

SAMPLE AUDIT PROCEDURES

This list is only meant to get you started. The great thing about an audit is that it comes around each and every year. Every year you have a chance to look in new areas and tackle other issues.

Start with talking to the money people...the financial secretary:

- Document how money gets from the offering plate to the bank and recorded in the donor records and accounting records.
- There should be more than one counter. The counters shouldn't all be part of the same immediate family.
- Are their counter sheets accurate most of the time with what the bank records for the deposit?
- Is the money properly secured before it gets to the bank? It shouldn't be left in a place where a lot of people have access to it.
- How are gifts of stock handled? Are they sold right away or does a committee decide whether to sell or hold?
- How do you handle gifts that are given to the church for a specific individual that's not on staff? This is something to be cautious about because it can be used to cheat on taxes. If you accept these types of gifts, you can do it properly two ways: 1)let the donor know that gifts cannot be restricted that way, but we will consider your suggestions in helping this person; 2)let the donor know that this will not be a charitable contribution because it amounts to a gift from one person to another (the church can help it be anonymous) and will not appear on their donor statement.

...the treasurer (the person that cuts the checks and keeps the accounting records):

- Document how bills are paid.
- Who signs checks? Is a person other than the treasurer the signer? Or are two signatures required if the treasurer is a signer?
- How are payments authorized? Is this authorization documented? There are different types of authorization. Some are authorized by the budget and are paid regularly such as apportionments or utilities. Some need to have approval of a staff person or committee such as certain things that the Trustees need to approve. How are these approvals documented? Some churches have the pastor sign off on all payments using vouchers. Basically, how would you recognize if something unauthorized was paid? There should be proper documentation.
- How are donor-restricted gifts accounted for? If someone gives \$100 for a specific purpose, how do you ensure that the money is spent for that purpose?
- I usually ask both the financial secretary and the treasurer where they see for room to improve.
- How do you handle it when someone wants to be reimbursed but does not have a receipt?

Next is the year-end Balance Sheet (also called the Statement of Financial Position):

- Does the checking, investment, and debt balance with the bank statements?
- Have the bank statements been reconciled? They should be reconciled monthly.
- Do you know what all the other assets and liabilities are? Document these.
- Is there anything missing that you expected on the Balance Sheet? Why wasn't this included?

Next is the year end Income Statement (also called the Statement of Activities or Budget Report):

- Scan through it. Were any lines significantly under or over budget? Significantly less than or more than last year? Why? Document.

SAMPLE AUDIT PROCEDURES

- Especially for over-budget items, do these need special approval? Some churches treat the budget as a guide. Other churches don't allow spending to go over budget without specific approval.
- For any of those balances that are way high, verify the reason given for the difference. Have the treasurer either pull up a list of transactions posted to that line or the actual invoices.

Somewhere or somehow there should be an accounting of donor-restricted or designated funds. Look at this list:

- Are there funds that should have been paid out? For example, is there money still sitting in the Easter Offering Fund that should have been spent by December?
- Are there some funds that need to be cleaned up? A lot of churches do small, one-time projects that they raise money for. When the project is complete, the money should go into the general fund unless there is some other plan. For example, if you raise money to replace the projector, but raise \$500 more than you needed, what happens with this leftover money? Some churches will use it for a related purpose such as purchasing a new mic. Anything not used up can be returned to the general fund.

Vendor list...hopefully with the amount paid to each for the year. Many, but not all, accounting systems provide such a report:

- Are there any unexpected vendors or vendors that you don't know anything about? Have the treasurer pull these invoices.
- Are there payments to the treasurers or pastors immediate family? Have the treasurer pull these amounts to see how they were authorized.

Reviewing Bank Statements (hopefully your bank provides the scanned images of the checks on them as this is helpful). Pick a few months to review:

- Are there a lot of Bank Corrections? Try to determine why.
- Is every scanned image properly signed?
- If checks should be computer-printed instead of hand-written, are there any hand-written checks? Have the treasurer explain these and show the corresponding entry in the accounting system.
- Are there bank transfers and electronic payments? Are these properly authorized?

Review Income & Expenses. Pick a couple of months to scan through:

- Do expenses all have proper support so that I can tell what was purchased and for how much? There should be receipts, invoices, etc to prove this.
- Can I tell that expenses were properly approved to pay? Is there a signature or initial from the person approving payment?
- Do expenses have the check stub attached or the check number written on them?
- Does the report from the counters agree with what was recorded in the accounting system?