

# FINANCIAL REVIEW PROCEDURES FOR CHURCHES

The Manual of the Church of the Nazarene (paragraph 129.23) provides guidance for local churches with respect to finances and for the annual audit of the church's finances.

Note that the Manual requires an annual review but does not propose specific procedures. For this reason, the district has prepared this document to assist churches with this important stewardship responsibility.

As a rule, larger churches with multiple funds will utilize the services of a professional accountant. Smaller churches with simpler financial systems may also utilize the services of a professional accountant. However, this document will provide basic guidelines for churches to conduct their own annual financial reviews utilizing qualified church members who are not related to those who handle funds on behalf of the church.

However, if any impropriety or irregularity is suspected, the local church would be well advised to seek the services of a Certified Public Accountant immediately. In this regard, the district should be notified as well.

## Items Needed

- \_\_\_\_\_ Bank Account Statements
- \_\_\_\_\_ Bank Account Reconciliations
- \_\_\_\_\_ General Ledger
- \_\_\_\_\_ Beginning and Ending Balances for Special Funds (Building, etc.)  
(Note receipts & disbursements and ascertain that funds have been disbursed for authorized purposes only)
  
- \_\_\_\_\_ Bank Records and Backup Materials for Special Funds
- \_\_\_\_\_ Cash Receipts Records (Offering Tally Sheets)
- \_\_\_\_\_ Paid Invoices
- \_\_\_\_\_ Payroll Records
- \_\_\_\_\_ Checking Account Register or Stubs

## Process

- \_\_\_\_\_ Verify that all monthly Bank Statements were reconciled and balanced to the General Ledger
- \_\_\_\_\_ Verify that invoices paid \* were properly paid with regard to:
  - a) Amount
  - b) Approval by responsible authority (pastor, church board, dept. head, etc.)
  - c) Amount paid – trace to General Ledger
  - d) Verify that payments were charged to proper account

*(\* use a selected sample of 6-8 invoices of some variety from each month. If there are no problems, this should be sufficient. However, if discrepancies are noted, a larger sampling is in order.)*

- \_\_\_\_\_ Trace amount from weekly count sheets to bank deposits and trace items from the count sheets to the various General Ledger accounts (general operations, building fund, etc).
- \_\_\_\_\_ Select at least one tally sheet from each month and apply the same principle to the sampling as noted above.
- \_\_\_\_\_ Verify that amounts paid to employees and the pastor(s) were in the proper amount as and that amounts withheld were subsequently paid to the proper authority.

\_\_\_\_\_ If salary advances have been made, were they properly recorded and does the annual salary paid correspond to the budgeted salary. If the two figures do not correspond, is there an explanation?

\_\_\_\_\_ Trace amounts paid and withheld to the General Ledger. This can also be done on a sampling basis.

### **Inquiries into Internal Controls**

1. Are cash receipts counted by at least two persons then deposited and reported by someone other than the person disbursing funds?
2. Were all transfers between bank accounts, if any, properly accounted for?
3. Were all significant disbursements made by check?
4. Were all checks supported by documentation such as invoices or board authorization?
5. Is access to money and/or blank checks limited to authorized person?
6. Are there adequate controls to assure that one individual cannot conceal errors or irregularities?
7. Are two signatures required on checks?

### **Other Inquiries**

1. Is a budget approved annually by the church board?
2. Were financial reports prepared and distributed to the board regularly on a timely basis?
3. Are employees (including pastoral staff) covered by workers compensation insurance?
4. Were payroll deductions and tax payments forwarded to proper recipient on a timely basis?
5. Are vouchers or invoices marked, date paid, and filed to avoid duplicate payments?

### **Report and Follow-up**

When the financial review has been completed, the person(s) carrying out the review shall present a written report to the district. The report will say one of the following:

“We have reviewed the financial records of \_\_\_\_\_ Church of the Nazarene for (YEAR) and find them to be in good order and in accordance with generally accepted accounting procedures.”

“We have reviewed the financial records of \_\_\_\_\_ Church of the Nazarene for (YEAR) and find the following irregularities: (LIST) We make the following suggestion(s) for correction: (LIST)”

“We have reviewed the financial records of \_\_\_\_\_ Church of the Nazarene for (YEAR) and find the following irregularities: (LIST) We recommend that the church employ the services of a Certified Public Accountant to assist in resolving these irregularities and bringing the church’s financial records into conformance with generally accepted accounting procedures.”