

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 D, Internal Control Questionnaire** for additional guidance.*

<https://www.episcopalchurch.org/finance-office/manual-of-business-methods/>.

***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:
- a. In the name of the church, and not the rector?

- Yes       No       NA
- b. Identified by the church’s federal tax ID number?
  - Yes       No       NA
- c. 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
- d. 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:
  - a. Employment applications and / or letter of employment?
    - Yes       No       NA
  - b. Authorizations of pay rates and effective dates of those rates?
    - Yes       No       NA
  - c. Internal Revenue Service Form W-4?
    - Yes       No       NA
  - d. U.S. Department of Justice Form I-9?
    - Yes       No       NA
  
- 65. Are there adequate records to:
  - a. Show actual hours worked by hourly wage employees?
    - Yes       No       NA
  - b. Show computation of gross pay?
    - Yes       No       NA
  - c. Account for all deductions from gross pay?
    - Yes       No       NA
  - d. 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.*