

**Audit Program
for Internal
Auditors
of Churches**

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Belonging to the Connecticut Conference of the United Church of Christ**

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Introduction

Dear Fellow Auditor:

The task of auditing a Church is not a simple task, as I am sure you are well aware. However, it is an act of stewardship that should be commended by all of those involved in the Church. Likewise, the task of compiling this manual was not an easy task. As such, we are thankful to the authors of the audit manuals that came before this one, particularly the ones listed in the sources section of this guide! These sources include *The Manual of Business Methods in Church Affairs*, which was published by the Episcopal Church. Some of the checklists presented here have been derived from that manual. We wish to thank Tom Hershkowitz of the Episcopal Church for granting us permission to use them.

This program has been designed to help you in conducting the internal audit of your Church. However, due to the difficulty of the task ahead, and because this is the first time the Connecticut Conference has issued a formal audit program, we realize that you may have questions. We would also appreciate any comments you have to improve this program. For questions, comments, or technical assistance, you should call Ken Ulmer at the Connecticut Conference office at (860) 233-5564.

Sincerely,

Ken Ulmer
Associate Conference Minister for Administration
Connecticut Conference of the UCC
October 2000

Acknowledgements

Committee Members

Reverend James Chapman, Chairperson
William Clark
Bob Giles
David Kneeland
David Ward

Other Contributors

Delores Spivey

1. GENERAL

Purpose of this guide: This program is intended to be used by an internal auditor or members of an internal audit committee within a Church belonging to the Connecticut Conference of the United Church of Christ. *This audit program is not intended to be and should not be used as a substitute for an external audit conducted by a certified public accountant.* This program is intended to supplement an external audit. It should be used by the internal auditor(s) to help them prepare for an audit conducted by a certified public accountant. By following the instructions contained in this guide, you may be able to reduce the cost and improve the effectiveness of your external audit.

This audit program has been compiled by the audit committee of the United Church of Christ, Connecticut Conference as a service to Churches within the Conference. This document may not be reproduced or distributed for commercial purposes. Also, it should be noted that the Conference is not providing legal or financial advice through this publication, nor can it be responsible for the conduct of local audits. It must be emphasized that this guide is not a substitute for regular audit programs developed by a certified public accountant and should not be used as such. Internal auditors should always seek assistance and advice on specific issues from professional accountants and auditors.

Reasons for an audit: The Conference recommends that an audit be conducted on an annual basis. This is because an audit is “the best way for a local church to protect those persons it elects to offices of financial responsibility from unwarranted charges of carelessness or improper handling of funds. It is not a symbol of distrust” (*Local Church Audit Guide*, p. 4, United Methodist Church). In addition, church committees, treasurers, finance committees, deacons, and other “persons in positions of responsibility are liable for any losses which would have been discovered by an ordinary audit but were not discovered because they failed to have the audit conducted” (*Manual of Business Methods in Church Affairs*, p. 8, Episcopal Church). Further, according to the *Handbook for Treasurers and Trustees*, published by the United Church of Christ, Massachusetts Conference, “the costs of dishonesty or mismanagement on the part of those entrusted with church funds are likely to be far higher [than the cost of having an audit performed]. Just as we allocate money in our church budgets to pay the costs of insurance, it makes sense to allocate money for periodic audits” (p. 4).

Although the primary reason for conducting an audit is to insulate church officers from the suspicion of mishandling of funds, current headlines indicate that mishandling of funds does occur. Consider the following: former Episcopal Church Treasurer Ellen Cooke is in jail for embezzling \$2.2 million (*Washington Times*, p. A12, March 11, 1997). A 69 year old man “stole nearly \$1 million from the First Presbyterian Church [of Naples, Florida] while he was its treasurer in the 1980s and early 1990s” (*Inside Naples*, January 15, 1998). Nazarenes and Friends (Quakers) were bilked out of \$4.4 million in a fraud case conducted by a 63 year old Los Angeles-area woman (*Christianity Today*, April 27, 1998). A husband and wife team stole more than \$324,000 over a period of two years from a Catholic Church in Georgia (*The Augusta Chronicle*, December 2, 1997). *The Chapel Hill News* reported a \$478,000 embezzlement scandal that “rocked a 156 year old Chapel Hill church” (July 1, 1998). Closer to home, *The Waterbury Republican-American’s* May 12, 2000 headline read “State Question’s Priest’s Books: Missing Money Was For Students.” Much more numerous are the small cases which go unreported. Can this happen in your Church? Unfortunately, it can, and the larger the size of your endowment or your budget, the greater the risk to your Church.

The complexity of fraud schemes is one reason for the Conference’s recommendation that an audit be conducted by a certified public accountant in addition to having the internal audit done. Also, a professional should be used to audit the Church’s financial records because there are a myriad of new accounting pronouncements and standards that may affect your Church. These include new rules on how to record contributions, bequests, and appreciation on investments. Further, general tax laws such as those relating to accountable plans are complicated to those unfamiliar with the Internal Revenue Code. In addition, there are many laws which specifically relate to Churches, which even those otherwise familiar with the general tax law may have trouble deciphering! These include discretionary fund requirements, housing allowances, and “unrelated business income tax.” Further, an external certified public accountant can help you formulate an investment policy statement, which every Church should have. He or she should also be able to help with general legal and insurance questions.

Although most church officers recognize the benefits of having an audit conducted, many still are reluctant to engage professional auditors because of the expense involved. However, given the present volume and complexity of the laws and accounting standards, it should be noted that a professional would most likely save the Church money in the long run. In addition, according to the *Manual of Business Methods in Church Affairs*, published by the Episcopal Church, “an announcement to the congregation that an audit has been completed and that all monies and investments are properly accounted for will have a positive impact on stewardship” (p. 8).

What is an audit? A financial statement audit is a type of attest engagement. Webster’s dictionary defines “attest” as “to declare to be true or genuine” or “to certify by oath or signature.” In the case of the audit of financial statements, *audited* means that the financial statements “are accompanied by an audit report prepared by independent public accountants, expressing their professional opinion as to the fairness of the [Church’s] financial statements” (*Principles of Auditing*, Wellington, p.6).

Accordingly, an audit consists of a series of procedures done to independently verify the financial statements of the Church. It includes examining, on a test basis, specific information, which support the amounts and disclosures in the treasurer’s financial statements. An audit also includes assessing the accounting principles used by the management of the Church. The purpose of an audit is generally to express an opinion about the treasurer’s financial reports.

An audit includes examination of all of the funds of the Church, not only the operating accounts. Thus, all operating accounts, capital and other special funds, endowment and trust funds, assets of Church organizations, investment funds, discretionary funds, and any other assets, liabilities, revenues, and expenses of the Church must be audited. No account should be exempted from examination.

An audit is conducted in three parts -- Preaudit planning, tests of internal controls, and substantive tests of transactions and account balances; the audit should be performed in this order only. The culmination of these tests is the formulation of an opinion on the financial statements (which should consist of at least a statement of the assets and liabilities of the church and a statement of the revenues, expenses, and net asset or fund balances of the church). The opinion is expressed in a report, which is issued to the congregation.

The first step of the audit is the planning stage. Preaudit planning involves obtaining an understanding of the church’s financial operations and assembling the various documents that are needed to perform the audit.

Tests of internal controls involve tests of the policies and procedures employed by the church to safeguard assets and to ensure the reliability of the accounting data. The auditor examines the internal controls in order to determine the extent of the tests of the account balances. The better the internal control, the less testing of financial statement account balances is required by auditors. For instance, a policy may state that cash receipts must be deposited and recorded on a daily basis. If tests of this control reveal that deposits are being made infrequently and not being recorded in the books in a timely manner, this means that the auditor may have to test more receipts than he or she originally planned. Likewise, if deposits are examined and are being made in accordance with the established church policy, the auditor may not have to expand testing in this area.

Finally, substantive tests of transactions and account balances include examination of actual transactions and balances. For instance, the financial statement may indicate a balance of \$10,000 in cash. In this stage of the audit, the auditor will examine the bank reconciliations and bank statements and verify that the balance per the bank is properly reconciled to the treasurer’s report.

2. PREAUDIT PLANNING

- a. Before the audit begins, there are certain procedures, which the auditor must do in order to properly plan and perform the audit. First, the auditor must obtain a preliminary understanding of the accounting systems (both manual and computer) that generate significant financial statement items and of related principal internal accounting controls.
- b. The auditors should then obtain copies of the minutes of any committee authorized to receive and disburse monies. Read the minutes with regard to the election of officers, compensation of personnel, bonding of the treasurer, budget approvals, contracts entered into, purchase of items, borrowing of monies, purchase and sale

of securities, resolution confirming clergy housing allowance for tax purposes, etc. This should be done before the actual examination of any accounting records. You may need to see the minutes of the previous year if they contain authorizations for expenditures in the year being audited.

- c. Obtain a copy of the previous audit. This will enable you to verify the beginning balances of the assets, liabilities, and net assets. If available, you should also obtain the previous year's management letter. The management letter details past audit findings and provides suggestions on how to improve the church's financial operations.
- d. Obtain a copy of the annual financial statements as prepared and presented by the treasurer.
- e. Review the procedures, which are being used to account for church monies. Identify the individuals with responsibility for financial operations and decisions by name and position and verify with them that all the funds of the congregation have been included in the statements.
- f. Identify all bank accounts and authorized check and withdrawal signers including those under separate treasurers.
- g. Request that all accounting records of all funds be presented together including:
 1. Chart of Accounts and Organization Chart
 2. General Ledger
 3. Cash Receipts Journals
 4. Cash Disbursements Journals
 5. Bank Statements including canceled checks
 6. Blank checks that are both in and out of the binder
 7. Paid Invoices
 8. Individual payroll records including Forms W-4 and I-9
 9. Federal and State payroll withholding reports
 10. Passbooks and evidence of other investments
 11. Pledge Records by individual and total
- h. Perform a preliminary analytical review of the financial statements. This may consist of a comparison of the current accounts to the previous year balances and to the budgeted amounts. After this is done, arrange a meeting with the Treasurer. Inquire as to any significant variances noted in the preliminary analytical review. Also ask the Treasurer about any matters noted in the reading of the minutes and ask about any other matters, which may have occurred during the year in which you should be aware of before beginning the audit.

3. REVIEW AND ASSESSMENT OF INTERNAL CONTROLS

In order to properly plan and perform the audit, the auditor must first obtain an understanding of the internal control environment and assess its overall effectiveness. The internal control structure consists of the church's policies, procedures, and commitment to reasonably prevent material errors and irregularities from occurring or going undetected. Internal control can be described as the overall plan of the church and the methods employed by the church to safeguard assets, ensure the reliability of the accounting data, encourage compliance with established procedures, and promote efficient operations. Good internal controls provide greater assurance that transactions are recorded properly. The review of the control system must be done by the auditor in order to assess the risk that the financial statements are materially misstated. Thus, if the controls in a particular area are bad, the risk that the account is misstated is higher and more testing in this area may be merited.

An internal control questionnaire is a good way to review the internal controls. You should fill out the questionnaire before the start of the audit. The questionnaire is intended to provide guidance to the auditor, which is used to evaluate the existing system. The normal answer is "yes." However, a "no" answer does not necessarily mean that the church is unauditabile or that the control environment is ineffective. It may simply suggest an area of the system that could be strengthened.

In addition, to supplement the questionnaire, a narrative description of the control procedures should be developed to provide documentation of the current review. This narrative should be retained for reference in future evaluations.

After obtaining an understanding of the control system via a review of the questionnaire and narratives, the responses must be tested to evaluate whether the controls are operating properly. For instance, if the response to question 1 (below) "are prior internal control questionnaires available" is yes, you must obtain a copy. This testing will enable a proper evaluation of the controls, which are in place.

Internal Control Questionnaire

General: The following items are intended to provide you with general information for an understanding of the over all accounting and internal control system.

- | | | | |
|---|------------------------------|-----------------------------|-----------------------------|
| 1. Are prior internal control questionnaires available? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |
| 2. Have recommendations of prior reports on internal controls been implemented? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |
| 3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |
| 4. Is the accounting system using a double-entry bookkeeping method? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |

Budget: The development and use of a budget is a critical management tool that will aid in the stewardship and administration of church resources and program.

- | | | | |
|--|------------------------------|-----------------------------|-----------------------------|
| 1. Is the budget approved by the church? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |
| 2. Are all changes to the budget authorized by the church committee and recorded in the minutes of the meetings? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |
| 3. Is there a periodic review of the budget by the church committee? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |

Reporting: The best accounting system is of little value unless the information is communicated to those responsible. Although there may be variations, there are certain minimum standards to assure adequate communication of the financial information.

- | | | | |
|---|------------------------------|-----------------------------|-----------------------------|
| 1. Is a Treasurer's report submitted to the church committee or finance committee each month? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |
| 2. Is the Treasurer's report presented in sufficient detail to inform the reader as to the nature of the various items of income and disbursements? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |
| 3. Does the report present the current actual financial data compared with the approved budget? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |
| 4. Is there periodic reporting, at least quarterly, of all other funds and activities, including designated or restricted funds? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> NA |

Cash receipts: Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited? Yes No NA
2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e., at least weekly? Yes No NA
3. Are there at least two unrelated persons responsible for the counting and depositing of the collections? Yes No NA
4. Are the persons responsible for counting receipts rotated on a periodic basis? Yes No NA
5. Do the counters have a standardized form for recording the deposit information? Yes No NA
6. Are the counter's sheets retained and reconciled with actual deposits, and are all discrepancies investigated? Yes No NA
7. Is the cashing of checks out of the currency received prohibited? Yes No NA
8. Are third party checks returned to donors? Yes No NA
9. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? Yes No NA
10. Are all other cash receipts recorded and deposited on a timely basis? Yes No NA
11. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt? Yes No NA
12. Are there procedures, which will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded? Yes No NA
13. Are periodic statements provided to donors of record, i.e., at least quarterly? Yes No NA
14. Do acknowledgments of contributions in excess of \$250 include a receipt from the donee organization which describes itself as the contemporaneous acknowledgment required by the Internal Revenue Code, and states that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits? Yes No NA
15. Are all discrepancies investigated? Yes No NA

Cash disbursements: The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1. Are all disbursements made by check, except for small expenditures made by petty cash? Yes No NA
2. Are all checks pre-numbered and used in sequence? Yes No NA
3. Is there a clearly defined approval process for all disbursements? Yes No NA
4. Are all voided checks properly canceled and retained? Yes No NA
5. Are all checks made payable to specified payees and not to cash or to bearer? Yes No NA
6. Are all disbursements supported by original documentation? Yes No NA
7. Is the original vendor's invoice or other documentation canceled at the time of signature to prevent duplicate payment? Yes No NA

Check signing:

- a) Is the signing of blank checks prohibited? Yes No NA
- b) Is the use of a signature stamp or preprinted signatures prohibited? Yes No NA
- c) Does all supporting documentation accompany checks presented for signature? Yes No NA
- d) Are all account signers authorized by the church? Yes No NA
- e) Is more than one signature required for any check? Yes No NA
- f) If not, do checks for more than \$500 require more than one signature? Yes No NA
- g) If signature imprint machines are used, are the keys kept under lock and key except when in use? Yes No NA
9. Are all disbursements requiring special approval of funding sources or of the church committee properly documented in the Church committee or Finance Committee minutes? Yes No NA

Journal entries: Journal entries offer a special opportunity to make adjustments to accounting records. The general journal is just as important a book of original entry as the cash receipts and cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry? Yes No NA
2. Are all journal entries approved by a knowledgeable person of authority other than the person initiating the entry? Yes No NA
3. Is adequate documentation maintained to support each journal entry? Yes No NA

Bank account reconciliation: The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt? Yes No NA
2. Are the tasks of opening and reconciling the bank statement performed by two different people? Yes No NA
3. Are the bank account reconciliations completed by someone other than the person who participates in the receipt or disbursement of cash? Yes No NA
- 4) Do the reconciliation procedures provide for:
 - a) Comparison of dates and amounts of deposits as shown on the bank statement with the cash receipts journal? Yes No NA
 - b) Investigation of bank transfers to determine that both sides of the transactions have been recorded? Yes No NA
 - c) Investigation of all bank debit and credit memos? Yes No NA
 - d) Review of all checks outstanding over 90 days? Yes No NA
 - e) Voiding of outstanding checks during the year-end reconciliation? Yes No NA
 - f) Is the bank immediately notified of all changes of authorized check signers? Yes No NA
5. Are all journal entries for bank charges and bank account interest recorded routinely? Yes No NA

Petty cash: The following controls are meant to provide for a timely recording of expenditures of cash in the accounting system.

1. Is the responsibility for the petty cash fund assigned to only one person? Yes No NA
2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, will always equal the amount of the fund? Yes No NA
3. Is there adequate review of documentation before the fund is reimbursed? Yes No NA

- 4. Is the petty cash fund reimbursed at least monthly? Yes No NA
- 5. Is the cashing of checks and loans to employees prohibited? Yes No NA
- 6. Is the actual petty cash protected from theft or misplacement? Yes No NA

Investments: Procedures for the proper recording and control of all investment instruments will help to assure that all assets and related income are accounted for and properly reported.

- 1. Are all investment instruments held in the name of the church only? Yes No NA
- 2. Is authorization for the sale and/or purchase of investments provided for by the church committee or authorized investment committee? Yes No NA
- 3. Are all investment instruments adequately protected from fire, theft, or misplacement? Yes No NA
- 4. Are the interest, dividends, and unrealized gains or losses recorded? Yes No NA

Property and equipment: Certain procedures involving the physical assets of the church will aid in detecting, identifying, and preventing losses.

- 1. Is formal approval of the church committee required for all property and equipment additions and dispositions? Yes No NA
- 2. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
 - a) Date acquired? Yes No NA
 - b) Detailed description? Yes No NA
 - c) Cost or fair market value at time of donation? Yes No NA
 - d) Any funding source restrictions? Yes No NA
- 3. Is a periodic review conducted to:
 - a) Compare the actual property, furniture and fixtures, and equipment to the recorded inventory listing? Yes No NA
 - b) Ensure the adequacy of the insurance coverage? Yes No NA
 - c) Improve loss prevention? Yes No NA

Liabilities and other debt: All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

- 1. Is all borrowing or indebtedness authorized by the church committee and other appropriate committees? Yes No NA

- 2. Are all loan agreements and/or lease agreements in writing and properly safeguarded? Yes No NA
- 3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? Yes No NA
- 4. Are all liabilities noted on Financial Statements/Reports to Church committee? Yes No NA

Restricted gifts and income: Gifts restricted by donors are not handled in the same manner as other contributions, and procedures are necessary to assure that these gifts are recorded properly and all restrictions are observed.

- 1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:
 - a)Date, amount and donor of gift? Yes No NA
 - b)Any restrictions or limitations? Yes No NA
- 2. Are all restricted gifts and grants approved by the Church committee or other authoritative body? Yes No NA
- 3. Are the income and other transactions periodically reported to the church committee? Yes No NA
- 4. Are written acknowledgments issued for all contributions other than pledges? Yes No NA

Payroll: The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities.

- 1. Are personnel files maintained to include:
 - a)Employment application and/or letter of employment? Yes No NA
 - b)Authorizations of pay rates and effective dates? Yes No NA
 - c)Internal Revenue Service Form W-4? Yes No NA
 - d)Department of Justice Form 1-9? Yes No NA
 - e)State Withholding Forms? Yes No NA
- 2. Is there a written record of hours worked and approved by a supervisor when applicable? Yes No NA
- 3. Are there adequate records to:
 - a)Show computation of gross pay? Yes No NA
 - b)Account for all deductions from gross pay? Yes No NA
 - c)Support payroll tax returns and Forms W-2? Yes No NA

- | | | | | | | |
|--|--------------------------|-----|--------------------------|----|--------------------------|----|
| 4. Are payroll tax returns filed on a timely basis? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 5. Are payroll tax deposits made on a timely basis? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 6. Are all employees, clergy and lay, receiving a Form W-2? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 7. Are Forms 1099 being provided for all individuals who are not employees, and for all unincorporated entities paid \$600 or more annually? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 8. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 9. Are clergy housing allowances recorded in the minutes of the church committee no later than the first meeting of the year? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |

Computer systems: The use of computers creates the need for additional procedures to safeguard the system and data.

- | | | | | | | |
|---|--------------------------|-----|--------------------------|----|--------------------------|----|
| 1. Are current or duplicate copies of the operating system and programs maintained off premises? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 2. Are the files backed up at least weekly and the backups maintained off premises? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 3. Is access to the computer and computer programs limited to authorized persons? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 4. Is there adequate documentation, including user manuals, available on-site for all computer programs? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| 5. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |

4. SUBSTANTIVE TESTING OF TRANSACTIONS AND ACCOUNT BALANCES

Assemble the following documents:

Before assembling the documents, it should be noted that the auditor should retain a file of the work papers, which were prepared to assist with the formation of the opinion on the financial statements. When the next year's audit is to be performed, these papers could be an invaluable guide to problem areas. The next auditor, if it is not you, should be provided with a copy of your work papers. These work papers should include such things as: the marked up audit and internal control check lists; lists of bank accounts, restricted funds, investments, insurance accounts and loans; the schedules you prepared and the procedures you followed in making the audit.

- | | | | | | | |
|---|--------------------------|-----|--------------------------|----|--------------------------|----|
| Minutes of the Church committee | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Minutes of any group authorized to disburse monies | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Annual financial report to congregation | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Treasurer's interim reports | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Names of those authorized for check signing, fund withdrawal or transfer, and disbursing approval | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |

List of securities held	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Copy of previous year's audit and internal control letter	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Organizational Chart	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Chart of Accounts	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Budget	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
General ledger	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Cash receipts journal	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Cash disbursements journal	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Bank statements for audited year, plus last statement for previous year and first for current year	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Paid checks and deposit slips	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Payroll records with Forms I-9, W-2, W-3, W-4, and State and Federal withholding records	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Savings account passbooks	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Other investment records	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA

Test receipts [See Worksheets 1, 2A and 2B]:

- a. *Plate offerings:* Cash receipts journal entries should be traced to weekly cash receipts records on a test basis.
- b. *Pledge receipts:*
 1. An analytical test of pledges should be done as follows: determine the number of pledging units. Test the number by verifying by reference to documents generated outside of the accounting function; e.g. membership records, directories, etc. Divide the total pledge receipts per the financial statement by the total pledging units. Compare this figure to similar records from prior periods and investigate any significant differences.
 2. Adding machine tapes should be made of the individual pledge records with the total agreeing with the total pledge payments reported.
 3. Random selection of individual pledge records should be tested for accurate total and balances. A minimum of 10 percent should be tested, unless number 4, below, is followed.
 4. If the auditor is engaged before year end and if the church sends statements to the pledgers, the auditor can save time and effort by supervising the mailing of the year end statements. The auditor can then use this mailing to obtain direct confirmation. He does this by including a statement on the year end statements that all variances should be reported directly to the designated member of the audit committee. Any reported variances should be noted and investigated.
 5. Auditors should always review the pledge receipts of the Congregation's personnel involved in money transactions.
 6. The auditor should determine if any amounts should be deferred as relating to future periods; for example, in 2000, a member may make a contribution for his or her 2001 pledge. This amount should be recorded as deferred income until the year 2001. The auditor should inquire as to the existence of deferred pledges and trace the deferred amount to supporting documentation.

7. Likewise, there may be pledges outstanding that were not collected by the end of the year. These amounts should be recorded as pledges receivable. The auditor should examine the pledges in the new year to determine the adequacy of the list of pledges receivable.

The decision as to the size of the representative sample of postings and pledge records for examination depends on the dollars involved and the sophistication of the congregation's records.

- c. *Contributions from mission organizations:* Receipts must be listed separately for each organization and amounts entered in the cash receipts journal traced to the weekly cash receipts records. These listed amounts shall be confirmed with their sources.
- d. *Investment and endowment income:* Income from securities should be verified by an examination of the brokerage house statement. Income from investment accounts should be verified by an examination of the statements provided or confirmed by the trustee or agency. Income from savings bank deposits should be verified by examination of the entries in the savings bank passbook(s) or confirmed by the bank.
- e. *Restricted income:* Income received for special purposes should be noted by the auditor who should trace the cash receipts journal entries to the weekly cash receipts records. The auditor should also be satisfied that the income was used for the purpose for which the gift was made.
- f. *Non-income receipts:* Verify all cash receipts journal entries by tracing them and ascertaining that the proper authorization has been given for any transfer or interfund borrowing, or for the sale or redemption or any investments or property.
- g. A sample of cash receipts records should be traced to duplicate deposit slips or bank statements to ascertain that these receipts are deposited intact.
- h. *Petty cash:* The auditor should be satisfied that a proper imprest system is being maintained. Petty cash is not to be used to cash personal checks. Cash flow and size of fund over the audit period should be checked for possible misuse.
- i. All receipts should be compared to budgeted amounts and material variances should be explained.
- j. Contributions of tangible assets or services. Tangible assets or services should be recorded at the fair market value of such contributions.
- k. Fill out the following checklist:

Do the records of total receipts per individual pledge agree with the amounts recorded and reported in the cash receipts journal?

Yes No NA

Have the postings and arithmetic on individual pledge records been tested?

Yes No NA

Number sampled:

Is there budgeting of contributions that can be reasonably estimated?

Yes No NA

Are contribution budgets periodically compared to actual, and are significant differences investigated?

Yes No NA

Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events?

Yes No NA

Are future bequest and gift files, such as proceeds from life insurance policies or sale of property willed to a Congregation, maintained on a current basis?

Yes No NA

Are files kept on life income, endowment, and annuity gifts, including information on the nature of the principal, investment of the principal, or use of the principal income, as well as correspondence with donors or beneficiaries, and copies of pertinent documents?

Yes No NA

Are individuals designated to be responsible for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc. received?

Yes No NA

Test disbursements [See Worksheet 3]:

- a. Tests are to be made to satisfy that disbursements have been accurately classified, and that invoices in support of the disbursements have been properly approved and canceled or marked "PAID".
- b. The auditor must be familiar with the financial statement expenditure categories listed on the church's chart of accounts.
- c. All expense accounts should be compared to budgeted amounts and material variances should be explained.
- d. Testing of Disbursements: Select a sample of disbursements in the following manner:
 - 1. Determine the total amount of all expenses.
 - 2. Pick all disbursements with a dollar value of greater than 10% of the total expenses. For instance, if total disbursements are \$100,000, any disbursement of \$10,000 or more will be tested.
 - 3. Pick a minimum of 60 of the remaining postings in a systematic sample. Results will indicate if a broader sampling is necessary. To choose which disbursements to test in the systematic selection, first determine the number of checks written on all accounts. Divide this number by 60. This number will be the sampling interval. For instance, if there are 2,000 checks written, you will divide this by 60, which equals 33.33. Thus, you will test every 33rd check (always round down). Therefore, if the first check number is 40, you will test check numbers 40, 73, 106, 139, and so on until you have selected 60 checks.

Make a list of the disbursements you have selected. The list should include the check number, payee, date, and amount of the check. Test as follows:

- 1. Compare the checks selected to the postings in the accounting records and to the accompanying invoices to determine that the disbursements are fairly recorded and classified. Comparison should include vendor's name, account classification, date, and amount billed.
- 2. Examine invoices for verification signature that the items were received or services performed for a sufficient number of items so the committee may be satisfied that goods and services were acknowledged by a person authorized to do so.
- 3. Check the arithmetic on invoices and vendors' monthly statements for a sufficient number of items to assure the committee that invoiced amounts were properly recorded on the statements.
- 4. Travel and business expense reimbursements should be checked to see that they are in accordance with the qualified reimbursement policy of the congregation. The auditor should examine the Church's accountable plan.

Test cash [See Worksheet 4]:

- a. The committee should ascertain a summary of the bank accounts maintained. This should include the purpose for which each is maintained.
- b. The committee should examine the canceled checks for:
 - 1. Authorized signature(s)
 - 2. Proper endorsement
- c. The auditor should account for all voided checks.
- d. The auditor should review the bank reconciliations to determine that the ending balance on the bank statement matches the one used on the reconciliation. The balance per the books should also be traced to the bank reconciliation.
- e. Outstanding checks and deposits in transit from the year-end bank reconciliations should be traced to the subsequent bank statements. For instance, if you are auditing the December bank reconciliation, trace the outstanding checks to the January and February bank statements to make sure that they cleared the bank. Any items that are left outstanding should be questioned.
- f. Determine whether transfer of funds occurred between bank accounts near the balance sheet date. Determine that the transfers were recorded in the books in the same accounting period and that any transfers not recorded by the bank in the same accounting period appear in the appropriate bank reconciliation.
- g. The auditor should count all petty cash accounts and reconcile the amounts to the books.

h. Fill out the following checklist:

- | | | | | | | |
|---|--------------------------|-----|--------------------------|----|--------------------------|----|
| Is the petty cash fund imprest? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Is the checking account(s) reconciled to the accounting records and checkbook? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Have paid checks been examined for authorized signatures? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Have paid checks been examined for endorsements? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Have the checks been compared to the disbursements journal for payees and amounts? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Have all voided checks been accounted for? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Are checks outstanding at year-end accounted for in subsequent statements? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Are disbursements supported by vouchers approved by authorized party other than check signer? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Are two signatures evident on checks for \$500 or more? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Is the bank notified immediately of all changes of authorized check signers? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Are cash journal footings tested for accuracy? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Are receipts records compared with bank deposits? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |

- Are transfers between accounts traced? Yes No NA
- Are journal entries approved by an authorized party other than a check signer, and are they adequately documented? Yes No NA
- Is documentation provided to support checks written to "Cash"? Yes No NA
- Has the total balance of the cash summary sheet been traced to the annual financial report? Yes No NA

Test investments:

- a. Obtain or prepare a list of securities owned showing:
1. The description of each security
 2. The serial number of bonds or securities
 3. The denomination of each security or its par value
 4. The interest rate of each bond
 5. The cost of each security and the amount recorded on the books
 6. The interest and dividends received during the year
 7. The market value of each bond or security as of December 31st of the year being audited.
- b. Review the investment summary for reasonableness, consistency of amounts between years and obvious omissions.
- c. Compare the securities listed with ledger accounts and/or with the brokerage statement. Whenever practicable serial numbers should be compared with records of security purchases in order to obtain positive identification and to avoid the possibility of substitution.
- d. Examine securities listed or obtain confirmation from the holders if any are held by depositories. It is preferable for this examination to occur as close to the examination date as possible. Insure that the securities are registered in the name of the church or are endorsed as to be transferable to the church. Examine the coupons on bonds to ascertain that unmatured coupons are intact.
- e. Examine all transactions for verification of acquisitions and disposition.
- f. Trace acquisitions to disbursement records and sales (dispositions) to receipts records.
- g. Examine broker statements and compare with investment ledger where applicable.
- h. The auditor should be satisfied that the securities are being adequately safeguarded.
- i. Examine securities for ownership, certificate number, dates, endorsements, assignments, etc.
- j. Verify any income, which has not yet been distributed.
- k. Determine, by reference to dates of purchase and disposal of investments, interest rates and published dividend records, whether income earned and accrued income receivable has been appropriately recorded.
- l. Fill out the following checklist:
- Is the securities list verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts? Yes No NA
- Is the name in which securities are registered verified? Yes No NA

In the case of coupon bonds, are unmatured coupons intact?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Is the market value of securities established at the date of the examination?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Are securities examined, or confirmed if held by depository or transfer agent?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Are brokers reports examined for securities bought or sold through brokers?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Were security purchases or sales authorized by appropriate church committee action and recorded in the minutes?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Have cash receipts records of dividends and interest been compared with record of securities held?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Have the investments been recorded at their fair market values?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Has the total balance of the summary of investments (recorded at fair value) been traced to the financial report?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA

Test trust and endowment funds:

a. Obtain or prepare a list of trust and endowment funds showing:

1. The source and date;
2. Terms governing the use of principal and income;
3. To whom and how often reports of condition are to be made; and
4. How the funds are to be invested.

b. Examine the trust or agency agreement for each new trust and endowment fund received during the fiscal year.

c. Fill out the following checklist:

Has a list of trust and endowment funds been obtained, including their terms and locations of the investments?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Have the agency accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Have the endowment funds been recorded at their fair market values?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA
Has the total balance of the endowment fund summary (recorded at fair value) been traced to the financial report?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	NA

Test debt:

- a. Obtain or prepare a schedule of all loans to include:
 - 1. The name of the lending institution
 - 2. The date or origin
 - 3. The original amount of loan
 - 4. The interest rate and payment schedule
 - 5. The monthly payment
 - 6. The unpaid balance
 - 7. The purpose of loan
 - 8. The authorizing body
 - 9. The collateral for the loan
 - 10. The restrictions placed by the lender
- b. Review balances for reasonableness, consistency of amounts between years and obvious omissions.
- c. Determine that any loans from the year being examined had the proper authorization and were recorded in the minutes of the church committee.
- d. Verify, by direct communication with any lender, the outstanding indebtedness at the year-end as well as the terms of the indebtedness.
- e. Reconcile the unpaid balance of all loans as reported by the church records to the figure reported by the lending institution.
- f. Fill out the following checklist:

Has all indebtedness been properly authorized by appropriate church officials? Yes No NA

Have unpaid balances per church records been reconciled with balances as reported by creditor? Yes No NA

Is a detailed schedule of all loans prepared, including name of creditor, date of origin, original amount of debt, interest rate payment schedule, monthly payment, unpaid balance, loan purpose, and authorizing body? Yes No NA

Has the total from the detailed schedule been traced to the financial report? Yes No NA

Test property and equipment [See Worksheet 5]:

- a. Obtain a list of fixed assets showing the cost or fair market value, if donated, and date of purchase.
- b. Review balances for reasonableness, consistency of amounts between years, and obvious omissions.
- c. Examine all the deeds and titles of ownership related to the properties owned by the congregation. Review them for the proper recording of the name of the owner and to determine if any encumbrances or liens exist.
- d. Determine if any inventory identification procedure is in effect.
- e. The church must have a physical inventory of capital assets. A sampling test of this inventory is to be made by the auditor.
- f. Ensure that all property and equipment is adequately insured.

g. If depreciation of property is recognized, review entries for accuracy.

h. Fill out the following checklist:

- | | | | | | | |
|--|--------------------------|-----|--------------------------|----|--------------------------|----|
| Is there a list of fixed assets, showing date of purchase and cost? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Is an inventory identification procedure in effect? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Using preceding information, has a physical examination of assets been made, to extent possible? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Have any deeds and titles required been examined as evidence of ownership? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Are land and buildings carried on financial statements? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Are any liens outstanding against any property and equipment? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Has the total of the detailed schedule been traced to the financial report? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |

Test payroll:

- a. Examine the individual earnings records for name, address, social security number, number of exemptions, rate of pay, and effective date.
- b. Ensure that the salary paid is authorized and proper by comparing with the amount budgeted.
- c. Trace the individual earnings record postings to the check register.
- d. Reconcile total wages paid and total withholding taxes with the quarterly Form 941 and end-of-year Form W-3, checking that they were remitted on time.
- e. Determine if a current signed federal form W-4 and a form I-9 (Immigration and Naturalization Service) is on file for each employee hired after November 6, 1986.
- f. Determine if a Form W-2 has been given to each employee (including the clergy) and that the Forms W-2 are correct and properly filed.
- g. Determine if Forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid \$600 or more annually and all recipients of educational scholarship funds of \$3,000 or more in a given year.
- h. Test the payroll to be sure that a real employee exists for every payroll check written.
- i. Fill out the following checklist:

- | | | | | | | |
|---|--------------------------|-----|--------------------------|----|--------------------------|----|
| Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Have total withholding taxes been reconciled with Form 941? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |
| Has it been determined that all Federal and State withholding taxes were remitted on a timely basis, to avoid hidden penalties? | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | NA |

Is a current signed Form W-4 on hand for each employee? Yes No NA

Has the total balance of the payroll reconciliation been traced to the financial report? Yes No NA

Test receivables and payables:

- a. Prepare a schedule of accounts receivable as of the balance sheet date. These may include pledge payments which were made after the end of the year in which the money was pledged or authentic obligations owed to the congregation at year end. Check the cash receipts in the new year to verify that the amounts listed were collected. Inquire as to any uncollected balances.
- b. Prepare a schedule of payables as of the balance sheet date. These may include monies owed by the congregation to vendors at year-end for goods and services received during the year being audited. Look in the paid bills file for the new year and trace any invoices dated in the year under examination to the accounts payable listing. For example, if you are auditing the 1999 payable figure, ask the treasurer for the file of the January 2000 bills in which he or she paid. Examine these invoices to see if any are dated for 1999. If they are dated 1999, but not paid until 2000, they should be on the payables list.

Also examine the new year's cash disbursement journal and search for any liabilities which have not been recorded. Discuss with the treasurer any old or disputed payables.

- c. Fill out the following checklist:

Is there a policy covering the procedure for write-offs of receivables or loans, approval required, provision for reserves? Yes No NA

Have the items on the payable and receivable lists been traced to subsequent payments or deposits? Yes No NA

Have the totals of the detailed payable and receivable schedules been traced to the financial report? Yes No NA

Test net assets [See Worksheet 6]:

A schedule should be prepared listing net assets according to the following classifications: unrestricted, temporarily restricted, and permanently restricted. All restrictions should be reviewed and verified. The summary schedules should be traced to the financial report.

Test insurance:

A schedule should be prepared listing the name of carrier, description of coverage, period of coverage, period of insurance, premium amount and date of premium payment for the following policies which the committee is to review:

- a. Fire insurance on buildings and equipment
- b. General Liability (Public Liability and Property Damage)
- c. Burglary
- d. Fine Arts
- e. Malpractice
- f. Workmen’s Compensation
- g. Fidelity Bond
- h. Automobile coverage on cars owned by the church
- i. Non-ownership liability insurance for cars owned by others when used for church business
- j. Directors’ and Officers’ Liability
- k. Umbrella Liability
- l. Other special policies held by the church.
- m. Fill out the following checklist:

Has insurance coverage been reviewed, and has a copy of policies been obtained and a schedule prepared detailing name of carrier, description of coverage, period covered, premium amount, and date of premium payment?

Yes No NA

Has there been inquiry as to whether there are any contingencies or commitments facing the church, e.g., legal action with prospects of potential loss?

Yes No NA

Test the discretionary fund:

Check that the discretionary fund is the name of the church, that the church’s federal tax identification number is the number used to identify the account at the bank, and that the fund has not been used for operating fund expenses or for the personal expenses of the clergy. If a separate checking account has been authorized, all monies for the discretionary fund must pass through the church’s general bank account and subsequently a check should be written to transfer the monies to the separate discretionary fund checking account.

5. SOURCES

Audits of Non Profit Organizations, Practitioner’s Publishers Clearinghouse, 1999.

Handbook for Church Treasurers and Trustees, United Church of Christ, Massachusetts Conference, 1999.

Local Church Audit Guide, United Methodist Church, 1998.

Manual of Business Methods in Church Affairs, Episcopal Church, 1995.

Whittington, *Principles of Auditing*, Irwin, 1992.

APPENDIXES

Worksheet 1 Bank Reconciliation
Worksheet 1 Template

Worksheet 2A Revenues
This worksheet is a comparative report. It compares budgeted activity with actual activity.
Worksheet 2A Template

Worksheet 2B Test of Receipts
Worksheet 2B Template

Worksheet 3 Test of Disbursements
Worksheet 3 Template

Worksheet 4 Cash
Worksheet 4 Template

Worksheet 5 Computer Equipment
This worksheet references only one of the arenas of equipment, i.e., computers. Other arenas are furniture, buildings, organ. Use the same format for testing all arenas of property and equipment.
Worksheet 5 Template

Worksheet 6 Net Assets
Note: Net assets is a new term for what was previously referenced, in accounting terminology as "Fund Balances."
Worksheet 6 Template

Worksheet 1

Bank Reconciliation

First Church			
Bank Reconciliation			
Anytown Bank -- Checking			
December 31, 2001			
			COMMENTS
Balance Per Bank:		\$2,860.04	Note 1
Add:			
Deposits in transit:			
	December 30, 2001	\$ 250.00	Traced
	December 31, 2001	\$1,567.00	Traced
		\$1,817.00	Traced
Less:			
Outstanding Checks			
	Ch # 2456	\$ 10.00	Traced
	2460	\$ 125.25	Traced
	2461	\$ 500.00	Traced
	2462	\$ 285.79	Traced
	2463	\$ 301.00	Note 2
	Total	\$1,222.04	
Balance per books		\$3,455.00	t/b

NOTES:

t/b = Agreed to the trial balance

Note 1 = Agreed to the bank statement

Traced = traced to the January 2002 bank statement; cleared in a timely manner

Note 2 = noted the date on ch #2463, which was Dec. 31. Also pulled check #2464, which was dated Jan 1 and therefore should not be on the outstanding check list.

Worksheet 2A Revenues

First Church					
Revenues					
December 31, 2001		Actual 2000	Budget	Actual 2001	COMMENTS
Unrestricted					
	Plate Offerings	\$ 25,435	\$ 25,000	\$ 26,568	Consistent
	Pledges	\$245,455	\$245,000	\$250,675	Consistent
	Promises to Give			\$225,000	Note 1
	Rent	\$ 10,500	\$ 10,500	\$ 12,000	Note 2
	Unrealized Gains	\$100,536	\$100,000	\$154,600	Note 3
	Interest and Dividends	\$ 50,632	\$ 50,000	\$ 55,675	Note 1
	Other Contributions	\$ 21,397	\$ 20,000	\$ 20,043	Consistent
	Total	\$453,955	\$450,500	\$744,561	F/S
Temporarily Restricted					
	Contribtns to Special Funds	\$ 48,500	\$ 45,000	\$ 11,750	Note 4
	Interest & Dividends	\$ 1,045	\$ 1,000	\$ 1,000	Note 4
	Total	\$ 49,545	\$ 46,000	\$ 12,750	F/S
Permanently Restricted					
	Bequest	\$ -	\$ -	\$162,500	Note 5
Total Revenues		\$503,500	\$496,500	\$919,811	
Analytical Test of Pledges					
	Pledges	\$245,455	\$245,000	\$250,675	
	Pledging Units	\$ 254	\$254	\$ 254	Note 6
	Average	\$ 966	\$965	\$ 987	Consistent

Consistent = means that no accounting was identified.

Note 1= increase due to unconditional pledges. Examined gift letters -- see promises to give/pledge workpapers for more info.

Note 2 = The Nursery's rent increased from \$875 /mo to \$1,000. $\$1,000 \times 12 = \$12,000$

Note 3 = See the investment workpapers for an analysis of the increases

F/S = tied to financial statement

Note 4 = Traced to net asset workpapers. See net asset workpapers.

Note 5 = This is the Smith bequest, which established the Smith Fund. See the net asset workpapers for supporting documentation.

Note 6 = Counted pledge cards to verify #. Also added up all pledge cards. Total was \$247,058, which was very close to actual. Also, a letter was sent to each household to request that they notify auditor if discrepancy between the tax report statement and their records. Found one math error.

Worksheet 2B Test of Receipts

First Church	
Test of Receipts	
December 31, 2001	
Sample Selection:	
Total deposits for yr	132
Random Start #	3
Total	129
Number to be tested	25
Interval	5.16
Rounded	5

Testing of Receipts													
Refrence #	Sheet #	Date	Plate	Pledge	Interest	Rent	Day School	Special Events	From Ch Orgnztns	Honorariums	Other	Total Depst	Comment
1	3	1/22/00	640.70									640.70	OK
2	6	1/25/00	106.00	4,135.50								4,241.50	OK
3	9	2/8/00					7,715.28					7,715.28	OK
4	12	2/24/00	1.00				138.95		225.00			364.95	OK
5	15	3/8/00	109.29	1,948.50								2,057.79	OK
6	18	3/24/00				75.00					30.25	105.25	OK
7	21	4/5/00	3,512.15	5,356.00								8,868.15	OK
8	24	4/21/00	3,000.00							300.00	226.07	3,526.07	OK
9	27	5/5/00								50.00		50.00	OK
10	30	5/17/00	92.00	5,315.41								5,407.41	OK
11	33	6/1/00	99.65	3,930.50								4,030.15	OK
12	36	6/14/00	70.69	3,058.50								3,129.19	OK
13	39	6/30/00			2,950.00					150.00	4.57	3,104.57	OK
14	42	7/14/00					5,570.75					5,570.75	OK
15	45	7/31/00			12.93							12.93	OK
16	48	8/17/00									801.83	801.83	OK
17	51	8/30/00	179.75	3,485.54			-					3,665.29	OK
18	54	9/13/00					6,067.02					6,067.02	OK
19	57	9/28/00	170.73	4,620.00								4,790.73	OK
20	60	10/4/00	84.73	4,119.50								4,204.23	OK
21	63	10/18/00	139.20	6,905.58								7,044.78	OK
22	66	10/31/00			11.53							11.53	OK
23	69	11/9/00										-	OK
24	72	12/7/00				300.00	3,503.25					3,803.25	OK
25	75	12/27/00	3,423.50	4,822.00				60.00				8,305.50	OK

OK = traced to general ledger and bank deposit; noted current amount; deposit made in timely manner; coded to correct account/fund; verified two signatures present if required.

Worksheet 3 Test of Disbursements

First Church	
Test of Disbursements	
December 31, 2001	
Sample Selection:	
First Check	1654
Last Check	2562
Total	908
Random Starting #	5
Subtotal	903
Interval	15
Rounded	15
Testing of Disbursements	

	Check #	Date	Account	Description	Amount	Comment	Comment
1	1659	1/12/00	Office Supplies	ABC Co	202.50	OK	
2	1674	1/19/00	Liturgical Supplies	X, Inc.	6.90	OK	
3	1689	1/30/00	Office	Joe's Office	5.00	OK	
4	1704	1/29/00	Payroll	J. Clark	1,684.50	OK	Note 2
5	1719	2/3/00	Furniture	First Furniture	300.00	OK	
6	1734	2/12/00	Payroll	H Knight	92.35	OK	Note 1
7	1749	2/12/00	Dayschool	Smith - reimbrsmnt	23.00	OK	
8	1764	2/18/00	Supplies	Sam's	194.42	OK	
9	1779	2/24/00	Payroll	F. Knickerson	184.25	OK	Note 2
10	1794	2/24/00	Office	Joe's Office	112.31	OK	
11	1809	3/3/00	Payroll	Rev. Jones	2408.46	OK	Note 3
12 thru 58			various	various	various	OK	
59	2529	11/9/00	Pension	The Church Pension	466.47	OK	
60	2544	12/7/00	Payroll	F. Knickerson	230.78	OK	Note 2

NOTES:

OK = Compared to invoices and check vouchers for proper approval; date amount; and account coding. No problems noted. Compared to General ledger for proper account and fund coding and amount

Note 1 = This was a reimbursement form submitted to Mr. Smith. Checked accountable plan for compliance with church procedures.

Note 2 = Traced to time cards for proper hours. Looked at personnel files and recomputed net and gross pay.

Note 3 = Looked at minutes authorizing housing allowance. Traced to memo in personnel file; recomputed and traced to g/l.

Worksheet 4 Cash

First Church			
Cash			
December 31, 2001			
Account Name /Descriptn	2000	2001	Comment
Anytown Bank - Checking Account	12,345.00	3,455.00	Note 1
Anyfund Money Market	15,000.00	75,000.00	Note 2
Savings of Anytown - Youth Club	1,548.00	1,205.00	Note 3
Discretionary Fund - Second Bank	1,200.00	750.00	Note 4
First Bank - Cert of Deposit	10,000.00	10,000.00	Note 5
Total			F/S

NOTES:

1 = Agreed to bank reconciliation

2 = Agreed to bank statement. The increase in this account is due to the Smith bequest received at the end of the year. Amount invested in the subsequent year per the January 2002 bank statements. Also see net asset workpapers.

3 = Agreed to passbook

4 = Agreed to statement

5 = Agrees to CD statement. Reviewed documentation and determined that this is a short-term CD.

F/S = Agreed with financial statement

Worksheet 4 Cash Template

Cash			
December 31, 20__			
Account Name /Descrptn	20__	20__	Comment
Total			

NOTES:

Worksheet 5 Computer Equipment

First Church								
Computer Equipment								
December 31, 2001								
Date	Description	Life	Method	Cost	2000 Depr.	2001 Accumltd Depr.	2001 Depr	2001 Accmltd Depr.
1/31/00	Computer System	5	SL/HY	10,525.67	1,052.57	1,052.57	2,105.13	3,157.70
1/30/00	Computer	5	SL/HY	1,270.80	127.08	127.08	254.16	381.24
3/11/00	Computer System	5	SL/HY	3,342.35	334.24	334.24	668.47	1,002.71
6/30/01	Computer System	5	SL/HY	2,090.32 ¹			209.03	209.03
	Total			17,229.14	1,513.89	1,513.89	3,236.79	4,750.68
	Comments			F/S		P/Y	F/S	F/S

NOTES:

P/Y = Tied to prior year financial statement

F/S = Tied to year end financial statement

Note 1 = Examined invoice

General Notes:

 Took a physical inventory of the computer equipment listed above. All work and are in good condition.

 Reviewed depreciation entries and recalculated them.

 The church follows IRS guidelines for determining useful lives of assets. I reviewed guidelines and determined church is in compliance.

 Examined the church insurance policy and confirmed that computers are adequately insured.

Worksheet 5 Computer Equipment Template

Computer Equipment								
December 31, 20__								
Date	Description	Life	Method	Cost	2000 Depr.	2001 Accumltd Depr.	2001 Depr	2001 Accmltd Depr.
	Total							
	Comments							

NOTES:

Worksheet 6 Net Assets

First Church				
Net Assets				
December 31, 2001				
	Balance 12/31/00	Revenues	Disbursements	Balance 12/31/01
Temporarily Restricted Net Assets				
Capital Improvement Fund	255,000		55,675 ¹	199,325
Music Fund	55,000		1,500	53,500
Special Gifts	15,400	1,000	1,000	15,400
Adult Education	1,500	4,500	3,575	2,425
Small Groups	2,575	1,200	900	2,875
Youth Group	500	1,050	755	795
Habitat for the Community	10,500	5,000 ²		15,500
Other donor-designated funds	150		150	-
	340,625	12,750	63,555	289,820 ^{F/S}
Permanently Restricted Net Assets				
	Balance 12/31/00	Revenues	Balance 12/31/01	
William Smith Fund		162,500 ³	162,500	
Prudence White Fund	25,000		25,000 ⁴	
Kitchen Fund	50,500		50,500 ⁴	
	75,500	162,500	238,000 ^{F/S}	

NOTES:

F/S = Traced to financial statement

1 = Reviewed voucher and invoices and verified amounts. Also verified that these expenditures were in compliance with the donor's restrictions placed on this fund.

2 = Reviewed gift letter (see copy) and traced to cancelled check and bank statement deposit.

3 = Traced to bequest documentation. This was set up so that this amount is permanently restricted and interest and dividends go into the Youth Fund.

4 = Reviewed the Permanent File, which has documentation showing the original donor contributions that set up these funds. See Permanent File.

Worksheet 6 Net Assets Template

Net Assets				
December 31, 20__				
	Balance 12/31/ ____	Revenues	Disbursements	Balance 12/31/ ____
Temporarily Restricted Net Assets				
Permanently Restricted Net Assets				
	Balance 12/31/ ____	Revenues	Balance 12/31/ ____	

NOTES:

