Manual of Business Methods in Church Affairs

INTERNAL CONTROLS QUESTIONNAIRE


(Updated periodically as indicated at the end of each Chapter)

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the USA
Section C. Internal Control Questionnaire

The following Internal Control Questionnaire is intended to provide guidance for setting up an accounting system and a checklist for periodic review and evaluation of an existing system. The questionnaire is designed also to assist a congregation’s internal audit committee. The format is a series of questions, most of which refer to some recommended internal control. The normative answer to a question will be positive. A negative response suggests an area of the system that could be strengthened.
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Developing a narrative description is suggested, to provide documentation of the current review. This narrative should be retained for reference in future evaluations.

**General:** The following items are intended to provide general information to aid understanding of the overall accounting and internal control system.

1. Are prior internal control questionnaires and auditors' recommendations available?  Yes☐ No☐
2. Have recommendations of prior reports on internal controls been implemented?  Yes☐ No☐
3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available? Yes☐ No☐
4. Is there an accounting policy and procedure manual? Is it up to date? Yes☐ No☐
5. Is a current edition of this manual available?  Yes☐ No☐
6. Is the accounting system using a double-entry bookkeeping method?  Yes☐ No☐
7. Have the findings of external auditors been reported to the Vestry? Yes☐ No☐

**Budget:** The development and use of a budget is a critical management tool that will aid in the stewardship and administration of church resources and program.

1. Is the budget approved by the Vestry?  Yes☐ No☐
2. Are all changes to the budget authorized by the Vestry and recorded in the minutes of the meetings? Yes☐ No☐
3. Is there a periodic review of the budget by the Vestry? Yes☐ No☐

**Reporting:** The best accounting system is of little value, unless it communicates the information it contains to those responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1. Is a Treasurer’s report submitted to the Vestry or accounting committee each month? Yes☐ No☐
2. Is the Treasurer’s report presented in sufficient detail to inform the reader about the nature of the various income and disbursement items? Yes☐ No☐
3. Does the report present the current actual financial data compared with the approved budget? Yes☐ No☐
4. Is there periodic reporting, at least quarterly, of all other funds and activities, including designated or restricted funds? Yes☐ No☐

**Cash Receipts:** Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited? Yes☐ No☐
2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis (e.g., at least weekly)? Yes☐ No☐
3. Are there at least two unrelated persons responsible for counting and depositing the collections? Yes☐ No☐
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>Are the persons responsible for counting receipts rotated on a periodic basis?</td>
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<td>Do the counters have a standardized form for recording the deposit information?</td>
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<td>Are the counters’ sheets retained and reconciled with actual deposits, and are all discrepancies investigated?</td>
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<td>Is there a control prohibiting the cashing of checks from the currency received?</td>
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<td>Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?</td>
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<td>Are all other cash receipts recorded and deposited on a timely basis?</td>
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<td>Are all checks received restrictively endorsed —for deposit only “immediately upon receipt?”</td>
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<td>Are all cash receipts deposited into the general operating checking account?</td>
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<td>Are there procedures that will highlight, or bring to someone’s attention, the fact that all receipts or income have not been received or recorded?</td>
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<td>Are periodic statements provided to donors of record (i.e. at least quarterly)?</td>
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<td>Do acknowledgments of contributions in excess of $250 include a receipt from the recipient organization which states that it is “the contemporaneous acknowledgment required by the Internal Revenue Code, and states that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits”?</td>
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<tr>
<td>Are all discrepancies investigated?</td>
<td>Yes</td>
<td>No</td>
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**Cash Disbursements:** The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
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<tr>
<td>Are all disbursements made by check, except for small expenditures made from petty cash?</td>
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<td>Are all checks pre-numbered and used in sequence?</td>
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<td>Is there a clearly defined approval process for all disbursements?</td>
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<td>Are all voided checks properly cancelled and retained?</td>
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<td>Are all checks made payable to specified payees and not to cash or to bearer?</td>
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<td>Are all disbursements supported by original documentation?</td>
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<td>Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment?</td>
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<td>Check signing:</td>
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<td>a. Is signing blank checks prohibited?</td>
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<td>b. Is using a signature stamp or pre-printed signatures prohibited?</td>
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<td>c. Does all supporting documentation accompany checks presented for signature?</td>
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d. Are all account signers authorized by the Vestry? Yes □ No □
e. Is more than one signature required for any check? Yes □ No □
f. If not, do checks for more than $500 require more than one signature? Yes □ No □
g. If signature imprint machines are used, are the keys kept under lock and key except when in use? Yes □ No □

Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee minutes? Yes □ No □

10. Are there adequate controls and segregation of duties regarding electronic funds transfers? Yes □ No □

Journal Entries: Journal entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important book of original entry as the cash receipts and cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry? Yes □ No □
2. Are all journal entries approved by a knowledgeable authority other than the person initiating the entry? Yes □ No □
3. Is adequate documentation maintained to support each journal entry? Yes □ No □

Bank Account Reconciliation: The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt of bank statement? Yes □ No □
2. Do two different people perform the tasks of opening and reconciling the bank statement? Yes □ No □
3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash? Yes □ No □
4. Do the reconciliation procedures provide for:
   a. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits? Yes □ No □
   b. Investigation of bank transfers to determine that both sides of the transactions have been recorded? Yes □ No □
   c. Investigation of all bank debit and credit memos? Yes □ No □
   d. Review of all checks outstanding more than 90 days? Yes □ No □
   e. Are checks more than 180 days outstanding voided during the year-end reconciliation? Yes □ No □
   f. Is the bank immediately notified of all changes of authorized check-signers? Yes □ No □
5. Are all journal entries for bank charges and bank account interest recorded routinely? Yes □ No □
6. Are all bank accounts included on financial reports to the Vestry?  Yes □ No □

Petty Cash: The following controls are intended to provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person?  Yes □ No □
   Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund?  Yes □ No □
2. Is adequate review made of documentation before the fund is reimbursed?  Yes □ No □
3. Is the petty cash fund reimbursed at least monthly?  Yes □ No □
4. Are check cashing and making loans to employees prohibited?  Yes □ No □
5. Is the actual petty cash protected from theft or misplacement?  Yes □ No □

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

1. Are all investment instruments held in the name of the church only?  Yes □ No □
2. Is authorization for the sale and/or purchase of investments provided for by the Vestry or authorized investment committee?  Yes □ No □
3. Are all investment instruments adequately protected from fire, theft, or misplacement?  Yes □ No □
4. Is the income/dividends/interest recorded?  Yes □ No □
5. Are all investment accounts included in financial reports to the Vestry?  Yes □ No □

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

1. Is formal approval of the Vestry required for all property and equipment additions and dispositions?  Yes □ No □
   Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
   a. Date acquired?  Yes □ No □
   b. Detailed description?  Yes □ No □
   c. Cost or fair market value at time of donation?  Yes □ No □
   d. Any funding source restrictions?  Yes □ No □
2. Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing?  Yes □ No □
3. Is there a safe deposit box?  Yes □ No □
   a. Who is authorized to enter it?  ________________________  Yes □ No □
   b. Is there an inventory of its contents?  Yes □ No □
4. Are permanent records such as articles of incorporation, by-laws and real estate deeds kept in a safe place?  Yes □ No □
5. Are they up to date?  Yes □ No □
Insurance: Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1. Is a periodic review conducted to ensure the adequacy of the insurance coverage for:
   a. Property? Yes  No
   b. Liability? Yes  No
   c. Fidelity bond? Yes  No
   d. Sexual misconduct? Yes  No
   e. Directors and officers liability? Yes  No
   f. Workers' compensation? Yes  No

2. Is there a policy related to sexual misconduct? Yes  No

3. Is a periodic review conducted to ensure that adequate controls are in place to prevent loss? Yes  No

Liabilities and Other Debt: All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

1. Is all borrowing or indebtedness authorized by the Vestry and the appropriate diocesan board or committee? Yes  No

2. Are all loan agreements and/or lease agreements in writing and properly safeguarded? Yes  No

3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? Yes  No

4. Are all liabilities noted on Financial Reports to Vestry? Yes  No

Restricted Gifts and Income: Gifts restricted by donors are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions are observed.

1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:
   a. Date, amount and donor of gift? Yes  No
   b. Any restrictions or limitations? Yes  No

2. Does the Vestry or other authoritative body approve all restricted gifts and grants? Yes  No

3. Are the income and other transactions periodically reported to the Vestry? Yes  No

4. Are written acknowledgments issued for whom they are required? Yes  No

Payroll: The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities.

1. Are personnel files maintained to include:
   a. Employment application and/or letter of employment Yes  No
   b. Authorizations of pay rates and effective dates? Yes  No
   c. Internal Revenue Service Form W-4? Yes  No
   d. Department of Justice Form I-9? Yes  No
   e. State Withholding Forms? Yes  No
   f. New hire reporting? Yes  No
2. Is there a written record of hours worked, approved by a supervisor when applicable?  
   Yes □  No □

3. Are there adequate records to:
   a. Show computation of gross pay?  
      Yes □  No □
   b. Account for all deductions from gross pay?  
      Yes □  No □
   c. Support payroll tax returns and Forms W-2?  
      Yes □  No □

4. Are payroll tax returns filed on a timely basis?  
   Yes □  No □

5. Are payroll tax deposits made on a timely basis?  
   Yes □  No □

6. Are all employees, clergy and lay, receiving a Form W-2?  
   Yes □  No □

7. Are Forms 1099 being provided for all individuals who are not employees, and for all unincorporated entities paid $600 or more annually?  
   Yes □  No □

8. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns?  
   Yes □  No □

9. Are clergy housing allowances recorded in the minutes of the Vestry no later than the first meeting of the year?  
   Yes □  No □

**Computer Systems:** The use of computers creates the need for additional procedures to safeguard the system and data.

1. Are current or duplicate copies of the operating system and programs maintained off premises?  
   Yes □  No □

2. Are the files backed up daily and the backups maintained off premises?  
   Yes □  No □

3. Is access to the computer and computer programs limited to authorized persons?  
   Yes □  No □

4. Is there adequate documentation, including user manuals, available on-site for all computer programs?  
   Yes □  No □

5. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?  
   Yes □  No □

6. Is there a plan for recovery of data and continuation of operations in the event of a disaster  
   Yes □  No □

Updated as of April 2012