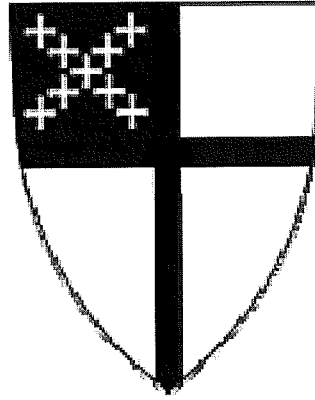
XIV. REPORT TO THE PARISH/MISSION AND TO THE DIOCESE

- A. Prepare the Certificate of Audit, signed by all members of the Audit Committee, attach it to the annual financial statement, and submit it to the Vestry or Executive Committee. Discuss your list of observations, discrepancies, and comments, with the Vestry or Executive Committee.
- B. Submit a copy of your report with the Certificate of Audit to the diocese.
- C. All members of the Audit Committee should sign these work papers in the place provided. It is not necessary to submit these work papers to the diocese. We believe you should retain them for review by next year's Audit Committee.

Signatures of Audit Committee Members:

Dated:

*** For all items noted with an asterisk, you may wish to test two (or more) months records, rather than performing the work for all twelve months. If discrepancies are found in your test months, additional months should be audited.**



Manual of Business Methods in Church Affairs

In accordance with Title I, Canon 7, "Of Business Methods in Church Affairs", and Resolution D-147 (1979 GC): "Accounting Principles and Practices for Dioceses, Parishes, and Other Congregations"

July 2007

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the USA

CHAPTER II: INTERNAL CONTROLS

CHAPTER CONTENTS

<i>Introduction</i>	II-2
<i>Section A. Internal Control Concepts & Considerations</i>	II-2
<i>Segregation of Duties</i>	II-2
<i>Authority Levels</i>	II-3
<i>Documentation & Record Keeping Standards</i>	II-4
<i>Independent Reviews</i>	II-4
<i>Cash</i>	II-5
<i>Payroll</i>	II-5
<i>Personnel</i>	II-5
<i>Purchasing</i>	II-6
<i>Advances</i>	II-7
<i>Telephones</i>	II-8
<i>Section B. Internal Control Questionnaire</i>	II-8
<i>General</i>	II-8
<i>Budget</i>	II-8
<i>Reporting</i>	II-9
<i>Cash Receipts</i>	II-9
<i>Cash Disbursements</i>	II-10
<i>Journal Entries</i>	II-11
<i>Bank Account Reconciliation</i>	II-11
<i>Petty Cash</i>	II-11
<i>Investments</i>	II-11
<i>Property and Equipment</i>	II-12
<i>Insurance</i>	II-12
<i>Liabilities and Other Debt</i>	II-13
<i>Restricted Gifts and Income</i>	II-13
<i>Payroll</i>	II-13
<i>Computer Systems</i>	II-14

Introduction

What type of bookkeeping system should we use? How many bank accounts do we need? Who should be able to sign checks? Who should deposit the weekly receipts in the bank, and how? These are just some of the questions to be answered when setting up an accounting system for a congregation. Such questions should be periodically reviewed.

Often, many of these decisions are made without adequate thought. Others may require more deliberate consideration. Altogether, the decisions that we make become the policies and procedures of the accounting system, and are referred to as internal controls. Good internal controls will ease the treasurer's job by providing greater assurance that transactions are recorded properly and result in more reliable records and protection of church assets, as well as compliance with civil laws, church canons, and organizational policies.

A system of internal controls consists of all measures used by an organization to safeguard its resources and ensure accuracy, efficiency and reliability in accounting and operating information.

Internal controls are designed to prevent or identify inadvertent errors as much as they are intended to prevent the deliberate theft or misuse of funds. Without an appropriate system, it is not possible to assure the reliability and integrity of the records or reports generated by an organization.

An effective control system ensures that procedures are in place to meet the following objectives:

- Adequately safeguard the cash, property and other assets of the office;
- Ensure that all financial transactions are appropriately documented and approved by authorized staff;
- Expend funds in accordance with donor requirements and limits;
- Provide financial reporting that is accurate, timely and conforms to approved policies.

The overriding objective of all controls is to reduce the risk of loss or misuse of funds or property to a tolerable level. Not all of the controls will be applicable to or cost-effective for all types of operations.

Section A. Internal Control Concepts & Considerations

Segregation of Duties

Proper segregation of duties is essential for an effective control system.

Every financial transaction includes five basic steps.

<i>Step</i>	<i>Example</i>
Request	Request to purchase
Approval	Approval by authorized personnel
Authorization	Review and approval to purchase or issue purchase order
Execution	Physical purchase, receiving and payment
Recording	Accounting

No individual should handle every step of a single transaction. The responsibility for authorizing purchase, accounting for and custody/distribution of the related assets must be separate.

Separate custody of assets from accounting for assets	<ul style="list-style-type: none"> • The person who maintains the inventory records should not also be receiving or issuing goods. • Someone who does not have access to or responsibility for payroll accounting should perform the distribution of payroll checks or cash. • A Cashier should not have responsibility for recording or entering the accounting entries in the ledger
Separate authorization of transaction from custody of assets	<ul style="list-style-type: none"> • Warehouse staff distributing goods should not also approve the distribution of goods • Cashiers cannot approve cash disbursements • Program staff approving purchase of supplies may not also keep the program supplies inventory
Separate authorization of transactions from accounting for transactions	<ul style="list-style-type: none"> • Check signers should not approve accounting entries • Staff authorized to hire personnel should not approve the payroll accounting entries

Authority Levels

A control system can only function effectively when all employees know which personnel have the responsibility and authority to initiate or approve expenditures or to use assets.

Authorized employees should be notified in writing of their authority levels and limits and be fully conversant with the procedures and documentation that are required before they give approval to a commitment or expenditure.

Authorization List: A written Authorization List, regularly reviewed and updated by senior management, should identify:

- The personnel authorized to approve various types of transactions
- Dollar limits for each authorized approver

The Authorization List should be readily available so that all staff are aware of the required approvals and authorized signatories.

Authorization Lists should be prepared for approving:

- Purchases
- Payments & Cash Disbursements (requires confirmation that goods or services and supporting documentation have been received)
- Accounting Transactions (Note: Finance staff should not authorize the transactions they are responsible for recording.)

Documentation & Record Keeping Standards

It is essential that financial activities and transactions are clearly and appropriately documented and recorded.

Documents must be safely stored to prevent loss or damage. A systematic filing and storage system for historical records will ensure that documents can be located when required.

To maintain uniform standards of documentation and record keeping systematic procedures need to be in place, which incorporate standard forms, approval processes and accounting procedures. A regularly updated policy and procedures manual, which clearly specifies these procedures, is essential for adequate documentation and record keeping.

Independent Reviews

Regardless of how rigorous a system of internal controls has been put in place, the potential for error exists. To ensure timely identification of errors and the need for modification to the system, each element of the control system should be independently reviewed by an individual **not** involved with the specific element. For example:

- Someone not involved with cash or accounting should perform periodic surprise cash counts;
- Program staff and management should review monthly expenditure reports;
- Inventory, or supplies, should be independently counted and verified to the bin cards/logistics system & accounting records

A formal review of the controls in place, authority levels and procedure manuals should be implemented annually.

Cash

Because cash is the asset most likely to be misappropriated, internal controls for cash receipt, maintenance and disbursement are critical. Basic controls to remember are:

- Physically protect against the theft or loss of cash;
- Do not disburse cash without proper document or authorization;
- Ensure that cash receipts and disbursements are charged to the correct source codes or accounts;
- Verify and Reconcile cash regularly:
 - The Cashier should count cash weekly and balance to the Ledger of Cashbook balance
 - The Cashier's supervisor should count cash every two months and balance to the Ledger or Cashbook
 - Other management staff should regularly conduct surprise cash counts
 - All cash counts should be recorded and filed
 - An independent person should confirm the presence of all official receipts, blank checks and disbursement vouchers.

Payroll

The major risks associated with payroll are:

- Overpayment to legitimate employees
- Payment of fictitious employees
- Failure to recover advances
- Misappropriation of payroll funds
- Under or over withholding of taxes

Clear and consistently documented activities provide good internal control over the payroll process. The following forms are recommended:

- Employee Employment Letter
- Employee Timesheets – for recording hours worked, by grant, and absences
- Employee Leave Form – for requesting and approving leave time
- Employee Action/Change Form – for recording changes in salary, benefits or other pay related actions
- Employee Termination Form – for recording the termination of a person from the payroll
- Salary Advance Form – for requesting salary advances, repayment date should be specified (i.e. next payroll date)

Personnel

Competent, trustworthy personnel are essential for an effective control system. Pre-employment background checks are useful. Select employees based on qualifications and whose relationships can be expected to avoid perceived or actual conflicts of interest.

Purchasing

The major risks associated with procurement are:

- The wrong items are purchased;
- Items are purchased at a price that is higher than necessary (either through error or through improper dealings with vendors);
- Items of inferior quality are purchased;
- Purchases are made without sufficient budgeted funds;
- Purchases are not in compliance with donor or grantor restrictions.

Every organization should make use of the following **standard purchasing forms**:

- Purchase Requisitions
- Standard Bid Requests
- Bid Summary Worksheets
- Purchase Orders
- Receiving Reports

*Using a regularly updated **Vendor List** can assist in providing a transparent purchasing process that avoids conflicts of interest and favoritism.*

1. A reasonable vendor list:
 - a. Will include the names of vendors and types of services provided;
 - b. Will include at least three vendors for each type of good or service. If fewer reliable vendors are identified, the staff should confirm in writing that fewer reliable vendors exist;
 - c. Should be reviewed at least annually.
2. The employee who develops and maintains the approved vendor list should not be the same employee who solicits bids or who selects a winning bidder.

Typical Purchasing Process:

1. A Purchase Requisition form, signed by the requester and approved by his or her supervisor or next higher level employee with sufficient authority to approve, must be prepared for all purchases.
2. The requestor should not approve the Purchase Requisition.
3. The employee approving the requisition must ascertain that the purchase is necessary to achieve program objectives and that sufficient funds remain in the budget to fund the purchase.

4. Purchasing personnel must confirm that the personnel approving the Purchase Requisition have sufficient authority according to the established Authorization List.
5. Purchasing personnel will, ideally, obtain multiple written independent bids for purchases above a certain amount.
6. The person who solicits the bids should not also approve the final selection of vendor.
7. Sealed bids may be considered for large value purchases.
8. A bid summary worksheet should be completed for all procurement requiring bids. The worksheet should document the reason for selection of the vendor and should be signed by an authorized employee as evidence of review and approval.
9. Requestors should be discouraged from making purchases themselves. Purchasing personnel should purchase as many items as possible and all items over large value purchases (as determined by the organization).
10. Centralized purchasing and blanket purchase orders of office supplies, spare parts, etc. are highly encouraged in order to take advantage of quantity discounts from vendors.

Procurement Personnel:

No employee, and especially no Purchasing personnel, shall receive anything of financial value from vendors or potential vendors.

All employees, especially Purchasing personnel, shall be required to sign “conflict of interest” statements which state that neither they nor their immediate family members have any ownership or beneficial financial interest in an existing or potential vendor.

Commitment tracking:

Most financial systems do not track commitments. As an alternative, a system to track outstanding purchase orders and contracts should be implemented. As part of the approval of new purchases, outstanding commitments must be considered to avoid over expenditures on budgets.

Advances

Advances of funds provided to employees so that they can directly pay for project expenses or travel expenses should be settled/liquidated in a timely manner and with proper documentation. Project advances are typically provided to an employee when cash is not readily available where the disbursements are ultimately made. The person receiving the advance liquidates the advance by providing receipts in the amount of the advance and/or repaying in the original currency received.

Advances in anticipation of employee travel are typically settled upon submission of a Travel Expense Report along with supporting documentation.

Procedures to ensure adequate basic control would include:

1. No employee should be given a second advance until an outstanding advance is settled.

2. Outstanding advances should be reviewed monthly to identify advances outstanding for more than 30 days.
3. Employees with advances outstanding on December 31st should be a.) issued an IRS Form 1099-Misc. recognizing the unsettled advance as income to the employee or b.) be subject to salary withholding in the amount of the unsettled advance.

Telephones

Long distance telephone usage can represent a significant expense. Control of that expense may be achieved as follows:

1. Employees may be required to reimburse the organization for personal calls.
2. Long-distance access may be restricted to phones of only those employees whose usual work involved long distance calls.
3. Special access codes may be assigned to authorized users.

Section B. Internal Control Questionnaire

The following Internal Control Questionnaire is intended to provide guidance for setting up an accounting system and a checklist for periodic review and evaluation of an existing system. The questionnaire is designed also to assist a congregation's internal audit committee. The format is a series of questions, most of which refer to some recommended internal control. The normative answer to a question will be positive. A negative response suggests an area of the system that could be strengthened.

Developing a narrative description is suggested, to provide documentation of the current review. This narrative should be retained for reference in future evaluations.

General: The following items are intended to provide general information to aid understanding of the overall accounting and internal control system.

1. Are prior internal control questionnaires and auditors' recommendations available? Yes No
2. Have recommendations of prior reports on internal controls been implemented? Yes No
3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available? Yes No
4. Is there an accounting policy and procedure manual? Yes No
5. Is it up to date? Yes No
6. Is a current edition of this manual available? Yes No
7. Is the accounting system using a double-entry bookkeeping method? Yes No
8. Have the findings of external auditors been reported to the Vestry? Yes No

Budget: The development and use of a budget is a critical management tool that will aid in the stewardship and administration of church resources and program.

1. Is the budget approved by the Vestry? Yes No
2. Are all changes to the budget authorized by the Vestry and Yes No

- recorded in the minutes of the meetings?
3. Is there a periodic review of the budget by the Vestry? Yes No

Reporting: The best accounting system is of little value unless it communicates the information it contains to those responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1. Is a Treasurer's report submitted to the Vestry or accounting committee each month? Yes No
2. Is the Treasurer's report presented in sufficient detail to inform the reader about the nature of the various income and disbursement items? Yes No
3. Does the report present the current actual financial data compared with the approved budget? Yes No
4. Is there periodic reporting, at least quarterly, of all other funds And activities, including designated or restricted funds? Yes No

Cash Receipts: Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited? Yes No
2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e., at least weekly? Yes No
3. Are there at least two unrelated persons responsible for counting and depositing the collections? Yes No
4. Are the persons responsible for counting receipts rotated on a periodic basis? Yes No
5. Do the counters have a standardized form for recording the deposit information? Yes No
6. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated? Yes No
7. Is there a control prohibiting the cashing of checks from the currency received? Yes No
8. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? Yes No
9. Are all other cash receipts recorded and deposited on a timely basis? Yes No
10. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt? Yes No
11. Are all cash receipts deposited into the general operating checking account? Yes No
12. Are there procedures that will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded? Yes No

13. Are periodic statements provided to donors of record (i.e. at least quarterly)? Yes No
14. Do acknowledgments of contributions in excess of \$250 include a receipt from the recipient organization which states that it is "the contemporaneous acknowledgment required by the Internal Revenue Code, and states that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits"? Yes No
15. Are all discrepancies investigated? Yes No

Cash Disbursements: The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1. Are all disbursements made by check, except for small expenditures made from petty cash? Yes No
2. Are all checks pre-numbered and used in sequence? Yes No
3. Is there a clearly defined approval process for all disbursements? Yes No
4. Are all voided checks properly cancelled and retained? Yes No
5. Are all checks payable to specified payees and not to cash or to bearer? Yes No
6. Are all disbursements supported by original documentation? Yes No
7. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment? Yes No
8. Check signing:
- a. Is signing blank checks prohibited? Yes No
 - b. Is using a signature stamp or pre-printed signatures prohibited? Yes No
 - c. Does all supporting documentation accompany checks presented for signature? Yes No
 - d. Are all account signers required for any check? Yes No
 - e. Is more than one signature required for any check? Yes No
 - f. If not, do checks for more than \$500 required more than one signature? Yes No
 - g. If signature imprint machines are not used, are the keys kept under lock and key except when in use? Yes No
9. Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee members? Yes No
10. Are there adequate controls and segregation of duties regarding Electronic Funds Transfers? Yes No

Journal Entries: Journal Entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important book of original entry as the cash receipts and cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry? Yes No
2. Are all journal entries approved by a knowledgeable authority other

- than the person initiating the entry? Yes No
3. Is adequate documentation maintained to support each journal entry? Yes No

Bank Account Reconciliation: The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt of bank statement? Yes No
2. Do two different people perform the tasks of opening and reconciling the bank statement? Yes No
3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash? Yes No
4. Do the reconciliation procedures provide for:
 - a. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits? Yes No
 - b. Investigation of bank transfers to determine that both sides of the transactions have been recorded? Yes No
 - c. Investigation of all bank debit and credit memos? Yes No
 - d. Review of all checks outstanding more than 90 days? Yes No
 - e. Are checks more than 180 days outstanding voided during the year-end reconciliation? Yes No
 - f. Is the bank immediately notified of all changes of authorized check-signers? Yes No
5. Are all journal entries for bank charges and bank account interest recorded routinely? Yes No
6. Are all bank accounts included on financial reports to the Vestry? Yes No

Petty Cash: The following controls are intended to provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person? Yes No
2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund? Yes No
3. Is adequate review made of documentation before the fund is reimbursed? Yes No
4. Is the petty cash fund reimbursed at least monthly? Yes No
5. Are check cashing and making loans to employees prohibited? Yes No
6. Is the actual petty cash protected from theft or misplacement? Yes No

Investments: Procedures for proper recording and control of all investment instruments will help to assure that all assets and related income are accounted for and properly reported.

1. Are all investment instruments held in the name of the church only? Yes No
2. Is the authorization for the sale and/or purchase of investments provided for by the Vestry or authorized Investment Committee? Yes No

3. Are all investment instruments adequately protected from fire, theft, or misplacement, preferably in custody by a bank, broker or other financial intermediary? Yes No
4. Is the income/dividends/interest recorded? Yes No
5. Are all investment accounts included in financial reports to the Vestry? Yes No

Property and Equipment: Certain procedures involving the physical assets of the church will aid in detecting, identifying and preventing losses.

1. Is formal approval of the Vestry required for all property and equipment additions and dispositions? Yes No
2. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
 - a. Date acquired? Yes No
 - b. Detailed description? Yes No
 - c. Cost or fair market value at time of donation? Yes No
 - d. Any funding source restrictions? Yes No
3. Is a periodic review conducted to compare the actual property, furniture, and fixtures, and equipment with the recorded inventory listing? Yes No
4. Is there a safe deposit box? Yes No
 - a. Is there an inventory of its contents? Yes No
 - b. Who is authorized to enter it? _____
5. Are permanent records such as articles of incorporation, if applicable, by-laws and real estate deeds kept in a safe place? Yes No
6. Are they up to date? Yes No

Insurance: Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1. Is there a periodic review conducted to ensure the adequacy of the insurance coverage for:
 - a. Property? Yes No
 - b. Liability? Yes No
 - c. Fidelity Bond? Yes No
 - d. Sexual Misconduct? Yes No
 - e. Directors and Officers Liability? Yes No
 - f. Workers' Compensation? Yes No
2. Is there a policy related to sexual misconduct? Yes No
3. Is there a periodic review conducted to ensure that adequate controls are in place to prevent loss? Yes No

Liabilities and Other Debt: All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

1. Is all borrowing or indebtedness authorized by the Vestry and the

- appropriate diocesan board or committee? Yes No
2. Are all loan agreements and/or lease agreements in writing and properly safeguarded? Yes No
3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? Yes No
4. Are all liabilities noted on Financial Reports to Vestry? Yes No

Restricted Gifts and Income: Gifts restricted by donors are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions are observed.

1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:
- a. Date, amount and donor gift? Yes No
- b. Any restrictions or limitations? Yes No
2. Does the Vestry vote to accept all restricted gifts and grants, promising to abide by the restrictions? Yes No
3. Are written acknowledgements issued for whom they are required? Yes No

Payroll: The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities. It is strongly recommended that payroll be processed by a professional service. Questions 3, 4, 5 & 8 are necessary only if payroll is still processed in-house, whether manually or with an in-house computer software program.

1. Are personnel files maintained to include:
- a. Employment application and/or letter of employment? Yes No
- b. Authorizations of pay rates and effective dates? Yes No
- c. Internal Revenue Service Form W4? Yes No
- d. Department of Justice Form I-9? Yes No
- e. State Withholding Forms? Yes No
- f. New hire reporting? Yes No
2. Is there a written record of hours worked, approved by a Supervisor when applicable? Yes No
3. Are there adequate records to:
- a. Show computation of gross pay? Yes No
- b. Account for all deductions from gross pay? Yes No
- c. Support payroll tax returns and Forms W-2? Yes No
4. Are payroll tax returns filed on a timely basis? Yes No
5. Are Forms 1099 being provided for all individuals who are not employees and for all unincorporated entities paid \$600 or more annually? Yes No
6. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns? Yes No
7. Are clergy housing allowances recorded in the minutes of the Vestry no later than the first meeting of the year? Yes No

Computer Systems: The use of computers creates the need for additional procedures to safeguard the system and data.

1. Are current or duplicate copies of the operating system and programs maintained off premises? Yes No
2. Is access to the computer and computer programs limited to authorized persons? Yes No
3. Is there adequate documentation, including user manuals, available on-site for all computer programs? Yes No
4. Is there a plan for recovery of data and continuation of operations in the event of a disaster? Yes No