

Internal Audit Guidelines:

Members of the church may form an audit committee to perform an internal audit to determine the validity of financial statements. If the committee takes its task seriously, the result may be significant improvements in internal control and accounting procedures. Too often, however, the internal audit committee conducts only a cursory review, commends the treasurer for a job well done, and provides a false sense of security to the church. However, this does not have to be the case.

Financial integrity in the church is important since we represent Christ to the world around us. Even though a church may not be able to afford an external audit, it can conduct financial transactions in ways that are conscientious and transparent. A study of the questions that follow will assist in achieving these goals.

Financial Statements

- Are monthly financial statements prepared and submitted to the church board on a timely basis?
- Do financial statements include all funds (unrestricted, temporarily restricted, and permanently restricted)?
- Do financial statements include a statement of financial condition and statement of activity?
- Are account balances reconciled with amounts presented in financial reports?

Cash Receipts

GENERAL

- Are the procedures for handling cash provided in writing?
- Has the bank been notified *never* to cash checks payable to the church?
- Are Sunday School offerings recorded properly and delivered to the money counters?
- Are procedures established to care for offerings and monies delivered or mailed to the church office between Sundays?
- Are procedures established to care for the recording of online offerings?

OFFERING COUNTING

- Are at least two members of the counting committee present when offerings are counted? (The persons counting the money should not include the pastor or the church treasurer.)
- Do money counters verify that the contents of the offering envelopes are identical to the amounts written on the outside of the envelopes?
- Are all checks stamped with a restrictive endorsement stamp immediately after offering envelope contents are verified?
- Are money counters rotated so the same people do not handle funds each week?
- Are donor-restricted funds properly identified during the process of counting offerings?

Remember!

Neither the pastor nor the church treasurer should count the offering.

DEPOSITING OF FUNDS

- Are two members of the offering counting team in custody of the offering until it is deposited in the bank, placed in a night depository, or the church's safe?
- Are all funds deposited promptly? Are offering and other receipt records compared with bank deposits?
- Are all receipts deposited intact?

RESTRICTED FUNDS

- Are donations for restricted purposes recorded properly in the accounting records?
- Are restricted funds held for the intended purpose(s) and not spent on operating needs?

Donation Records/Receipting

- Are individual donor records kept as a basis to provide donor acknowledgments for all single contributions of \$250 or more?
- If no goods or services were provided (other than intangible religious benefits) in exchange for a gift, does the receipt include a statement to this effect?
- If goods or services (other than intangible religious benefits) were provided in exchange for a gift, does the receipt:
 - Inform the donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of the amount of any money and the value of any property contributed by the donor over the value of the goods and services provided by the organization, and
 - Provide to the donor a good-faith estimate of the value of such goods and services?
- Although not required by the IRS, has your church adopted a policy of issuing an annual contribution report to donors listing at least each week's donations, if not each donation?
- Are the donations traced from the weekly counting sheets to the donor records for a selected time period by the audit committee?
- Does your church provide an acknowledgment to each donor of all gifts of cash by January 31 of the year following the contributions?

Cash Disbursements

- Are all disbursements paid by check except for minor expenditures paid through the petty cash fund?
- Is written documentation available to support all disbursements?
- If a petty cash fund is used, are vouchers prepared for each disbursement from the fund?
- Are pre-numbered checks used? Are all check numbers accounted for, including voided checks?
- Are blank checks ever signed in advance? (This should never be done.)

Petty Cash Funds

- Is a petty cash fund used for disbursements of small amounts? If so, is the fund periodically reconciled and replenished based on proper documentation of the cash expenditures?

Banks, Savings and Investment Accounts

- Are written bank reconciliations prepared on a timely basis?
 - Test the reconciliation for the last month in the fiscal year.
 - Trace transactions between the bank and the books for completeness and timeliness.
- Are there any checks that have been outstanding over three months?
- Are there any unusual transactions in the bank statement immediately following year-end?
 - Obtain the bank statement for the first month after year-end directly from the bank for review by the audit committee. Otherwise, obtain the last bank statement (unopened).
- Are all savings and investment accounts recorded in the financial records?
- Are earnings or losses from savings and investment accounts recorded in the books?
- Are all bank, savings, and investment account statements mailed directly to someone unrelated to the person receiving or expending funds?
- Are statements opened and perused by the recipient?
 - Are weekly deposits compared to the bank statements and checks reviewed for unusual items?

Land, Buildings and Equipment Records

- Are detailed records kept of land, buildings, and equipment, including date acquired, description, and cost or fair market value at date of acquisition?
- Was a physical inventory of equipment taken at year-end?
- Have property records been reconciled to insurance coverages?

Accounts Payable

- Is there a schedule of unpaid invoices, including vendor name, date, and due date?
- Are any accounts payable items significantly past due?
- Are there any disputes with vendors over amounts owed?

Insurance Policies

- Is there a schedule of insurance coverage in force?
 - Coverage should reflect effective and expiration dates, kind and classification of coverages, maximum amounts of each coverage, premiums, and terms of payment.
- Is workers' compensation insurance being carried as provided by law in most states? Are all employees (and perhaps some independent contractors) covered under the workers' compensation policy? (See Memo #9: *Workers' Compensation Laws and the Local Church.*)

Amortization of Debt

- Is there a schedule of debt such as mortgages and notes?
- Have balances owed to all lenders been confirmed directly in writing?

- Have balances owed to all lenders been compared to obligations recorded on the balance sheet?

Securities and Other Negotiable Documents

- Does the church own any marketable securities or bonds? If so, are they kept in a safety deposit box, and are two signatures (excluding a pastor) required for access?
- Have the contents of the safety deposit box been examined and recorded?

Personnel Matters

- Does the church maintain the following documents?
 - Applications for employment
 - Personnel files
 - Performance appraisal and evaluation forms
 - Employee handbook
 - Immigration I-9 forms

Federal Reporting Obligations

- Does the church file on a timely basis the following forms, if applicable?
 - Federal payroll tax forms (Form 941, Form W-2, Form W-3, Form 1099-MISC)
 - Donee information returns (Form 8282)
 - Annual certification of racial nondiscrimination for Christian schools (Form 5578)

Taken from Church Board Memo #8: The Internal Audit, from P&B USA.

The information contained in this memo series is of a general nature reflecting USA Nazarene Church polity. It is not offered as specific legal or tax advice. Each person, local church board, and district should evaluate their own unique situation in consultation with their local legal and tax advisors.