

Chapter 26: Financial Review

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26:100:

Introduction and Purpose

The purpose of a financial review of the congregation's books of original entry is:

- A. To support the congregational treasurer in his/her duties;
- B. To help the treasurer to perform his/her duties effectively and efficiently through suggestions generated while in the financial review process;
- C. To verify that the financial records are being maintained in an acceptable and consistent manner;
- D. To verify that cash receipts and disbursements are posted consistently, correctly, and reconciled with the bank;
- E. To verify that the financial reports that have been issued to the congregation are in agreement with the official records (general ledger) of the congregation.

The results of the financial review should be shared with elders, pastor and church council before it is presented to the congregation.

Caution!

If you are not trained as a certified public accountant and you do not otherwise have the skills necessary to perform a certified audit, do not call this procedure an audit or refer to the congregation as having had an audit. The legal implications are significant. Do not place yourself in a position of having to defend the "audit" when you did not perform an audit.

Please . . . call the procedure a "financial review."

26:105:

When Should a Financial Review Be Performed?

A financial review should be performed when:

- A. A new treasurer is elected or appointed;
- B. The fiscal year ends;
- C. Misuse of funds is suspected; or
- D. Any other time the congregation's appropriate governing board so requests.

26:110:

The Time Involved to Perform a Financial Review

- A. Depends upon the scope of the review and the size of the congregation;
- A. Areas targeted for review may be cyclical, i.e., one year, cash receipts; another year, cash disbursements; and still another year, an insurance adequacy review. Perhaps one year might be investments and another year special accounts of a restricted nature.

26:115:

Independent Certified Public Accounting Firms

The congregation may be large enough to justify a compilation, review or audit by a CERTIFIED PUBLIC ACCOUNTANT (CPA). Congregations may wish to have an independent audit performed. However, an audit by a CPA can be expensive. Congregations could also consider independent CPA review or compilation services. Consider obtaining fixed bids from CPA firms to evaluate the cost/benefit of having an independent audit, review, or compilation engagement. An audit would be a verification of the financial reports of the congregation with a written report as to the audit findings.

Review or compilation services, while less expensive, do not provide the level of assurance associated with a complete audit. The audit, review, or compilation by a CPA does not give assurances that all transactions have been reviewed or that no misuse of funds took place.

26:120:

Use of Retired Consultants

The congregation may appoint a committee of retired accountants and business professionals to complete the enclosed forms and perform a financial review. Many retired business professionals have the time and ability to aid the congregation in this task.

26:125:

Scope

This chapter is very detailed in scope and a congregation should determine how deep to go into each area. The committee should be encouraged to proceed with the review and not be overwhelmed by the number of pages of the Internal Control Review and the Financial Review that follow. Depending on the size of the congregation and the depth of the scope, many pages may not apply.

26.200: Congregational Internal Control Review

(Legal Name of Congregation)

(Street Address)

(City, State and ZIP Code)

Enter the year or period of time of the financial review _____ 20 _____

Date review completed _____ 20 _____

The Financial Review Committee:

26.205:
General Information

Bank Accounts (list all accounts including auxiliaries):

Name of bank _____

Account number _____

List the name(s) of the authorized signers on the account:

How many signatures are required? _____

Name of bank _____

Address _____

Account number _____

List the name(s) of the authorized signers on the account:

How many signatures are required? _____

Name of bank _____

Address _____

Account number _____

List the name(s) of the authorized signers on the account:

How many signatures are required? _____

Does the congregation rent a safety deposit box? _____

List name of authorized signers _____

Name of bank _____

Address _____

Who is the custodian of the key(s)? _____

What are the contents? _____

How many signatures are required to enter? _____

26.210: Important Document Inventory

List on this page all evidences of ownership and liabilities of the congregation and its auxiliaries.

Description/ID No.	Location of Document (Financial institution, safe deposit box, vault)	Original Cost	Date Acquired/ Issued	Date of Disposal
Cash, CDs, Investments:				
Loans and Accounts Receivable:				
Land and Buildings – (Title and Deeds):				
Personal Property, Vehicles (titles):				
Liabilities & Loans and Mortgages Payable (loan and mortgage documents):				
Administrative Documents:				
Sales Tax Exemption Certificate				
Federal Income Tax Exemption				
Nonprofit Corporation Report				
Articles of Incorporation				
Constitution including amendments				
Bylaws				
Voter's minutes				
Insurance Policies				
Trust and Endowment Agreements				

26.215: Insurance

Date of Expiration	Company	Coverage	Annual Premium

Enter the date of the last insurance review for adequacy of coverage with the agent _____.

26.220: Cash Receipts

Each "no" answer is a possible weakness in internal control.

Write a brief description of the procedure for handling cash from the time of collection plate passing to making the bank deposit. Be certain to note the number of people involved in each step. If possible, include a flow chart and a timetable for both receipts and disbursements.

Cash Receipts:

	Yes	No
1. Is cash counted immediately following the worship service? If not, how is it stored and secured? _____	_____	_____
2. Do two or more individuals count cash?	_____	_____
3. Is the bank deposit prepared as part of the counting procedure?	_____	_____
4. Is the treasurer denied a position as a counter?	_____	_____
5. Do two or more people take the deposit to the bank immediately following the count?	_____	_____
6. Is a copy of the deposit slip kept as a permanent part of the financial records?	_____	_____
7. Is the person who posts the contributions to the individual contributors' ledger denied being a part of the counting process?	_____	_____
8. Are quarterly individual contribution records sent to individual congregation members?	_____	_____
9. Is a count sheet used as part of the counting process?	_____	_____
10. Is the count sheet reconciled to the bank deposit?	_____	_____
11. Are signatures required at the bottom of the count sheet as to who prepared it?	_____	_____
12. Are the counters bonded?	_____	_____
13. Are questions from congregational members about differences between congregational individual giving records and their own records handled by someone other than the treasurer?	_____	_____
14. Do weekly contribution envelopes agree with the weekly tally sheets?	_____	_____
15. Do contribution statements contain proper disclosures required by IRS?	_____	_____
16. Are "quid-pro-quo" contributions acknowledged within the time frame required by IRS?	_____	_____

26.225:

Cash Disbursements

Each “no” answer is a possible weakness in internal control. Write a brief description of the procedure for handling cash disbursements from the time an order is placed, received, and prepared for payment through to the mailing of the check. Again, note the people involved in each step.

Cash Disbursements:

	Yes	No
1. Is someone responsible for counting and signing for the receipt of goods and services?	_____	_____
2. Is the treasurer given proof of the receipt of goods and services?	_____	_____
3. Is a voucher system used?	_____	_____
4. Are blank checks kept in a secure place?	_____	_____
5. Are purchase orders used?	_____	_____
6. Is a budget used?	_____	_____
7. Are all checks reviewed by two or more people?	_____	_____
8. Is a bank reconciliation prepared on a timely basis for all bank accounts by someone independent of the receipting and disbursing process?	_____	_____
9. Are checks prepared for payment only from documentation that is approved by an authorized official?	_____	_____
10. Are all checks properly filled out prior to being signed?	_____	_____
11. Is more than one signature required on a check?	_____	_____
12. Is the invoice marked paid with a date and check number to prevent duplicate payment?	_____	_____
13. Are all check numbers accounted for?	_____	_____
14. Are paid invoices filed in a logical manner including all supporting documentation and authorizations?	_____	_____
15. Are voided checks defaced and permanently retained?	_____	_____
16. Is a copy of the check kept in numerical sequence?	_____	_____
17. Does the treasurer have term limits?	_____	_____
18. Are all invoices or services (other than petty cash items) paid for by check?	_____	_____
19. Is a list prepared for each council meeting that reports all unpaid invoices, dates, and amounts?	_____	_____
20. Is care exercised that discounts are taken on invoices when offered?	_____	_____
21. Were Social Security or taxpayer identification numbers obtained prior to making taxable disbursements to individuals or organizations?	_____	_____
22. Are IRS Form 1099 Information Returns prepared and distributed in a timely manner?	_____	_____
23. Is petty cash controlled by one custodian who logs all activity for recording and replenishment?	_____	_____
24. Does the treasurer review and approve the petty cash log prior to posting to the general ledger?	_____	_____

26.230:

Journal Entries

Each “no” answer is a possible weakness in internal control.

General Journal Entries:

	Yes	No
1. Are journal entries approved by someone other than the preparer?	_____	_____
2. Are general journal entries kept on file?	_____	_____
3. Are the explanations for the entries adequate?	_____	_____
4. Are journal entries properly indexed and referenced in ledgers and journals?	_____	_____
5. Are standard journal entries used for monthly closings?	_____	_____

26.235:

Payroll and Personnel

Each “no” answer is a possible weakness in internal control.

Write a brief description of the procedure of adding an individual to the payroll and how an individual is deleted from the payroll. Take care to identify when forms are filled in for Concordia Plans, withholding (if applicable), housing allowance, tax-sheltered annuity and other payroll information. Where is this information filed, and who has the responsibility to keep it updated? Who authorizes employment? How are rates of pay determined?

Payroll:

	Yes	No
1. Is a payroll journal prepared and balanced?	_____	_____
2. Are all payroll disbursements made by check or direct deposit?	_____	_____
3. Are employee time records kept and reviewed by a supervisor?	_____	_____
4. Are all pay rates authorized by the governing board of the church and in compliance with Federal or State minimum wage laws?	_____	_____
5. Is housing allowance approved annually by the governing board of the church in advance of the payment to the worker?	_____	_____
6. Is payroll confidentiality maintained?	_____	_____
7. Are payroll taxes withheld and paid in a timely manner to the various taxing authorities?	_____	_____
8. Are all deductions from pay for tax-sheltered annuities (TSA), loan payments, etc., authorized in writing by the employee?	_____	_____
9. Are all the payroll tax forms filed on time?	_____	_____
10. Has Form W-2 been used to report all the worker's wages and compensation?	_____	_____
11. Does the individual worker receive a schedule explaining the computation of the amount reported on Form W-2?	_____	_____
12. Is a personnel file maintained for each employee?	_____	_____
13. Are records maintained of earned and used vacation?	_____	_____
14. Does a personnel policy manual exist?	_____	_____
15. Are records maintained of sick or personal days earned and used?	_____	_____
16. Is there an enforced policy that requires all workers to take a vacation?	_____	_____
17. Do you inform the prospective employee in advance of his/her employment that the church is not a participant in unemployment tax? (i.e., He/she would be denied a claim for unemployment in the event he/she resigns or is terminated, and is that understanding verified in writing?)	_____	_____
18. Is a separate bank account used for payroll?	_____	_____
19. Does the annual payroll journal agree with Form W-2s?	_____	_____
20. Are gifts, bonuses, honoraria, etc., approved by the governing board?	_____	_____
21. If a separate payroll account is used, is it reconciled by someone other than the person who prepares payroll?	_____	_____
22. Have new hire reports been submitted?	_____	_____

26.300: General Financial Review Program

(Legal Name of Congregation) _____

(Street Address) _____

(City, State and ZIP Code) _____

Enter the year or period of time of the financial review _____ 20 _____

Date review completed _____ 20 _____

The Financial Review Committee

Prepare a summary of exceptions to all of the following tests.

Performed by: _____

Date: _____

26.305: General

	Yes	No
1. Are all individuals who handle cash or checks bonded?	_____	_____
2. Has a budget been adopted by the governing board?	_____	_____
3. Are actual results compared against budgeted amounts on a periodical basis?	_____	_____
4. Does the congregation follow a numeric chart of accounts?	_____	_____
5. Do individuals such as the treasurer, bookkeeper and counters have complete job descriptions?	_____	_____
6. Are monthly financial statements prepared including a balance sheet that lists all assets, liabilities and net assets, as well as a statement of activities that lists all sources of revenue and all expenses?	_____	_____
7. Are all financial and budgeting decisions clearly documented in the governing board's minutes?	_____	_____
8. Is documentation accompanying restricted gifts retained?	_____	_____

26.310: Loans Receivable

	Yes	No
1. Are loans granted to individuals approved by the governing board or voters assembly?	_____	_____
2. Are there signed promissory notes for all loans receivable including interest rates and repayment terms?	_____	_____
3. Are all loans adequately secured with a registered mortgage, deed of trust or lien?	_____	_____
4. Does a responsible official monitor monthly balances to ensure prompt payments?	_____	_____
5. Is proof of insurance required designating the congregation as the loss payee?	_____	_____

26.315:**Loans Payable**

	Yes	No
1. Are all loans payable approved by the governing board or voters assembly?	_____	_____
2. Are loan balances per the general ledger periodically reconciled with statements from lenders?	_____	_____

26.320:**Land, Buildings and Equipment**

	Yes	No
1. Does the congregation maintain a fixed asset ledger listing all land, buildings, autos and equipment owned and recorded at historical cost?	_____	_____
2. Are inventories periodically taken to ensure this ledger has included/excluded all items?	_____	_____
3. Are records kept of any items removed from the church property?	_____	_____
4. Has the governing board adopted a policy whereby all items purchased with a cost in excess of \$_____ and a useful life in excess of _____ years will be capitalized (Congregation should determine a capitalization policy)?	_____	_____
5. Is depreciation properly calculated and recorded in the proper expense accounts	_____	_____
6. Is the sale or other disposal of property approved by the governing board?	_____	_____
7. Are all fixed assets registered to the congregation?	_____	_____
8. Is insurance coverage reviewed annually to ensure:		
a. All properties owned or rented by the congregation are listed?	_____	_____
b. Adequate replacement coverage is in force?	_____	_____
c. Adequate liability coverage is in force?	_____	_____

26.325:**Investments**

	Yes	No
1. Has a written investment policy been adopted establishing guidelines, objectives and limitations?	_____	_____
2. Are detailed records of investments maintained in a secure place and reconciled to the general ledger periodically?	_____	_____
3. Are all investments recorded in the name of the congregation?	_____	_____
4. Are investment income, gains and losses posted to the general ledger when statements or checks are received?	_____	_____
5. Are any marketable securities stored in a secure vault?	_____	_____

Investments:

1. Prepare a schedule of investments listing opening balances, purchases, redemptions and ending balances for all individual investments.
2. Trace ending balances to the general ledger.
3. Count and examine all securities or statements for the period and:
 - a. Determine all investments are registered in the name of the congregation.
 - b. Determine the market value of all investments and determine whether investments have been written up or down to market.
 - c. Determine total interest and dividend income and compare these to amounts recorded in the general ledger.
4. Determine if any accruals of investment income at the end of the period have been recorded as receivables in the general ledger.

26.330: Information Technology Controls

Congregation Name _____
Financial Statement Date _____

COMPUTER INFORMATION

Type of Hardware _____

Type of Software Version and Date Purchased

- General Ledger _____
- Word Processing _____
- Other _____

Review:

	Yes	No
1. Does a written policy and procedure manual exist?	_____	_____
2. Review procedures in place for the evaluation and approval of computer equipment and software packages prior to acquisition and implementation?	_____	_____
3. Do user manuals exist for all applications and include a description of the application, procedural requirements, sample reports, source documents required, etc.?	_____	_____
4. Do current computer operating instructions contain set-up instructions, operating system requirements, restart, recovery, and emergency procedures, and a listing of program messages, responses, etc.?	_____	_____
5. Are hardware components covered by a maintenance contract?	_____	_____
6. Is insurance coverage adequate to replace the computer system at the current market value?	_____	_____
7. Is the computer area accessible only to authorized personnel?	_____	_____
8. Does the terminal sign-off after a period of inactivity?	_____	_____
9. Are power surge protectors being used?	_____	_____
10. Is data backed up on a regular basis?	_____	_____
11. Is a disaster recovery plan in place?	_____	_____
12. Are personnel authorization accesses reviewed for reasonableness?	_____	_____
13. Is the listing of all passwords kept secure?	_____	_____

Prepared by: _____

Reviewed by: _____

26.335:

Cash

Cash in the bank:

	Performed By	Date
1. Obtain the year-end bank reconciliation		
2. Obtain the bank statement with canceled checks for the final month of the period.		
3. Compare the final balance on the bank statement with the balance per the bank listed on the bank reconciliation.		
4. Verify that the deposits in transit on the bank reconciliation are recorded in the general ledger for the period under review.		
5. Using the subsequent month bank statement, indicate on your copy of the bank reconciliation the date the deposits in-transit were recorded by the bank.		
6. Compare the outstanding check list to the outstanding checks per the reconciliation.		
7. Use the subsequent month bank statement to verify the clearing of the outstanding checks. Watch the dates of the checks and note the date the checks cleared the bank.		
8. Checks that have not cleared for two months should be investigated.		
9. Determine that the adjusted bank balance on the reconciliation agrees with the bank balance on the financial report or in the general ledger.		
10. Review and ensure that other reconciling items are appropriate.		
11. Compare check signatures with list of authorized check signers.		

NOTE: Use this same procedure for additional bank accounts.

26.340:

Petty Cash

Petty Cash:

	Performed By	Date
1. Review the petty cash log and ensure there are receipts or explanations equal to the total reimbursements.		
2. Count the cash and compare it to the general ledger account or the imprest fund balance. Investigate differences.		
3. Review postings of petty cash activity to the general ledger and determine if it was approved by someone other than the petty cash custodian.		
4. Review a sample of receipts/explanations and determine:		
a. Is this an appropriate expense of the congregation?		
b. Should this disbursement have been made by check?		

26.345: Income

Income:

	Performed By	Date
1. Compare the contribution income from the financial statements to the individual contribution records. Reconcile these two records.		
2. Were any discrepancies noted when the year-end statements were mailed out? If so, were they resolved?		
3. Are other types of income properly recorded as to source and type?		
4. Compare all income items to budgeted amounts and investigate significant fluctuations greater than 10 percent.		
5. If gross receipts for unrelated business activities exceed \$1,000, has an IRS Form 990-T been filed?		

26.350: Expenses

Expenses:

	Performed By	Date
1. Compare expenditures with the approved budget for the period and investigate significant fluctuations greater than 10 percent.		
2. Compare all salary, wage and housing allowance totals in the payroll journal to the total salary, wage and housing allowance accounts in the general ledger.		
3. Prepare recommendations to the budget committee for areas not in agreement with budgeted amounts.		

26.356: Receivables and Advances

Receivables and Advances:

	Performed By	Date
1. Through discussion with the treasurer and/or bookkeeper as well as review of supporting statements, determine whether the following accruals have been recorded in the general ledger:		
a. Interest or dividend income earned but not received.		
b. Cash advances made to employees.		
c. Expenses paid by the congregation for which it is to be reimbursed.		
d. Unconditional promises made by individuals to give to the congregation.		
e. Revenue such as rental or usage fees earned but not yet collected.		
2. Review the age of these items to determine if they are still collectable.		
3. Generally, the older a receivable is, the less likely it is to be collected. Consider sending a confirmation letter to the owing party for large accounts.		

26.357: Loans and Notes Receivable

Loans and Notes Receivable:

	Performed By	Date
1. Obtain a schedule of any loans, notes, contracts or other long term receivables showing opening balances, advances, repayments and ending balances.		
2. Trace ending balances to the general ledger.		
3. Send letters to borrowers asking them to confirm ending balances, interest rates and other important terms.		
4. Review payments to determine whether they have been properly split between principal and interest.		
5. Using the interest rate in the promissory note, recalculate interest income and compare it to the amount recorded in the general ledger.		
6. Review mortgages, deeds of trust, etc., to ensure the congregation has an adequate security interest.		

26.358: Land, Buildings and Equipment

Land, Buildings and Equipment:

	Performed By	Date
1. Prepare a schedule of all fixed assets owned by the congregation listing opening balances, purchases, disposals and ending balances. This schedule should list all land, buildings, improvements, equipment and autos owned by the congregation.		
2. Trace the ending balances to the general ledger.		
3. Determine whether any disposals and resulting gains or losses were properly recorded in the general ledger.		
4. Review expense accounts to determine whether any items were expensed that should have been capitalized.		
5. Obtain a depreciation schedule and verify the following:		
a. Land is not being depreciated.		
b. Useful lives of fixed assets are reasonable.		
c. No depreciation expense or accumulated depreciation exists for assets that have been disposed of.		
d. The calculated depreciation expense is correct and has been recorded in the general ledger.		
6. Review property insurance to determine whether there is adequate casualty and liability coverage.		

26.359:**Other assets**Other Assets:

	Performed By	Date
1. Through review and inquiry, determine whether the congregation has any of the following assets that should be recorded in the general ledger:		
a. Deposits such as security deposits for rented facilities or deposits for retreats.		
b. Life insurance policies the congregation owns and is the beneficiary of should be recorded at the cash surrender value of the policies.		

26.360:**Loans Payable:**Loans Payable:

	Performed By	Date
1. Prepare a schedule of all loans and notes payable listing opening balances, loan advances, principal repayments and ending balances.		
2. Trace the ending balances to the general ledger.		
3. Trace ending balances to statements provided from lenders.		
4. Insure that any accruals of interest at the balance sheet date have not been paid and are recorded as accrued interest payable.		

26.361:**Accounts Payable and Other Accruals:**Accounts Payable and Other Accruals:

	Performed By	Date
1. By discussion with the treasurer and bookkeeper and by review of cash disbursements after the balance sheet date, determine if any of the following accruals should be made:		
a. Interest accrued but not yet paid on loans payable should be recorded as accrued interest payable.		
b. Operating expenses such as utilities that have been used but not yet paid should be recorded as accounts payable		
c. If the balance sheet date falls in the middle of a payroll period, payroll expense, from the last pay date to the balance sheet date, should be recorded as accrued wages payable. Also record the value of any vacation that has been earned by the employees but not yet taken as of the balance sheet date ("Accrued Vacation Payable").		
d. Any payroll withholding including state, local, federal and FICA taxes, as well as voluntary withholding should be recorded as accounts payable if it has not been remitted at the balance sheet date. This should also include the employer's portion of FICA.		
e. When the congregation accommodates a third party by accepting funds from them and forwarding them to another third party, this is referred to as an agency transaction with the congregation being the agent. Any amounts collected but not yet forwarded to third parties should be recorded as agency accounts payable.		

26.363:

Net Assets

The equity of a congregation is referred to as its net assets. In not-for-profit accounting there are two types of net assets and they are based on the existence or absence of restrictions placed on their use by donors. The two categories are net assets without donor restrictions and net assets with donor restrictions, temporarily restricted net assets and permanently restricted net assets.

Net assets without donor restrictions can further be broken down into, undesignated, board-designated, and net investment in property and equipment. Undesignated net assets are the cumulative revenue less expenses of the congregation from inception to the balance sheet date. Board-designated net assets are amounts the governing board has set aside from undesignated net assets for specific purposes. Because these amounts are still unrestricted, what the board has designated, the board can

undesignate at its own will. Board designated net assets are not to be confused with restricted net assets where the use has been restricted by a donor. Net investment in property and equipment is equity in fixed assets owned by the congregation.

Net assets with donor restrictions (temporary or permanent) are gifts or interest that has been restricted by a donor for a specific purpose or time period less any restrictions that have been met. Financial Accounting Standards require use of temporarily restricted net assets prior to using unrestricted resources if an expense meets the donor's restriction.

Permanently restricted net assets are gifts made by donors that the congregation may never spend. Generally these are endowments that the congregation invests and has use of the interest, but the principal is unavailable.

26.364:

Testing Net Assets

	Performed By	Date
1. Prepare a schedule showing prior net assets without restrictions (undesignated, board-designated, and net investment in property and equipment) adding all unrestricted revenue and subtracting all unrestricted expense.		
2. Trace this amount to net assets without restrictions per the general ledger. If the amounts do not agree, there has been revenue or expense charged to the net asset account that must be reclassified for the financial statements to "roll forward."		
3. Review any transfers between board-designated and undesignated net assets and trace the authorizations to resolutions in the minutes of the governing board's meetings.		
4. Prepare a schedule of net assets with restrictions (temporarily restricted) listing for each account, the opening balance, gifts and interest added, net assets released from restriction and ending balances.		
5. Trace ending balances to the general ledger.		
6. Select a sample of gifts and review any accompanying documentation to ensure the amounts were, in fact, donor-restricted.		
7. Select a sample of expenses and review documentation to ensure they were spent in accordance with the donor's wishes.		
8. Review temporarily restricted net assets to ensure that net assets were properly released from restriction if program restrictions have been satisfied or time restrictions have lapsed (see Sections 23.740 and 26.363).		
9. Prepare a schedule of permanently restricted net assets listing opening balances, gifts and ending balances (there should be no deductions).		
10. Trace ending balances to the general ledger.		
11. Review all gifts to determine they have been permanently restricted by the donor.		
12. If endowments have been created in permanently restricted net assets determine whether that amount has been invested by the congregation and the interest is being properly spent.		

26.400: The Financial Review Program (Test of Transactions)

(Legal Name of Congregation) _____

(Street Address) _____

(City, State and ZIP Code) _____

Enter the year or period of time of the financial review _____ 20 _____

Date review completed _____ 20 _____

The Financial Review Committee

26.405: Test of Transactions — Proof of Cash Worksheet

The proof of cash worksheet provides a tool to help you prove the cash transactions for a given period of time. When completed, the worksheet will total down and across to prove that the elements of cash for a given month recorded by the bank agree with the same period of recording within the records of the church. See 25.410 for instructions on completion of this worksheet.

	Prior Month's Bank Reconciliation	Cash Receipts	Cash Disbursements	Test Month's Bank Reconciliation
Per Bank			()	
Deposit(s) in transit: Beginning		()		
Ending				
Less outstanding checks: Beginning	()			
Ending			()	()
Other Reconciling Items:				
Per General Ledger			()	

26.410:

Test of Transactions — Cash

	Performed By	Date
1. Select one month as the test month and enter your selection here_____.		
2. Obtain the bank statements for the month being tested and the month prior.		
3. Obtain copies of the bank reconciliations for the month being tested and the month prior.		
4. Complete the “Proof of Cash Worksheet” illustrated and supplied with this program (see 25.405) as follows:		
a. On the first line of the first column, enter the cash amount “per bank” taken from the prior month’s bank reconciliation. On the first line of the last column, enter the cash amount “per bank” taken from the test month’s bank reconciliation.		
b. On the first line of the second column, enter the total deposits (credits) shown on the test month’s bank statement. On the first line of the third column, enter within the set of brackets (indicating a negative number) the total withdrawals (debits) shown on the test month’s bank statement.		
c. Verify the first line totals across (column 1 + column 2 + column 3 = column 4).		
5. Total the cash count sheets and compare to deposits. Compare deposits to bank statement and the posting in the general ledger and checkbook.		
6. Continue completing the “Proof of Cash Worksheet” as follows:		
a. If deposits in-transit are shown on the bank reconciliations, enter these also on the worksheet. On the second line in the first column, enter the total of deposits in-transit shown on the prior month’s bank reconciliation. Duplicate this entry within the brackets (indicating a negative number) on the same line, but in the cash receipts column. On the same line in the last column, enter the total of deposits in-transit shown on the test month’s bank reconciliation. Duplicate this entry on the same line, also in the cash receipts column.		
b. Verify the second line totals across.		
c. Next, enter the outstanding checks shown on the bank reconciliations on the worksheet. On the third line within brackets (indicating a negative number) in the first column, enter the total of outstanding checks shown on the prior month’s bank reconciliation. Duplicate this entry on the same line (not in brackets), but in the column of cash disbursements. On the same line within brackets (indicating a negative number) in the last column, enter the total outstanding checks shown on the test month’s bank reconciliation. Duplicate this entry within brackets (indicating a negative number) on the same line, also in the column of cash disbursements.		
d. Now, verify the third line of the worksheet totals across (column 1 + column 2 + column 3 = column 4).		
e. If other reconciling items appear on the bank reconciliations, they will have to be shown on the worksheet in two columns to make it balance. Enter other reconciling items now (fourth line).		
f. Add down each column of the worksheet, entering sums across the bottom line. Be sure each positive number is added and each negative number is subtracted.		
7. Now the proof:		
a. The cash balance “per general ledger” in the prior month bank reconciliation (first column) should equal the test month’s beginning cash balance in the general ledger or the checkbook balance for the beginning of the month. Verify this now.		
b. The cash receipts (second column) “per general ledger” should equal the debit postings for the test month within the general ledger. Verify that this is true.		
c. The cash disbursements (third column) “per general ledger” should equal the credit postings for the test month in the general ledger. Verify that this is true.		
d. Finally, the cash balance “per general ledger” in the test month bank reconciliation (last column) should equal the general ledger cash balance at the end of the test month or the checkbook’s ending balance. Look and see that this is true. Review all gifts to determine they have been permanently restricted by the donor.		
8. Congratulate the committee. They just proved the cash account for one month—go have some coffee!		

26.415:**Test of Transactions — Cash Disbursements**Cash Disbursements:

	Performed By	Date
1. Determine how many checks were written during the year by subtracting the beginning check number from the ending check number. Divide the number of checks written by 20, (which will be the sample size), and determine the interval between each sample. For example, 400 checks written, divided by 20, would mean every 20th check would be examined.		
2. Secure the sample of 20 by obtaining all the canceled checks for the year.		
3. Make a list of the 20 checks and make columns headed accordingly: check number, vendor, date written, amount, account distribution, supporting detail, and remarks.		
4. At this time, review the internal control review and note the answers given to authorized signatures, number of signatures required, the cash disbursements section of the questions. Now you will prove or disprove the validity of the internal control as it was explained to you.		
5. Obtain all the supporting documentation to the 20 checks written. Now examine each check and supporting documentation to see if each one is handled in accordance with documented procedure. Use the worksheet (prepared in step #3 above) to support your findings. Note any departure from procedure. Make appropriate comments and recommendations for better documentation.		
6. After performing the above test, return all items to their proper file.		

26.420:**Test of Transactions — Cash Receipts**Cash Receipts:

	Performed By	Date
1. Select a sample of cash receipts from the receipts log/journal, excluding worship service offerings. (This has been tested in income.)		
2. Review the receipt explanation and supporting documentation to ensure the income account charged was reasonable.		

26.425:**Test of Transactions — Payroll**Payroll:

	Performed By	Date
1. Examine the individual payroll files. Test for completeness.		
2. Compute the payroll for one period.		
3. Verify that housing allowance is recorded properly and trace same to the governing body's minutes		
4. Do the annual salaries agree with the approved amounts?		
5. Are current withholding authorizations on file?		
6. Is an appropriate Form I-9 on file for each worker?		
7. Obtain the quarterly and annual payroll tax returns. (Form 941) Verify the reporting on a selected quarterly return. Combine the quarterly returns and verify the annual return totals.		
8. Inquire and obtain documentation on selected unusual payroll reporting items and verify proper reporting (i.e., moving expenses, auto/expense allowances, group term life, and tax-sheltered annuities (TSA).		
9. Verify payment of withheld taxes to IRS, state, local, and payment of workers compensation insurance.		
10. Verify payment of health insurance, pension, dental, life insurance, and other fringe benefits.		

26:500: Financial Review Letter to the Congregation

First Lutheran Church
2743 Concordia Drive
St. Louis, MO 63122

Date _____

Members of First Lutheran Church:

We, as an appointed "Financial Review Committee," have reviewed the financial reports of

First Lutheran Church

Our financial review covered the period of Date _____ Date _____

As part of our study, we utilized the financial review package as found in the Congregational Treasurer's Manual. We performed the review at the request of our congregational chairman and in accordance with the constitution and bylaws of our church. As a result of our study, certain recommendations have been made to improve the recordkeeping of our church and to assist the treasurer in his or her duties.

We thank God for this opportunity to serve Him and pray that our recommendations are received as constructive information to improve and strive toward excellence as God commands us.

The Financial Review Committee

