

## **AUDIT/FINANCIAL REVIEW PROCESS TEMPLATE**

*(Created by Terri Robertson, NOT an ELCA Document)*

### **Records Needed**

The following documents/files for the audit period are needed for the average review. Files and documents should be organized, complete and clearly identified to assist reviewers and expedite the process.

- General Ledger for audit period
- Month-end financial reports (as well as those provided to Church Council, if different) for church and any subsidiary organizations using same Tax Identification Number
- Bank statements and reconciliations for all bank accounts
- Counter's reports for weekly offering and other income sources
- Year-end contribution statements issued to donors
- Preschool tuition payment records and statements (if applicable)
- Check registers, invoices, purchase orders, other documentation for all expenses (including online payments or automatic withdrawals/charges)
- Vendor/Independent Contractor records – W-9, I-9 and year-end 1099 forms
- Payroll records – W-4's, payroll registers and time sheets for each pay period, quarterly payroll tax returns, year-end W-2 forms
- Church Council and Finance Committee (if applicable) Meeting Minutes
- Preschool Board and Endowment Committee Meeting Minutes (if using the church Taxpayer Identification Number)
- Secretary of State Non-Profit Corporation Biennial Statement of Information (SI-100)
- Property Tax Exemption Annual Reporting
- Insurance Policy Declarations Page for each policy (Commercial Liability, Umbrella, Directors & Officers, Worker's Compensation, Accident & Medical)
- Written policies and procedures

### **Audit/Financial Review Initial Interview**

The reviewer conducts an initial interview with all parties involved in the financial process (Treasurer, bookkeeper, Financial Secretary, Preschool Director, office administrator) to learn more about the financial processes, internal controls, policies and procedures. This may be done in person, by video conference or phone, but it is important to have as many of those involved in the process together at the same time to assist the reviewer in understanding and the ability to clarify any questions before the process begins.

## **Audit/Financial Review Process**

### **Step One: Policies and Procedures**

- A. Review any written policies and procedures relating to accounting or finance functions. Ensure these are up-to-date and have been approved by the Congregation Council.
- B. If written policies do not exist or require updating, note this in your report.

### **Step Two: Bank and Investments**

- A. Obtain a listing of all bank and investment accounts in the name of the congregation
- B. Send a letter to each financial institution, signed by an authorized signer, requesting confirmation of the account balance in each account as of the year-end. Include a self-addressed (to the auditor), stamped return envelope for the institution's convenience. (Note: depending on the time allowed for the audit, the year-end bank statement may be used as confirmation of the account balance.)
- C. When letters are received, check the balance reported by the institution agrees with the reconciled General Ledger balance.

### **Step Three: Bank Reconciliations**

- A. Review all bank statements and reconciliations to ensure that the beginning balance of each month is the same as the ending balance of the previous month.
- B. For each month, ensure that the book balance from the General Ledger matches the book balance used in the reconciliations.
- C. Confirm the year-end confirmed balance from Step 2 agrees with the balance on the reconciliation.
- D. Choose two months and re-perform the bank reconciliations for all accounts using the General Ledger.
- E. Ensure that checks are signed by the proper number of check signers. If copies of canceled checks are not provided with the bank statement, you may need to ask for copies to be provided for a sampling of checks.
- F. Ensure that all reconciliations have been performed by a person who is not a check signer. If the reconciliation is performed by someone with access to the General Ledger, they should be reviewed and initialed by a Council member.

### **Step Four: Petty Cash**

- A. Obtain the petty cash fund and count the cash and receipts residing in the fund.
- B. Reconcile the total amount to the petty cash fund listed on the congregation's Balance Sheet. Review any discrepancies.
- C. Ensure that the fund is being reconciled on at least a quarterly basis.

### **Step Five: Income – Synod Benevolences**

- A. Obtain the amount of Mission Support and other designated/special gifts sent through the synod from the General Ledger.
- B. Send a letter to the synod accountant/bookkeeper requesting confirmation of the amounts received from the congregation for Mission Support and other designated gifts sent via the synod. Enclose a self-addressed (to the auditor), stamped envelope for the synod's convenience.
- C. When letter is received, confirm amounts reported by the synod agree with those from the General Ledger. Investigate any significant differences.

### **Step Six: Income – Offerings/Year-End Contribution Reporting**

- A. To validate individual donations through confirmation with the donor, randomly select 5-10 donors (or about 5%). Try to choose an equal mix of restricted and unrestricted donations. Be sure to include some larger donations.
- B. Obtain the amount and type of donations made by each donor selected for the year under review from the contribution program records or year-end tax report.
- C. Send a letter to each donor, listing the amount and type of each donation during the year under review, asking them to confirm the accuracy of the information. Enclose a self-addressed (to the auditor), stamped return envelope for their convenience.
- D. When letters are returned, investigate any responses that do not agree with information from the contributions program and/or year-end tax report.
- E. Confirm that year-end contribution reports are sent to donors and that each report contains the statement that no goods or services were received in exchange for the donations.

### **Step Seven: Income – Offering Counting**

- A. During the initial interview, procedures surrounding the counting of offering and other funds received should be reviewed to ensure the offering/other funds are always handled in dual custody by non-related people, from the time it is collected to the time it is either put in the safe or taken to the bank.
- B. Ensure that offerings are deposited in a timely manner and receipted is obtained.
- C. Ensure that both the Financial Secretary and the Treasurer/Bookkeeper receive a copy of each tally sheet.
- D. Randomly pick one offering/tally sheet from each month. Confirm amount on the tally sheet agrees with the bank deposit receipt and the amount posted to the General Ledger.

### **Step Eight: Income – Special Events/Online Giving/Designated Funds**

- A. Review procedures and documentation for handling/depositing income received from special events or facility use. Select a sample of transactions to ensure funds were recorded accurately and applied to the correct income account.

- B. Review procedures and documentation for recording online giving to both the contribution program and the General Ledger.
- C. Verify documentation for any designated funds by selecting a sample of two designated fund balances from the General Ledger and reviewing Church Council minutes to find the Council's designation of these funds for the specific project.

### **Step Nine: Disbursements – Signature Control**

- A. Obtain a sample of 25 checks for the year under review and ensure each check is signed by an authorized person.
- B. Ensure check stock is security stored under lock and key and a limited number of people have access.
- C. Ensure blank checks are not signed in advance.

### **Step Ten: Disbursements – Documentation and Process Controls**

- A. Select a sample of 10 varying types of expenses per quarter for the year from the General Ledger and review the following:
  - a. Review the original invoice and/or check request to ensure the amount agrees with the amount recorded in the General Ledger and has been properly approved by an authorized person and coded to the proper account. All reimbursements to individuals must be substantiated with receipts.
  - b. Review credit or debit card transactions to ensure there is proper documentation and receipts for each charge or debit. All should be properly approved by an authorized person who is NOT the card holder.
  - c. Review online payments to ensure there is documentation and proper approval of all transactions.
- B. Review the General Ledger or Check Register for the year to account for any missing check numbers. Checks voided in the General Ledger should have a voided original check on file.

### **Step Eleven: Payroll**

- A. Select a sample of at least one pay period per quarter and review Payroll Registers to reconcile register amounts with those in the General Ledger.
- B. Review that employees are properly classified as exempt or non-exempt. Ensure that time cards are completed, submitted and approved by supervisor for all non-exempt employees.
- C. Review year-end balances in the General Ledger to ensure salary expense, payroll tax and withholding amounts reconcile with the amounts listed on the year-end W-2's issued.
- D. Obtain the quarterly payroll tax returns submitted (Form 941) and ensure the total taxes paid reconciles with the payroll taxes listed on the year-end W-2's issued.

- E. Verify that personnel files are safeguarded and confidential.
- F. Verify that completed W-4 forms for employees are updated annually.
- G. For clergy, verify that any housing allowance resolution that is in place is properly supported (should be approved and recorded in the Council meeting minutes at the start of each calendar year) and has been accurately applied and reported on 941 returns and W-2's.

### **Step Twelve: Independent Contractors**

- A. Review a list of disbursements by vendor to ensure that any vendor who was paid \$600 or more in a calendar year has received a 1099 form at year-end, unless they are a corporation.
- B. Review W-9 forms collected from vendors to ensure the vendor is properly classified as an independent contractor and should not be considered an employee.

### **Step Thirteen: Government Filings**

- A. Review that the State Non-Profit Corporation Statement of Information (SI-100 in California) is current. This form is filed every two years, but if a change in your corporation officers occurs (President, Secretary, Treasurer) in between filings, you are required to update the filing (no filing fee cost for this).
- B. Review County Property Tax Exemption reporting. This is required annually for your congregation to maintain exemption status with regard to property taxes.

### **Step Fourteen: Insurance**

- A. Review Declarations page for each insurance policy (Commercial Liability, Umbrella, Directors & Officers, Worker's Compensation, Accident & Medical). If these aren't available, request the insurance agent(s) send confirmation of all coverage.
- B. Ensure that the congregation has fidelity bond coverage for all people handling church funds.
- C. Review insurance premiums listed reconcile with those reflected in the General Ledger.

### **Step Fifteen: Financial Reporting**

- A. Review monthly financial reports presented to Church Council to ensure they reflect an accurate and complete picture of the congregation's finances and reconcile with the General Ledger balances.
- B. Ensure that these include an approved budget and budget variance analysis.
- C. Compare year-end Balance Sheet with prior year-end, noting any significant changes in assets, liabilities and equity in your report.
- D. Ensure that the annual budget is approved by the congregation at a Congregational meeting.

## **Audit/Financial Review Reporting**

When all the steps have been completed, the auditor should review the work done with the Congregational Treasurer, Financial Secretary and bookkeeper, working to answer any unresolved questions and then prepare the report.

The report should include the following:

- Church name, city, synod and period reviewed
- Records provided for review – and those not provided
- Audit Objectives (see sample in ELCA Congregational Audit Guide)
- Audit Conclusion (see sample in ELCA Congregational Audit Guide)
- Comments and Recommendations
- Signature of Auditor/Reviewer or Audit Committee Chair
- Signature of Congregational Council President/Presider