

Notes for Internal Controls Questionnaire  
Episcopal Church (TEC) Canons (I.7.1(g)) require that the annual congregational audit must be  
received in the Diocesan Office by **September 1st.**

*Revised: Summer 2022*

Most of these recommendations are from the *Manual of Business Methods in Church Affairs*. Some are canonical, state or federal requirements. Others are recommended by the Diocesan Finance Department as ways to help protect assets and the treasurer.

Internal controls are the policies and procedures in place to help safeguard assets. A written policy adopted by the church should outline these policies and procedures. Segregation of duties are crucial to internal controls. Some examples are: two signatures on checks, rotating cash counters, vestry review of bank statements, someone else reconciling bank statements besides the treasurer, discussion of monthly financial statements and any issues regarding funds.

General:

1. Ask if the items were implemented or if there are some items that still need to be addressed. Note – in the audit testing process, the committee will be verifying the information.
2. Look at the chart of accounts.
3. Ask if they use double entry bookkeeping, which means entries impact two accounts – most often cash and either income or expenses.
4. Ask if the vestry has received the audit findings and acted on them. You will review this when you are checking the vestry minutes.
5. The vestry is the only group authorized to spend church funds. Other groups with funds should turn them over to the vestry and should not have separate bank accounts.
6. Ask if the treasurer knows about any potential lawsuits. You may also need to ask the priest, since this may be information the treasurer does not have access to. The audit team asks about this because if there was a pending lawsuit, there would be potential financial impact.
7. Ask about their policy for writing off loans, receivables, etc. This should be included in their accounting policy. If they don't have an accounting policy, recommend they adopt one. There is a template on the diocesan website.
8. Ask about their budget review process. Preferably the vestry should review and discuss the budget at least quarterly.

Budget:

1. Ask if the vestry approves the budget. If they do not, does anyone approve it? Does the vestry review it? Note – the vestry should approve the budget.
2. Ask if the vestry makes any changes throughout the year to the budget and if so, are the decision and changes listed in the minutes. Note: You would then notice this when reading the minutes.
3. Does the treasurer periodically discuss with the vestry the budget differences? The vestry needs to be aware of differences so they can make adjustments as needed.

#### Reporting:

1. The treasurer should attend all meetings and provide financial statements. He or she should be available to answer questions.
2. The report should show all of the income and expenses as well as the balance sheet with the balances for all accounts including investment accounts.
3. The report should be current using the budgeted figures to date. That helps compare where you thought you would be vs. where you are in the year. Keeping the annual budget in mind is also important because you do need to make sure you stay within the budget for the year.
4. The treasurer should report at least quarterly all of the investment or endowment fund balances and activities and information on any other restricted funds,

#### Cash Receipts:

1. Ask the treasurer what are the safeguards currently in place? The vestry should protect the cash. Ways to do so are to make a weekly deposit, have two unrelated people counting the cash on a rotating basis; keep the cash in a locked place until the deposit is made; have different people performing different tasks.
2. There should be two different people counting cash each week. You will check this by looking at the cash counting sheets. If there are no sheets or there are not different people, you would need to list this as a recommendation. Look at the names of the counters. It should not have the same names counting together each week.
3. Ask about the rotation of the cash counters. When you review the cash counting sheets during the audit testing, look at the names
4. If there is no form, a sample form is available on the diocesan website if the church does not have one. Go to [www.diomontana.com](http://www.diomontana.com) . Click on "Church Administration."
5. The treasurer should compare the cash counting sheet with the deposit slip and make sure they match.
6. It is helpful to use pledge envelopes for those who give cash, but not required. We ask this so we know if we need to then look at the envelopes. They should be kept until after the audit is complete.
7. The deposit should be made weekly. This is another way to protect the cash. Someone other than the treasurer should make the deposit if possible. The deposit slip and cash counting sheet should be compared and reviewed by someone who did not count or make the deposit. If they have a fundraiser or other cash that comes in, those funds also need to be deposited within the week.
8. Do they have a stamp that says, "For Deposit Only"? Do they stamp the checks after counting them?
9. This is also a good time to ask about how many accounts there are. Cash should go into the general operating account unless it is designated for something else, and they have a separate account for designated funds.
10. What are their procedures that might show a missing deposit or donation? If the church adopts an accounting manual, this issue is taken care of by asking a vestry member to review cash counting sheets, deposit slip and bank statement periodically as listed in the policy manual. .
11. Quarterly statements provide a way to remind people where they are with their pledges, and it is another way to check for errors.
12. If there are issues, the treasurer needs to review the information and figure out the problem and make notes.

13. If the treasurer is the only one making a deposit, note that as a potential issue because there need to be others involved. One person should not do everything. You may need to do more detailed testing if no one else is reviewing transactions.

#### Cash Disbursements:

1. Most common payments are by check but there are churches with credit and debit cards and that make ACH payments. If the church has a credit card, all receipts must accompany the credit card statements. The receipts must also accompany debit card transactions.
2. We ask this question because when we are testing information we can see if there are missing checks.
3. If they have an accounting manual, the audit team will need to look at it and see what their process is. If the church uses electronic payments the bill should be signed off by the same person(s) who signed off on the disbursement approval. The electronic payment confirmation showing the amount paid should be printed off and attached to the bill. Someone other than the treasurer should approve the bills to be paid. This can be as simple as initials of the approving authority on the bill or attaching a form to the bill stating who approved the expense and what it is for. If the church does not have a process, they should adopt one. The person authorized to approve disbursements should be someone other than the treasurer.
4. We ask this so we can look for the checks as we are testing information.
5. If there are checks made to cash, what were they for? All checks should be made to a specific person or company. If the church has written a check to "Cash" to replenish petty cash, that should be noted, and all receipts should be available. Or, if they wrote a check to cash for change for a garage sale, there should be back up documents showing that approval as well. When the auditors are looking at the registers, they need to look at any checks made to cash.
6. The original bills should be available for review. They should be marked "Paid" with the check number, date and initials of the person writing the check.
  - a. If they have no policy, then recommend they adopt one.
  - b. They should not have those items and should have a policy prohibiting them.
  - c. The check signers should see the original invoices. One way to show this has been done is to have a weekly list of the checks to be signed with the original invoices and a place for the signers to initial they have seen the original invoices.
  - d. The vestry should note the names of the signers for all accounts in the minutes when changes are made. Ask if there have been any changes during the audit year. If the names are not listed anywhere, look at bank information. Once you find them, list here.
  - e. If more than one signature is not required, the auditors may need to do more testing since there may not be many people looking at the information.
  - f. If not, do checks over \$500 require more than one signature? Checks should have two signatures. If they do not have two signatures, recommend that they have two signatures for checks over \$500. If only one signature is required, ask who else sees the checks? How does the vestry protect the check signer and treasurer?
7. If the treasurer says yes to this question, the audit team will look at the vestry minutes, registers etc. to trace that info.
8. If there is no process for segregating duties, recommend they adopt an accounting policy manual.

9. If they do not have a credit card, say NONE and if so, note the limit and names of cardholders here. If the credit card limit is over \$2500, note a recommendation they need to decrease the limit to be in compliance with the diocesan credit card and debt policy.

#### Journal Entries:

1. If the treasurer makes entries, ask what type of entries? Typical entries are to make error corrections, update investments to market value, or record service charges and fees. Note them and look for some as you review registers.
2. Who approves the entries? Write NA if there are no entries. Journal entries often don't affect cash and may be used to bring the investments to market value or correct errors. They may also be used to record service charges, bank fees, and interest. Journal entries should follow the same approval process as used for disbursements.
3. Does the treasurer have adequate explanation and backup info for entries? For instance, for the investment, the statements would show the balances. In the case of an error correction, the treasurer could just write up a detailed description regarding the correction. There should be some explanation with each one and documents that support the entries.

#### Bank or Credit Union Account Reconciliation:

1. Bank or credit union accounts should be reconciled within 10 days of receipt by someone other than the treasurer. It would be best if someone from the vestry (who is not a check signer) reconciles the statements. At the very least, a vestry member should see the statements each month. The sooner statements are reconciled, the easier it is to handle errors.
2. Ideally, someone else should open and reconcile the statement. At least one person besides the treasurer should review the bank statement. If the treasurer opens and reconciles the statement, someone from the vestry should review and initial it each month.
3. If someone does this, note as a positive practice to continue. If not, note is as a recommendation.
4. Ask about the procedures:
  - a. The person who reconciles look at the cash receipts or register and the deposits should look at the register, the deposit slip and cash counting sheets to make sure they are all there
  - b. The person reconciling should look at transfers to make they are done on both sides.
  - c. If there are debit or credit memos, are the financial statements adjusted?
  - d. If there are checks outstanding more than 90 days, the treasurer should follow up with the payee. It may need to be reissued.
  - e. Checks that are outstanding more than 90 and 180 days should be investigated and reissued if necessary. The treasurer should contact the vendor or person to whom the check is written and ask if it has been received. A stop payment may need to be issued for the check.
  - f. The signers should be noted in the vestry minutes.
5. Ask if the journal entries are recorded each month. If they are then you will look at that information when you are testing during the audit process.
6. If all accounts are not listed, ask which ones are missing and why?
7. If there are other groups who hold funds, their bank statements should go to the vestry, and they should also be reconciled within 10 days of receipt. All accounts, including

discretionary funds and those held by other groups should be included in the reports to the vestry. The vestry has fiduciary responsibility and is required to know where money is coming from and how it is being spent (other than the details of the discretionary funds). They should simply know the balance in that account. Someone needs to be reconciling these accounts as well.

#### Petty Cash:

1. If the treasurer answers yes, the audit team will have some additional work to do to check the information when you get to the testing phase. Many churches don't have petty cash. If they do, it should be a small amount (around \$50-\$100 or so). It shouldn't be easily accessible. One person should be responsible for petty cash. That person should have a backup in case they are gone.
2. There should not be many people accessing petty cash. If there are a lot of people with access, note that as a recommendation.
3. Once you know who is responsible, then you'll have a sense of how many people are involved and how much testing you need to do.
4. Petty cash should be replenished as needed but always by the end of the year to account for the expenses in that year. Someone besides the treasurer should approve using the same disbursement procedure as for all other bills.
5. This policy would be handled by adopting a policy regarding this process.
6. Petty cash should be in a locked drawer or safe with limited access.

#### Investments:

1. The church might not have investment fund but if they do, we will need to review the documents, so we ask this question to find out if they have them or not.
2. All investments should be handled by a professional manager. Copies of investment info should be available for review. Investment funds should be maintained with the investment broker and the church should have an investment policy statement. The vestry should also meet with the investment manager at least annually (though quarterly is better) to discuss the performance, risk, socially responsible investing, and any other concerns they might have.
3. Find out how often the vestry meets with the investment manager. If they do not meet at least annually, note it as a recommendation.
4. The vestry or designee must approve investment decisions and it should be noted in their minutes.
5. Investment documents must be safeguarded against theft, fire, disaster or misplacement. Generally, these are maintained with the investment advisor.
6. The dividends should be recorded each month and reported to the vestry.
7. The investment balances need to be included on the balance sheet each month.
8. There should be a process in place authorizing funds withdrawal from investments. Ask to see the policy too.
9. If there is one, the audit committee will need to review it. If there is no statement, it should be noted as a recommendation.
10. Ask about files for endowments etc. The team will need to review the documents.

#### Property and Equipment:

1. If there is no policy, they can adopt the accounting manual, and this will be covered.
2. If there is a list, it should be reviewed periodically by someone on the vestry to ensure the items are still there and the list is up to date. Note the date of the list here.
3. If there is a safe deposit box; there should be an inventory of what is inside, and the vestry should know who can sign and where the key is. The church might not have one, but it is a good idea, because it keeps documents safe and off premises.
  - a. The names of those who are authorized to enter it should be listed and approved (and noted) by the vestry. Preferably, it should require two people to sign in to access the box.
  - b. There should be an inventory of the contents stored in safe place
  - c. The location of the key(s) should be known by the priest and designees
4. All churches should be incorporated. This protects them in the event of a lawsuit. If the church is not incorporated, and there is a lawsuit, individual members' assets may be in jeopardy. Not being incorporated may also affect the non-profit status with the IRS. Permanent important files should be kept in a safe, a safe deposit box, or other fireproof place.
5. They should be kept in a safe, fireproof location, perhaps in a safe deposit box or a safe at the church.
6. Ask about their plans to update the inventory and to keep it up each year.
7. Ask about liens or debt. If they say yes, then the team will need to review that information.

#### Insurance:

1. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained? This is important because this would be used if filing an insurance claim. See the information required in the section above for property and equipment.
2. The vestry should look at the insurance policies to make sure the coverage is adequate. They should review the property, liability, fidelity bond, sexual misconduct, directors and officer's liability, and workers compensation coverage. Ask the treasurer if this has been done. You should also look for it in the minutes as well.
3. Does the vestry discuss theft prevention and internal controls? How are duties segregated? Does someone besides the treasurer reconcile bank statements or at least review them? Ask the treasurer about this and also look at the vestry minutes to see if anything is noted regarding discussions or procedures. It is important to have the conversations before problems arise.
4. All vestry members, staff, and volunteers who work with children must attend the diocesan Safeguarding God's Children training. This is required by the Church Insurance. If the church members have not had the training, and there is a lawsuit, the church may not be protected. Background checks are required for people who work with children (and should be done every four years). Background checks are also recommended for treasurers. We ask about this during the course of the audit because it is part of protecting the assets of the church. The safeguarding training needs to be taken every four years as well. It is important to let the diocesan office know of changes to youth workers or volunteers so we can provide the information for the background checks and training.

### Liabilities and Other Debt:

1. The church might not have debt, but we need to ask each year as part of the process. Debt also includes Faber fund loans from the diocese. If no debt for 2022, say No.
2. If there is debt, it must be approved by the vestry, Bishop, Diocesan Standing Committee, and Diocesan Council. If the debt was incurred in a prior year, there probably won't be anything in the vestry minutes for the year being audited.
3. If there are loan agreements, they must be kept in a safe place and be in writing.
4. If there is debt, the vestry should review the status of the debt periodically and see that all bills are paid on time, including Faber loan repayments to the diocese
5. All debt should be listed on the financial statements to the vestry. Ask if bills are paid on time so you will know if this is an issue before you start to review the documents for the audits.
6. The liabilities should be on the balance sheet. You will hopefully see this as you are reviewing the statements.

### Restricted Gifts and Income:

1. The church might not have any of these. If there are gifts, there should be records that explain the details or restrictions of the gifts. The following information should be listed - date, amount, donor of gift and any restrictions.
2. The vestry should monitor restrictions and ensure compliance. Investment income should be included in the financial statements given to the vestry quarterly and they should be aware of the investment performance. It would also be helpful to have the vestry meet with the investment manager at least annually (though quarterly is preferred). The treasurer or designee should acknowledge these gifts.
3. Treasurer should write thank you letters for memorial gifts and endowments.

### Payroll:

1. The church should have a personnel file for clergy and lay employees. You'll review this information as part of the audit process.
2. Ask if the employees, including their priest are receiving a W2. They should not be issuing 1099 to their priest even if that person is part time. If the priest is serving regularly (not a supply priest) they need to issue a W2 form.

Anyone who is paid by the church to perform work, and has equipment provided for him/her to perform the job (organ, cleaning supplies, lawn mower, etc.) and hours set by the church) is considered an employee for this question. They should all receive a W2. Typically, priest, deacon, secretary, bookkeeper, sexton, and organist fall under this category. See the *Manual of Business Methods in Church Affairs* or the IRS website, [www.irs.gov](http://www.irs.gov) for more detailed information

about employees. When referring to clergy in these questions, it means the priest or deacon who serves the congregation regularly, not supply priests.

3. We ask about this because we need to make sure if they are paying the taxes required to be withheld for lay employees. The lay pension is different as well, so we just need to know what to look for during the testing phase.
4. We ask about this because the IRS requires that if an employer provides more than \$50,000 in life insurance, the benefit is reported on the W2 as taxable income. The Church Pension fund provides life insurance and if the church also provides life insurance, this benefit needs to be reported. The priest and treasurer will receive a report from the Church Pension Fund via the Canon for Finance & Administration that lists the amount of benefit to report. The amount is reported in Box 12 with a C next to it and added to the salary in box 1. When testing the W2s, you will look for this information if the treasurer answers yes to this question.
5. If the church contributes to a health savings account for the priest or lay employee, the amount contributed needs to be reported in Box 12 with a W next to it. The audit committee will look for this on the W2 when testing if the treasurer answers yes to this question.
6. If the priest or lay person makes pre-tax contributions to a 403(b) account, the amount is subtracted from box 1 and noted in Box 12 with a letter E. Again, you will check the W2 to see if this is correctly noted during the testing phase of the audit.
7. If the travel is reimbursed (i.e., the priest or deacon submits actual mileage (from church to visit) within 60 days and is reimbursed up to the current IRS rate) the travel is not taxable income. Travel that would be considered taxable income would be flat rate travel and commuting miles. Some churches just pay a flat rate on a monthly basis. If that is the case, the travel needs to be added to the salary (and included as part of the pension calculation). If the church owns a vehicle and the clergy use it for personal use, those personal miles also need to be reported on the W2. They are put in Box 14 and added to the salary. If miles from home to church are included in the travel reimbursement request, they are considered taxable income and would be included in the pension calculation. Non-taxable travel is not part of the pension calculation. Most of the time the travel is reimbursable and not an issue, but we need to ask these questions to see what else we need to test.
8. If the church has paid anyone \$600 or more for services provided, they must provide a W9 form, so the treasurer knows their status. Anyone who is paid for services should provide proof of their own worker's compensation coverage. If they don't have the proof of worker's compensation coverage, the church is responsible for adding them to its worker's compensation report for the year if they are paid \$600 or more and were issued a 1099.
9. If the church paid anyone \$600 or more and they checked anything other than S or c Corp on the W9 form, a 1099 form should have been issued.

Computer Systems:



1. Files should be backed up each time they are updated. This way if there is a problem, the most current information is available. Back up files should also be maintained in a fireproof safe or off premises.
2. Computer information should be protected and only those who need to know should have access to it. Many churches have other groups using their buildings, and passwords help protect sensitive information. Passwords should be changed periodically to help keep information secure.
3. Does the treasurer know where the user manuals if applicable etc. are maintained? If not, who does?
4. The vestry should discuss this and try to determine a plan. Where would they meet? How would they notify the parishioners? If there is a flood or fire or theft, how will the church continue to track financial information? If there are copies maintained off premises, and files are backed up, it will be much easier to continue to do the financial work of the church. They can also meet with the Diocesan Disaster coordinator to help them prepare as well. The printed financial statements should be kept on file in case of a computer issue.