

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.

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| 4 | Are the persons responsible for counting receipts rotated on a periodic basis? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| 1 | Do the counters have a standardized form for recording the deposit information? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| 2 | Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| 3 | Is there a control prohibiting the cashing of checks from the currency received? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| 4 | Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| 5 | Are all other cash receipts recorded and deposited on a timely basis? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| 6 | Are all checks received restrictively endorsed —for deposit only "immediately upon receipt?" | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| 7 | Are all cash receipts deposited into the general operating checking account? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| 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 <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| 9 | Are periodic statements provided to donors of record (i.e. at least quarterly)? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| 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 <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| 11 | Are all discrepancies investigated? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |

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

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

- 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
Are all petty cash funds maintained on an imprest basis, i.e., the
2. 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? _____ Yes No
 - 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 <input type="checkbox"/>	No <input checked="" type="checkbox"/>
b. Liability?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
c. Fidelity bond?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
d. Sexual misconduct?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
e. Directors and officers liability?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
f. Workers' compensation?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
2. Is there a policy related to sexual misconduct?

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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3. Is a periodic review conducted to ensure that adequate controls are in place to prevent loss?

Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
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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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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2. Are all loan agreements and/or lease agreements in writing and properly safeguarded?

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions?

Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
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4. Are all liabilities noted on Financial Reports to Vestry?

Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
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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:

a. Date, amount and donor of gift?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
b. Any restrictions or limitations?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
2. Does the Vestry or other authoritative body approve all restricted gifts and grants?

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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3. Are the income and other transactions periodically reported to the Vestry?

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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4. Are written acknowledgments issued for whom they are required?

Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
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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:

a. Employment application and/or letter of employment	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
b. Authorizations of pay rates and effective dates?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
c. Internal Revenue Service Form W-4?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
d. Department of Justice Form I-9?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
e. State Withholding Forms?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
f. New hire reporting?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

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

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

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