



Evangelical Lutheran Church in America

God's work. Our hands.

Congregational Audit Guide

**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 intend to do what is right, not only in the Lord's sight, but also in the sight of others." (2 Corinthians 8:21)

"Who then is the faithful and prudent manager?" (Luke 12:42)

"Give me an accounting of your management." (Luke 16:2)

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Preface

DISCLAIMER

The ELCA Churchwide Organization is pleased to provide this resource but is not responsible for the conduct of congregational 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 officials of the congregation. 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.



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What is a congregational audit?

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

A congregational audit is an independent evaluation of the financial records and the internal controls of the congregation for the purposes of providing an opinion on the reasonableness of the congregation's financial statements and recommending improvements to its internal controls.

An audit involves completing a set of procedures that in the judgment of the auditor will present the evidence or information needed to provide an opinion on the financial statements of the congregation. These procedures also provide insight as to whether a congregation's internal controls are adequate.

Who should perform the audit?

Congregations vary greatly in size, ministries, resources and budgets. For many congregations, it is highly advisable to have a professional audit conducted by a qualified independent accounting firm; others, due to cost considerations, may wish to have an independent member(s) of the congregation with accounting or financial backgrounds perform the audit. If the congregation determines that it is not economical to have an external audit every year, then it might weigh the cost/benefit of having an external audit performed on a two- or three-year cycle with an internally-staffed audit performed in the interim years.

Professional financial auditors (Certified Public Accountants, or CPAs) follow professional standards in conducting their audits. Exhibit I provides some suggested audit procedures that can be used by the congregation in performing its own audit when retaining the services of a professional audit firm is neither required nor feasible. To a professional auditor or accountant, how we have laid out the congregational audit may be closer in professional jargon to a "review." Audit judgment involves determining which and to what extent these procedures should be applied in reviewing each area. The materiality (\$ size) of each area is a key consideration in making these judgments.

Who should oversee the audit?

The ELCA Model Congregation Constitution states that the Congregation Council shall be responsible for the financial and property matters of this congregation.

The Model Constitution provides for an Audit Committee:

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



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It does not specify 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.



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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 individuals 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.

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

No. A person with some familiarity with congregational financial records and some basic accounting practices can perform many of the audit procedures. 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 whether it’s by some person in the congregation or neighboring church with financial knowledge or expertise. The audit program found in Exhibit I is provided to help you.

Who can perform a congregational audit?

Generally, a person who is “qualified” to perform a congregational audit will have some experience with accounting principles and records, gained through bookkeeping, office management or accounting courses. The person must have the time to devote to the audit and be willing to follow through on different requests for information and to complete the procedures and reporting in the audit program (Exhibit I) provided 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 congregations have accounting professionals among their members who are not serving that congregation in any of its financial functions who may be willing to perform the audit as a donation of services.



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When should a congregation have an outside audit (CPA) firm perform its audit?

Congregations 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 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.

What does an audit do?

An audit should:

- Verify the reliability of the financial statements, including procedures to:
 - 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 that expenses are properly supported and approved;
 - Verify that donated and earned funds of the congregation have been used and recorded as stipulated by the donors.
- Evaluate the effectiveness of key financial controls such as accounting controls (systems that reduce the possibility of loss or errors);
- Evaluate 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);
- Evaluate reasonableness of systems and procedures in the light of all factors, including the size of the congregation and its budget;
- Assure adequacy of insurance coverage;
- Establish systems for retaining and accessing meeting minutes that have financial implications (e.g., Finance Committee, Trustees, Congregation Council); and
- Verify records that show donors’ stipulations for the use of gifts made to the congregation.



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A congregation's unique circumstances may suggest that additional steps should be taken. It is important to document the different 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 congregation?

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

- Financial Secretary or Bookkeeper
- Congregation 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 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 [Records Management – Records Retention Schedule for Congregations](#).

When is a congregational audit best conducted?

An audit is usually best performed after the books are closed for the year and the treasurer and financial staff are available to provide the needed information and answer any questions needed to support the audit process. Waiting too long after the year-end close may make it more difficult to retrieve needed information from the prior year. 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. Confirmations should be sent directly by the auditor to the bank, synod and insurance companies and replies should be returned directly to the auditor.

How does the actual audit process begin?

An audit typically starts formally with an introductory meeting with the treasurer of the congregation. Prior to this meeting the auditor would hopefully have had a chance to review the congregation's financial statements and audit program to identify the scope of the audit and key information needed. The audit program (see Exhibit I) identifies the information typically used to perform each section of the audit. At this meeting the scope would be reviewed and key information (e.g., policies, procedures, information needed to create confirmations for bank and other accounts, other information) obtained. It is important to get the confirmations mailed out early since time must be allowed to obtain responses and any needed follow-up.



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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. Exhibit IV presents a possible report format and outline.

The written report should include at a minimum:

1. A scope of the areas reviewed
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. Statement of financial position (balance sheet)
5. Statement of changes in net assets (income statement)
6. Statement of cash flows
7. Comments, if any, on the reliability of the financial reporting, including any correcting entries proposed
8. Comments, if any, on insurance policy coverage
9. 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 congregation 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. The audit results should be treated confidentially to be shared with the Congregation Council and others only as needed.

Other terminology I should know?

Consult the *Congregational Treasurers' and Bookkeepers' Financial and Accounting Guide* for further discussion of financial terminology including: restricted funds and designated funds.



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Exhibit I: Congregational Audit Program

This audit program provides a set of audit procedures concerning the information needed to assure that the financial statements of the congregation are fairly stated and appropriate internal controls are in place. Some judgment is required of the auditor to determine which steps are most important to perform and the amount of testing that might be completed under each step. The materiality (\$ sizes) of the area involved should be a key consideration in making these judgments.

Samples listed below and in the audit steps are merely suggestions. Typically, when considering a sample, the frequency of the transactions is considered. Additionally, when at all possible, please select a random sample. One suggested method of selecting a random sample is to pick a random starting place within the sample and choose every 5th item until the total number of items are selected. Below is a guide to number of samples that might be selected based upon the frequency of the transactions in a particular area:

Annual Transaction- 1 item selected

Quarterly Transaction- 2 items selected

Monthly Transactions- 2 to 5 items selected

Daily Transactions- 25-60 items selected

AUDIT STEP
1. POLICIES AND PROCEDURES
Purpose: To understand current congregational accounting processes and internal controls that are in place. If written procedures do not exist, a short discussion should be held pertaining to each of the areas under review to outline current procedures in place. Procedures and/or discussion should include relevant internal controls such as approvals, separation of key duties, reconciliations, etc. Review the congregation's procedures relating to the accounting, finance and treasury functions. Ensure these procedures are up-to-date, have been approved by the Congregation Council and address the following areas: ▪ Offerings (Sunday and special) ▪ Cash Receipts/Donations ▪ Restricted/Special Funds ▪ Bank Accounts and Investments ▪ Expenses/Disbursements ▪ Receivables/Other Income ▪ Asset Classification (Fund Balances) ▪ Fixed Assets ▪ Payroll ▪ Insurance ▪ Records Retention ▪ Data Processing
2. BANK AND INVESTMENT



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Purpose: To obtain evidence that cash and investment balances are fairly stated on financial reports.

Obtain a listing of all bank and investment accounts in the name of the congregation and execute the following:

- Send a letter (see Exhibit II) to each financial institution, signed by an authorized signer from the congregation 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 transfers by phone or online banking. As with all confirmations, set a deadline for the return of this information and 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 congregation may use the year-end bank statement as confirmation of the account balance.)
- Continue to follow up until all information is received.
- When the letters are received, check to make certain the balance reported by the institution agrees with the reconciled general ledger balance.
- Review the list of authorized signers received from the institution and ensure that these people are authorized to sign per the congregation's written procedures or by-laws.



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3. BANK RECONCILIATIONS

Purpose: To obtain evidence that cash balances are properly stated and cash is adequately controlled.

Obtain all the bank statements and related reconciliations for the year being audited and execute the following:

- Review all bank reconciliations to ensure that the beginning balance of each 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.
- Agree the year-end confirmed balance from Step 2 to the bank balance reflected on the reconciliation.
- 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 larger dollar 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

Purpose: To validate that petty cash is properly stated on the congregation's financial statements and is properly controlled.

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

Purpose: To verify that the income shared with the synods is accurately reflected in the congregation's financial statements.

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 with those obtained from the congregation's general ledger. Investigate any significant differences.

6. INCOME: OFFERINGS

Purpose: To validate individual donations through confirmation with the donor.

Randomly select 10 to 20 donors. Try to obtain an equal mix of restricted and unrestricted donations. Be sure to include some of the larger donations as confirmation of these donations provides additional assurance that the donations have been properly accounted for.

Execute the following:



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- 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 (see Exhibit III), 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 (to the auditor) stamped return envelope for each person's convenience.
- Continue to follow-up with the selected donors until all letters have been returned.
- When the letters are returned, investigate any responses that do not agree with the information obtained from the general ledger.
- If there are discrepancies that cannot be explained, additional sampling may be necessary to determine the root causes and materiality of the issue. If it is determined that a significant accounting problem or fraud may exist, the appropriate governing committee should be notified and an investigation launched.

7. INCOME: RECEIPTING AND RECONCILING

Purpose: To verify that donations are accurately reflected in the General Ledger and that an important control over donations (donor statements) is working effectively.

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

Purpose: To verify offerings are properly accounted for and are properly controlled.

Observe (on a surprise basis if possible) 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).

9. INCOME: SPECIAL EVENTS/OTHER INCOME

Purpose: Verify income received from special events or usage of the church property is properly



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accounted for.

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

- From the auditor's personal knowledge of congregational activities, or review of the website (if applicable) 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 or unrestricted). This could be done by reviewing the paperwork for each event and determining if there were any restrictions/ designations noted when requesting the funds or on any donor restrictions when the funds were received.
- Select two major activities for further review, tracing the amount of income to any documentation (e.g., a separate profit and loss) 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

Purpose: Verify proper support exists for any designated funds.

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

Purpose: Verify proper controls exist over check processing.

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

Purpose: Verify expenses are properly stated in accounting records.

Select a sample of 10 varying types of 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.

13. DISBURSEMENTS: DUPLICATE PAYMENT CONTROLS

Purpose: Test records for any potential duplicate payments.

Discuss with a knowledgeable employee the controls embedded in the accounts payable process



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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

Purpose: Assess adequacy of controls over vendor payments.

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

Purpose: Validate that payments are properly authorized and supported by a purchase order (if applicable).

If the congregation utilizes a purchase order system, select a sample of 10 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

Purpose: Identify potential unauthorized 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.
- Pay particular attention to any recurring payments to an unknown vendor.

17. GOVERNANCE AND ADMINISTRATION

Purpose: To validate that the financial records accurately reflect all Congregation Council actions.

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 (e.g., a new parking lot, building addition).



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- 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 congregation policy.

18. NOTES PAYABLE

Purpose: To verify the existence of any congregational loans and ensure they are properly accounted for.

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 in a self-addressed envelope to the lender asking them to confirm the loan balance listed on the statement.

19. PAYROLL

(19-22) Purpose: To verify compensation expense is valid and properly accounted for.

Obtain the reconciliation of total salary expense, payroll tax and withholding from the trial balance to the total W-2s 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 W-2s and ensure that this total matches to the aggregate W-2 information for each of these items used on 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.

20. PAYROLL

Obtain all the federal form 941s (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 agrees with the total of the payroll tax expense listed on the congregation's W-2s and reported on the congregation's W-3.
- Ensure the total of the taxes paid on form 941 agrees 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 W-2 for each employee selected and ensure the amount of income, withholding and payroll taxes (e.g., Social Security and Medicare) reported on each employee's W-2 matches the amount reported for that employee in the trial balance.
- Verify that a completed and signed W-4 and I-9 are on file for each employee selected.



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- From the W-4, recalculate the amount of withholding requested by the employee and ensure this matches the amount reported on the employee's W-2.

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 W-2.
- 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 W-2.
- 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 W-2 income.
- Ensure any other deduction to payroll (e.g., charitable contributions) are supported by signed agreements and have been properly calculated.

23. BENEFITS

Review employee benefit plans and policies:

- Ensure that employee pension and medical benefits are paid and current.
- Verify that benefit expenses are properly calculated based on eligibility and employee authorizations through review of applicable benefit plan descriptions and employee authorization documentation.
- Verify pension and benefit contributions with Portico Benefit Services. These confirmation requests can be sent to: Portico Benefit Services – Compliance Manager, 800 Marquette Ave., Suite 1050, Minneapolis, MN 55402-2892. Phone: 800-352-2876/612-333-7651. Fax: 612-334-5399. Email: mail@porticobenefits.org.

24. INDEPENDENT CONTRACTORS

Purpose: Validate that 1099s were issued as appropriate.

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

- Select a sample of five 1099s 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 1099s selected to ensure the appropriate treatment of the person receiving the 1099 (e.g., that they would not be considered an employee-See IRS guidelines for guidance).
- 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

Purpose: Validate compliance with all other government filing requirements.

Inquire as to any governmental filing requirements and, if any exist, 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



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be filed, those reports should be reviewed.

26. DATA SYSTEMS

Purpose: To verify the existence of adequate controls over congregation information 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 current 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.
- Inquire as to who supports the congregation when hardware or software problems occur.
- Inquire if at any time during the year, data had to be restored from back up files. If so, perform additional inquiries to understand the data restore, the process of restoring the data and if any relevant financial data was lost in the process.

27. RECORDS MANAGEMENT

Purpose: Verify records retention policy is in place and being adhered to.

Review the records retention policy:

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

28 SAFEGUARDING OF ASSETS/DOCUMENTS

(28-29) Purpose: Verify adequacy of controls over safe deposit boxes.

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

- 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) reside 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 congregational 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 are safeguarded.
- Incorporation papers are safeguarded.
- Deed to church property and/or mortgage is safeguarded.
- Insurance policies are safeguarded.
- All prior year insurance policies are safeguarded and retained.

30. FIXED ASSETS



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Purpose: Validate existence and accounting for Fixed Assets.

Obtain a listing of all fixed assets:

- Verify their existence.
- Review additions/ disposals for the current year to ensure they were accounted for properly in accordance with the policy.
- Review capitalization/depreciation policy.
- Select a sample of between 5 and 10 assets and recalculate the depreciation to ensure it is calculated in accordance with the policy.

31. INSURANCE

Purpose: To validate that appropriate insurance coverage exists for the congregation's assets and that the premiums are properly reflected in the General Ledger.

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(ies) signed by an authorized representative of the congregation requesting the confirmation of the policy number, level of coverage, anniversary date and 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 (to the auditor), stamped envelope with the request.
- When the letters are returned, follow up on any discrepancies.
- Reconcile the insurance premiums reflected in the confirmation letter above to the insurance premiums expensed in the General Ledger.

32. FINANCIAL REPORTING

(32-33) Purpose: Review financial results for any unusual balances and/or variances.

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.
- If prepared outside of the general ledger, are controlled to prevent erroneous and/ or unauthorized updates.

33. FINANCIAL REPORTING



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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 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.

34. CREDIT CARD TRANSACTIONS (If credit cards are used)

Obtain the monthly credit card statements and all relevant support for the year under review and review the following:

- Review each monthly statement for unusual charges, or changes with no apparent business purpose.
- Review attached support to ensure changes are properly supported.
- Review the expenses classifications to ensure proper recording into the general ledger.



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Exhibit II: STANDARD FORM TO CONFIRM ACCOUNT BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

(Congregation's Letterhead)

Financial Institution:

We have provided to our 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 in the space allotted below. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below. 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 auditors.

Regards,
(Signature of Authorized Congregational Rep)

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 is in agreement with our records, no other deposit or loan accounts have come to our attention except as noted below:

Exceptions and/or Comments: _____

Financial Institution: _____

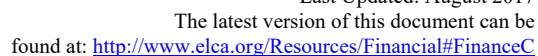
Name (Print): _____

Authorized Signature: _____ Date: _____

Title: _____



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[illegible]

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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 congregation 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:

(Note: Include objectives that relate to audit work performed; i.e., if Petty Cash is not reviewed that objective should be eliminated)

- All assets and liabilities recorded in the congregation's books and records are supported by appropriate 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 donations are properly classified on the financial statements in line with the donor's intent;
- Appropriate procedures are in place governing key financial operations and are being complied with;
- Proper segregation of duties is 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 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 special events are properly accounted for and can be traced back to the general ledger;
- The petty cash fund is closely monitored and controlled;
- 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;



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- 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 be 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.
-
-

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.

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

Finding

Management's Response

Finding

Management's Response

Finding

Management's Response

The auditor(s) has performed the procedures and testing called for in the audit program adopted by the congregation. 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 congregational management. The council will review progress being made to address any weaknesses identified in this report at subsequent council meetings.

Signed: _____ Date: _____
Presiding Congregation Council Member

