

## **FULL FINANCIAL REVIEW**

Small, medium, and large size congregations should have the financial and accounts of the congregation and-all of the related organizations reviewed at least once every twelve months. This review may be internal or external.

## **EXTERNAL REVIEW**

An external review is ordinarily done by an independent auditor or an accounting firm.

## **INTERNAL REVIEW**

An internal review is normally conducted by a committee of members of the church. Sessions shall establish a review committee in conformity with the by-laws of the church and the laws of the state.

In most situations, particularly the medium or small size congregations, the review will be internal and on a volunteer basis due to the cost of an external review. Nonetheless, this should be done in a systematic manner by the best qualified individuals that are available within or to the congregation.

Those congregations with large trust accounts and/or large real estate holdings or those proposing to build or expand their facilities by loans on the property will find that an external review by a qualified auditing firm may be required and is to their advantage.

Before deciding which style of review to have, it should be understood that neither the compensated auditor nor the volunteer team is able to guarantee the accuracy of the financial records. The auditors are only able to review the financial data supplied to them and, from that, issue an opinion that the balance sheet and statement of operations fairly represent the conditions of the congregation and related organizations.

The treasurer of the church or the treasurer of any of the related organizations should not serve on the review committee, but should be available for consultation during the review process. The size of the congregation and the number of organizations that maintain their own accounts would determine the number necessary to serve on the committee so that it is not too small to do a large task.

The review committee should review and determine how the review program will be used in making the review. It is suggested that they do a testing process and not re-do the accounts for the period being reviewed. The testing should be done at various times during the period to determine the accuracy of the entries.

In order to complete an adequate review, the following areas should be included in the review procedure, plus any others that are deemed appropriate for the particular situation.

A. **Cash Receipts**: The committee should review the procedures used to record receipts, how the Sunday offering is counted and tallied, and how other organization treasurers receive and account for funds. Time is very important in recording receipts, either the Sunday offering or mail receipts, and a test check should be made to determine if the funds have been recorded on a timely basis. A check should also be made when designated funds are received to insure that they are properly credited and disbursed according to the wishes of the donor. Several of the individual contribution records should be tested to determine if all contributions have been Properly recorded.

B. **Cash Disbursements**: Copies of the budget adopted by the session for the period being reviewed should be made available to the committee along with any adjustments that were made during the period. With this basic document the committee can then determine if disbursements, either by cash or by check, have been properly charged to the budget category. If there have been disbursements not related to a budget item, then the session's authority for the disbursement should be obtained from the minutes of the session.

If there are items in the terms of call of the clergy or other staff which are permitted to accumulate from one year to other, it should be determined that these funds are being properly escrowed for future use with the limits established for the particular kinds of funds. A check or current terms of call for clergy and other employment agreements for other staff should be reviewed to determine if the full obligation of the commitment has been met, i.e., all pension and/or annuity premiums paid, continuing education allowance paid or escrowed, social security paid, etc.

C. **Verification of Bank Statements**: the review committee should do Verification of bank statements so that the statement can be reconciled with the cash receipts and disbursements.

D. **Securities and Investments**: If the congregation has securities and investments, an annual inventory should be made and be a part of the review report so that all securities and other financial instruments are accounted for at least once each year. The committee should also determine that all coupons on bonds, etc, have been redeemed.

E. **Debt Amortization**: To help in determining the financial condition of the congregation, the amortization schedule for all debts of the congregation should be reviewed to determine that the payments have been made on time, and a written verification should be obtained from the lender to insure that the balances shown on the church records agree with those of the lender.

F. **Petty Cash**: As soon after the close of the books for the period to be reviewed, a member of the committee should physically count the petty cash as these funds are a part of those to be accounted for by the review.

- G. **Membership Contribution Records**: The final statement for the year should be sent by the review committee, or instructions with the mailing, advising the individual donor that any discrepancies should be reported to the review committee. Spot testing should also be done to determine that entries have been properly recorded.
- H. **Insurance Policies**: If no other committee or board is charged with the review of the adequacy of the insurance coverage, this may very well be assigned to the review committee. With the rapidly escalating costs for replacement, and the incidents of vandalism, theft, etc., all insurance policies should be reviewed by competent officers to determine the adequacy of the coverage and the reasonableness of the premiums being paid. Insurance brokers are a good resource for reviewing adequacy of coverage and will gladly provide proposals of costs.
- I. **Tax Reporting**: The committee should examine W-4s from employees and verify that taxes were properly withheld based on the number of exemptions claimed. Records of tax deposits and reconciliation of amounts withheld should be compared with the quarterly 941s. The amounts of compensation and withholding need to be compared to W-2s given to employees to ascertain that all amounts reconcile and that tax deposits were made.

After the committee members have completed their various assigned tasks, the committee should meet as a whole and go over the work of each member, and then either as a committee or two or three members, prepare a report or letters to the session advising of the findings. This should include any recommendation that would enable a better accounting and understanding of the monthly reports, and what steps would make it easier for the next review committee.

The review of the accounts of record of the congregation is very important to determine the financial condition of the congregation and to give the member the trust that their giving is being taken care of in a businesslike manner.

When the report of the review committee is received by the session, and the report has been included in the session minutes, and the assignments of any recommendations for change in methods have been made, there should be a word of thanks to the review committee, not only in the session minutes but also in any newsletter that might go to each member. This will not only make the committee members feel that their work was necessary and the task worthwhile, but also will be a trust factor for the membership.

Review committees may also review management procedures and investments.