

Audit Procedures for Congregations

What is an audit?

Generally an audit (also called a financial compliance review) is a number of tests on the various transactions that occurred during the year. These tests, along with questions and inquiries made by the auditor(s) lead to an opinion about the appropriateness of the financial statements.

Why have an audit?

- To obtain independent assurance that all financial records fairly represent the financial condition of the church.
- To insure that the year's financial activity has been properly recorded in accordance with generally accepted accounting principals.
- To insure adherence with the policies and procedures established by the congregation.
- To maintain confidence in the integrity of the congregation's financial system and the persons responsible for handling the finances.

Recommendation regarding audits of congregations

The Resource Development Team of the New Jersey Synod ELCA highly recommends the practice of annually auditing the financial records of the congregation. There is no stipulation concerning who performs that audit, whether it be by an outside auditor or firm of auditors or whether it be an internal audit carried out by an financial compliance review (audit) committee appointed by the church council. As a minimum the church council should establish an internal audit committee and have this committee review the records each year. An audit committee can often discover weak spots in your system of internal controls or discrepancies in the financial records. Having an outside auditor from a certified public accounting firm conduct periodic audits can be beneficial in providing an outside assessment of the congregation's financial management process.

Functions of a Audit Committee

The audit committee is appointed by the council of the congregation. This committee should be composed of at least two members of the congregation, excluding the treasurer and the financial secretary. It is preferable that they be select individuals who have had training in accounting procedures.

The committee, with approval of the finance committee, may secure outside help on a fee basis from an independent accountant, registered in the state.

The audit committee:

- Examines and reviews all accounts and records.
- Exercises supervision and oversees the work of this review if it is conducted by an outside accounting firm.
- Examines all insurance policies and prepares a schedule of the insurance coverage.
- Inspects and examines securities and investments.
- Prepares a schedule of the securities and investments for review by the finance committee.
- Reports its findings in writing to the church council with supporting schedules and recommendations for change and improvement.
- Verifies that the congregation complies with Federal & State tax laws and regulations.

Procedures:

1. Review the recording of cash receipts -

- a. Trace deposits from the counter's reports in the financial secretary's and treasurer's records. Compare these to the entries recording such deposits so they agree with the deposits recorded by the bank.
- b. Check on the timeliness of the deposits.
- c. On a sample basis, check the account distribution in the cash receipts journal, being especially alert for funds designated for specific purposes.

2. Verify check accounting -

- a. Inspect the cash expenditures record in the cash disbursement journal which should show the date, check number, name of payee, amount of check and account distribution for each check written.
- b. Check mathematical accuracy of entries.
- c. Examine the authority for writing a check such as approval on invoices; pastor's call, including current salary and housing arrangements; employee salaries, contract agreements; actions of council reported in minutes, and actual receipts for tangible goods.
- d. Examine canceled checks to verify that disbursements were actually paid to the proper parties.
- e. Account for all checks, used and voided.
- f. Prepare a statement of expenditures for comparison with the adopted budget for the year and analyze variances.

- g. Prepare a tabulation of benevolence payments to the synod and compare with statements received from the synod. Compare this total with the expected response for the year.
 - h. Analyze expenditures, noting proper capitalization of major improvements, refurbishing, new equipment, and proper designation of employees vs. Independent contractors.
3. Reconcile bank accounts -
- a. Inspect, on a sample basis, endorsements on the canceled checks.
 - b. Request banks, savings and loan associations, and other investment agents to confirm, in writing, the balances held in accounts.
 - c. Confirm authorized signatures for check writing with the financial institutions. Compare signatures on the card with those currently used on checks.
 - d. Prepare a statement of reconciliation between bank balances and balances shown on the books. The reconciliation should begin with the bank's balance. Add to that figure deposits shown on the books but not yet credited on the bank statement. Subtract the outstanding checks (those which have not yet cleared the bank) to prove the balance shown on the books.
 - e. The statement of reconciliation should be performed by someone who does not process receipts or disbursements.
4. Examine petty cash funds to determine that -
- a. Disbursement vouchers have proper approval and receipts.
 - b. Reimbursements to the fund are made properly.
 - c. Maximum figure for individual payments has been established and followed.
5. Examine individual member records -
- a. Compare "pledge amount" with the signed pledge.
 - b. On a sample basis, check the financial secretary's posting of contributions to the members' records.
6. Inspect insurance policies and prepare a schedule of insurance in effect to show -
- a. Effective and expiration dates.
 - b. Kind and classification of coverage.
 - c. Maximum amounts of each coverage.
 - d. Premium amounts and terms.

e. Comparison of insurance coverage with the insurance appraisal or other supporting cost data. Does insurance coverage provide adequate replacement value for church building and personal equipment such as: organ, pews, hymnals, computers, printers, etc.

Upon completion of the audit report, it is suggested that the following certification be completed and made a part of the congregations records that a review of the financial records has been performed.

NEW JERSEY SYNOD EVANGELICAL LUTHERAN CHURCH IN AMERICA

Certification of Financial Compliance Review of Congregation Records
Congregation _____ New Jersey Synod, ELCA
Address _____
Pastor _____ For year ending _____
Review performed by: _____

(Name of persons or accounting firm)

Check appropriate items:

Review includes records of:

- Congregational Treasurer
- Financial Secretary
- Building Fund Treasurer (if separate)
- WELCA
- Men's Organization
- Youth Organization
- Scout Troops
- Parochial Schools
- Church school (if separate from cong. Treasury)
- Other

Funds reviewed include:

- Current or General
- Building or Capital
- Memorial
- Special
- Other

Verification was made of:

- Regular checking account (s)
- Investments
- Other

Funds excepted from Compliance Review:

CERTIFICATION

We hereby certify that the financial records of the congregation named above and all of its auxiliary organizations have been reviewed and that a proper accounting of all funds has been found.

Signed _____ Title _____
Signed _____ Title _____

Certificate is to be signed by any two of the following: Pastor (or Associate Pastor), Congregation President, Vice-President, Chair of Finance Committee. This certification is to be placed with the Congregation's Council or Board of Directors permanent files.

(Do not send this certificate to the New Jersey Synod or ELCA churchwide office.)