CHAPTER II: INTERNAL CONTROLS

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Section A. Introduction

What type of bookkeeping system should we use? How many bank accounts do we need? Who should be able to sign checks? Who should deposit the weekly receipts in the bank, and how? These are just some of the questions to be answered when setting up an accounting system for a congregation. Such questions should be periodically reviewed.

Often, many of these decisions are made without adequate thought. Others may require more deliberate consideration. Altogether, the decisions that we make become the policies and procedures of the accounting system, and are referred to as "internal controls". Good internal controls will ease the treasurer's job by providing greater assurance that transactions are recorded properly and result in more reliable records and protection of church assets, as well as compliance with civil laws, church canons, and organizational policies.

A system of internal controls consists of all measures used by an organization to safeguard its resources and ensure accuracy, efficiency and reliability in accounting and operating information.

It is important to emphasize that internal controls are designed to prevent or identify inadvertent errors as much as they are intended to prevent the deliberate theft or misuse of funds. Without an appropriate system it is not possible to assure the reliability and integrity of the records or reports generated by an organization.

An effective control system ensures that procedures are in place that meet the following objectives:
1. Adequately safeguard the cash, property and other assets of the office.
2. Ensure that all financial transactions are appropriately documented and approved by authorized staff.
3. Funds are expended in accordance with donor requirements and limits.
4. Ensure that financial reporting is accurate, timely and conforms to policies.

The overriding objective of all controls is to cost-effectively reduce the risk of loss or misuse of funds or property to a tolerable level. Obviously, not all of the controls will be applicable to or cost-effective for all types of operations. We encourage the appropriate consultation whenever there is a feeling that certain controls may not be cost-effective for their particular operations.

Section B. Electronic Banking

Electronic banking provides a faster, easier, and more efficient substitute for paper processing and recording of receipts and disbursements. Electronic banking uses computer and electronic technology to streamline the processing and recording of receipts and disbursements, while reducing the cost of processing these transactions. Banking can be done without leaving the office, generally at any time of the day, and often you can see up-to-the-minute balances and recorded transactions. Receipts, disbursements and transfers in most circumstances can be processed via electronic funds transfer (EFT) services, whether transferring funds from a savings to a checking account at the same bank, or making a payment to a vendor's bank across the country. **Traditional internal controls, such as written policies and procedures, authorizations, segregation of duties and monitoring, however, are still important when using electronic banking.**

Policy and Procedures
Before you begin processing transactions electronically, you should have detailed policy and procedures in place that specify online banking activities and electronic funds transactions in which your organization is authorized to engage. The policy should include the following:

- What online banking and EFT activities will be used

- Who is authorized to initiate electronic transactions

- Who will approve electronic transactions

- Who will transmit electronic transactions

- Who will record electronic transactions

- Who will review and reconcile electronic transactions.

This policy must be consistent with the statutory and other legal responsibilities of the officers and employees involved.

Segregation of Duties
Classic internal controls, if well designed, all work well with EFT technologies. Proper segregation of duties is important in almost any business function, but is critical for electronic transactions. Without proper segregation of duties, the risk increases that one person could be in a position both to commit a wrongdoing and to conceal it. At least two individuals should be involved in each electronic transaction. The authorization and transmitting functions should be segregated and, if possible, the recording function should also be delegated to someone who does not have either approval or transmitting duties. Generally, the same controls should be used for electronic disbursements through online banking as apply to the manual preparation of checks. Payments made using electronic funds transfer services cannot circumvent laws, regulations, and/or your internal control policies.

Electronic or Wire Transfers
Electronic or wire transfers are transfers of funds, which are usually effective within minutes of being executed. Wire transfers are usually more costly than other electronic methods of making disbursements, and are therefore most commonly used for large-dollar settlements. Other types of electronic transfers should be used for small-dollar or repetitive transactions, such as vendor or grant payments, because they are less costly but still efficient.

Safeguards
Some banks offer electronic or wire transfer capability in their online banking programs, allowing you to input the required information and initiate, authorize and transmit wire transfers in-house without outside assistance from

your depository. Access to in-house electronic or wire transfer software should be controlled and its use should be authorized and monitored frequently due to the ease with which transfers can be made. Safeguards for initiating an electronic or wire transfer include phoning the bank and using a password to authorize the transfer verbally, hand delivering a letter of authorization to the bank with the transfer instructions, or sending a fax with the authorized signature and password.

Before your organization opts to disburse funds by electronic or wire transfer, the governing board is required to enter into a written agreement with the bank or trust company in which your funds have been deposited, including implementation of a security procedure. You should have a callback provision in your electronic or wire instructions that requires the bank to call someone other than the person initiating the transaction to confirm the appropriateness of the transfer. You can also establish additional controls (e.g., a policy that does not allow the bank to initiate wire transfers out of the country).

Monitoring
Your internal control system must include procedures or safeguards for the documentation and reporting of all transfers and disbursements of funds by electronic or wire transfer. In addition, the bank or trust company must provide the officer requesting the transfer with written confirmation of the transaction no later than the business day after the day on which the funds were transmitted.

Electronic Payments
Local governments are authorized to accept a variety of payments through their municipal website as well as by credit card. Another toolbox in this series, entitled Reviewing Your Revenue Collection Process, covers this topic in detail, including use of the State's Electronic Value Transfer Program.

Electronic Check Images
Most banks no longer provide cancelled paper checks to their customers, but instead offer electronic check images online or on CD. You may accept these electronic images in lieu of cancelled checks, upon authorization by your governing board.

Provider Responsibilities
Although customer protection and privacy regulations vary between jurisdictions, banks generally have a clear responsibility to provide their customers with a level of comfort regarding information disclosures, protection of customer data and business availability that approaches the level they can expect when using traditional banking distribution channels. To minimize legal and reputational risk associated with e-banking activities, banks should make adequate disclosure of information on their web sites and take appropriate measures to ensure adherence to customer privacy requirements applicable in the jurisdictions to which the bank is providing e-banking services.

E-banking services must be delivered on a consistent and timely basis in accordance with customer expectations for constant and rapid availability and potentially high transaction demand. A bank must have the ability to deliver e-banking services to all users and be able to maintain such availability in all circumstances. Effective incident response mechanisms are critical to minimize operational, legal and reputational risks that may arise from unexpected events, including internal and external attacks that may affect the provision of e-banking systems and services. The bank should also have effective capacity, business continuity and contingency plans, including communication strategies that reassure its customers.

Section C. Internal Control Concepts & Considerations

Segregation of Duties
Essential to the control system is the concept of segregation of duties. Every financial transaction involves five steps.

1. Request   i.e., request to purchase
2. Approval   i.e., authorized personnel approve request

3. Authorization   i.e., approval to purchase, issuance of purchase order
4. Execution   i.e., purchasing, receiving and payment
5. Recording   i.e., accounting

No one person should handle all aspects of a single transaction. For each transaction the responsibility for authorization, accounting for and custody of the related assets must be separated.

1) The custody of assets must be separated from the responsibility for accounting for these assets. For example:
    a) The person who maintains the inventory records should not also be receiving or issuing goods.
    b) Someone who does not have access to or responsibility for payroll accounting should perform the distribution of payroll checks or cash.
    c) A Cashier should not have responsibility for recording or entering the accounting entries in the ledger.

2) The authorization of transactions must be separated from the custody of related assets. For example;
    a) The warehouse staff distributing goods should not also be able to approve the distribution of goods.
    b) Cashiers cannot be authorized to approve cash disbursements.
    c) Program staff approving purchase of supplies may not also keep the program supplies inventory.

3) The authorization of transactions must be separated from the accounting for the transactions. For example:
    a) Check signers should not also be authorized to approve accounting transactions.
    b) Staff authorized to hire employees or temporary labor should not be able to approve the payroll accounting entries

4) For procurement activities particular attention must be paid to separating the authority for the selection of vendors, bidding process and approval of the final supplier. For example:
    a) The person responsible for maintaining the vendor list should not authorize the final selection of a supplier.
    b) The person soliciting bids cannot be responsible for maintaining the vendor list.

Authority Levels
Control systems can only function effectively when all employees know who within the organization has the responsibility and authority to initiate or approve expenditures or the use of other assets. These responsibilities and authority levels must be specifically defined and structured to reflect the knowledge and responsibility levels of the various positions within the organization structure.

Employees assigned the authority to approve and/or authorize commitments or expenditures must:
1. Be given written notification of their authority levels and limits. (This may be included in their job description)
2. Be fully conversant with the required procedures and documentation that is required before approval can be given to commitments or expenditures

Authorization List(s)
1. An Authorization List(s) should be prepared and maintained.
2. Reasonable dollar limits must be established based on employee level, for authorizing requisitions.
3. This list describes the position category (manager, coordinator, etc.), dollar amounts of authority by

type of transaction (Purchase Request, Financial Commitments, Payment/Disbursement, and Accounting Transaction).

4. This list should be reviewed and officially authorized. An appropriate employee, typically in the Finance department, should maintain this list.
5. Changes to the list should be formally documented in a form which describes the authority change, the reason(s) why, and the name and signature of the employee's supervisor.
6. A sufficiently high-level employee, who indicates his or her approval by signing the next version of the list, should approve all changes.
7. The approved authorization list(s) should be displayed, at least in the finance department, to ensure all staff are aware of the required approvals and authorized signatories.

<u>Payments & Cash Disbursements</u>
In addition to authority levels for commitments, each organization needs to assign authority levels for payments/cash disbursements. It must be emphasized that approving the payment of a commitment involves ensuring that either the required goods, or service, have been received and that all supporting documentation had been presented.

<u>Accounting Transactions</u>
It is important to recognize that the finance staff should not be able to authorize the transactions they are responsible for recording. This is a basic requirement under segregation of duties.

Documentation & Record Keeping Standards
It is essential that financial activities and transactions are clearly and appropriately documented and recorded.

Documents must be safely stored to prevent loss or damage. An appropriate filing system &/or storage system for historical records needs to be in place to ensure the required documents can be located when required.

To maintain uniform standards of documentation and record keeping, systematic procedures need to be in place that incorporate standard forms, approval processes and accounting procedures. An up-to-date policy and procedures manual, which clearly specifies these procedures, is essential in maintaining adequate documentation and record keeping.

Independent Reviews
The previous control features are all used in day-to-day processing of activities and accounting. However, regardless of how good a system is, errors will be made and circumstances will change that should require changes in the control system.

To ensure timely identification of errors and the need for changes to the system, procedures need to be in place that ensure periodic independent reviews are performed. For example:
➢ Someone not involved with cash or accounting should perform periodic surprise cash counts.
➢ Program staff and management should review monthly expenditure reports.
➢ Inventory, or supplies, should be independently counted and verified to the bin cards/logistics system & accounting records.
➢ Annual performance evaluations should be required for all staff, utilizing a standard format and review process.

On an annual basis, a formal review of the controls in place, authority levels and procedure manuals should be implemented.

Cash

Cash is the most liquid of assets, and is therefore most likely to be misappropriated. For this reason, establishing basic internal controls over cash receipt, maintenance of cash and cash disbursement is critical.

Risks with cash are:
1. Theft or loss of cash.
2. Disbursement of cash without proper document or authorization.
3. Incorrect charging of receipts/disbursements, (incorrect source codes or accounts).

Reconciliations & Verification

Standard reconciliation's and independent verification are essential to maintaining the integrity of control over cash.

Physical Cash (petty cash and cash-in-office)
➢ Cash is counted, at least weekly, by the cashier and balanced to the ledger or cashbook balance.
➢ Cash is counted by the cashier's supervisor at least bi-monthly and balanced to the ledger or cashbook balance.
➢ Other management staff conduct surprise cash counts on a regular basis.
➢ All cash counts must be documented and put on file for verification.

Procedures are in place to ensure an independent person verifies that all Official Receipts, blank checks, and Disbursement Vouchers are accounted.

Payroll

The major risks associated with payroll are:

1. Overpayment to legitimate employees
2. Payment of fictitious persons
3. Failure to recover advances
4. Misappropriation of payroll funds
5. Under or over withholding taxes

Required Forms

In order to avoid confusion or misunderstanding among staff members about salaries and benefits, it is essential that all payroll related activities be clearly and consistently documented. This type of documentation is also key to good internal control over the payroll process.

The following types of forms are recommended:

- Employee Employment Letter
- Employee Timesheets – for recording hours worked, by grant, and absences
- Employee Leave Form – for requesting and approving leave time
- Employee Action/Change Form – for recording changes in salary, benefits or other pay related actions
- Employee Termination Form – for recording the termination of a person from the payroll

- Salary Advance Form – for requesting salary advances, repayment date should be specified (i.e. next payroll date)

Personnel

Competent, trustworthy personnel are essential for an effective control system. The hiring or retention of dishonest or incompetent staff is a major cause of the loss or misuse of assets.

- Hiring procedures need to be focused on ensuring that staff are hired on an unbiased basis, so that candidates are selected based on qualifications and experience and conflicts of interest are avoided or minimized.
- A standard performance evaluation process will recognize good performance but it must also identify under performing staff and ensure that the required corrective action is taken to improve performance or remove the employee.
- Employees can only fulfill the requirements of their position if these requirements are clearly communicated. Every employee must have an up-to-date job description, which clearly states his or her duties and responsibilities.

Procurement

Management of procurement should be a top priority of management.

The <u>major risks</u> associated with procurement are that:
1. The wrong items are purchased;
2. The correct items are purchased but at a price that is higher then necessary (either through error or through improper dealings with vendors);
3. Items of inferior quality are purchased;
4. Purchases are made without sufficient budgeted funds;
5. Purchases are not in compliance with donor regulations or terms of the grant agreements.

<u>Required Forms</u>

All organizations should have the following types of forms for use in procurement
- Purchase Requisition
- Standard Bid Request
- Bid Summary Worksheet
- Purchase Order
- Receiving Report

<u>Vendor List</u>

Ensuring the use of vendors who are reliable, competent to deliver and independent of any relation to the organization or its staff is essential to a good procurement system. Use of a standard vendor list aids in ensuring transparency in the procurement process and minimizes conflict of interest situations.

(1) An acceptable vendor list should be developed and maintained.
   a) This list should include the name of the vendor and what types of goods or services it can provide.
   b) Those developing the list should include vendors, based on information on reliability obtained from other organizations that have used the vendor, from published material and from other employees who are familiar with the vendor.
   c) At least three vendors for each type of good or service purchased should be included in the list. When fewer than three reliable vendors are identified, the staff should confirm that, in fact, fewer

than three reliable vendors exist for a given type of procurement and document this confirmation in a memo.

    d) The vendor list should be periodically (at least annually) revised, based on formal feedback that the procurement department obtains from other employees on the quality of procurement from a given vendor. The feedback should be reviewed to determine whether the feedback has, in fact, been incorporated into revising the list.

(2) Access to making changes to the vendor list should be restricted to those employees assigned the responsibility of developing and maintaining the list.

(3) Those employees who solicit bids should not be involved in developing or maintaining the vendor list or otherwise have access to making changes in it.

(4) The employee assigned to establish and maintain the approved vendor list should not be the same employee who solicits bids or who selects the wining bidder.

Purchasing Process

1. A purchase requisitions form, signed by the requisitioner and approved by his or her supervisor or next higher level employee with sufficient authority to approve, must be prepared for all procurement.

2. The employee approving the requisition must ascertain that sufficient funds remain in the budget to make the procurement that the procurement is necessary to achieve objectives.

3. The employee initiating the purchase request should not also approve the request.

4. Before executing a procurement transaction, procurement personnel must determine whether those signing the requisition form have sufficient authority according to the established Authorization List.

5. Procurement personnel must solicit at least three written independent bids for procurement above a certain amount. Bid solicitations should include a detailed description of the items, particular specifications, maximum cost, and quantity and required delivery date.

6. The person soliciting the bids should not also approve the vendor selection.

7. Sealed bids should be required for procurement above a certain reasonable limit, such as $25,000. Vendors should be selected only on the basis of value to the organization.

8. A bid summary worksheet should be completed for all procurement requiring bids. The worksheet should document the reason for selection of the vendor and should be signed by an authorized employee as evidence of review and approval.

9. Requisitioners should be discouraged from making purchases themselves. The procurement unit should purchase as many items as possible and all items over $500.

10. Centralized purchasing and blanket purchase orders of office supplies, spare parts, etc. are highly encouraged in order to take advantage or quantity discounts from vendors.

Procurement Personnel

Procurement personnel and any other personnel involved in the vendor selection process are prohibited from receiving anything of value from vendors or potential vendors.

Procurement personnel should be required to sign "conflict of interest" statements which state that neither they nor their immediate family members have any equity in any of the vendors awarded purchase contracts or would stand to personally benefit from awarding contracts to a given vendor.

Commitment Tracking

➢ Most financial system does not track commitments. As such an alternative system to track outstanding purchase orders and subcontracts should be implemented.

➢ As part of the approval of new purchases, outstanding commitments must be considered to avoid over expenditures on budgets.

Advances

The risks associated with advances are that they are not liquidated in a timely manner and that their liquidation is not based on proper documentation.

Advances are amounts of funds provided to employees so that they can adequately pay for business expenses. The two types of advances are project advances and employee advances. Project advances are provided to a given employee for project expenses, typically when cash is not readily available where the disbursements are ultimately made. The person receiving the advance liquidates the advance by providing receipts in the amount of the advance and/or repaying in the original currency received. Employee advances are typically for travel purposes. In this case, the advance is liquidated by submission of a Travel Expense Report, with supporting documentation. In other cases, the advance is liquidated by periodic repayments of part or the entire advance amount by the employee.

Procedures to ensure adequate control would include:
1. A policy should be established that precludes an employee from obtaining an advance if he/she has an unaccounted for advance outstanding, or that places a limit on the total amount of advances that can be outstanding to a given employee.
2. Periodic review of advances outstanding, monthly, in order to identify any advances outstanding for more than 30 days is recommended. Advances outstanding for more than a year should be withheld from the employee's salaries.

Telephones

Long distance telephone use can be a significant expense. The risk associated with this is that calls are made that are not for legitimate business purposes and are not reimbursed.

1. Employees must be required to reimburse for personal calls.
2. Only employees who in the normal course of business make long distance calls should be able to access long distance lines.
3. All phones that can access long distance lines should be assigned to a particular employee who should be held responsible for the calls made on that phone. Access can be further restricted on some phone systems through the use of access codes. Each employee who is authorized to incur long distance charges is provided with a unique access code without which no call can be made.
4. Itemized phone bills, ideally segregated by phone line or access code, should be circulated to employees for them to identify personal calls. The employees should then reimburse for these calls either directly via a check payment or via withholding on the employees' salary.
5. Employees should use long distance phone communication only when less expensive means such as faxes, couriers, "the pouch", E-mail, etc. would not be effective.

Section C. Internal Control Questionnaire

The following Internal Control Questionnaire is intended to provide guidance for setting up an accounting system and a checklist for periodic review and evaluation of an existing system. The questionnaire is designed also to assist a congregation's internal audit committee. The format is a series of questions, most of which refer to some recommended internal control. The normative answer to a question will be positive. A negative response suggests an area of the system that could be strengthened.

Developing a narrative description is suggested, to provide documentation of the current review. This narrative should be retained for reference in future evaluations.

General: The following items are intended to provide general information to aid understanding of the overall accounting and internal control system.

1. Are prior internal control questionnaires and auditors' recommendations available?   Yes☐   No☐
2. Have recommendations of prior reports on internal controls been implemented?   Yes☐   No☐
3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available?   Yes☐   No☐
4. Is there an accounting policy and procedure manual? Is it up to date?   Yes☐   No☐
5. Is a current edition of this manual available?   Yes☐   No☐
6. Is the accounting system using a double-entry bookkeeping method?   Yes☐   No☐
7. Have the findings of external auditors been reported to the Vestry?   Yes☐   No☐

Budget: The development and use of a budget is a critical management tool that will aid in the stewardship and administration of church resources and program.

1. Is the budget approved by the Vestry?   Yes☐   No☐
2. Are all changes to the budget authorized by the Vestry and recorded in the minutes of the meetings?   Yes☐   No☐
3. Is there a periodic review of the budget by the Vestry?   Yes☐   No☐

Reporting: The best accounting system is of little value, unless it communicates the information it contains to those responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1. Is a Treasurer's report submitted to the Vestry or accounting committee each month?   Yes☐   No☐
2. Is the Treasurer's report presented in sufficient detail to inform the reader about the nature of the various income and disbursement items?   Yes☐   No☐
3. Does the report present the current actual financial data compared with the approved budget?   Yes☐   No☐
4. Is there periodic reporting, at least quarterly, of all other funds and activities, including designated or restricted funds?   Yes☐   No☐

Cash Receipts: Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?   Yes☐   No☐
2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis (e.g., at least weekly)?   Yes☐   No☐
3. Are there at least two unrelated persons responsible for counting and depositing the collections?   Yes☐   No☐

4	Are the persons responsible for counting receipts rotated on a periodic basis?	Yes☐	No☐
1	Do the counters have a standardized form for recording the deposit information?	Yes☐	No☐
2	Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?	Yes☐	No☐
3	Is there a control prohibiting the cashing of checks from the currency received?	Yes☐	No☐
4	Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?	Yes☐	No☐
5	Are all other cash receipts recorded and deposited on a timely basis?	Yes☐	No☐
6	Are all checks received restrictively endorsed —for deposit only "immediately upon receipt?"	Yes☐	No☐
7	Are all cash receipts deposited into the general operating checking account?	Yes☐	No☐
8	Are there procedures that will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded?	Yes☐	No☐
9	Are periodic statements provided to donors of record (i.e. at least quarterly)?	Yes☐	No☐
10	Do acknowledgments of contributions in excess of $250 include a receipt from the recipient organization which states that it is "the contemporaneous acknowledgment required by the Internal Revenue Code, and states that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits"?	Yes☐	No☐
11	Are all discrepancies investigated?	Yes☐	No☐

Cash Disbursements: The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1.	Are all disbursements made by check, except for small expenditures made from petty cash?	Yes☐	No☐
2.	Are all checks pre-numbered and used in sequence?	Yes☐	No☐
3.	Is there a clearly defined approval process for all disbursements?	Yes☐	No☐
4.	Are all voided checks properly cancelled and retained?	Yes☐	No☐
5.	Are all checks made payable to specified payees and not to cash or to bearer?	Yes☐	No☐
6.	Are all disbursements supported by original documentation?	Yes☐	No☐
7.	Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment?	Yes☐	No☐
8.	Check signing:		
	a. Is signing blank checks prohibited?	Yes☐	No☐
	b. Is using a signature stamp or pre-printed signatures prohibited?	Yes☐	No☐
	c. Does all supporting documentation accompany checks presented for signature?	Yes☐	No☐

d. Are all account signers authorized by the Vestry? Yes☐ No☐

e. Is more than one signature required for any check? Yes☐ No☐

f. If not, do checks for more than $500 require more than one signature? Yes☐ No☐

g. If signature imprint machines are used, are the keys kept under lock and key except when in use? Yes☐ No☐

9. Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee minutes? Yes☐ No☐

10. Are there adequate controls and segregation of duties regarding electronic funds transfers? Yes☐ No☐

Journal Entries: Journal entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important book of original entry as the cash receipts and cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry? Yes☐ No☐

2. Are all journal entries approved by a knowledgeable authority other than the person initiating the entry? Yes☐ No☐

3. Is adequate documentation maintained to support each journal entry? Yes☐ No☐

Bank Account Reconciliation: The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt of bank statement? Yes☐ No☐

2. Do two different people perform the tasks of opening and reconciling the bank statement? Yes☐ No☐

3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash? Yes☐ No☐

4. Do the reconciliation procedures provide for:

a. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits? Yes☐ No☐

b. Investigation of bank transfers to determine that both sides of the transactions have been recorded? Yes☐ No☐

c. Investigation of all bank debit and credit memos? Yes☐ No☐

d. Review of all checks outstanding more than 90 days? Yes☐ No☐

e. Are checks more than 180 days outstanding voided during the year-end reconciliation? Yes☐ No☐

f. Is the bank immediately notified of all changes of authorized check-signers? Yes☐ No☐

5. Are all journal entries for bank charges and bank account interest recorded routinely? Yes☐ No☐

6. Are all bank accounts included on financial reports to the Vestry? Yes☐ No☐

Petty Cash: The following controls are intended to provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person? Yes☐ No☐

2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund? Yes☐ No☐

3. Is adequate review made of documentation before the fund is reimbursed? Yes☐ No☐

4. Is the petty cash fund reimbursed at least monthly? Yes☐ No☐

5. Are check cashing and making loans to employees prohibited? Yes☐ No☐
6. Is the actual petty cash protected from theft or misplacement? Yes☐ No☐

Investments: Procedures for proper recording and control of all investment instruments will help to assure that all assets and related income are accounted for and properly reported.

1. Are all investment instruments held in the name of the church only? Yes☐ No☐
2. Is authorization for the sale and/or purchase of investments provided for by the Vestry or authorized investment committee? Yes☐ No☐

3. Are all investment instruments adequately protected from fire, theft, or misplacement? Yes☐ No☐

4. Is the income/dividends/interest recorded? Yes☐ No☐
5. Are all investment accounts included in financial reports to the Vestry? Yes☐ No☐

Property and Equipment: Certain procedures involving the physical assets of the church will aid in detecting, Identifying, and preventing losses.

1. Is formal approval of the Vestry required for all property and equipment additions and dispositions? Yes☐ No☐

Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
   a. Date acquired? Yes☐ No☐
   b. Detailed description? Yes☐ No☐
   c. Cost or fair market value at time of donation? Yes☐ No☐
   d. Any funding source restrictions? Yes☐ No☐

2. Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing? Yes☐ No☐

3. Is there a safe deposit box? Yes☐ No☐
   a. Who is authorized to enter it? _____
   b. Is there an inventory of its contents? Yes☐ No☐

4. Are permanent records such as articles of incorporation, if applicable, by-laws and real estate deeds kept in a safe place? Yes☐ No☐

5. Are they up to date? Yes☐ No☐

Insurance: Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1. Is a periodic review conducted to ensure the adequacy of the insurance coverage for:

    a. Property?   Yes☐   No☐

    b. Liability?   Yes☐   No☐

    c. Fidelity bond?   Yes☐   No☐

    d. Sexual misconduct?   Yes☐   No☐

    e. Directors and officers liability?   Yes☐   No☐

    f. Workers' compensation?   Yes☐   No☐

2. Is there a policy related to sexual misconduct?   Yes☐   No☐

3. Is a periodic review conducted to ensure that adequate controls are in place to prevent loss?   Yes☐   No☐

Liabilities and Other Debt: All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

1. Is all borrowing or indebtedness authorized by the Vestry and the appropriate diocesan board or committee?   Yes☐   No☐

2. Are all loan agreements and/or lease agreements in writing and properly safeguarded?   Yes☐   No☐

3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions?   Yes☐   No☐

4. Are all liabilities noted on Financial Reports to Vestry?   Yes☐   No☐

Restricted Gifts and Income: Gifts restricted by donors are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions are observed.

1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include: Yes☐   No☐

    a. Date, amount and donor of gift?   Yes☐   No☐

    b. Any restrictions or limitations?   Yes☐   No☐

2. Does the Vestry or other authoritative body approve all restricted gifts and grants?   Yes☐   No☐

3. Are the income and other transactions periodically reported to the Vestry?   Yes☐   No☐

4. Are written acknowledgments issued for whom they are required?   Yes☐   No☐

Payroll: The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities.

1. Are personnel files maintained to include: Yes☐   No☐

    a. Employment application and/or letter of employment   Yes☐   No☐

    b. Authorizations of pay rates and effective dates?   Yes☐   No☐

    c. Internal Revenue Service Form W-4?   Yes☐   No☐

    d. Department of Justice Form I-9?   Yes☐   No☐

    e. State Withholding Forms?   Yes☐   No☐

    f. New hire reporting?   Yes☐   No☐

2. Is there a written record of hours worked, approved by a supervisor when applicable?   Yes☐   No☐
3. Are there adequate records to:
    a. Show computation of gross pay?   Yes☐   No☐
    b. Account for all deductions from gross pay?   Yes☐   No☐
    c. Support payroll tax returns and Forms W-2?   Yes☐   No☐
4. Are payroll tax returns filed on a timely basis?   Yes☐   No☐
5. Are payroll tax deposits made on a timely basis?   Yes☐   No☐
6. Are all employees, clergy and lay, receiving a Form W-2?   Yes☐   No☐
7. Are Forms 1099 being provided for all individuals who are not employees, and for all unincorporated entities paid $600 or more annually?   Yes☐   No☐
8. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns?   Yes☐   No☐
9. Are clergy housing allowances recorded in the minutes of the Vestry no later than the first meeting of the year?   Yes☐   No☐

Computer Systems: The use of computers creates the need for additional procedures to safeguard the system and data.

1. Are current or duplicate copies of the operating system and programs maintained off premises?   Yes☐   No☐
2. Are the files backed up daily and the backups maintained off premises?   Yes☐   No☐
3. Is access to the computer and computer programs limited to authorized persons?   Yes☐   No☐
4. Is there adequate documentation, including user manuals, available on-site for all computer programs?   Yes☐   No☐
5. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?   Yes☐   No☐
6. Is there a plan for recovery of data and continuation of operations in the event of a disaster   Yes☐   No☐