

## **Important Disclaimer**

This checklist is provided to assist churches in fulfilling the requirement of *Book of Order* provision G-10.0400, 4, d. The *Book of Order* does not require that the annual review of the financial records of a congregation be conducted by a professional accountant or attorney. Completion of this checklist should satisfy the requirement of the *Book of Order*. The Office of Stewardship is not rendering legal, accounting, or other professional services. If accounting or legal advice is necessary or required, the services of a competent professional advisor should be sought.

## **Copyright Information**

© 2001 Presbyterian Church (U.S.A.). Significant portions of this document are copyrighted by and used with the permission of the General Council on Finance and Administration of the United Methodist Church.

## INTRODUCTION

This document is intended as a guide to assist Presbyterian churches with their compliance with the minimum standards of financial procedure specified in the Constitution of the PC(USA), Part II, known as the *Book of Order*.

Section G-10.0401 of the *Book of Order* outlines the church finance responsibilities and required financial procedures. Items 4a, 4b, and 4c discuss minimum standards for daily operations, record keeping and financial reporting throughout the year. Item 4d requires the local church to carry out the following:

A full financial review of all books and records relating to finances once each year by a public accountant or public accounting firm or ***a committee of members versed in accounting procedures***. Such auditors should not be related to the treasurer (or treasurers). Terminology in this section is meant to provide general guidance and is not intended to require specific audit procedures or practices as understood within the professional accounting community.

As the *Book of Order* states,

**"Such auditors should not be related to the treasurer (or treasurers)."**

This document presents guidelines for such ***a committee of members*** as described above. It is assumed that some churches are able and do hire professional accountants to conduct a formal audit of the churches' finances. These auditors are well versed in the procedures that are necessary. It is the congregation not able to hire a professional that this document primarily addresses (though it may be useful and serve as a guide for any church no matter its size.) For the congregations that use it, this document discusses the many aspects of planning, carrying out, and documenting a financial review as required by the *Book of Order*.

The financial review of a congregation, regardless of the size of its membership or budget, would typically include, ***but not be limited to***, the steps included in this guide.

## **Nature of the Review**

The purpose of the review is not to catch someone in the act of misusing or stealing funds. Though it may protect a congregation and treasurer from these things, the primary purpose of the review is to insure good financial procedures and to help the congregation have confidence and trust in the stewardship of their contributions. A financial review includes becoming familiar with every aspect of the church's financial procedures. The committee should evaluate the church's financial operations, reports, policies, and procedures. The committee should use interviews and firsthand observations to determine, to the best of its ability, the answers to the following questions. The answers received and the judgment of the committee will then affect the sample size of transactions and documentation selected for examination and independent verification.

The checklist is a way of identifying areas that are strong and those that need attention. An explanation of the items in the checklist appears at the end. It is expected that the checklist be used before the instructions and explanation section is consulted. This sequence speeds up the process and increases efficiency. The section on instructions and explanations is not designed to be exhaustive.

# FINANCIAL REVIEW CHECKLIST

## PRESBYTERIAN CHURCH

For the Fiscal Year Ended \_\_\_\_\_ Date \_\_\_\_\_

\_\_\_\_\_  
*Committee Member's Signature*

	<u>Date Completed</u>	<u>Initials</u>
<b>Reconciliation of Bank &amp; Investment Accounts</b>		
Operating bank account # _____	_____	_____
Month _____	_____	_____
Bank account # _____	_____	_____
Month _____	_____	_____
Bank account # _____	_____	_____
Are bank accounts balanced monthly?	_____	_____
Verification of beginning and ending year balance	_____	_____

### **BANK & INVESTMENT**

Account signatories verified	_____	_____
Telephone or other transfer verified	_____	_____
Safe deposit box access checked	_____	_____
Account balances confirmed by Bank/Company (see attached forms)		
Name _____ Confirmation Sent & Returned	_____	_____
Name _____ Confirmation Sent & Returned	_____	_____
Name _____ Confirmation Sent & Returned	_____	_____
Name _____ Confirmation Sent & Returned	_____	_____

	<u>Date Completed</u>	<u>Initials</u>
<b>A. INCOME</b>		
Offering counted by two unrelated persons	_____	_____
Funds deposited in timely fashion	_____	_____
Financial secretary's and treasurer's records compared against deposits	_____	_____
Transactions checked against postings to GL	_____	_____
Other income processes verified	_____	_____
Designated funds directed to restricted accounts	_____	_____
Pledges recorded on donor records	_____	_____
Confirmations sent to donors #sent _____ (Keep a list)	_____	_____
# returned _____	_____	_____
Differences researched & cleared	_____	_____
Finance secretary's records reviewed	_____	_____
Finance secretary's records agree with general ledger	_____	_____

NOTES:

**B. DISBURSEMENTS**

Date Completed

Initials

Invoices properly approved	_____	_____
Canceled checks examined to verify that disbursements were actually paid to the proper parties	_____	_____
Check number and date noted	_____	_____
All checks, used and voided, accounted for	_____	_____
Purchase order system, if applicable, functioning appropriately	_____	_____
Accounts to charge noted on invoice	_____	_____
Any invoices to vendors over 30 days in arrears	_____	_____
Per capita and mission apportionments paid per session direction	_____	_____
Interest & service charges recorded	_____	_____
General ledger balances equal daily transaction	_____	_____
A procedure in place to account for restricted gifts	_____	_____
Procedure in place to distribute gifts regularly (Confirm with receiving agency in Presbytery)	_____	_____
Designated gifts paid out on a timely basis (Confirm with receiving agency in Presbytery)	_____	_____
Canceled checks matched to invoice for appropriateness	_____	_____
Disbursement of petty cash funds given proper approval	_____	_____
Reimbursements to the petty cash fund properly made	_____	_____
Maximum figure for individual approval of payments established and followed	_____	_____

NOTES:

**C. REPORTS**

	<u>Date Completed</u>	<u>Initials</u>
Complete financial picture provided by reports	_____	_____
Reports made helpful to committee members	_____	_____
Approved budget included in reports	_____	_____
Over-budget expenditure approvals in order	_____	_____
Controls for over expenditures provided	_____	_____
Policies for restricted funds reviewed	_____	_____
Restricted funds used according to policy	_____	_____
Regular reports provided on pledge giving to finance committee and pastor	_____	_____
Reports provided in timely fashion	_____	_____
Reports distributed to the appropriate people	_____	_____
Both a balance sheet and a statement of income and expense prepared	_____	_____

NOTES:

**D. GENERAL LEDGER**

Date Completed

Initials

Restricted funds separated appropriately	_____	_____
Internal controls for receipts reviewed <small>(see separate document for understanding of internal controls)</small>	_____	_____
Internal controls for disbursements reviewed	_____	_____
Other asset accounts reviewed <small>(equipment, buildings, contracts, etc.)</small>	_____	_____
Accounts payable reviewed	_____	_____
Accounts receivable reviewed	_____	_____
Prepaid expense account reviewed	_____	_____
Any related party/employee loans noted	_____	_____
Unearned Income account reviewed	_____	_____
Fund balance from prior year correct	_____	_____
Correct fund balance carried into next year	_____	_____

NOTES:



	<u>Date Completed</u>	<u>Initials</u>
<b>E. ADMINISTRATIVE</b>		
Church Employer Identification Number obtained	_____	_____
File for EIN and tax filings safeguarded	_____	_____
Deed to church property and/or mortgage safeguarded	_____	_____
Insurance policies safeguarded	_____	_____
Insurance coverage appears to be adequate	_____	_____
Prior year insurance policies safeguarded	_____	_____
Church has separate bond for persons handling money	_____	_____
Where and how documents are safeguarded noted	_____	_____
Persons with access noted	_____	_____

NOTES:

**F. PAYROLL**

	<u>Date Completed</u>	<u>Initials</u>
Personnel files kept on individuals	_____	_____
Personnel files safeguarded and confidential _____	_____	_____
Salaries paid according to approval	_____	_____
Tax forms issued to clergy persons, employed persons, and government	_____	_____
Payroll tax deposits and timely remittances to government made	_____	_____
Time sheets filed and approved <small>(not by treasurer)</small>	_____	_____
Employee benefits paid and current pension _____ other _____	_____	_____
Any salary reduction plans noted _____	_____	_____
Session/committee approval noted and written documentation in file	_____	_____
Amount paid to persons on contract/ honorarium verified	_____	_____
Proper 1099 filing of approvals for persons paid for over \$600 paid on contract/honorarium	_____	_____
Other	_____	_____

NOTES:

# REPORT OF THE ANNUAL FINANCIAL REVIEW

The Session is required to provide for an annual audit of the records of all financial officers, including the financial secretary and/or church business manager and/or treasurers of the church and all its organizations and shall report to the Session.

\_\_\_\_\_ Church  
 \_\_\_\_\_ Presbytery

For the period beginning \_\_\_\_\_, \_\_\_\_\_  
 and ending \_\_\_\_\_, \_\_\_\_\_.

## I. RECEIPTS, DISBURSEMENTS, AND BALANCES

	( a ) Balance at Beginning of Period	( b ) Cash Received & Recorded	( c ) Total Disbursements for Period	( d ) For Transfers +(-)	( e ) Balance at End of Period
<b>Local Church Funds</b> (Use those applicable to your church)					
General Fund	\$	\$	\$	\$	\$
Benevolence Fund					
Building or Improvement Fund					
Board of Trustee's Fund					
Presbyterian Women					
Presbyterian Men					
Church School					
Other Fund Organizations					
Name:					
Name:					
Name:					
Name:					
Name:					
Total amount of cash in ALL treasuries of the church	\$	\$	\$	\$	\$

# **THE FINANCIAL REVIEW CHECKLIST**

## ***INSTRUCTIONS and EXPLANATIONS***

### **A. Confirmation**

After the books are closed for the year but before the financial review begins, the committee should prepare confirmations for banks, insurance companies, and donors. Those confirmations are essential for providing independent confirmation of bank account balances and authorized signatures, the coverage level(s) and related premiums(s) for all insurance policies, and, on a test basis, donor contributions.

#### *1. Bank Confirmations*

For each bank and investment account, request the balance as of year end and a list of person(s) authorized to sign on each account. *(See items on Checklist, under Bank and Investment.)*

#### *2. Insurance Company Confirmations*

Request the confirmation of the policy number, the level of coverage and the anniversary date and premium. *(See insurance items on Checklist, under (E.) Administrative.)*

#### *3. Pledge and Donation Confirmations*

On a test basis (a representative sample), confirm the amounts received from donors and the period for which the donation is to be booked. Copies of year-end statements may be used to facilitate this process. *(See items related to donors on Checklist, under (A.) Income.)*

These confirmations constitute an essential piece of the reviewing process. Second requests may be required if confirmations are not responded to in a timely fashion. The responses should be sent directly to the reviewer(s), not in care of the church.

## **B. Cash**

Two categories of cash need to be audited at year end: bank or savings accounts held in the name of the church, and any petty cash accounts held in the office of the church. At this time the reviewer must have the list of all bank accounts and person(s) authorized to sign on each, a copy of all the financial statements for each month being reviewed, and the bank account statements and reconciliations for that same period. (*See items on Checklist, under (A.) Income*)

- § Review the bank confirmations to see that the ending balance as stated by the bank is the same figure used in the last statement of the fiscal year, then check to see that the current authorized signers as listed by the bank are the same names listed within church records. If the lists fail to match, inform the treasurer, who should investigate any differences.
  
- § Review all bank reconciliations to see that the beginning balance of one month is the same as the ending balance of the previous month. Note whether the book balance as listed on the bank reconciliation is the same balance presented on the financial statements.
  
- § Pick a month and actually perform a bank reconciliation for each account using the original books of entry, the financial secretary's records and any subsidiary journals. If you find a discrepancy between your reconciliation of the month and the reconciliation provided by the treasurer(s), research the discrepancy to find an explanation or an error.
  
- § The reviewer should do an independent count of all petty cash accounts. This count should tie to the books. Review expense types for their appropriate charging to program area or administrative accounts. Ascertain suitability and adherence to policies.

## C. Income/Receipts

Determine if the deposits as listed by the financial secretary and the treasurer match those listed on the bank statement. Verify, on a test basis, the deposits for Sundays during the calendar year. *(See items on Checklist, under (A.) Income.)*

- \$ Test (a random sample, not to exceed 10 items) the counter's documentation versus the Sunday receipt deposit slips and bank statements. Review original book of entry for correct posting of Sunday deposits.
  
- \$ Using the donor confirmations, determine whether the amount paid as reported by the donor is the same as recorded and received by the financial secretary. If there is a difference, research for a timing difference, inaccurate recording, or some other explanation.
  
- \$ Review the original books of entry to determine if other income has been recorded accurately (i.e., appropriate account, correct amount, unrestricted or designated vs. restricted, etc.). Trace the entries to the financial statements.

**D. Disbursements** *(See items on Checklist, under (B.) Disbursements.)*

- \$ Review the Finance Committee and other committee minutes, as appropriate, for actions concerning disbursements, including benevolent and per capita payments. Reconcile those actions with any actual payments made.
- \$ Test to ensure that all of the disbursements have been properly authorized.
- \$ Review the original books of entry and disbursements journal to ensure that all disbursements have been recorded appropriately.
- \$ For the insurance premium disbursements, check to see whether the amount disbursed is the same as that listed by the insurance company as premiums due.
- \$ Verify that income designated for special mission purposes has been distributed or allocated accordingly.

If there is a purchase order system in conjunction with disbursements, note whether the purchase orders have been authorized and approved by the appropriate person(s) and matched against the actual disbursement or invoice.

## **E. Payroll and Tax Records** *(See items on Checklist, under (B.) Payroll)*

- \$ Reconcile all payroll with tax records and tax payments made.
- \$ Verify that the appropriate amounts have been reported on the 941s, W-2s and 1099s and that the forms have been transmitted to the federal, state and local tax authorities on a timely basis. Also verify the existence of current W-4s and I-9s for all staff. The church may not do Social Security withholding for clergy but can make voluntary income tax withholding pursuant to a W-4 form, at the pastor's request.
- \$ Test that the appropriate amount of taxes have been deducted from the paychecks and can be tracked back to the W-4 as submitted by each staff person.
- \$ If the church is not using an accountable reimbursement plan for clergy, or other staff, the appropriate allowances need to be recorded on the W-2 form (or 1099 form, if it is still being used) issued by the church to the clergy.
- \$ Track the payroll and tax records to the actual disbursements made and recorded with the original books of entry.
- \$ If irregularities exist, research to determine (error) or cause.
- \$ If there are Tax Deferred Annuities (TDAs), Section 125, or other salary reduction agreements, verify existence of signed agreement and proper tax withholding applied.
- \$ Verify pension contribution with pension board. If there is a salary reduction agreement, review documents for accuracy and verify that agreements have been approved by Session.
- \$ Verify that housing allowance resolutions are in place and have been properly applied to reduce clergy's reportable 941 and W-2 income.



# I. RECOMMENDATIONS

The Auditors/Auditing Committee (*circle one*) has examined the accounts listed on the front side, reviewed procedures of counting and accounting under the current ***Book of Order G-10.0401d***, reconciled receipts and disbursements with bank deposits and bank balances, and has found the balances displayed correctly, presented fairly, with proper procedures, and records properly kept, except as noted below:

Signed: \_\_\_\_\_ Date \_\_\_\_\_  
*Financial Review Committee Chair or Auditor*

***COPIES OF THIS REPORT SHOULD BE DISTRIBUTED TO  
THE MODERATOR OF SESSION, CLERK OF SESSION, AND ALL SESSION MEMBERS,  
COMMITTEE ON FINANCE AND/OR BOARD OF TRUSTEES***