

California-Nevada Annual Conference

CHURCH AUDIT PROCEDURES AND INTERNAL CONTROL REVIEW

Congregation Name: _____

Address: _____

City: _____

Treasurer Name: _____

Phone: _____

Email: _____

Year ending: __/__/__

I have examined the congregation's accounting records, financial reports and the year-end Table 2 and 3. Receipts, expenditures and changes in fund balances are prepared in accordance with standards adopted by the Council on Finance and Administration of the Cal-Nevada Annual Conference except as noted in the comments of this report.

This inspection is not meant to be construed as an audit rendered by a Certified Public Accountant. It is a compliance audit to be used internally by the church and the Cabinet.

Submitted By: _____ Date: _____

Name Printed: _____

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1. Accounting for Receipts and Income

Key Review Tasks:

- Choose a sample of income entries on the general ledger and agree them back to counters' reports, then back to donor statements if donations.
- Review investment statements and verify all interest, gains and losses are properly recorded at year-end.
- Choose a sample of donor statements, vouch some of the individual contributions to the counters' reports, then agree the total deposit to the cash entry in the accounting system and to the bank statements.

Questionnaire:

- a. Yes No Are there at least two unrelated people counting receipts each week?
- b. Yes No Are the counters rotated between weeks?
- c. Yes No Is the document used for recording receipts properly signed and initialed?
- d. Yes No Are checks properly stamped/endorsed for deposit?
- e. Yes No Is a duplicate of the deposit slip retained?
- f. Yes No Are all receipts that cannot be deposited right away, endorsed and placed in a lock-box, with appropriate security?

Where: _____

Who has access: _____

- g. Yes No Is there a division of duties between preparing deposits and recording deposits in the accounting system? (describe below)

- h. Yes No Is the financial secretary maintaining the contribution records? Using what software?

- i. Yes No Are periodic statements sent to contributors?

Frequency: _____

Comments about the Contributions and Cash/Check Receipt Process

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2. Accounting for Disbursements and the Bank Reconciliation Process

Key Review Tasks:

- From the bank statements, choose a sample of the largest cash disbursements of the year and verify that these disbursements were either budgeted or approved separately by the finance committee as noted in the minutes.
- Review the vendor list with the pastor or a trustee and look into any disbursement to any vendor the pastor doesn't recognize. Review support for any disbursement made to the church treasurer. Review support for all outgoing electronic transfers.
- Skim through the canceled checks and verify they were signed by authorized signers.
- Audit monthly bank reconciliations (including January of the subsequent year) by agreeing bank balance to bank statement and book balance to general ledger. Agree book balance to monthly financial reports to finance committee.
- Review all church credit card statements and petty cash activity. Confirm that activity was authorized and properly recorded on the general ledger.

Questionnaire:

- a. Yes No Bank accounts should have at least two unrelated authorized signers. Is this the case?

Who are the Signers? _____

When was the signature card last updated? _____

- b. Yes No Is the procedure of not signing blank checks observed?

- c. Yes No Are blank checks kept in a secure location?

- d. Yes No Are there any loans or mortgages owed by the congregation?

If Yes, are the payments current? Yes No

- e. Yes No Is there a petty cash fund? If Yes, describe the reimbursement process:

- f. Yes No Does the church use a credit card?

If Yes, is the statement reconciled and fully paid each month? Yes No

Who are the authorized users: _____

- g. Yes No Are bank statements reconciled within a month of receipt?

- h. Yes No Are cancelled checks included with the bank statement (or online)?

- i. Yes No Are bank accounts reconciled using an automated process?

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- k. Yes No Are bank account statements reconciled by a person not engaged in the disbursement process?

Comments about Disbursements and the Bank Reconciliation Process:

3. **Personnel and Payroll**

Key Review Tasks:

- Examine the W-2s/W-3 and 1099 reports to review employees vs. independent contractors.
- Review accounting system to determine if 1099 payees were properly identified and reported.

Questionnaire:

- a. Yes No Does the congregation have a personnel policies and procedures manual?
If yes, when was it last reviewed/updated? _____
- b. Yes No Are IRS guidelines followed for distinguishing employees from independent contractors?
- c. Yes No Are copies of outside contractors' workman's compensation and liability insurance on file?
- d. Yes No Does the approved clergy compensation form agree to amounts paid and reported to the IRS?
- e. Yes No Are required labor law posters on display and up to date?
- f. Yes No Are 1099's sent out on a timely basis and properly filed with Form 1096 and sent to the IRS for all services provided by vendors or individuals (excluding corporations) who have been paid more than \$600?

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Comments related to personnel and payroll:

4. **Property**

Key Review Tasks:

Comment below on the state of the property and identify obvious areas of deferred maintenance.

Questionnaire:

- a. Yes No Other organizations that rent the church facilities should provide a copy of their proof of liability insurance & non-profit status. Are these on file?
- b. Yes No Is there an inventory of personal and real properties?
- c. Yes No Does the church have welfare exemption filed with the county?

Comments about the Property:

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5. Financial Reporting

Key Review Tasks:

- Review Operating Statement & Balance Sheet
- Compare Operating Statement to Annual Budget and note significant variances.

Questionnaire:

- a. Yes No Does the Treasurer make monthly reports to the Finance Committee?
- b. The following reports should be provided to the Finance Committee:
- Yes No Balance Sheet Frequency: Monthly Quarterly Annually
 - Yes No Operating Statement Frequency: Monthly Quarterly Annually
 - Yes No Fund Report (if not listed on balance sheet) Frequency: Monthly Quarterly Annually
- c. Balance Sheet Reporting:
- Yes No Do cash balances reported on the balance sheet match the reconciled balance on the bank statements?
 - Yes No Does the congregation have any investment funds?
If Yes, are they clearly delineated on the balance sheet? Yes No
Where are the funds invested? _____
Is the finance committee reviewing investment returns? Yes No
 - Yes No Does the balance sheet report all funds under the umbrella of the congregation, including those directly controlled by subsidiary groups or committees (not including UMW)?
- d. Operating Statement Reporting:
- Yes No Does the Operating Statement reflect the operations of the congregation's income and expenses compared to a budget for the audit year?
 - Yes No Does the Operating Statement clearly report transfers from and to restricted funds?
- e. Fund Reporting:
- Yes No If there is no separate Fund report, are funds segregated in the equity section of the balance sheet?
 - Yes No Are funds clearly identified as restricted or unrestricted?
- f. Yes No Is there an active Finance Committee that meets regularly?

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Comments related to financial reporting:

6. Tithing and Year-End Tables 2 & 3

- a. Yes No Does the Operating Statement reconcile directly to the Table 2 and Table 3?

If not, request a report showing how funds reported on the tables reconcile to the Operating Statement.

- b. Yes No Does the amount tithed for the year agree to 10% of the operating income on line 52z?
- c. Yes No Does the treasurer do the tithing calculation worksheet monthly?
- d. Yes No Do deposited amounts excluded from the calculation fall within the allowable exceptions?
- e. Yes No Does the current year church budget include the tithing of 10% of operating income?

Comments related to Tithing and year-end tables:

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7. Other Items

- a. Yes No Does the finance committee create and approve a balanced budget?
- b. Yes No Is the use of the clergy discretionary fund(s) reported annually on the balance sheet?
- c. Yes No If there is a clergy discretionary fund, does a policy exist on the use of it?
- d. Yes No Was the prior year audit discussed with the Finance Committee and noted in the minutes?
- e. Yes No Are the books/records kept on church premises?
- f. Yes No Are computer records properly backup up?

If yes, how? _____

- g. What Accounting Systems are used by the congregation?:

Contributions: _____

General Ledger: _____

Payroll Service: _____

8. Attachments

- Year-end Operating Statement
- Year-end Balance Sheet
- A year end Fund Report if the Balance Sheet does not show changes in Restricted and Unrestricted funds.
- Table 2 & 3; year-end tithing calculation

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Proposed Action Items:

Please send to: Diane Knudsen, Conference Treasurer
United Methodist Center
PO Box 980250
West Sacramento CA 95798