



# Evangelical Lutheran Church in America

God's work. Our hands.

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## Congregational Audit Guide

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

This guide is prepared for

**THE CONGREGATIONS OF THE  
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

*"So then, each of us will be accountable to God." (Romans 14:12)*

*"We are taking pains to do what is right, not only in the eyes of the Lord, but also in the eyes of the Church." (2 Corinthians 8:21)*

*"Who then is the wise and faithful steward?" (Luke 12:42)*

*"Turn in the account of your stewardship." (Luke 16:2)*

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## Preface

### DISCLAIMER

The Legal Department tells us we should start with a disclaimer. It is a good reminder since all organizations within the church should be attentive to professional advice given to them.

The ELCA churchwide office is pleased to provide this resource but is not responsible for the conduct of congregation audits, nor does it provide legal or financial advice to congregations through this resource. Congregations should seek assistance and advice from their local advisors when specific issues arise. This resource is provided to you as a service; it should be used to increase knowledge of auditing principles within your congregation, including the understanding of why audits should be conducted and the uses to which they can be applied by congregation officials. ELCA congregations and ELCA entities have permission to use and reproduce this resource as long as attribution is given.

### CONGREGATIONAL AUDIT GUIDE FORMAT

We will use a question and answer format in presenting the information provided in the following pages. We have tried to present questions and issues we ourselves have asked or have been asked by others.



### What is an audit?

The ELCA Model Congregation Constitution does not define what a congregation audit is. The Model Constitution provides for an Audit Committee:

**C13.03. An Audit Committee of three voting members shall be elected by the Congregational Council. Audit Committee members shall not be members of the Congregational Council. Term of office shall be three years, with one member elected each year. Members shall be eligible for reelection.**

It does not, for example, say what kind of work an audit committee must do. Nor is there any requirement that the audit be performed by a professional, that it conform to generally accepted auditing standards, or that it be prefaced by the usual representations and caveats that auditing firms incorporate into their audits.

Congregations vary greatly in size, ministries, resources and budgets. An audit committee is meant to provide the oversight necessary to promote a strong control environment and to afford reasonable assurance that good stewardship is being used in handling and accounting for the funds and other assets of the congregation. To a professional auditor or accountant, how we define an audit may be closer in professional jargon to a "review."

For many congregations, it is highly advisable to have a professional audit conducted by a qualified independent accounting firm; others, due to cost and budget considerations, may wish to have an independent member(s) of the congregation with an accounting or financial background perform the audit. If the congregation determines that this is not practical or economical to have an external audit every year, then it may be performed on a two or three year cycle with an internal audit performed in the interim years.

This is a practical, working definition of an audit for the congregation:

A congregation audit is an independent evaluation of the financial reports, records and the internal controls of the congregation by a qualified person or persons for the purpose of reasonably verifying the reliability of the financial reporting, whether assets are being safeguarded, and whether the congregation is complying with the law and with the congregation's constitution, policies and procedures.



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### Why would a congregation want an audit? (Or “Don’t you trust our members and staff?”)

There are all kinds of related questions asked about why a congregation should have an audit, including:

- Why would a small church with a tiny budget need an audit?
- Why would a big church with lots of controls in place and with a full staff of professional administrators need an audit?
- Why waste the time or the money, or both, on an audit when everybody knows the church treasurer is as honest as the day is long?

**Conducting an audit is not a symbol of distrust. It is a mark of responsibility. It is good stewardship demonstrated for all to see. It is a message to congregation donors that you care about their gifts.**

There are many reasons for annual audits. For example, an annual audit:

- Is the best way we know of protecting the persons the congregation elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;
- Protects the congregation’s reputation and builds the trust and confidence of the financial supporters of the church in the way their money is being accounted for (trust and confidence lead to improved patterns of financial support);
- Sets habits of fiscal responsibility to assure that when there is turnover in personnel there will be continuity in accountability and nothing will fall through the cracks;
- Assures that gifts made to the church with special conditions attached are consistently administered in accordance with the donors' instructions and lets donors know their gifts are used as intended; and
- Provides checks and balances for sums received and expended.

### Do I have to be a CPA to understand congregational auditing?

No. Congregations throughout the ELCA do a great job of fulfilling their responsibilities to make provisions for an annual audit without the benefit of formal training in accounting or fiscal management, whether it's an audit by outside professionals, or



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whether it's by some person in the congregation with financial knowledge or expertise, or whether it's by the treasurer of a neighboring church. And this Audit Guide is here to help you.

### **Who can perform a congregational audit?**

Generally, a person who is "qualified" to perform a congregation audit will have some experience with accounting principles, such as those gained through bookkeeping, office management or accounting courses. The person must have the time to devote and be willing to follow through on asking banks and donors for information verifying financial data and to complete the reports identified later in this booklet. Sometimes a small congregation will agree with another small congregation in the same area to have the treasurer of each audit the other. Often churches have accounting professionals in their congregations who are not serving that church in any of its financial offices who may be willing to perform the audit as a donation of services.

Churches with annual receipts in excess of about \$400,000 should seriously consider engaging an outside auditing firm to perform the audit. This is a recommendation and is not binding, but it is prudent stewardship since more complexity is involved as receipts and expenditures become larger. Even if a congregation feels the audit expense is too great to do every year, they should set an "every other year" or "every third year" pattern, budget for it, and stick to it.

### **Are there other definitions I should know?**

Persons interested in church finances should know the definitions of "restricted funds" and "designated funds," and how and why each category is accounted for differently in the church's records.

### **What are restricted funds?**

Restrictions come about when a donor imposes a stipulation on a gift that limits its use to a specified purpose. If a congregation accepts a gift which can be used only for a specified purpose, that gift must be accounted for separately from gifts given to the organization in furtherance of its general purposes, such as money given in the offering plate. The reason why it is important to account separately for restricted assets is that if they are used for purposes other than the one (or more) specified, the donor (or an heir of a deceased donor) may be entitled by law to ask for specific enforcement of the terms of the gift or possibly for return of the gift, even years later. It should be noted that a gift does not need to be accepted if the congregation feels that the terms of the gift are too cumbersome.





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### Can you give me an example of a restricted gift?

Suppose member Jane Doe gives \$10,000 and simultaneously delivers a letter that her gift is to be used to help buy a new piano. If the gift is accepted, the \$10,000 would be a restricted gift to be accounted for in the congregation's records as a restricted asset. Jane's letter should be kept in the congregation's financial records and the money spent only to buy a new piano.

Here's a second example. Suppose member Sam Roe gives \$100,000 and writes to say that his gift is to be invested and the income from it used to buy music for the music program. The \$100,000 is a restricted asset also.

### But aren't those two gifts different? One can be spent, the other can't.

While both are restricted assets, the money for the piano is called "temporarily restricted." That means that the donor-imposed stipulation can be fulfilled by the action of the church in deciding to buy that new piano, then doing it. Assets that are "temporarily restricted" can ultimately be spent, though they must be spent for the specified purpose. The money given by Sam to be *invested* is "permanently restricted," meaning that the full \$100,000 was stipulated by the donor to be held permanently. Note that the income from the gift is to be used only for a specific purpose. The income is temporarily restricted in that it can be spent by action of the church in deciding to buy music, but the gift itself is permanently restricted. These two types of assets should be reported separately.

Sometimes churches do not refine their accounting records to the point of separately reporting temporarily and permanently restricted assets in financial statements because they don't have enough of either to warrant the time. That works if the records are clear enough to be able to distinguish between what can ultimately be spent and what must be held permanently. Remember that when a gift is accepted subject to a stipulation for use in a particular way, the result is a contract to use it only in that way. Keep the donor stipulations permanently so you will know what the church has contracted to do.

There's another point to remember. The congregation cannot change any restriction without the specific consent of the donor, which should be written.

### How do restricted assets differ from designated assets?

Designated assets are those assets that have been voted by the local congregation council to be used for a particular purpose. For example, suppose the council decides this fall to set aside from money on hand the amount of \$5,000 to send five persons



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next year to an appropriate seminar on making disciples. Following the vote, the \$5,000 should be reported as a "designated" asset. Because the stipulation for its particular use was made by the congregation itself, that stipulation (or designation), can be changed by the action of the body that put it in place. There is no other party involved as in the case of the receipt of restricted gifts. Next year, if the council decides the \$5,000 can be better used for some other purpose, such as to buy a new van, it can vote to apply the money for that purpose. For accounting purposes, "designated" funds are unrestricted.

## What does an audit do?

For starters, an audit should:

- Independently verify the integrity of the reports of the treasurer(s);
- Provide assurance that receipts are properly safeguarded, deposited in a timely manner, and properly classified in the financial statements;
- Independently verify the existence of cash and accounts receivable and that all bank accounts are reconciled on a monthly basis by someone who is not allowed to write checks;
- Independently verify the amount of indebtedness;
- Ensure expenses are properly supported and approved;
- Follow the money and test how it is treated at different steps;
- Document that donated and earned funds of the congregation have been used as stipulated by the donors.

In addition to tracking the cash through the system, an auditor typically will evaluate:

- Accounting controls (systems that reduce the possibility of loss or errors);
- Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances);
- Reasonableness of systems and procedures in the light of all factors, including the size of the church and its budget;
- Adequacy of insurance coverage;
- Systems for retaining and accessing meeting minutes that have financial implications (e.g., Finance Committee, Trustees, Congregation Council); and
- Records that show donors' stipulations for the use of gifts made to the congregation.

A congregation's unique circumstances may suggest that additional steps should be taken. It is important to document the financial processes of your particular congregation. Additional steps will be discussed in the next few pages.



### What about auditing money held by groups within the church?

It is important that all ministries of the church be accountable. That means that the treasuries that are to be audited include:

- Financial Secretary or Bookkeeper;
- Church Treasurer;
- Trustees Treasurer;
- Memorial Fund Treasurer (if any);
- Congregation Foundation or Mission Endowment funds;
- All other separate treasuries or bank accounts maintained by a group using the same tax identification number as the church, including youth group, pastor's discretionary fund, church school, and others.

### What kind of information does an auditor need to review?

The internal auditor(s) or the auditing firm must obtain access to the following information and materials:

1. Copies of all congregation policies and procedures related to the accounting, finance and treasury functions and copies of minutes approving those policies.
2. Copies of all the minutes from the finance committee, the trustees, the congregation council, and the other entities listed on the prior page.
3. Listing of all bank and investment accounts, including the person authorized to sign on each, and including any special use accounts under the control of the pastor(s) and in the name of the church.
4. All financial statements for each month of the year being audited, plus one month prior and month after the fiscal year or a fourteen-month period (which is December of the prior year and January of the subsequent year for a congregation on a calendar year).
5. Bank and investment account statements for the same period.
6. Bank reconciliations for that same period.
7. Original books of entry, which will be the general and subsidiary journals; for those books that are computerized, a print-out of all transactions by account for the entire year.



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8. All paid invoices, payroll data and files (including 941's, year-end W-2's, 1099's and transmittal forms), income transmittals and deposit records for the fourteen-month period.
9. The Financial Secretary's records and other income records for the same period.

For information about what should be examined or what steps need to be taken, please see the suggested audit (Exhibit II). This program can be used to guide the auditor(s) through the audit process on a step-by-step basis. Please be mindful, however, that this audit program is not cast in stone. It was created as a one-size-fits-all document to guide you through the process. As a result, some of the steps may not be applicable to your congregation. Please feel free to add and delete steps as appropriate.

### **What about confidential information and retention?**

The person(s) conducting the audit may obtain access to confidential information and must treat that information with care. The auditor's work papers may contain confidential information. These work papers as well as all financial records should be retained as per ELCA recommendations in a secure, limited access, storage area. Please see [www.elca.org/secretary/RecordsManagement/Congregations](http://www.elca.org/secretary/RecordsManagement/Congregations) and go to the financial records section for more information.

### **How is a congregation audit conducted?**

After the books are closed for the year but before the audit begins, the auditor should prepare confirmation forms for banks, the synod, insurance companies and donors. Those confirmations are essential for providing the auditor with independent verification of bank account balances and authorized signatures, monies sent to the synod for benevolence funds and special gifts, the coverage level(s) and related premiums for all insurance policies and, on a test basis, donor contributions.

### **How does the congregation auditor get bank confirmations?**

For each bank and investment account, the auditor requests the balance as of December 31, and a list of the person(s) authorized to sign on that account. Exhibit II is a standard form for obtaining this information.



### How does the auditor get synod confirmations?

The auditor should send a letter or a memorandum to the synod treasurer requesting the person to confirm the amounts received from the congregation for synod benevolences and special gifts for a set time period. The request should specify a date by which the information should be returned, and a stamped, addressed return envelope should be enclosed.

### How can donations be confirmed?

The auditor should randomly sample about one percent of the total number of those who give. We suggest that not more than ten to twenty givers need be sampled, but they should be selected randomly. To ensure a proper sample, the auditor must make the selections and not suggest that the treasurer or other congregation finance officer pick the donors to check. Exhibit III seeks to confirm the amounts received from the donor and to identify the period for which the donation is to be booked. Copies of year-end giving statements provided by the congregation to donors may be used to facilitate this process.

All these confirmations are an essential piece of the auditing process. Second requests may be required if confirmations are not responded to in a timely fashion. The responses should be addressed directly to the auditor, not to the auditor in care of the church or at a church address.

### How does the auditor confirm coverage?

After the auditor locates all the current policies identified by the congregation officials, the auditor will write a letter or memo to the insurance agent or agents. The names and addresses of the agent should be on the policy information provided by the church. The letter should request the confirmation of the policy number identified in the letter, the level of coverage and the anniversary date and premium. As with all inquiries sent, we recommend specifying a date by which the information should be returned and that a return envelope, addressed and stamped, be enclosed.



### How does the actual audit process begin?

Once the confirmations have been obtained, the auditor should be ready to begin. A good place to start is looking at cash.

### What's involved in auditing cash?

Every category of cash and all other invested funds must be audited at year end: bank and savings accounts, CD's held in the name of the church or the church foundation, and any petty cash accounts held in the office of the church or elsewhere. At this time, the auditor must have the list of all bank accounts and person(s) authorized to sign on each, a copy of all the financial statements for each month of the year being audited, and the bank account statements and reconciliations for that same period. Then the following steps should be followed, at a minimum:

- Review all bank reconciliations to see that the beginning balance of one month is the same as the ending balance of the previous month. Note whether the book balance as listed on the bank reconciliation is the same balance presented on the trial balance and financial statements.
- Pick a month and actually perform a bank reconciliation for each account using the original books of entry, the financial secretary's records and any subsidiary journals. If you find a discrepancy between your reconciliation of the month and the reconciliation provided by the treasurer(s), research the discrepancy to find an explanation or an error.
- Ensure that the all reconciliations have been performed and signed by a person with no access to the general ledger within one month of when the bank statement was received.
- Ensure that reconciling items are relatively current. All reconciling items over six months old should be questioned and resolved to the auditor's satisfaction.
- The auditor should independently count cash in all petty cash accounts. The count should agree with the books. Review expense types for their appropriate charging to program area or administrative accounts. Ascertain suitability and adherence to policies.
- When received, review the bank confirmations to see that the ending balance as stated by the bank is the same figure used in the December statement, then check to see that the current authorized signers as listed by the bank are the



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same names listed in church records. If the lists fail to match, inform the treasurer, who should investigate any differences and report back to the auditor.

After cash is accounted for, you can move on to income and receipts.

### What income and receipts are reviewed?

Determine if the deposits as listed by the Financial Secretary and the Treasurer match those listed on the bank statement. Verify, on a test basis, the offering deposits during the calendar year using the following procedures:

1. Observe the Sunday collection. Ensure the offering is always handled and counted in dual custody. Also ensure a tally sheet is created listing the amount of the offering and the signatures of the counters. The offering must be secured in a safe except when being counted.
2. Compare, on a test basis (a random sample, not to exceed 10 times; more if discrepancies are found), the counters' documentation to the Sunday receipt deposit slips and deposits listed on the church's bank statements. Review original book of entry for correct posting of offering deposits.
3. Review the original books of entry to determine if other income has been recorded accurately (i.e., appropriate account, correct amount, unrestricted or designated vs. restricted). Trace the entries to the financial statements.
4. Using the donor confirmations obtained as outlined above in this booklet, determine whether the amount paid as reported by the donor is the same as recorded and received by the financial secretary. If there is a difference, research for a timing difference, inaccurate recording or some other explanation.

### How are disbursements reviewed?

1. As the congregation's Finance Committee, Congregation Council and other committees for their minutes. They should be aware of the need to provide these to the audit committee. Review these minutes, as appropriate, for actions concerning disbursements, including apportionment payments. Reconcile those actions with any actual payments made.
2. Select a sample of expenses from the general ledger for the year being audited and obtain the corresponding original invoices to ensure each appears legitimate,



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agrees with the amount of expense reported, is properly classified on the financial statements and has been properly authorized.

3. Discuss with management the controls incorporated into the accounts payable system that prevent unauthorized and/or duplicate payments. If none exist, manually review a listing of disbursements made during the year with an eye toward possible duplicate payments. Highlight and discuss all possible exceptions with church management.
4. For the insurance premium disbursements, check to see whether the amount disbursed is the same as that listed by the insurance company as premiums due.
5. Verify that income designated for special mission purposes has been distributed or allocated accordingly.
6. If there is a purchase order system in place, note whether the purchase orders have been authorized and approved by the appropriate person(s) and matched against the actual disbursement or invoice.

## What should be done with payroll and tax records?

Here are the steps needed to check out payroll and tax records:

1. Reconcile, in aggregate, all payrolls with tax records and tax payments made.
2. If the church uses a separate payroll service or system, reconcile the payroll data provided by the outside service system with that information contained in the general ledger.
3. Depending on the volume, select a sample and verify that the amounts reported on the 941s, W-2s, W-3s and 1099s agree with the payroll records and that the forms have been transmitted to the federal, state and local tax authorities on a timely basis. Also verify the existence of current W-4s and I-9s for all staff. (Clergy W-4s are optional.)
4. Remember that the IRS views clergy as an "employee" and clergy are to receive Form W-2. The church may not do Social Security withholding for clergy, but can make voluntary income tax withholding pursuant to a W-4 form at the pastor's request. (Clergy are considered self-employed for Social Security or SECA purposes.)





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5. Test that the appropriate amount of taxes has been deducted from the paychecks. This can be tracked back to the W-4 as submitted by each staff person.
6. If the church is not using an accountable reimbursement plan for clergy or other staff, the appropriate allowances need to be recorded on the W-2 form (or 1099 form) issued by the church to the clergy.
7. Track the payroll and tax records to the actual disbursements made and recorded with the original books of entry. If irregularities are found in any of the above, research to determine the nature of the error or cause.
8. With respect to any 1099's issued by the church, select a sample and compare the information contained on the 1099 to the accounts payable system to ensure the information is accurate. Also, review the 1099s issued to ensure that all payees are required to receive one. Finally, review the listing of vendors paid during the year to ensure all vendors that appear to require a 1099 have received one. Discuss all exceptions with the finance staff.

### How do we verify salaries and payroll amounts?

1. Check Human Resources or Personnel committee and Congregation Council records versus payroll records to verify that correct salaries, benefits or rates have been paid.
2. If there are tax-deferred annuities (TDAs), Section 125 or other salary reduction agreements, verify existence of signed agreements and application of proper tax withholding.
3. Verify pension contributions with the pension board. The contact information for the ELCA Board of Pension is ELCA Board of Pensions, 800 Marquette Ave., Suite 1050, Minneapolis, MN 55402-2892. Phone: (800)352-2876/(612)333-7651. Fax: (612) 334-5399. E-mail: mail@elcabop.org.
4. If there are salary reduction agreements, review documents for accuracy and verify that agreements have been approved in Congregation Council minutes.
5. Verify that housing allowance resolutions are in place and have been properly applied to reduce clergy's reportable 941 and W-2 income.



### How are internal controls evaluated?

As part of the audit, it is essential that the internal control structure for receipts and disbursements procedures be reviewed regardless of the size of the congregation. The internal control structure is the process that assures that the congregation is operating efficiently and effectively, that its financial reporting is reliable, and that its assets are safeguarded. The internal control process should be in place not just on paper, but in actual operation.

#### **Areas of concern that should be evaluated include:**

1. Segregation of duties.

It is important that duties be segregated among two or more persons, if possible. In very small churches, this may be difficult, but it is rarely, if ever, impossible. The objective for small churches is to attain reasonable segregation under all circumstances. Here are some examples.

- a. The Financial Secretary and the Church Treasurer(s) should not be related. These should be separate offices occupied by different individuals, who are not related by blood, marriage or employment relationships.
- b. The person(s) performing the audit should not be related to either the Financial Secretary or Treasurer. Also note that at least two persons should count the Sunday morning collections, and they should not be related to each other nor should either one be the Financial Secretary or Treasurer. Receipt and disbursement functions should be performed by different people. (This may not be possible in small churches but is desirable.) Bank reconciliations should be performed by someone who neither approves checks nor makes deposits.

2. Authorizations for disbursements.

The first point is that everyone who approves disbursements must be authorized to do so. The auditor should look for resolutions and action in the minutes of the finance committee and the governing body that address authorizations.

The check signer should not be the authorizer of expenditures or the person who performs bank reconciliations. The auditor should examine the checks to determine who is signing and compare the results found to bank authorizations. It may be advisable to require two signatures on checks over a certain fixed amount.

3. Finance reports.

Monthly finance and treasurer's reports should agree with the general ledger and subsidiary journals. Balances as of the first day of each month should be same as the last day of previous month.



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### 4. Other areas to check:

- a. Does the church have fidelity bond coverage (or crime insurance) for people handling church funds (i.e., counters, financial secretary, treasurer, etc.)?
- b. Are the church treasurer and other staff handling funds adequately bonded?
- c. Have decisions with financial implications made by church committees and the Congregation Council been appropriately complied with?
- d. Are authorized signatures with banks up to date and complete?
- e. Is the correct church employer identification number (EIN) on all accounts?
- f. Are investments made only by authorized persons?
- g. Are transactions recorded in the correct year?
- h. Are checks and cash stored in the church safe, deposited or placed in a bank night depository, and not taken to private homes or elsewhere until deposited?
- i. Are reports such as Payroll Tax Form 941, W-2s, W-3s, and the like filed with appropriate authorities in a timely manner?
- j. Are payroll taxes being paid on time?
- k. Are computer software and data files backed up on a regular basis, and are back-ups kept off the premises?
- l. Do all appropriate persons have a clear understanding of and is there documentation on church ownership of software and data files?
- m. Is a current list of the contents of all safety deposit boxes maintained, and is a list of persons with authorized access likewise kept? (The auditor should confirm the contents and confirm with the depository institution the persons authorized to access the box.)
- n. Are reports from the treasurer, financial secretary and business manager, if any, to the finance committee accurate, timely and complete enough to



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provide necessary information for the committee to make prudent decisions?

- o. Is the finance committee providing to the church's governing body (church council, administrative board) sufficient information to allow it to exercise its fiduciary duties?
- p. Are members of the finance committee and the governing body free to express opinions and to question management when appropriate?
- q. Are loan documents being read and complied with?
- r. Is there a current inventory of fixed assets? Is it kept current by entry of purchases and dispositions? Has the auditor verified the list? Is there a process for control for fixed assets?
- s. Is there a policy on records retention, and if so, is it complied with?

Once the above steps have been taken, the auditor should be ready to write an audit report.

### What is the auditor's report?

When the audit is complete, the auditor should prepare a written report for presentation to the finance committee and congregation council.

The written report should include at a minimum:

1. A scope including documentation of steps taken;
2. An overview of the control environment – what was found to be operating as intended and what was not.
3. A listing of comments and recommendations.
4. Report of the Annual Audit form;
5. Statement of Financial Position (balance sheet);
6. Statement of changes in net assets (income statement);
7. Statement of cash flows;
8. Comments, if any, on the reliability of the financial reporting;
9. Comments, if any, on insurance policy coverage; and
10. Comments, if any, on compliance with donor restrictions on gifts.

When all these steps have been completed, the auditor should review the work done with the Church Treasurer and Financial Secretary, endeavor to answer any lingering questions, then prepare the report.



### How and when is the Audit Report prepared?

The audit report is prepared when the audit is complete, i.e., when the auditor is reasonably assured that the financial records are in order, financial policies have been complied with, any discrepancies have been investigated, and controls have been reviewed. After everyone agrees on the findings, recommendations, and the tone of the report, the auditor is ready to present the Report of the Annual Audit to the Committee on Finance and the Congregation Council.



## Exhibit I: Suggested Congregational Audit Program

<b>AUDIT STEP</b>
<b>1. POLICIES AND PROCEDURES</b>
<p>Review the church's procedures relating to the accounting, finance and treasury functions. Ensure these procedures are up to date, been approved by church council and include specific sections for the following areas:</p> <ul style="list-style-type: none"><li>▪ Offerings (Sunday and special)</li><li>▪ Cash Receipts</li><li>▪ Bank Accounts and Investments</li><li>▪ Disbursements</li><li>▪ Receivables</li><li>▪ Asset Classification (Fund Balances)</li><li>▪ Fixed Assets</li><li>▪ Payroll</li><li>▪ Insurance</li><li>▪ Records Retention</li><li>▪ Data Processing</li></ul>
<b>2. BANK AND INVESTMENT</b>
<p>Obtain a listing of all bank and investment accounts in the name of the congregation and execute the following:</p> <ul style="list-style-type: none"><li>▪ Send a letter (attached Exhibit II) to each financial institution, requesting the balance in each account as of the congregation's year end. Also ask the institution for a listing of people who are authorized signers on each account, including a listing of all authorized to make telephonic transfers by phone or on-line banking. As with all confirmations, set a deadline for the return of this information and include a self addressed, stamped envelope for the institutions' convenience. (Note – depending on the time allowed for the audit, the congregations may use the year-end bank statement as confirmation of the account balance, but the bank should confirm the authorized signers list.)</li><li>▪ Continue to follow up until all information is received.</li><li>▪ When the letters are received, check to make certain the balance reported by the institution agrees to the reconciled general ledger balance.</li><li>▪ Review the list of authorized signers received from the institution and ensure these people are authorized to sign per the congregation's written procedures or by-laws.</li></ul>
<b>3. BANK RECONCILIATIONS</b>
<p>Obtain all the bank statements and related reconciliations for the year being audited and execute the following:</p> <ul style="list-style-type: none"><li>▪ Review all bank reconciliations to ensure that the beginning balance of each</li></ul>



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month is the same as the ending balance of the previous month.

- For each month, ensure that the book balance (from the trial balance) matches to the book balance used in the reconciliations.
- Pick one month and re-perform the bank reconciliation for each account using the trial balance and the bank statement. Investigate all discrepancies.
- Ensure the reconciling items are relatively current. All items over six months old should be questioned and resolved to the auditor's satisfaction.
- Ensure all reconciliations have been performed by a person with no access to the general ledger and who is not an authorized check signer. Ensure the reconciliations have been signed and dated by the person performing the reconciliation and a knowledgeable employee independent of the process.

## 4. PETTY CASH

Obtain the petty cash fund and execute the following:

- Count the cash and receipts residing in the fund.
- Reconcile the total amount to the petty cash fund listed on the congregation's balance sheet. Investigate any out of balance conditions.
- Ensure that the fund is being reconciled on at least a quarterly basis.
- Examine the receipts being put through the petty cash account to ensure their proper classification and that petty cash is the correct method of payment for these expenses.

## 5. INCOME: BENEVOLENCE

Obtain the synod benevolences and special gift balances from the general ledger as of year end and execute the following:

- Send a letter to the synod treasurer requesting the person to confirm the amounts received from the congregation for mission support and other special appeals sent via the synod. Be certain to set a deadline and enclose a self-addressed stamped envelope for the synod's convenience.
- Follow up until the information is received.
- Make certain the amounts reported by the synod treasurer agree to those obtained from the congregation's general ledger.

## 6. INCOME: OFFERINGS

Randomly select 10 to 20 donors (but not more than one percent of the congregation). Try to obtain an equal mix of restricted and unrestricted donations. Execute the following:

- Obtain the amount and type (restricted/unrestricted) of donations made by each donor selected for the year under review from the general ledger.
- Send a letter (addendum II) with the amount and type of donation to each person selected, asking them to confirm the accuracy of the information. Be certain to set a deadline and enclose a self-addressed stamped envelope for each person's convenience.
- Continue to follow up with the selected donors until all letters have been returned.



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- When the letter is returned, investigate any responses that do not agree with the information obtained from the general ledger.
- Remember – this is a sample of one percent or less of the donors. If there are discrepancies that cannot be explained, the congregation may have a significant accounting problem or fraud. In this case, additional sampling may be necessary to determine the materiality of the issue. If unexplained discrepancies continue to be noted in the additional sample, the appropriate governing committee should be notified and an investigation launched.

## **7. INCOME: RECEIPTING AND RECONCILING**

Obtain copies of the tax letters sent to each donor for the year under review and execute the following:

- Calculate the total of the tax letters sent to the donors and reconcile this total to the general ledger. Investigate any unexplained differences.
- Review tax letter to see whether it includes a statement requesting that the donor ensure the donation amount listed agrees with their records, and if not, to contact the congregation.
- Ensure that the tax letter includes a statement that no goods or services were received in exchange for the donation.

## **8. INCOME: OFFERING COUNTING**

Observe the offering for two Sundays during the month in which the audit is conducted and execute the following:

- Ensure the offering is always handled in dual custody by non-related people, from the time it is collected to the time it is put in the safe.
- Observe the count of the offering, ensuring it is counted in a secured room, in dual custody and a tally sheet is completed and signed by all the people performing the count.
- Ensure a copy of the signed tally sheet for the offering is given to the church treasurer.
- Ensure the offering is deposited in a timely manner (either in the overnight depository on Sunday or kept in the safe until deposited on Monday morning).
- Match the bank deposit receipt to the tally sheet sent to the treasurer for the offerings observed, and verify that in each case, the documents agree and have been signed by the treasurer.
- Obtain the bank statement for the month in which the offerings were observed, and match the deposit tickets to the corresponding deposits on the statement.
- Randomly pick 10 offerings from the balance of the year and match the deposit tickets for those offerings to the bank statements.
- Obtain a report listing the amount of each collection for the year under review as well as for the previous year. Perform an analytical review, investigating any unexplained fluctuations in the level of collections (year over year and week to week).





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## **9. INCOME: SPECIAL GIFTS**

Obtain a listing of events resulting in other income received by the congregation (i.e. special offerings, men's/women's groups offerings, congregation picnic income, raffles etc.) and execute the following:

- From the auditor's personal knowledge of congregational activities, review the list of other income-generating events to make sure it is complete.
- Cross check this list against the other income accounts residing in the general ledger.
- Check the amount of other income residing in the general ledger for reasonableness and agree the aggregate amount of other income residing in the ledger to that residing on the financial statements. Make certain the income is classified correctly (i.e., restricted/unrestricted).
- Select two major activities for further review, tracing the amount of income to any documentation (e.g., a separate P&L) for the activity. Investigate any discrepancies noted.
- Select a sample of five events and trace the income generated from the sub-ledger to the general ledger and ensure the amounts match.

## **10. INCOME: DESIGNATED**

Select a sample of two designated fund balances and:

- Make certain the proper documentation (i.e. congregation council meeting minutes) exists supporting the council's designation of these funds for the specific project.

## **11. DISBURSEMENTS: SIGNATURE CONTROL**

Obtain a sample of 25 checks written per quarter for the year under review and execute the following:

- Ensure each check is signed by an authorized person and that the signature looks reasonable.
- Ensure that the check stock is securely stored under lock and key and a limited number of people have access.
- Ensure blank checks are not signed in advance.

## **12. DISBURSEMENTS: DOCUMENTATION AND PROCESS CONTROLS**

Select a sample of ten expenses per quarter for the year under review from the general ledger and execute the following:

- Trace each expense to its original invoice, and ensure it agrees to the amount recorded in the general ledger and has been properly approved by an authorized person per existing congregation policy.
- Ensure all invoices selected were paid in a timely manner in compliance with the terms stated on the invoice.
- Ensure each invoice is coded with the account number to be charged and is properly classified in the general ledger and the financial statements.



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### **13. DISBURSEMENTS: DUPLICATE PAYMENT CONTROLS**

Discuss with a knowledgeable employee the controls embedded in the accounts payable process that would prevent a duplicate payment from being made and execute the following:

- Obtain the listing of congregational disbursements for the year under audit from the congregation's check book or accounts payable system (if one is in place).
- Review for any possible duplicate payments.
- Discuss any duplicate payments noted with the appropriate individual, ensuring that all exceptions are resolved.

### **14. DISBURSEMENTS: VENDOR PAYMENT CONTROLS**

Inquire as to what approvals are necessary to establish and pay vendors. Check to ensure the following controls are in place:

- All new vendors should be approved by an authorized employee independent of the vendor establishment process.
- All vendor payments should have a copy of the invoice attached and be reviewed and approved by an authorized employee independent of the vendor payment process.
- If an accounts payable system is in place, the system should be able to automatically produce an exception report on a routine basis listing all vendors that have been added to the system since the last exception report. This report should be reviewed and approved by an authorized employee independent of the vendor establishment process each time a check run is made.
- If an accounts payable system is in place, the system should be capable of printing a report listing all invoices scheduled for payment since the last pay period. All payments listed on this report should be reconciled to the checks presented for signing before the checks are issued by an authorized person independent of the vendor payment process.

### **15. DISBURSEMENTS: PURCHASE ORDERS**

If the congregation utilizes a purchase order system, select a sample of ten purchase orders and execute the following:

- Ensure each was properly approved by an authorized person.
- Match the purchase order price and quantity with the corresponding invoice to ensure the proper quantity was received at the agreed upon price per unit.

### **16. DISBURSEMENTS: VENDOR PAYMENTS**

Obtain the listing of all vendors paid during the year under review (using either the congregation's check registers or the accounts payable system if one is in place) and execute the following:

- Review the list for reasonableness and investigate any payments to unknown vendors.



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- Pay particular attention to any recurring payments to an unknown vendor.

## **17. GOVERNANCE AND ADMINISTRATION**

Obtain the minutes of the congregation council meetings for the year under review and execute the following:

- Review these minutes for any financial related issues or actions and ensure they are appropriately reflected in the financial records.
- Review these minutes for any actions concerning capital expenditures (i.e. a new parking lot, building addition).
- Review the congregation's balance sheet for all capital assets added during the year under review.
- Reconcile all capital assets added to the capital expenditures approved by the congregation council.
- Obtain a sample of five invoices for these capital expenditures and ensure each has been charged to the appropriate capital project and has been properly approved in accordance with existing church policy.

## **18. NOTES PAYABLE**

Inquire as to the existence of any congregational loans outstanding and execute the following:

- Review the congregation's checkbook (or accounts payable system if one is in place) for evidence of any loans not listed.
- Obtain the latest loan statement for each loan and match the amount outstanding to the loan liability listed in the general ledger and balance sheet. Investigate any differences noted.
- To guard against fictitious loans, obtain the latest loan statement for each loan and send a letter to the lender asking them to confirm the loan balance listed on the statement.

## **19. PAYROLL**

Obtain the reconciliation of total salary expense, payroll tax and withholding from the trial balance to the total W2's issued for the year under review and execute the following:

- Ensure that the book balances (from the trial balance) for each of these items match to the book balances used in the reconciliation.
- Recalculate the sum of the salary, payroll tax and withholding reported on the individual W2's and ensure that this total matches to the aggregate W2 information for each of these items used the reconciliation.
- Ensure all reconciling items appear reasonable.
- Ensure the reconciliation has been performed by an authorized person, has been performed in a timely manner (within 45 days of year end), and has been signed by the person performing the reconciliation as well as an authorized person independent of the payroll process.



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### 20. PAYROLL

Obtain all the federal form 941's (Employer's Quarterly Federal Tax Return) and applicable state 941 (or equivalent) forms completed for the year under review and execute the following:

- Ensure the total of the taxes paid on form 941 agree with the total of the payroll tax expense listed on the congregation's W2s and reported on the congregation's W3.
- Ensure the total of the taxes paid on form 941 agree with the total payroll tax expense from the trial balance.
- Ensure each 941 and corresponding payment was transmitted to the proper governmental entity in a timely manner.

### 21. PAYROLL

Select a sample of employees and execute the following:

- Obtain a copy of the W2 for each employee selected and ensure the amount of income, withholding and payroll taxes (i.e., Social Security and Medicare) reported on each employee's W2 matches the amount reported for that employee in the trial balance.
- Verify that a completed and signed W4 and I9 are on file for each employee selected.
- From the W4, recalculate the amount of withholding requested by the employee and ensure this matches the amount reported on the employee's W2.

### 22. PAYROLL

Obtain the employee's payroll file and execute the following:

- Verify that personnel files are safeguarded and confidential
- Ensure there is documentation in the file supporting the employee's current rate of pay and that this documentation has been approved by an authorized person or committee.
- Review each employee's salary for reasonableness.
- Ensure that time sheets (if used) have been reviewed and approved by an authorized person.
- Using the employee's approved rate of pay, recalculate the salary for the year under review and verify that this amount matches the income reported on the W2.
- If the employee has a tax-deferred annuity or 403(b) account, ensure it is supported by a signed agreement. Based on this agreement, recalculate the deferred compensation and ensure it matches the W2.
- For clergy, verify that any housing allowance resolution that is in place is properly supported, approved and has been accurately applied to reduce the reportable 941 and W2 income.
- Ensure any other deduction to payroll (i.e. charitable contributions) are supported by signed agreements and have been properly calculated.



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### 23. BENEFITS

Review employee benefit plans and policies:

- Ensure that employee pension and medical benefits are paid and current.

### 24. INDEPENDENT CONTRACTORS

Obtain the 1099's issued for the year under review and execute the following:

- Select a sample of five 1099's issued and agree the information contained on the 1099 to the accounts payable system and trial balance to ensure the information is accurate.
- Review the 1099's selected to ensure the appropriate treatment of the person receiving the 1099 (i.e., that they would not be considered an employee).
- Review the list of vendors that did not receive a 1099 and check for reasonableness. Investigate any vendors that were paid over \$600 that the auditor feels should have received a 1099.

### 25. GOVERNMENT FILINGS

Inquire as to any governmental filing requirements and, if any, review the filings to make certain they are accurate, current and complete.

- If the state requires an annual or periodic filing to renew incorporation status, those reports should be reviewed to ensure compliance.
- If the state exempts real property of the congregation, and annual or periodic reports must be filed, those reports should be reviewed.

### 26. DATA SYSTEMS

With respect to data processing controls, execute the following:

- Ensure all software programs and data files are password protected and that each employee has a unique password.
- Ensure that access is restricted commensurate with job responsibilities.
- Ensure all software and data files are backed up on a regular basis and backups are kept off site.
- Ensure all computers have virus software installed and running.
- Ensure there is a current *computer/internet use* policy spelling out the congregation's position on the personal use of the computer and if allowed, what type of websites are strictly forbidden.

### 27. RECORDS MANAGEMENT

Review the records retention policy.

- Ensure all documentation is being properly stored and destroyed in compliance with this procedure.

### 28 SAFEGUARDING OF ASSETS/DOCUMENTS

Inquire if the congregation has any safe deposit boxes. If they do, execute the following:



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- Obtain a list of authorized key holders and verify that access has been approved by the appropriate officer or the congregation council.
- Ask to visit the bank(s) where the safety deposit box(es) resides and observe the content of each box.
- Ensure the contents of all safety deposit boxes are appropriate.

### 29. SAFEGUARDING OF ASSETS/DOCUMENTS

Ensure all critical congregation papers such as deeds, insurance policies and incorporation papers are kept in a fireproof safe or in a safety deposit box.

- File for Employer Identification Number & tax filings safeguarded.
- Incorporation papers are safeguarded.
- Deed to church property and/or mortgage are safeguarded.
- Insurance policies are safeguarded.
- **All** prior year insurance policies are safeguarded and retained

### 30. FIXED ASSETS

Obtain a listing of all fixed assets:

- Verify their existence.
- Review capitalization/depreciation policy.

### 31. INSURANCE

Obtain all the insurance policies in effect and execute the following:

- Ensure the congregation has the proper level of personal property, fire, theft, casualty, and liability insurance in force.
- Ensure the congregation has fidelity bond coverage for all people handling church funds.
- Write a letter to the insurance agent(s) that services the policy(s) requesting the confirmation of the policy number, level of coverage, anniversary date, premium and if the policy is currently in force. As with all confirmations, set a deadline for the return of the information and include a self-addressed, stamped envelope with the request.
- When the letters are returned, follow up on any discrepancies.

### 32. FINANCIAL REPORTING

Obtain samples of the financial reports generated on a weekly, monthly, quarterly and annual basis. Ascertain that the reports:

- Reflect an accurate and complete picture of the congregation's finances.
- Are helpful to management, the appropriate congregational committees and the congregation council
- Include an approved budget and a budget variance analysis.

### 33. FINANCIAL REPORTING

Obtain the financial reports for the end of the year under review and the previous year. (i.e., income statement, balance sheet and statement of cash flows) and



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execute the following:

- Compare the income statement for the year under review with that of the previous year. Note any significant increases or decreases in revenue and expenses and inquire as to the major factors causing the variance.
- Compare the ending balance sheet for the year under review with that of the previous year. Note any significant changes in assets, liabilities or equity and inquire as to the major factors causing the change.
- Ensure the items listed on the statement of cash flows tie back to the changes in assets and liabilities listed on the balance sheet and the net income and expenses not using cash (i.e. depreciation) listed on the income statement.



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## Exhibit II: STANDARD FORM TO CONFIRM ACCOUNT

### BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

Customer (church's) Name \_\_\_\_\_

Financial Institution: \_\_\_\_\_

We have provided to our accountants/auditors the following information as of the close of business on **MONTH DAY, YEAR** regarding our deposit(s) and loan(s) balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed pre-addressed and stamped envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit account balance(s):

Account Name: \_\_\_\_\_

Account Number: \_\_\_\_\_

Interest Rate: \_\_\_\_\_

Balance: \_\_\_\_\_

Authorized Signer(s) on the Account: \_\_\_\_\_

2. Our records indicate that we are directly liable to your financial institution for the following loan(s) at the close of business on the date listed above:

Loan Number: \_\_\_\_\_

Loan Balance: \_\_\_\_\_

Arrearage: \_\_\_\_\_

Maturity Date: \_\_\_\_\_

Description of Collateral: \_\_\_\_\_

Current Interest Rate: \_\_\_\_\_

Authorized Signer(s) on the Loan account: \_\_\_\_\_

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below:

Exceptions and/or Comments: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Financial Institution: \_\_\_\_\_

Authorized Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Title: \_\_\_\_\_





## Exhibit III: STANDARD FORM TO CONFIRM DONOR CONTRIBUTION INFORMATION

(Congregation's Letterhead)

Month, Day, Year  
William Johnson  
123 Main Street  
Any town, Any state 00000

Dear Mr. Johnson:

In connection with an examination of our accounts, [either outside firm or auditor's name] desire confirmation of your donation to [insert congregation's] as of Month Day, Year. Our records indicate that we received a donation from you in the amount of \$\$\$, intended for use in [insert appropriate fiscal year]. In addition, our records indicate that your donation was not restricted [or restricted, if appropriate] as to its use.

If the above information is consistent with your records, please sign the confirmation below and return it directly to [Audit firm's address or auditor's address, not to the church] in the pre-addressed, stamped envelope provided with this letter. If your records do not confirm the above information, please note your exceptions below.

Thank You,

Karen Taylor  
[Title]

Data not in agreement with your records

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### Exhibit IV: ANNUAL AUDIT REPORT

With this report, the Auditor(s) /Audit Committee present its audit of the financial books and records of the church and all its related organizations to the Congregation Council.

Church: \_\_\_\_\_

Synod: \_\_\_\_\_

For the period beginning \_\_\_\_\_, \_\_\_\_\_, and ending \_\_\_\_\_, \_\_\_\_\_.

#### Audit Objectives

The audit objectives related to the internal audit of \_\_\_\_\_ financial books, records and operations include determination that:

- Appropriate procedures are in place governing key financial operations and are being complied with;
- Proper segregation of duties are in place for all key financial transactions and are not being circumvented;
- Controls governing the congregation's investments and bank accounts are in place and operating as intended;
- All assets and liabilities recorded in the congregation's books and records are supported by independent documentation (i.e. bank statements and vendor invoices);
- All general ledger balances are appropriately reconciled to their underlying assets (i.e. bank statements) and liabilities (i.e. accounts payable) in a timely and accurate manner;
- All assets are properly classified in line with the donor's intent;
- All necessary insurance policies are in place and in force;
- The Sunday (or special) offering is handled and counted in dual custody;
- All monies generated and expenses incurred as a result of a special event are accounted for and can be traced back to the general ledger;
- The petty cash fund is closely monitored and controlled;



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- That all major capital expenditures have been approved by the governing body (i.e. Congregational Council) called for in the congregation's by-laws;
- Expenses are appropriately approved and supported by the appropriate documentation;
- Fixed assets exist and are properly recorded in the general ledger;
- Personal identity information is properly safeguarded both in system and paper form;
- Controls over the payroll process are in place and operating as intended;
- An appropriate records retention policy is in place and being complied with;
- All vendors receiving a payment in excess of \$600 annually receive a 1099; and
- The appropriate data processing controls are in place and operating as intended.

### Audit Conclusion

**Note – The following is an example of the language that can be utilized to communicate the audit's result to the Audit Committee or the Congregational Council. This language can be modified to suit the conclusion; ranging from "Based on audit work performed, significant control weaknesses were noted to the extent that the council should not rely on the data contained in the church's financial statements" to "Based on the audit work performed, the books and records were found to be material accurate in all respects. Testing performed found no material control weaknesses."**

Based on audit work performed to achieve the objectives listed above, the books and records of \_\_\_\_\_ appear to materially accurate in all respects. Testing performed also found, with some exceptions as noted in this report, that the controls governing the financial operations process appear to be in place and operating as intended. Although controls over financial operations appear to be adequate, additional work is needed in the following areas:

- Summation of key control issues noted.
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Implementation of the recommendations outlined in this report would help strengthen existing controls and provide additional efficiencies.



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## Comments and Recommendations

Any exception(s) noted during the audit along with applicable recommendations to address the issue(s) identified should be entered in the explanation section of the report. Use additional forms if necessary. When complete, the auditor(s) needs to sign and date the report.

***Detailed Finding***

***Management's Response***

***Detailed Finding***

***Management's Response***

***Detailed Finding***

***Management's Response***

The auditor(s) has performed the procedures and testing called for in the audit program adopted by the church. In doing so, the auditor(s) has reviewed the procedures governing the financial reporting and operations process and has found the balances presented to be correct, procedures proper, and records properly kept, except as noted above.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
Auditor or Audit Committee Chair

The Congregational Council has reviewed this report and has discussed the recommendation(s) presented by the auditor(s) and the accompanying responses with the pastor and church management. The council will review progress being made to address any weaknesses identified in this report at subsequent council meetings.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
Presiding Congregational Council Member

**Copies of this Report should be filed with the Audit Committee Recording Secretary, Pastor, the chairperson of the Finance Committee and Congregational Council.**

