

CHURCH FINANCIAL/AUDIT GUIDELINES

Sound financial controls and audit procedures protect the church against fund loss, misappropriation, and/or error. They also protect the reputations of both the church and those responsible for financial matters.

SOUND FINANCIAL CONTROLS – A REASONABLE CHECKS & BALANCES SYSTEM

- ◆ Financial responsibilities should be divided between 2 or more knowledgeable, trustworthy people, who have been members in good standing for a number of years and are not experiencing either personal or business financial crisis.
- ◆ Adequate separation of duties should, at a minimum, insure that the person or people keeping the church financial records, signing checks, and/or reconciling the bank accounts are not the same people as (or closely related/affiliated to/with) those who count the offerings and make the deposits, or (of course) those who conduct the financial audits.
- ◆ Responsibility for counting the offerings and making deposits should ***always*** be handled by ***at least two unrelated individuals*** and preferably by rotating teams of 3 or more individuals.
- ◆ The collection/deposit system should include: safeguard of funds between collection, counting, and deposit (deposit on the same day as collection is preferred); a protected area for counting; a form (in duplicate or triplicate) to record and report collections sent (along with deposit slip copy) to responsible party/parties other than those counting/making the deposits.
- ◆ Periodic (quarterly is preferred) statements should be sent to donors detailing dates and amounts received, with discrepancies, if any, resolved immediately.
- ◆ Regardless of size, every church ought to have an annual budget, which is approved by the board, congregation, or both.
- ◆ Church accounting records should be orderly, legible, and maintained in a standard format with accounts updated regularly. Data should be easily and logically transferable into monthly and year to date financial statement format (a standard computer accounting software package is preferable).
- ◆ Timely financial reports should be prepared monthly and be available for review by the board and/or others responsible. Detail should be sufficient to quickly assess whether expenditures are appropriate; to determine whether receipts are covering expenditures; and to track both cash and investment balances and any church indebtedness.
- ◆ Standard procedures should be in place and followed to document and approve all expenditures.
- ◆ Petty cash should be kept to a minimum (under the control of one individual) and expenditures from petty cash well documented (maintenance of a ledger recommended).
- ◆ Reimbursements should require completion of an expense reimbursement form with appropriate documentation attached, and payment should be made by church check (never taken out of cash receipts).
- ◆ If internal expertise is not available, an outside payroll service should be used.

INTERNAL AUDIT PROCEDURES

- ◆ Review compliance with financial control procedures, including timeliness.
- ◆ Verify cash balances on the year end financial statements are the same as in the accounting records and reconcile with the year end bank statements.
- ◆ Reconcile year end accounting records and financial statements with those for the previous year end.
 - Verify that the total of receipts per accounting records, financial statements, bank statements, and donor records are the same (or are easily reconcilable, with any adjustments being well documented and sensible).
 - Reconcile year-end cash to cash at the previous year end (i.e. Do cash balances for the latest year end equal cash balances for last year end plus receipts for this year less expenditures for this year?). Note: any adjustments (i.e. for inter-fund transfers, etc.) should be well documented, verifiable, and meet the test of reasonableness.
 - Reconcile contractual indebtedness balances.
- ◆ Select December and 1 or 2 other months (at random), and a sample (12-25) of checks from the remaining months (include the largest amounts and a random sample of other checks), reviewing all accounting entries and back up documentation to test:
 - Accuracy (i.e. compare payees and amounts on cancelled checks with payees and amounts shown in the accounting records, and verify appropriateness of expense category in the accounting records and on the financial statements);
 - Reasonableness (vendor/payee, and expenditure type and amount seem appropriate);
 - Proper approval;
 - To determine whether bills (i.e. utilities, vendors, lease, bank/financial institution indebtedness) are being paid on time and recorded in the proper month on financials (i.e. make sure checks clear within a reasonable time period and aren't being held for payment later than check date);
 - To make sure bills are not being held over to future months for recording to make the books appear in balance (particularly at year end) when, in reality, the church is building unrecorded payables.
- ◆ Review a sample (12-25) of year-end donor records (include the ½ dozen or so largest records and a random sample of others), reviewing all accounting entries and backup documentation to test for accuracy, reasonableness, and compliance with donor wishes.
- ◆ Review payroll records for:
 - Accuracy, reasonableness, and proper approval.
 - Timely, appropriate reporting and payment of withholding taxes.

- ◆ Review such other project accounting or miscellaneous transactions as may seem appropriate (i.e., building construction, special projects, larger miscellaneous expense categories, etc.) for accuracy, reasonableness, and proper approval.

- ◆ Review to determine appropriate, approved insurances are paid and in force.

SUMMARY COMMENT

Every church is different. One size does not fit all. As a result, some modification or adaptation of the above guidelines may be required to help them fit. However, in all cases:

- ◆ The rule should be that appropriate checks & balances are developed and maintained.

- ◆ Local financial control and audit procedures should be documented in writing, sufficiently detailing each step in the process (i.e. where money should be counted; where money should be kept between counting and depositing it at the bank; the form, including detail required, to be completed by the counters; etc.)

- ◆ Written procedures should be reviewed by the church board, at least annually, to insure both compliance and continued appropriateness.

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