PRESBYTERY OF LOS RANCHOS
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. Karen Vietmeier and Keith Geckeler in the Presbytery office are available for consultation on these issues.

CONSTITUTIONAL BASIS

The Book of Order establishes the need for this review as follows: "*The Session is responsible for the mission and government of the particular church. It therefore has the responsibility and power…in developing effective ways for encouraging and gathering the offerings of the people and assuring that all offerings are distributed to the objects toward which they are contributed.*"

*The **treasurer shall be elected annually by the session**, if permitted by the state in which the church is located, and his or her work shall be supervised by the session (sometimes through the Trustees or Deacons). Those in charge of the various funds in the church shall report at least annually to the session, and more often when requested. The following minimum standards of financial procedure shall be observed."*

The Book of Order further establishes some general guidelines related to finances as follow:"

The Treasurer shall be elected annually by the session…and his or her work shall be supervised by the session (sometime through the Trustees or Deacons). Those in charge of the various funds of the church shall report at least annually to the session, and more often when requested. The following minimum standards of financial procedure shall be observed:

a. The counting and recording of all offerings by at least two duly appointed persons, or a fidelity bonded person;
b. The keeping of adequate books and records to reflect all financial transactions, open to inspection by authorized church officers at reasonable times;
c. Periodic reporting of the financial activities to the board or boards vested with financial oversight at least annually, preferably more often;

*d. **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 OR NOT REQUIRE SPECIFIC AUDIT PROCEDURES OR PRACTICES AS UNDERSTOOD WITHIN THE PROFESSIONAL ACCOUNTING COMMUNITY.***

Form of Government G-10.0401The Session has the responsibility and power:
*e. To challenge the people of God with the privilege of responsible Christian stewardship of money and time and talents, developing effective ways for encouraging and gathering the offerings of the people and **assuring that all offerings are distributed to the objects toward which they were contributed;***
*f. To establish the annual budget, determine the distribution of the church's benevolences, and order offerings for Christian purposes, **providing full information to the congregation of its decisions in such matters;*** ...Form of Government G-10.0102

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, 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; <u>if it takes longer, you probably have very complex books, lots of assets, or need an outside audit</u> (larger churches will need proportionately more time.)***:

<Samples are for churches under 400 members; above 400 should increase the sample size.

<u>CONDUCTING A FINANCIAL REVIEW</u>
[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 <u>AUDITED</u>, 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
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 <u>actually</u> were spent for the designated purpose. {Minimum sample: at least <u>10 individual gifts</u>--e.g. to OGHS, Memorial, Building, special program, etc.--and <u>two such funds</u>}
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--and inventory certificates of deposit, titles, deeds, mortgages, promissory notes, etc.
12. _____ Verify that vouchers, invoices, bank

statements, giving records, and canceled checks from at least the three previous years are available for reference. {do prior to FFR}

13._____ Verify that <u>payroll records</u> are available for reference. (Recommended: keep payroll records a <u>minimum</u> 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 do separate restricted, endowment, & 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 _____ to church leaders. {Minimum sample: three}

16. _____ Verify that no real property (land) 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-7.0402, 8.0500).

17._____ Verify liability, property, officers and directors insurance policies: policy is in force, owner, named insured, etc.. Do you carry sexual misconduct insurance: on pastor? staff? preschool staff? youth workers? {Letter from Board of Directors/Property Committee confirming above is sufficient.}

If the review was conducted by a committee of members, **please have the "*audit committee*" members sign below**, certifying that *THEY EACH PARTICIPATED IN THE AUDIT, THAT THEY AGREE WITH THE RESULTS REPORTED, AND THAT THEY ARE NOT RELATED TO THE TREASURER OR TREASURERS*}

Name (printed)	Signature:	Date:

(Stated clerk/year end reports/doc/ffr)

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 <u>CHURCH LAW AND TAX REPORT</u>, this newsletter costs $24.95 per year and is an invaluable addition to the Treasurer's resource materials. Also useful is <u>Church and Clergy Tax Guide, 2010 Edition</u> (about $20 + shipping); also from CMR.

Also consider purchasing their three booklets for the local Church: *"The Church Guide to Financial Reporting", "The Church Guide to Internal Controls", and "The Church Guide to Planning and Budgeting".* Simple enough for the novice, beginner, and non-accountant--professional enough for bankers, CPA's, and comptrollers--these 40-70 page, generously spaced booklets are a great starting point for oversight of financial matters in the local congregation. Cost varies individually; under $30 for all three.

[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.]