

Diocese of Vermont
Checklist for Internal Controls

Audit Year: _____

Church Name: _____ Church Town: _____

This checklist:

- *Offers guidance for setting up an accounting system (outside the annual audit process)*
- *Tells the Diocese and your Vestry how well your existing system is functioning*

*Please see **The Manual of Business Methods in Church Affairs, Chapter II - Internal Controls, Section C, Internal Control Questionnaire** for additional guidance.*

https://www.episcopalchurch.org/files/full_manual_updated_012815_0.pdf.

Please check the relevant answer box for all questions in this checklist. For every “No” answer, please write a brief summary of the issue, and make a recommendation to your Vestry for possible remedial action. Each “No” item should be addressed in your church’s Vestry Response to the Audit Report.

General

The following questions offer general information to aid your church in understanding its overall accounting needs, and to aid the audit committee in evaluating your church’s practices in maintaining adequate internal controls.

1. Are prior audits and completed internal control checklists available?
 Yes No NA

2. Have the recommendations of your previous year’s Audit Committee Report been implemented?
 Yes No NA

3. Is a complete and current chart of accounts available, listing all accounts and their respective account numbers?
 Yes No

4. Do you have a manual for accounting policies and procedures?
 Yes No
 When was it last updated? _____

5. Did your Vestry elect the church treasurer this audit year?
 Yes No NA

6. Has your Vestry elected an Assistant Treasurer who is familiar with the church accounting software and bookkeeping system?
 Yes No NA

Budget

Budgets are a critical management tool that will aid in the stewardship and administration of church resources and program.

7. Did your Vestry approve the budget for this audit year, recording it in the minutes?
 Yes No NA
8. Does your Vestry periodically review the budget?
 Yes No NA

Reporting

Accounting systems must adequately communicate information to those responsible for recording, maintaining, and reporting from it. Certain minimum standards exist to assure adequate communication of the financial information.

9. Are the monthly financial report and the annual financial report from your Treasurer consolidated in such a way that they address the financial status of all of your church's organizations (committees with budgets and / or fundraising objectives, for example)?
 Yes No NA
10. Does the monthly financial report contain information on both the operating and non-operating income and disbursements, and debts and liabilities, in accordance with the instructions of the annual Parochial Report? For a clear explanation, see the Instructions to the Parochial Report.
 Yes No NA
11. Does the monthly financial report compare current amounts with approved budget amounts (that is, budget-to-actual comparisons)?
 Yes No NA
12. Do the report or other financial statements to the Vestry note all liabilities?
 Yes No NA
13. Do you report, at least quarterly, activity on all other funds, including designated, restricted and investment funds?
 Yes No NA

Cash Receipts

Clearly stated policies and procedures regarding the handling of cash and other receipts not only protect your church from losses, but assure that all receipts are properly recorded.

14. Are there safeguards in place to prevent the theft or misplacement of offerings, from the time they are received (whether by mail, pledge deposit, delivery, or collected from the plate) until the time the funds are counted and deposited?
 Yes No NA
15. Are there at least two unrelated persons responsible for counting?
 Yes No NA
16. Are counters' schedules rotated so that the same counters are not always paired up?
 Yes No NA

17. Is there a clear policy that the pledge recorder does not handle, count, or deposit funds?
 Yes No NA
- If not, please provide your Vestry-approved procedure, if you have one. This should be appended to the Checklist. If you do not have one, this matter should be addressed in your Audit Committee Report to your Vestry.
18. Is there a clear policy that prohibits the Treasurer from handling or counting funds unless teamed with another counter?
 Yes No NA
- If not, please provide your Vestry-approved procedure, if you have one. This should be appended to the checklist. If you do not have one, this matter should be addressed in your Audit Committee Report to your Vestry.
19. Do the counters have a standardized form for recording the offerings (plate, pledge deposits, and other delivered or mailed-in offerings)?
 Yes No NA
20. Does the counters' form contain areas for designating operating and non-operating income (for example, a way to enter specially designated funds)?
 Yes No NA
21. Do your accounting practices require the retention of pledge envelopes and offering memoranda for non-pledge offerings?
 Yes No NA
22. Are pledge envelopes and other records of offerings reconciled to the counters' breakdown sheets?
 Yes No NA
23. Do you have a control in place that prohibits the cashing of checks (whether internal or external) from currency obtained through offerings?
 Yes No NA
24. Are all cash receipts promptly recorded and deposited into the general checking account (ideally, within one week)?
 Yes No NA
25. Are all checks immediately endorsed "For deposit only" with the church's general checking account information?
 Yes No NA
26. Are personal giving statements, including the amount and actual date of contribution, provided to donors of record at least semi-annually?
 Yes No NA
27. Do acknowledgments of all contributions contain, where appropriate, the statement: "In accordance with the Internal Revenue Code, we certify that [Church name] did not provide any tangible goods or services in consideration of your contribution"?
 Yes No NA
28. Do individual (non-pledge) contributions of \$250.00 and more receive a separate, contemporaneous acknowledgment letter with the IRS statement?
 Yes No NA

Cash Disbursements

The following procedures help assure that all payments are properly approved, recorded, and supported by appropriate documentation.

29. Are all checks pre-numbered and used in sequence?
 Yes No NA
30. Is there a clearly defined written approval process for all disbursements?
 Yes No NA
31. Do all signed checks contain supporting documentation?
 Yes No NA
32. Check signing:
- a. Is the signing of blank checks prohibited?
 Yes No NA
- b. Is the use of a signature stamp prohibited?
 Yes No NA
- c. Are all account signers authorized by the Vestry?
 Yes No NA
33. Are voided checks properly canceled and retained?
 Yes No NA
34. Are checks made payable to specified payees and not to "Cash"?
 Yes No NA
35. Are all disbursements (other than those made by petty cash) made by check or electronic funds transfer?
 Yes No NA
36. Are all disbursements requiring special approval of the Vestry properly documented in the Vestry minutes?
 Yes No NA

Bank Statement Reconciliation

The monthly reconciliation of ALL bank statements is a primary tool for assuring the proper recording and accounting for cash account activity.

37. Are all bank statements reconciled with account activity within 10 days of receipt of the statements?
 Yes No NA
38. Are bank account reconciliations completed or verified by someone other than the church Treasurer?
 Yes No NA
39. Does the reconciliation process provide for:
- a. Verification of all bank debit and credit memos?
 Yes No NA
- b. Review of all checks outstanding for more than 90 days?
 Yes No NA
- c. The monthly recording of all bank charges and interest?
 Yes No NA
- d. Comparison between the bank statements and check registers?
 Yes No NA

Petty Cash

The following controls offer a protocol for timely recording of cash expenditures in the accounting system.

40. Is there a petty cash fund at the church?
 Yes No (skip questions 41-45)
41. Is the responsibility for the petty cash fund assigned to only one person?
 Yes No NA
42. Are petty cash funds maintained on an "impress" basis, under which the total amount of vouchers paid (since the fund was restored to its full value), plus cash on hand, always equals the established value of the fund (for example, \$100)?
 Yes No NA
43. Is the petty cash fund reimbursed or checked at least monthly?
 Yes No NA
44. Is the actual petty cash protected from theft or misplacement?
 Yes No NA
45. Are the various payments from petty cash accounted for in the appropriate expense categories of the general ledger?
 Yes No NA

Investments

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

46. Are all investment instruments held only in the name of the church?
 Yes No NA
47. Are investment incomes, dividends, and interest recorded as received?
 Yes No NA
48. Is the authorization for sale or purchase of investments provided for by the Vestry?
 Yes No NA
49. Is there a written investment policy?
 Yes No NA

Property and Equipment

Certain procedures involving the physical assets of the church aid in detecting, identifying, and preventing losses.

50. Is Vestry approval required for property and equipment additions and dispositions? (The terms *property* and *equipment* refer to items worth at least \$500.)
 Yes No NA
51. Is a detailed description and inventory (list or photographed record) maintained for all property, furniture, fixtures, and equipment worth more than \$500 in replacement costs?
 Yes No NA

52. Are copies of this inventory kept in a safe place, apart from the inventoried property?

Yes No NA

53. Is the inventory current?

Yes No NA

54. Are real estate deeds and other legal documents kept in a safe place?

Yes No NA

55. If your church has a safe deposit box, is there an inventory of contents?

Yes No NA

Insurance

All churches in the Diocese of Vermont should be covered under the Diocesan policy for property and liability, and worker's compensation (worker's comp).

56. Are invoices from the Church Insurance Company of Vermont paid in a timely fashion?

Yes No NA

57. If there is at least one employee (clergy or lay), is there a separate billing for worker's comp insurance?

Yes No NA

Liabilities and Other Debt

All liabilities and other debt must be clearly reported and all provisions or restrictions complied with.

58. Is all borrowing authorized by the Vestry and the Diocese?

Yes No NA

59. Does your church comply with debt / lease provisions, including restrictions?

Yes No NA

60. Are all loan agreements in writing and properly safeguarded?

Yes No NA

Restricted Gifts and Income

Gifts containing donor-initiated restrictions on their use are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions observed.

61. Are records maintained of all bequests, memorials, endowments, and any other restricted gift, to include:

a. The gift's date, amount, and name of donor?

Yes No NA

b. Any restrictions or limitations?

Yes No NA

62. Are the use and investment of all restricted gifts and grants approved by the Vestry?

Yes No NA

63. Is the Discretionary Fund:
- In the name of the church, and not the rector?
 Yes No NA
 - Identified by the church's federal tax ID number?
 Yes No NA
 - Used only for appropriate, non-operating expenses, as described in **Chapter V, Section B** of the *Manual for Business Methods in Church Affairs*?
 Yes No NA
 - Financial status clearly and regularly communicated?
 Yes No NA

Payroll

Applying policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to government entities. The Diocese strongly recommends that payroll be processed by a professional service.

64. Does the church maintain personnel files to include:
- Employment applications and / or letter of employment?
 Yes No NA
 - Authorizations of pay rates and effective dates of those rates?
 Yes No NA
 - Internal Revenue Service Form W-4?
 Yes No NA
 - U.S. Department of Justice Form I-9?
 Yes No NA
65. Are there adequate records to:
- Show actual hours worked by hourly wage employees?
 Yes No NA
 - Show computation of gross pay?
 Yes No NA
 - Account for all deductions from gross pay?
 Yes No NA
 - Support payroll withholding tax returns and deposits?
 Yes No NA
66. Are federal and state payroll tax forms filed promptly and / or prior to deadlines?
 Yes No NA
67. Are employees (both clergy and lay) receiving form W-2?
 Yes No NA
68. Are forms 1099-MISC provided for all individuals who are not employees, and for all unincorporated entities paid \$600.00 or more annually?
 Yes No NA
69. Are Form W-2 wages reconciled to general ledger accounts and quarterly payroll tax returns?
 Yes No NA
70. Are clergy housing allowances recorded in the Vestry minutes prior to the effective year or effective starting date?
 Yes No NA

Computer Systems

Computer use requires certain procedures to safeguard systems and data.

71. Are files backed up regularly, either via a cloud platform or via hardware (thumb drives, hard drives, etc.) stored off premises?
 Yes No NA
72. Is access to the computer and computer financial programs limited only to authorized persons?
 Yes No NA
73. Does the church own and provide for the accounting program and adequate documentation for all computer programs?
 Yes No NA
74. Are printed copies of all current financial records maintained?
 Yes No NA

Notes

- **Record retention.** *Monthly financial statements must be retained for 3 years prior to the current year. Annual reports must be kept permanently.*
- **A “No” response.** *The Diocesan financial Oversight and Audit Committee highly recommends that if you check a “No” answer, the audit committee should write a summary of the issue. Further, the committee should submit the summary and a recommendation for remediation or other action to the Vestry. The Vestry, in turn, must address the matter in its Vestry Response to the Audit.*