CONGREGATIONAL FINANCIAL REVIEW WORKSHOPS

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Click “Financial” option

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Also available on this page:

Congregational Model Audit Committee Charter

Financial & Accounting Guide

Sample policies & best practices
Audit/Financial Review
Process Template

- Internal document created by Terri Robertson
- Modeled after the ELCA Audit Guide
- Simplified steps for smaller congregations
- Not to be used in place of ELCA Audit Guide, but alongside
What is an audit?

A congregational audit is an independent evaluation of the financial records and the internal controls of the congregation for the purposes of providing an opinion on the reasonableness of the congregation’s financial statements and recommending improvements to internal controls.
What is the difference between an audit and a financial review?

An audit is a thorough examination of the financial information of an organization to provide an opinion on the same. It provides a reasonable level of assurance.

A review can be understood as the formal assessment of your financial statements, to introduce change, if any. It is an evaluation of financial data to provide moderate level of assurance.
Why would a congregation want an audit/financial review?

Conducting an audit is NOT a symbol of distrust!

It is a mark of responsibility.

It is good stewardship demonstrated for all to see.

It is a message to congregation donors that you care about their gifts.
Why would a congregation want an audit/financial review?

- Protects persons from unwarranted charges of careless or improper handling of funds;
- Protects the congregation’s reputation and builds the trust and confidence of the financial supporters of the church;
- Assures that when there is a turnover in personnel there will be continuity in accountability;
- Assures gifts made to the church with special conditions attached are consistently administered;
- Provides checks and balances for sums received and expended.
Question Break #1
The ELCA Model Constitution provides for an Audit Committee:

C13.03. An audit Committee of three voting members shall be elected by the Congregation Council. Audit Committee members shall not be members of the Congregation Council. Terms of office shall be three years, with one member elected each year. Members shall be eligible for reelection.
An Audit Committee is meant to:

- Provide the **oversight** necessary to promote a strong control environment;
- Afford **reasonable assurance** that **good stewardship** is being used in handling and accounting for funds and other assets of the congregation.
Congregations have options:

- Professional audit conducted by a qualified independent accounting firm;
- Internal audit/financial review performed by independent members of the congregation with accounting or financial background;
- Combination of the two—rotating a professional audit with an internal audit on a two or three-year cycle.
Who can perform a congregational audit/review?

- Experience with accounting principles and practices is helpful;
- Has the time to devote and is willing to follow through on asking banks and donors for information verifying financial data and to complete necessary reports;
- Smaller congregations in the same area may agree to have the Treasurer and/or Financial Secretary of each audit the other’s books;
- Accounting professionals within the congregation who are not serving in any of its financial offices;
- Outside professional firm or accountant
An audit should...

- Verify reports;
- Assure that receipts are safeguarded, deposited timely, and properly classified;
- Verify cash and accounts receivable and that all accounts are reconciled monthly;
- Verify indebtedness;
- Ensure proper recording, support, and approval of expenses;
- Track money and how its treated;
- Document use of donated and earned funds.
In addition to financial transactions, an auditor will also evaluate:

- Accounting controls;
- Segregation of duties;
- Reasonableness of systems and procedures in light of all factors;
- Adequacy of insurance coverage;
- Systems for retaining and accessing meeting minutes with financial implications;
- Records showing donors’ stipulations for use of funds.
Which funds are subject to review?

- Church
- Preschool (if using same tax ID number)
- WELCA
- Congregation Foundation or Endowment Funds
- All other bank accounts maintained by any group using the same tax identification number as the church.
Question Break #2
What information is needed for an audit/review?

- Policies and procedures related to accounting and financial functions;
- Minutes – Church Council, Finance Committee, Other Boards;
- Monthly financial statements for audit year;
- Bank and investment account statements and reconciliations;
What information is needed for an audit/review?

- Journal entries/adjustments;
- Paid invoices, payroll records, online banking;
- Financial Secretary (donation) and other income records;
- Insurance policies;
- Annual reporting – Secretary of State, Property Tax Exemption
The Audit/Review Process

- Begin with an introductory meeting between the audit committee members and the Congregation Treasurer and Financial Secretary. You may want to include others involved in the financial processes in this meeting.

- This allows you to get an understanding of the financial processes, internal controls, policies and procedures. If there are written financial policies and procedures, review these.
At the start of the audit, the auditor should prepare confirmation forms for:

- Banks (ELCA Audit Guide – Exhibit II – page 23)
- Donors (ELCA Audit Guide – Exhibit III – page 24 – sample a minimum of 1%)
- Synod (Letter/Memo to Synod Accountant)
Banking & Investments

- Obtain list of all bank accounts;
- Verify authorized signers on each account and confirm checks are signed accordingly;
- Obtain copies of financial statements for each month of audit year to verify reconciled balance is reflected;
- Obtain bank account statements and reconciliations for each month of audit year;
- Confirm petty cash balance at year-end (if applicable).
Reviewing Income & Receipts

Verify, on a test basis, offering deposits by:

- Comparing a random sample of counter’s documentation to receipts and bank statements – verify correct posting;
- Review general ledger to verify other income posting;
- Using donor confirmations, verify amount paid as reported by donor is the same as recorded by the Financial Secretary;
- Review process for handling offering and other income.
Reviewing Disbursements

- Review minutes of Council and other committees for actions concerning disbursements;
- Reconcile actions with disbursements made;
- Obtain original invoices for a sample of expenses—test for legitimacy, accuracy, approval and proper classification;
- Discuss controls in system to prevent unauthorized or duplicate payments;
- Verify income designated for special purposes has been distributed or allocated properly.
Reviewing Payroll

- Select a sample of at least one pay period per quarter and review Payroll Registers to reconcile register amounts with those in the General Ledger;
- Review that employees are properly classified as exempt or non-exempt and paid accordingly;
- Ensure that timecards are completed, submitted and approved by a supervisor for all non-exempt employees;
Reviewing Payroll Tax Documents & Reporting

- Obtain quarterly payroll tax returns and ensure total taxes paid reconciles with W–2’s issued at year–end;
- Review year–end balances in General Ledger for salaries, withholding and payroll taxes reconcile with W–2’s issued at year–end;
- Verify W–4’s and I–9’s for all staff (clergy W–4’s are optional);
- Verify clergy housing allowance resolutions are recorded annually in Council minutes and properly applied.
Independent Contractors

- Review list of disbursements by vendor to determine 1099 eligibility. Ensure than any vendor (that is not a corporation) who was paid $600 or more in a calendar year has been issued a 1099 at year-end.

- Review W-9 forms collected from vendors to ensure the vendor is properly classified as an independent contractor.
Reviewing Government Filings

Confirm the following have been filed

- **State Non-Profit Corporation Statement of Information**
  - SI-100 in California, filed every other year
  - Annual report in Hawaii, filed every year
  - Must be updated between filings when there is a change in officers

- **County Property Tax Exemption Reporting**
  - Crucial to keeping your Religious Exemption
  - Most counties require you to report other organizations using your property
Reviewing Insurance Policies

- Review declarations page for each policy to confirm current and to reconcile premium to General Ledger:
  - Commercial liability
  - Umbrella
  - Directors & Officers
  - Sexual Misconduct
  - Worker’s Compensation
  - Accident & Medical
Reviewing Financial Reports

- Review monthly financial reports presented to Church Council to ensure they reflect an accurate and complete picture of the congregation’s finances and reconcile with General Ledger balances;
- Ensure that an annual budget is approved by the congregation and reflected in monthly financial reports;
- Compare year-end Balance Sheet with prior year-end, noting any significant changes in assets, liabilities and equity in your report.
Question Break #3
Evaluating Internal Controls

*This is essential regardless of the size of the congregation!*

The internal control structure is the process that assures that the congregation is operating efficiently and effectively, that its financial reporting is reliable, and that its assets are safeguarded. This should not just be a process on paper, but in actual operation!
Areas of concern that should be evaluated include:

- Segregation of duties:
  - Financial Secretary and Church Treasurer should not be related;
  - The person(s) performing the audit/review should not be related to either the Financial Secretary or Treasurer;
  - At least two unrelated people should count Sunday collections – neither should be the Financial Secretary or Treasurer;
  - Receipt & disbursement functions – different people should be involved in these processes
Areas of concern that should be evaluated include:

- **Segregation of duties:**
  - Disbursement review and approval – Bills should be approved by someone who isn’t the check preparer or signer;
  - Check signing – Two signers are recommended – signer should not be authorizer of expenses or the person performing bank reconciliations;
  - Online transactions – Approval process should be established;
  - Bank reconciliations – someone who neither approves or signs checks nor makes deposits.
The Auditor’s Report

A written report for presentation to the Finance Committee and Congregation Council
The written report should include:

- Annual Audit Report Form (see ELCA Audit Guide – Exhibit IV, pg 25);
- Documentation of steps taken:
  - List of items provided for review;
  - List of items NOT available for review;
- Audit conclusion
- List of comments and recommendations
Once the report is prepared and after everyone agrees on the findings, recommendations, and the tone of the report, the Report of the Annual Audit to the Finance Committee, Congregation Council.
Additional Questions?

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