

FULL FINANCIAL REVIEW REPORT TO SESSION

(20 __ Books)

GUIDELINES FOR

Name of Church: _____

INTRODUCTION

Almost every day we see news articles about a church or other non-profit organization that is coming under suspicion of misuse of non-profit, tax-exempt receipts. Part of Presbytery's oversight role is helping our churches remain above suspicion when it comes to financial matters--without creating unnecessary burdens for the local church.

CONSTITUTIONAL BASIS

The Book of Order G-3.0205 establishes the need for this review as follows:

“In addition to those responsibilities described in G-3.0113, the session shall prepare and adopt a budget and determine the distribution of the congregation’s benevolences. It shall authorize offerings for Christian purposes and shall account for the proceeds of such offerings and their disbursement. It shall provide full information to the congregation concerning its decisions in such matters.

The session shall elect a treasurer for such term as the session shall decide and shall supervise his or her work or delegate that supervision to a board of deacons or trustees. Those in charge of various congregational funds shall report at least annually to the session and more often as requested. Sessions may provide by rule for standard financial practices of the congregation, but shall in no case fail to observe the following procedures:

- a. All offerings shall be counted and recorded by at least two duly appointed persons, or by one fidelity bonded person;*
- b. Financial books and records adequate to reflect all financial transactions shall be kept and shall be open to inspection by authorized church officers at reasonable times;*
- c. Periodic, and in no case less than annual, reports of all financial activities shall be made to the session or entity vested with financial oversight.”*

G-3.0113 – “Each council shall prepare and adopt a budget to support the church’s

mission within its area. A full financial review of all financial books and records shall be conducted every year by a public accountant or committee of members versed in accounting procedures. Reviewers should not be related to the treasurer(s). Terminology in this section is meant to provide general guidance and is not intended to require or not require specific audit procedures or practices as understood within the professional accounting community.”

FULL FINANCIAL REVIEW/AUDIT COMMITTEE

Many churches cannot justify the expense of an audit by an outside public accounting firm and so rely on the services of an audit committee.

To help provide continuity, it is recommended that a) an audit committee be provided for in the congregation bylaws, b) it include at least two, preferably three, members versed in bookkeeping and/or accounting procedures and principles and computer accounting programs, and, c) its members be elected by the congregation or appointed by the session for rotating terms. **Make sure the members of the audit committee are not related to the treasurer, to each other, to the financial secretary, or to members of the finance committee.** If possible, try not to use active elders (or trustees, if the congregation has separate trustees.)

The Checklist in the following section serves as a guide to what needs to be reviewed—at a minimum. From the “review” a “report” needs to be made to the Session identifying who conducted the review, whether or not any material exceptions were found, and if there were, what they were. Depending on the requirements of the particular church, a more detailed report of the finding may go to the finance committee and the treasurer for follow-up of procedural or corrective matters noted.

For smaller churches; if the Treasurer has all materials ready (including all checks and check records) for the Review Committee, the following should take 3 people about 3+ hours to complete; if it takes longer, you probably have very complex

books, lots of assets, or need an outside audit (larger churches will need proportionately more time.):

(Note: Samples listed in the remainder of this document are for churches under 400 members; churches above 400 should increase the sample size.)

CONDUCTING A FINANCIAL REVIEW

[directions for an Audit/Review Committee]

The following checklist may be used to guide the review. It should be retained in the church records along with documentation review and findings and recommendations generated by the review.

1. ___ If the church was audited by a Certified Public Accountant or Accounting firm, attach a copy of their report along with any letter of opinion, recommendations, and appendices. **IF SO AUDITED, NOTHING ELSE IS REQUIRED.**

___ If not audited, please look for/obtain the following:

___ "balance sheet" for all funds, showing the beginning balances, summary of receipts and disbursements by fund, and the closing fund balances;

___ an inventory of major assets and liabilities of the church corporation, such as certificates of deposit, trust funds held by others, land and improvements, mortgages and loans (including General Assembly mortgage/donation grants);

___ a copy of the approved budget for the year in question. (Likely the same as those in the annual report).

[Much of this information needs to be gathered **once** and then can be updated each year.]

The following walks you through a financial review; checkmark indicates completed

2. ___ Verify that concerns/recommendations from the previous year's FFR have been addressed.
3. ___ Compare previous years' reports to insure no financial accounts or instruments were missed in this year's reports and if there were, what they were. Depending on the requirements of the particular church, a more detailed report of the finding may go to the finance committee and the treasurer for follow-up of procedural or corrective matters noted.
4. ___ Verify the Treasurer's balances in all bank and similar accounts, (bank statements,

investment reports, etc.).

5. ___ Verify regular reconciliations of the checkbook/ledger/journal balances with the actual bank account balances. {Minimum sampling: two months}
6. ___ Verify (on a test basis--4 random weeks) that *a*) all monies were counted by two or more persons each week, *b*) that signed counters' reports reconcile with deposits, and *c*) that receipt records reconcile with the totals reported by the Treasurer.
7. ___ Verify that internal controls can prove that designated and/or restricted funds were recorded as such in the accounting records, reported as such to the individual contributors, **and** that totals received actually were spent for the designated purpose. {Minimum sample: at least 10 individual gifts--e.g. to OGHS, Memorial, Building, special program, etc.--and two such funds}
8. ___ Verify (on a test basis) that payments were properly requested, authorized, and recorded, and that checks were written sequentially. Verify that each check has authorized signature(s) and that the payee properly endorsed them. {Minimum sample: 30 checks}
9. ___ Verify that internal controls over purchasing and accounts payable are appropriate (Are purchases authorized appropriately, bills paid on time, etc.?). {15-20 samples}
10. ___ Review payroll procedures, including: that minister(s) is/are paid according to the terms of call voted by the congregation; other employees are paid proper amounts; withholding is done in accordance with federal and state requirements and all IRS forms filed in a timely manner; appropriate W-2's and/or 1099's are prepared at year-end for all employees, including ministers; deposits of payroll taxes were made and paid in a timely fashion; etc. {2 payroll checks/person}
11. ___ Review/verify the list of contents of any lock box or safe. Inventory certificates of deposit, titles, deeds, mortgages, promissory notes, etc.
12. ___ Verify that vouchers, invoices, bank statements, giving records, and canceled to church leaders {Minimum sample: checks from at least the three previous years are available for reference.} {do prior to FFR}
13. ___ Verify that payroll records are available for reference (Keep payroll records a minimum of seven years, 10 is a better goal). {do prior to FFR}
14. ___ Review the adequacy of permanent documentation for all bequests, endowments, and larger gifts, including donor restrictions

(Are the terms of the gift recorded in session records, filed properly in the church office, printed with annual reports, etc.?). Confirm that financial reports separate restricted endowment funds and building (capital) funds.

15. ___ Review the regular (monthly) reports given to the finance committee, trustees, session, and congregation, to test the accuracy of information about church finances provided.
16. ___ Review all insurance policies. Are they current and paid up? Does the church have the following types of coverage:
 - Workers Comp
 - Multi-peril (fire,)
 - Errors & Omissions (directors, officers, sexual misconduct)

17. ___ Verify that no real property (land or buildings) was sold, purchased, leased, or mortgaged without the prior approval (in a duly constituted meeting) of the congregation and (where necessary) of the presbytery (G-4.0206).

18. ___ Verify liability, property, officers and documentation for all bequests, endowments, and larger gifts, including donor restrictions (Are the terms of the gift recorded in session records, filed properly in the church office, printed with annual reports, etc.?). Confirm that financial reports separate restricted, endowment, & building (capital) funds.

If the review was conducted by a committee of members, **please have the audit committee members sign below:**

I hereby certify that I participated in the above financial review. I agree with the results reported and am not related to the congregation's treasurer(s) or bookkeeper(s):

Name (printed)

Signature:

Date:

We continue to encourage all churches to consider a subscription to *CHURCH TREASURER ALERT*, a monthly newsletter published by *Christian Ministry Resources*, P.O. Box 1098, Matthews, NC 28106; 1-800-222-1840. Associated with CHURCH LAW AND TAX REPORT, this newsletter is an invaluable addition to the Treasurer's resource materials. www.churchlawsandtax.com

[This group also publishes other books/manuals/pamphlets/tapes on employment laws, tax guides for clergy, copyright laws, compensation handbooks, substantiation rules for charitable contributions-and many, many more. This is the most widely used and highly respected source of information on issues related to taxes, laws, and finances and the church.]