

# **The Volunteer's Audit Guide for Churches & Other Non-Profits**

**Step-by-step workbook for internal reviews of  
non-profit organizations**

**By Edd Breeden**

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**To my friends who have encouraged me along the way in  
this journey of learning financial practices:  
Diane, Lizabeth, Nancy, Alan, Meagan, and Diane.**

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## **OTHER BOOKS BY EDD BREEDEN**

Available in paperback and digital format.

- **Autobiographical**
  - The Drunken Preacher
  - Grandson, Let's Talk about Money
  - Granddaughter, Let's Talk about Money
- **Finances**
  - Church Treasurer's Manual (PCUSA)
  - The Handbook for Church Treasurers
  - The Volunteer's Audit Guide for Churches and Other Non-Profits
  - Money, Money, Money, vol. 1 and 2
- **Christian Living Titles.**
  - Discipleship Training Manual.
  - Generous Living, Jesus Teaches about Wealth.
    - Vol. 1, Matthew. & Vol. 2, Matthew.
  - Prayer, A Practical Guide to Spending Time with God.
  - Unmasked and Loved, A Resource for Peer-Counselors, Co-Authored with the late Zelpha Blythe-Persson.
- **Commentaries.**
  - 40 Mornings with the Apostle John, A Study of the Revelations 1-5.
  - Ephesians Amplified.
  - Galatians Amplified.
  - Philippians Amplified.
- **Study Guides, Bible Studies.**
  - Advent Study Guides.
- **Pastor Helps.**
  - Christmas Eve Candlelight Service.
  - Christmas Sermons, Vol. 1 and Vol. 2
  - Worship Services for Special Occasions, Baker House Publishers, out of print.

## **ABOUT THE AUTHOR, EDD BREEDEN**



Edd received his Bachelor's Degree in Mathematics from the University of California at Santa Barbara in 1970 and a Master of Divinity degree from Fuller Theological Seminary, Pasadena, CA. in 1974. Having always been interested in personal and church finances, he went to work for investment firms in the late 1990's as a financial advisor. In the early 2000's he became a registered tax preparer. As the treasurer of the Presbytery of San Jose, he has attended over twenty-five financial conferences and began to write books and teach seminars for church treasurers.

He has also pastored Presbyterian Churches in Minnesota and California. His emphasis in seminary centered on Biblical languages and Bible Study and has continued through the years to seek a deeper understanding of the Scriptures. This led to his interest in what the Bible had to say about money. After many years of study, he has recently written *Money, Money, Money, what the New Testament says about money.*

He lives in Scotts Valley, CA, with his wife. Married in 1968, they have four children and 9 living grandchildren and love spending time with family and friends.

Edd grew up as an Air Force Brat; living in Ohio, Louisiana, Puerto Rico, and California. Edd is the author of a variety of books in addition to those noted above. All of his books are available online; including his autobiography for his grandkids called "The Drunken Preacher."

He loves to write, teach, read, play golf, and listen to Country Western Music.

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## **DISCLAIMER**

### **Important Disclaimer**

This book is written as a workbook for churches and non-profits seeking to do internal reviews of their financial systems. This book, however, does not render legal, accounting, or other professional services. If accounting or legal advice is necessary or required, the services of a competent professional advisor, familiar with the laws and guidelines in your state and community, should be sought.

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# **1. WELCOME**

Welcome to the task of reviewing the financials of your non-profit or church. The goal of an internal review is to have an independent group of people demonstrate to the board and the donors that good financial procedures are being followed on a regular basis.

The Workbook provides the Review Team a step-by-step guide to handling this type of review. Included is a list of everything you will need from your Treasurer before you start. Then it walks you through bank statements, income, disbursements, personnel, reports, and general ideas.

I expect you to be a volunteer and not a professional money person. I have tried to make the instructions simple and clear. Sometimes the task might seem to you like you should be doing more, especially, in the beginning of the process. (Like looking at two numbers and verifying they are the same. That's it. You can move on the next step.)

## **Your goal in the review process:**

What you hope to be able to say at the end of the internal review is this, "that the organization's financial processes are being materially followed and the transactions are being correctly recorded in the system of books and records. The review work would also support a conclusion that there are no material errors in the organization's financial statements."

The Review Team might not feel comfortable saying that at the end of the review. When that is the case, they should say so in their report and then describe the reasons why they believe things are not up to the standards of the previous statement.

A few things a Review Team might uncover in the process of their work would be:

1. The organization does not have any standard procedures in place.
2. The financial people in the organization are not following the procedures that are in place.
3. The procedures the organization has need to be improved.
4. The person doing the finances of the organization is not doing a good job.
5. The person(s) involved in the finances of the organization are knowingly or unknowingly committing Fraud.
6. Anything else the Team feels is necessary to report to the Board for their awareness and potential change.



## Reporting to the Board:

The Review Team is not just looking for good procedures being followed but might in the course of the review come across procedures that need some improvement. In this case, the Review Team would offer, in their report, to the Board, a list of recommendations for the Board or the Financial Team to follow in the future.

The financial review of an organization, regardless of the size of membership or budget, would typically include, but not be limited to, the steps included in this Workbook. You have the freedom to choose how in depth your organization wishes to go by following:

the Minimum guidelines, giving you a quick review of your finances.  
the Basic guidelines, giving you an in depth review of your finances.  
the Full Review guidelines, giving you added insight into the policies and procedures of your organization and how well they are being followed by the Finance Team.

### One final note:

Before you begin. Do you need an AUDIT by a professional Certified Public Accountant? There are three reasons for you to need this:

1. Your By-Laws require you to have one, annually or from time to time. (That was a standard requirement for many organizations in the past. If you do not believe your organization needs the AUDIT, then you should work to change the By-Laws to use the word Review rather than Audit.)
2. If your organization is seeking a loan or embarking on some fundraising project that requires an AUDIT.
3. If the Board or membership of your organization would feel better having an Accountant look over your books and you do not mind paying the thousands of dollars you will be charged.

The author of this book is familiar with the terminology for non-profits that the Profit and Loss Report is supposed to be a Statement of Financial Activity and the Balance Sheet Report is supposed to be called the Statement of Financial Position.

Throughout this Workbook, the author will use the terms **Profit and Loss** and **Balance Sheet**.

## 2. RANDOM SAMPLING

### CONTENTS

**You will not need to look at every deposit, every bill, every check, or every item to do an adequate review of the finances.** That level of scrutiny is not needed to secure the reasonable certainty you are looking for. Taking a Random Sample of things will be enough to determine the overall state of the finances.

In Random Sampling reviews the Review Team will look at a random number of items in each category based upon the total size of that category. For example: Looking at the Bank Statements of an account. There are 12 months in the year; the committee may do well to check the opening and closing balances of 3 or 4 months and verify those with the monthly Balance Sheet report. If you are looking at the written checks, the group of reviewers might look at a random sample of 30 or so checks, verifying the documentation, the amount on the check, and the legitimacy of the recipient.

*For reference, the table below lists the sample sizes required per population of transactions for a review to be considered accurate;*

<b><u>Transaction Population</u></b>	<b><u>Sample Size</u></b>
<i>If you have up:</i>	<i>Then you only need to review:</i>
<i>Up to 4</i>	<i>50% of transaction population</i>
<i>5 to 12</i>	<i>4 transactions</i>
<i>13 to 53</i>	<i>12 transactions</i>
<i>53- 260</i>	<i>24 transactions</i>
<i>260 +</i>	<i>30 transactions</i>

*Note that according to the chart, if the organization wrote more than 260 checks in the course of the year, the Review Team would only need to look at 30 randomly chosen checks to verify that things were done properly. A Review Team might choose to divide those 30 items up by month, by*

*category, etc. or they might choose to look at the size of the individual category, i.e. utilities, and see that over 55 checks were written for utilities so they would look at 24 of those or a sample of two per month.*

### **3. GETTING READY**

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##### **What you need from your Treasurer:**

1. Bank and/or account statements from all accounts and from all months.
2. Reconciliation reports from each month's bank reconciliation process.
3. Balance Sheet (Statement of Financial Position) for the previous year-end and each month-end of the year being reviewed. (If the closing date of your statements is not the end of the month, then you would need reports for the dates on the statements).
4. A copy of the Check Register or the General Ledger for the year.
5. Profit and Loss (Statement of Financial Activity) reports for all months and the year-end (with budget).
6. Last year's report and recommendations of the Review Team.
7. A copy of your Chart of Accounts.
8. The sheets used by those who collect money and make the deposits. (Accounts Receivable documents)
9. All vouchers, invoices, bills, requests, etc. which were used by the financial team to process checks / disbursements.
10. A list of valid authorized signers for each account and, if possible, a copy of their signature.
11. *A copy of the 990-tax return filed for the organization for the year being audited. (Note: if your organization's fiscal year is different from the Calendar Year, please keep that in mind when trying to verify numbers.)*
12. A copy of the organizations Gift Acceptance Policy.
13. A copy of the organizations Personnel Policy.
14. Timecards for employees, personnel files, and the monthly/ quarterly/ annual 941, 940 payroll reports.
15. A copy of the Approved Annual Budget from the Board minutes.
16. Complete information on all monies received during the year with Donor Restrictions.
17. And any other policies in place for the organization which impact the financial processes of the organization.
18. Board Minutes from December of the year being Reviewed up through and including the Minutes from January of the year following the year being Reviewed.

To help the Treasurer or Finance Team gather these items during the year they could create a notebook or file.

**As the year is starting,** they could gather: Bank account statements, reconciliation reports, yearend Balance Sheet, yearend Profit & Loss, a list of approved authorized signers, any appropriate policies the organization has in place, the approved Annual Budget for the coming year, and the December Board minutes.

**Each month they could add:** Bank account statements, reconciliation reports, month-end Balance Sheet, month-end Profit & Loss, the sheets used by the counters for each deposit, all vouchers, invoices, bills, and requests, a copy of the General Ledger or Check Register, timecards for all employees and contractors, monthly payroll filings, any new restricted gifts, and the month's Board minutes.

**At the Appropriate Time during the year:** They could include a copy of the latest Review Team's Report, and a copy of the 990 tax return filed.

**And by early February of the following year they could add:** A copy of the full chart of accounts, the bank statements for January, the yearend Balance Sheet and Profit and Loss, and the Board Minutes for January.

# 4. **VERIFYING ACCOUNTS**

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The Process for this section is to have the Review Team compare the balances on the Bank Statements of 3 or 4 months to the reports that have been produced for the same period. For the Full Review the Team will be concerned about whether the signers on accounts have been approved by the Board and listed in their minutes.

### **Information Needed:**

#### ***For Minimum and Basic Review:***

- The list of all bank/investment accounts; usually found on the Chart of Accounts.
- The bank statements and reconciliation reports for each of the 12 months of the year being reviewed.
- A copy of the Balance Sheet for the end of each month for the year being reviewed. (If the closing date of your statements is not the end of the month, then you would need reports for the dates on the statements).

#### ***For a Full Review the Team will also need:***

- The list of authorized signers for each bank / investment account.
- The completed 990 tax return if your organization files this return.

**The Review Team will first be completing a few tasks to verify information and then you will be asked some related questions. Remember, depending up the depth of Review you are doing, you will have more or less tasks and questions.**

## Verification Tasks:

### Minimum Review:

1. Verify the beginning balance and the ending balance on each bank statement is the same as the corresponding Balance Sheet. (Assume you choose July as one of your randomly selected 3 months to Review, the beginning statement balance for July should match the amount on the June end (previous month's) Balance Sheet. The ending statement balance for July should match the amount on the July (current month) Balance Sheet.

Do this for 3 randomly selected months.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. Repeat step 1 for every different bank account, investment account, savings account, etc., listed in the assets of the Balance Sheet.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

### Basic Review:

3. Verify the January 1<sup>st</sup> beginning statement balance is the same number as the December 31<sup>st</sup> Balance Sheet for the previous year.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

4. Verify the December 31<sup>st</sup> ending statement balance is the same number as the December 31<sup>st</sup> Balance Sheet for the year being reviewed.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

5. Verify the validity of Fund balances for all Restricted Funds at the beginning of the year and at the end of the year.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review: choose two of the following four items to Review.**

6. Verify the amount reported on the year-end Balance Sheet for Petty Cash matches the amount of money in Petty Cash.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

7. Verify the authorized signers for each account matches names approved by the Board. This information is found in the appropriate board minutes.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

8. Verify the beginning year and end of year numbers Asset and Liability numbers to be the same as on the 990-tax return, if applicable. Are these numbers the same as those numbers on the end of previous year Balance Sheet and the end of review year Balance Sheet.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

9. Send confirmation queries to the various banks and ask for the year-end balance on accounts and the names of authorized signers for each account.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*



## Verification Questions:

to ask after you have looked at the documents you are verifying. You might need a discussion with the Treasurer to answer some of these.

### Minimum Review:

1. Who reconciles the various bank, investment, etc. accounts?  
Treasurer or \_\_\_\_\_

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_

2. How often are the reconciliations done?  
Monthly or \_\_\_\_\_

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_

3. Can you locate the date of reconciliation and initials of the reconciler on each statement?

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_

4. Does the organization have bank/investment/savings accounts that are not listed on the Balance Sheet?

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_

### Basic Review:

5. Are checks that have not cleared in 90 days voided and reissued, if necessary? If so, by whom? \_\_\_\_\_

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_

6. Do the Board Minutes from either December of the previous year or January of this year indicate the amount of the clergy housing allowance, if applicable?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

7. Are all online banking passwords changed each year, written down somewhere safe, and the changes communicated to at least one other person?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review:**

8. Do the board minutes from December of the previous year or from January show an approval of account signers for each checking, savings, investment, etc. account and any safe deposit box?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

9. Does the Petty Cash account have a requirement of receipts in order to replenish the cash? Are those receipts expensed to the proper accounts?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

10. Does the Treasurer make sure more than one person knows the current passwords or the location of the written passwords?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

11. Does the Treasurer have the annual 990 tax return filed on time each year, if applicable?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

12. Does the board review the 990-tax return before it is filed?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

# 5. ***INCOME***

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The Process for this section is to have the Review Team examine all aspects of the receiving money or donor gifts, depositing such monies, keeping accurate records, reporting this information to the Treasurer, and issuing appropriate statements/receipts to donors, and reports to the Board as needed.

*Note: Any gifts to the organization with specific restrictions of designations will be looked at in more detail in Chapter 9: Funds with Restrictions.*

### **Information Needed:**

#### **For Minimum, Basic, and Full Reviews:**

- For churches: Have on hand the weekly recording / reporting sheets used by the those who receive monies.
- For non-profits: Have any forms that are used to prepare receipts and deposits.
- All Bank Statements.
- Information on how non-cash gifts, stock gifts, memorials, restrictions, etc. are handled (i.e. a copy of the Gift Acceptance Policy for the organization).
- Copy of the General Ledger or Check Register for the full year.

**The Review Team will first be completing a few tasks to examine the records and then you will be asked some related questions. Remember, depending up the depth of Review you are doing, you will have more or less tasks and questions.**

# **Income Related Tasks:**

## **Minimum Review:**

1. Choose 12 randomly selected weeks during the year and review all income; how received, counted, recorded, and donors notified. For each of these weeks:
  - a. Verify the records for receipt of all monies and the process for preparing any deposits, and that the amounts match the deposits on the statements of the corresponding bank accounts.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

- b. Verify this information is appropriately entered into the computer software, Check Register and/or General Ledger of the bookkeeping system.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

- c. Verify specific donor contributions are listed on their individual account including, date, amount, and purpose of gift, for ease of sending the year-end statement for tax purposes.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## **Basic Review:**

2. Verify all Donor Restricted (Designated) funds have been directed to appropriate restricted accounts and documentation of the amount of the gift, the specific restriction, and donor's information is recorded.

Here the Team is just reviewing the process, more information on restricted gifts will be examined in Chapter 9.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

3. Verify that statements are sent to donors as required by the board. (must be done at least annually before the end of January for tax reporting purposes).

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review: both of the following should be accomplished.**

4. Contact 6 donors directly to seek verification that their gift was accurately recorded on their financial statement and reported to them at year-end in a timely fashion.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

5. In the cash of special-class-gifts, like non-cash gifts, stock gifts, gifts with restrictions from the donor, and gifts given in memory of another person, the Review Team should take a random sample of these types of gifts and verify that they were handled properly.

Note: A full examination of Restricted Funds will be done in Chapter 9.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## **Income Related Questions:**

**to ask after you have looked at the income processes and documents you are examining. You might need a discussion with the Treasurer to answer some of these.**

### **Minimum Review:**

1. Does your organization have a system to assure all money received from a donor was given, recorded, deposited, and properly receipted?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. Does your organization deposit received money in a timely fashion (within three days)? What is the system by which received monies are stored to wait for the day of deposit?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

3. Does your organization have a recording system to keep track of individual giving throughout the year, registering with date of gift, purpose of gift, amount of the gift, and any restrictions placed on the gift by the donor, etc.?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

4. Does your organization send annual statements which include the name of the organization, the organization's TIN, the required IRS disclaimer, the name of the giver, the date and amount of the gift, and the purpose for which the gift was given?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Basic Review:**

5. Does your organization honor all requests by donors for spending their gifts? Does your organization have a process whereby any Restriction place on a gift is approved by the Board before the money is deposited?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

6. Does your organization have more than one person handling the receipt, recording, and depositing of all monies given to the organization?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

7. Does your organization have a person "receiving and depositing monies," who is different from the person who "writes and signs checks?"

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review:**

8. Does your organization have a process for special gifts of non-cash assets or publicly traded stocks, or gifts given in memory of another, by which the donor receives a receipt and when needed the family of the loved one receives a note as well?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

9. Does your organization have a Gift Acceptance Policy listing what type of gifts the organization will receive and what restrictions the organization will accept?

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_



# **6. DISBURSEMENTS, EXPENSES**

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The Process for this section is to have the Review Team explore and verify the accuracy of a variety of expenses, reviewing the expense vouchers, bills, receipts, payees, credit card charges, restricted account uses, and other items related to disbursing the monies of the organization.

### **Information Needed:**

#### ***For Minimum, Basic, and Full Review:***

- Expense vouchers.
- Bank statements with copies of canceled checks.
- List of Approved Signers.
- Copy of the Check Register or General Ledger.
- Copy of the Chart of Accounts.
- Year-end Profit & Loss with annual budget.
- Board Minutes.

**The Review Team will first be completing a few tasks to verify information and then you will be asked some related questions. Remember, depending up the depth of Review you are doing, you will have more or less tasks and questions.**

# Disbursement Tasks:

## Minimum Review:

1. For each bank account or institutional account;
  - a. Randomly choose the appropriate number of non-payroll expenses, up to 30, from the General Ledger. (Refer to the chart in Chapter 2:Random Sampling for the “appropriate number of items to review.)
  
  - b. For each expense:
    - i. Verify the request voucher or Purchase Order contents; is it filled out completely, are appropriate receipts attached, is the check stub present, is the check amount filled in, is the voucher signed by people authorized to approve these expenditures, and are the appropriate expense accounts listed.

Reviewer’s Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_

- ii. Verify the canceled check has the same payee, amount, and valid signature.

*Reviewer’s Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

- iii. Verify check cleared on the appropriate bank statement for same amount.

*Reviewer’s Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. Review 3 non-consecutive months of credit card statements for appropriate spending and verify that all expenses are tagged for and recorded in the appropriate expense account.
  - a. Verify appropriate receipts are attached.
  - b. Verify that all charges are free from personal spending. If personal spending occurs, does the account indicate a clear reimbursement from the employee?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Basic Review:**

3. Verify all expenses reviewed were properly included in financial software.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

4. Review 3 non-consecutive months of the General Ledger, (Check Register).
  - a. Look for inappropriate or unknown payee names, and investigate these names to verify they are legitimate companies, persons and expenses.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

- b. Look for too many payments to the same payee; is there a need for more than 12 (one per month)?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

- c. Look for inappropriate, questionable, or very large amounts. Investigate any oddities to verify they are legitimate expenses.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

5. Verify Petty Cash processes for appropriate receipts and proper recording of expenses to expense categories.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review: choose two of the following three items to Review.**

6. Verify each payment from a Restricted accounts to be an expense appropriate to the restriction and verify the expense was authorized by the Board and recorded in their minutes.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

7. Verify that all check numbers are accounted for, either cleared or voided. There should be no gaps in numbers.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

8. Verify the recipients and addresses of any autopay accounts you have in the bank's online bill pay system.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## **Disbursement Questions:**

**to ask after you have looked at the documents you are verifying. You might need a discussion with the Treasurer to answer some of these.**

### **Minimum Review:**

1. Does your organization have a different person(s) “receiving/depositing monies” from the person “writing/signing” checks?

*Reviewer’s Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. Does your organization have a limit on the size of check that can be written by the finance team before they need to seek board approval? Does that amount get reviewed annually by the Board?

*Reviewer’s Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

3. Does your organization have a system in place for protecting Donor Restricted funds from being spent for a purpose different from the recorded restriction? (More on Restricted Funds in Chapter 9)

*Reviewer’s Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

### **Basic Review:**

4. Does your organization require a Voucher or Purchase Order system, so the check request has all the necessary information authorizing the Treasurer to make appropriate payment?

- a. i.e. the voucher should include: the date of the request, the name and address of the payee, the amount of the check, check number, the reason for the expenditure (with expense account number), a signature of the person requesting the payment, a signature of an appropriate supervisor.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

- 5.** Does the budget have line items that consistently run over budget? Why? Make a note of these items in your Final Report to the Board.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

- 6.** Does your organization have any loans extended to any employee or related party? If so, how do you account for these loans and is interest and principle being regularly paid and recorded?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

- 7.** Does your organization allow any staff to spend "benevolence" or "expense" money at their own discretion? If so, is there a policy stating the need for appropriate and timely receipts to be provided? Does the policy remind the staff that the unreceipted payment will be added to the staff person's wages on the yearend W-2 report?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

# **7. PAYROLL**

## CONTENTS

The Process of this section is to have the Review Team determine the accuracy of personnel and payroll policies, timecards, paychecks written, amounts paid, vacation time records, personnel files, the proper filing of all payroll reports, and the payment of all withheld and payroll taxes due.

### **Information Needed:**

#### ***For Minimum and Basic Review:***

- Timecards for all employees.
- Pay Stubs.
- Monthly payroll reports.
- Personnel committee minutes or Board minutes stating the pay rate for each employee.
- Bank Statements.
- Personnel policy.

#### ***For a Full Review the Team will also need:***

- Personnel files.

**The Review Team will first be completing a few tasks to review the payroll information and then ask some related questions. Remember, depending up the depth of Review you are doing, you will have more or less tasks and questions.**

# Payroll Tasks:

## Minimum Review:

1. For 3 months of information, you will have at least 6 paychecks per employee.
  - a. For 2 paychecks per employee:
    - i. Verify the timecard hours with the hours paid.
    - ii. Verify the presence of a supervisor's initials and date approving each timecard.
    - iii. Verify the rate of pay with the personnel or Board minutes.
    - iv. Verify the employee's data on the 941 quarterly and the 940 annual statements.

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_

2. Verify for 3 random employees: *Vacation/ sick leave/ personal time off, hours paid, and current accumulated amount of each. Verify that these numbers do not exceed the limits set in the Personnel Policy of the organization,*

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_

## Basic Review:

3. Verify that the appropriate amounts have been reported on the 941s, W-2s, and 1099s and that the forms have been transmitted to the federal, state and local tax authorities on a timely basis.

Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_



4. For Churches:

- a. Does your church pay your pastoral staff using a housing allowance? If so, verify evidence of board approval of the housing allowance amount on an annual basis before the amount is paid. Also check to see that these have been properly applied to reduce clergy's reportable 941 and W-2 income.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

5. For Churches:

- a. Does your church, properly, **not** withhold Social Security / Medicare taxes for your pastoral staff? You may withhold optional amounts for estimated taxes if the pastor indicates an amount on W-4?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review: choose two of the following four items to Review.**

6. Verify, if appropriate, any salary deduction plans being utilized. If there are Tax Deferred Annuities (TDAs or 403bs), Section 125, or other salary reduction agreements, verify existence of signed agreement and proper tax withholding applied.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

7. Verify, if appropriate, any salary deduction Retirement Account plans being utilized. Are withholding amounts being sent on to the Investment Broker and the funds being properly matched by organization contributions?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

8. Verify the existence of and content in the Personnel Files:

a. Verify they are locked in a secure location.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

b. Verify files contain current W-4, I-9, and other needed forms.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

c. Verify file contains an authorization for direct deposit.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

d. Verify each file has a person to notify in case of an emergency.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

e. Verify the current pay rate is listed in the Personnel File.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

9. Verify in the Personnel Committee or Board minutes where annual Personnel Reviews were conducted and documented in the Personnel File.

## **Payroll Questions:**

**to ask after you have looked at the documents you are verifying. You might need a discussion with the Treasurer to answer some of these.**

### **Minimum Review:**

1. Does your organization have a Personnel Policy that is complete and up to date (reviewed and updated at least every 3 years)? Is there evidence that the policies are being followed?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. Does your organization require direct deposit of all payroll monies paid out? This minimizes work for the staff and usually costs less.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

### **Basic Review:**

3. Does your organization employ a payroll company, or do you do your payroll in house? Who approves the timecards and pay amount? Who submits the payroll or writes the checks?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

### **Full Review:**

4. For Contract Workers: does your organization require the contractor to file a W-9 form with your organization before they are paid any funds? And do you annually send 1099 NEC forms to all contract workers when they have been paid more than \$600 in a calendar year?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

5. For Churches: Guest preachers, musicians, and child care workers could be considered employees or contract workers depending upon the laws in your State. Have each been handled properly according to your local laws and have all the paperwork been filed for them.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## **8. REPORTING**

### CONTENTS

The Process for this section is to have the Review Team search for consistent financial reporting for the board and appropriate staff on a regular basis; usually, monthly. And to the membership of the organization on at least an annual basis.

#### **Information Needed:**

##### ***For Minimum and Basic Review:***

- Copies of monthly and year-end Profit and Loss reports, also called the Statement of Activity.
- Copies of monthly and year-end Balance Sheets, also called the Statement of Financial Position.
- Approved Annual Budget.

##### ***For a Full Review the Team will also need:***

- Information on Donor and Board Restricted (designated) accounts, all assets, depreciation schedules, etc.

**The Review Team will first be completing a few tasks to verify information and then you will be asked some related questions. Remember, depending up the depth of Review you are doing, you will have more or less tasks and questions.**

# Reporting Tasks:

## Minimum Review:

1. Verify that reports, both a P&L and a Balance Sheet, are given to Board and Finance Committee monthly, if appropriate, for their review. Verify that any appropriate questions from these groups were answered and needed corrections were made.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## Basic Review:

2. Verify that all assets; including bank and investment accounts, property and other valuables are listed as well as appropriate depreciation indicated for all fixed assets.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

3. Verify that the approved budget is appropriately included in the monthly Profit and Loss reports, showing amount spent to date compared to the budgeted amount. If not, ask why not.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## Full Review:

4. Verify that the Annual Report, at the least, includes appropriate notes on the Balance Sheet that indicate for each Restricted / Designated Fund; the date the fund started, the donor or source of funding, the purpose and intended use of the fund, whether the principle can be spent, and what will happen to the residue of the fund after the completion of the project, a specific period of time, or a fixed event.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## **Reporting Questions:**

**to ask after you have looked at the documents you are verifying. You might need a discussion with the Treasurer to answer some of these.**

### **Minimum Review:**

1. Does the organization include all assets, including buildings, along with accumulated depreciation on the Balance Sheet? If not, why not?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. Does your organization require the Finance committee to receive detailed financial reports every quarter? Is that happening? Why or why not?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

### **Basic Review:**

3. Did the Reviewers look for irregularities, unfamiliar names, unknown account titles, etc., in the reports?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

4. Does your organization print notes on the annual Balance Sheet that shows detailed information about all Restricted / Designated accounts? If not, where is this information preserved?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review:**

5. Does your organization publish, based on your available cash and unrestricted funds, the anticipated length of time the organization can continue to operate at current levels?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*



# 9. ***RESTRICTED FUNDS***

## CONTENTS

The Process for this section is to have the Review Team look for documentation on any Restricted Funds, assessing the proper use of funds according to the restrictions, and making a determination of future spending capability.

### **Information Needed:**

#### **For Minimum, Basic, and Full Review:**

- Year-end Balance Sheet with notes about all Restricted Funds.
- Resources related to all Restricted Funds if not included in the notes on the Balance Sheet.

**The Review Team will first be completing a few tasks to verify information and then you will be asked some related questions. Remember, depending up the depth of Review you are doing, you will have more or less tasks and questions.**

# Restricted Fund Tasks:

## Minimum Review:

1. Verify all the information is present in the notes for each Restricted Fund. (i.e. who gave the money or made the restriction, when was the money given, how much was the initial amount, have there been additions, what are the accepted uses of this fund, when will the fund no longer be needed, what can the board do with the money at that time?)

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## Basic Review:

2. Verify that restricted funds and designated funds are handled appropriately? i.e. monies received with restrictions / designations are placed into appropriate asset / liability coding; monies in restricted / designated coding are paid out only in compliance with restrictions / designations; and appropriate investment growth is added to accounts at least annually.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

3. Verify that Restricted Funds have received at least annual interest increases based on the Rate of Return of the organization's investments.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## Full Review:

4. Review a randomly selected samples of expenses from Restricted Funds to determine if the expense qualified with the intent of the Donor's Restrictions.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## Restricted Fund Questions:

### Minimum Review:

1. Does your organization keep Restricted Funds separated from the General Funds or do you co-mingle all monies and use the bookkeeping system to keep track of amounts?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. If co-mingled, what is your policy about using Restricted Funds for general fund purposes? (i.e. borrowing from Restricted for general expenses)

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

### Basic Review:

3. Does your organization specify an end date on all Designated and Restricted funds? (End Date is a determined date where the Board will have the freedom to use any amounts left in the Fund for another predetermined purpose.)

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

4. Does your organization publicize the restrictions and the availability of Restricted Funds appropriately, so people know what the money can be used for, when the restriction will end, and what will happen to any remaining money at that time? (Note: a minimum level of this publicity would be the notes at the bottom of the Balance Sheet on the Annual Report.)

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

# 10. *GENERAL IDEAS*

## CONTENTS

The Process for this section is to have the Review Team look over the existing financial procedures throughout the organization and assess the extent that these procedures are adequate, are being followed, and what improvements could be implemented.

### **Information Needed:**

#### **For Minimum, Basic, and Full Review:**

- General knowledge of the financial procedures followed by the staff / volunteers of the organization.
- Last year's Review Team Report.
- Discussion with Finance Team and Treasurer.

**The Review Team will first be completing a few tasks to verify information and then you will be asked some related questions. Remember, depending up the depth of Review you are doing, you will have more or less tasks and questions.**

# General Financial Tasks:

## Minimum Review:

1. Verify the organization's Employer Identification Number and that it is consistently used on payroll filings and the 990-tax return?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. Verify the adequacy of the Insurance policies and that the Board annually reviews this information.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

3. Verify the organization has bonding insurance for all board members and other important employees, especially, those handling money?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## Basic Review:

4. Verify the existence of any property deeds and that they are located in a locked, safe, place.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

5. Verify the names of people who are authorized to access the financial data on the computer, online account access, keys to the Safety Deposit Box, etc.? Are these documents under lock and key? Does more than one person have this data or access?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review:**

6. List the internal controls in place at your organization for;
  - a. Counting and depositing money.
  - b. Writing and signing checks.
  - c. Reconciling bank / investment accounts.
  - d. Protecting inventory.
  - e. Setting Passwords for computers and online account access.

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

# General Financial Questions:

## Minimum Review:

1. Did the financial team implement the recommendations from last year's Review Team?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

2. Do you know where the organization By-Laws are located? Have they been updated in the last 5 years?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

## Basic Review:

3. Are all IDs and Passwords available somewhere at the church office for the online banking, computer programs, bill pay process, etc.? They should be in a locked cabinet? Does more than one person have access to this information in the case of an emergency?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

4. Does your organization have a policy for memorial gifts, i.e. do they go to the general fund or to a special fund? Does the congregation know the policy?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

5. Does someone review the adequacy of Insurance annually? Who?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

6. Do you regularly update employee files on each employee? Are all forms filed annually; W2, 1099, 941, 990 if needed, etc.?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

**Full Review:**

7. Do you know where the Safe Deposit Box keys are and who can access it?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

8. Does your organization lease space to any outside groups on a long-term basis? Are these leases in writing and signed by authorized people from the organization and the lessee? Are the leases and any amendments up to date?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*

9. Does your organization have a locked fireproof file cabinet for past records, like employee files, bank records, important papers, session minutes, etc.?

*Reviewer's Notes: Done \_\_\_\_\_ Initials \_\_\_\_\_*



# 11. **REPORT OF THE REVIEW TEAM:**

## CONTENTS

The Process for this section is to have the Review Team communicate with the organization’s Board about their findings from their Review and their recommendations for the future.

### **Information Needed:**

- All the notes from this booklet or from all the booklets of the Review Team.
- A copy of last year’s Review and Recommendations report.

### **Review Report Tasks:**

1. State the conclusions of the Review Team:
  - a. The stated financial procedures of the organization were materially followed, and transactions are being correctly recorded with the following in the organization’s books and records,
  - b. with the following exceptions: and then list those exceptions or irregularities.
  - c. An example paragraph might look like this:
    - d. “Taking into consideration the scope of this year’s review, the team concluded that it appeared the organization’s accounts were materially accurate for the preceding year and did not include any material misstatements or errors.”
  - e. Exceptions:
    1. \_\_\_\_\_
    2. \_\_\_\_\_
    3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

6. \_\_\_\_\_

7. \_\_\_\_\_

8. \_\_\_\_\_

9. \_\_\_\_\_

10. \_\_\_\_\_

2. State the Recommendations the Team believes would benefit the organization. “Our Review Team also believes the following recommendations will benefit the organization going forward and suggest the Board these be put into practice in our organization.”

a. Recommendations:

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

6. \_\_\_\_\_

7. \_\_\_\_\_

8. \_\_\_\_\_

9. \_\_\_\_\_

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Signed:

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Date \_\_\_\_\_  
*Financial Review Team Chair.*

***Note: copies of The Review Team's Report should be distributed to the Board, the Finance Committee, and to the Treasurer. This is not intended to be a public document.***

# **12. *POLICIES***

## CONTENTS

In this section you will find brief explanations of all financial policies that an organization might have to facilitate a smooth operation.

### **Financial Operations Policy**

This policy statement should include the various titles of people / jobs in our organization which encounter aspects of your finances. Each of these people should have clear job descriptions to minimize overlap of tasks and maximize efficient supervision.

### **Conflict of Interest Statement**

This policy statement should indicate how your organization will handle things like having contracts with companies of family members, voting on issues that directly involve those voting, etc. The concern comes down to how the donors of the organization will perceive the handling of their funds.

### **Gift Acceptance Policy**

This policy statement will state how the organization plans to accept and handle money and or other assets entrusted to its care and use. This will include the types of gifts besides cash the organization will accept as donations, what special Funds the organization has set up for donations, and what a person can do to gift something to the organization with a particular restriction on the use of the gift, and when and why the organization might not accept a gift.

It could also include how the organization will handle monies given in memory of a loved one: will it be noted, will it be set aside for special uses, or will it be a part of the general fund giving of the organization?

A gift acceptance policy will also state what it will do with excess monies raised when they are seeking donations for a particular project. And when, how, and why the Board might release previously restricted funds to be used for other purposes.

This policy should also remind donors of how the organization defines income on investment funds; i.e. to include interest, dividends, capital gains, and increased value of investments.

### **Fully Accountable Reimbursement Plan**

This policy statement will describe what an employee must do to spend certain monies of the organization without having the money spent become taxable income to the employee.

When an employee purchases property, goods, and services, they become the property of the organization. The employee must present a receipt for reimbursement to the financial team. The receipt must include the date of the expense, the purpose of the expense, and in the case of a meal expense, the person met with and the nature of the conversation. Receipts should be submitted in a timely fashion (within 2 months).

### **Requests for Reimbursements (Vouchers or Purchase Orders)**

This policy statement should remind people about the proper voucher from by which a reimbursement should be requested, the timeline that the organization determines reasonable, and who will judge the validity of the expenditure.

All requests for reimbursement should be submitted on an organization accepted voucher and approved by a supervisor. The voucher would include the following: date, amount, reason, to whom the check should be written and the address, what expense account the money should come from and the date the money is needed.

### **Investment Policy**

This policy statement would include who is authorized to open accounts, trade in the accounts, and withdraw money from accounts. It would include how monies can be withdrawn as well; i.e. by direct transfer to the organizations main checking account, by check to the company and mailed to the main address, etc.

This policy would also dictate the investment balance, the investment vehicles, what the organization wishes to do with interest, dividends, capital gains and any growth in value. It should list how much of the

money can be withdraw, under what guidelines, and what the money can be used for.

### **Personnel Policy (Manual)**

This policy statement would include:

- a. Compensation considerations, including pensions, health care, payroll deductions, insurance, vacation, other leave, holidays, etc.
- b. Employment Policies.
  1. Relationship and behavior policies.
  2. Conflict of Interest Policy.
  3. Equal employment/Non-discrimination Policy.
  4. Whistle blower Policy.
  5. Grievance process.
  6. Office hours & access.

### **Restricted Fund Policy**

This policy statement would state information about how the organization would handle gifts from donors who would like to restrict the use of their gift to a particular project, how the Board would handle a gift with a Restriction they believe they cannot commit to, and how the Board and the Finance Team would monitor these Restricted Funds. This Policy might also include a section on the length of the Funds existence and what the Board might choose to do with the money left in the Fund at that time. This would help the Board keep the money flowing and not just sit stagnant in a bank somewhere. Like the Investment Policy, this Policy statement might also define what can be spent, how the Funds might be invested, what the Board would consider interest, and in general how the Board would manage the Fund until it is spent or depleted.

# **13. A NOTE ABOUT AN AUDITOR'S RESTATEMENT OF THE ORGANIZATION'S FINANCIAL REPORTS.**

## [CONTENTS](#)

Audits done by Certified Public Accountants and other qualified persons seek to restate the financial picture of an organization in a standard format called Generally Accepted Accounting Procedures, GAAP. GAAP was designed so that lenders and members of organizations could easily compare the financial statements of various organizations.

Many organizations do their accounting in such a way as to make the reading of reports understandable to volunteers or to highlight certain aspects of the financial reports for the ongoing work of the organization. While these formats work well for individual organizations or are comfortable because this is the “way we have always done it,” these formats do not communicate consistently with organizational accounting standards.

Some of the differences between an organizations internal reporting and an accountant's reporting according to GAAP include:

- Fixed assets may or may not be included properly on the Balance Sheet.
- Loan payments may not be split between principle paydown and interest.
- Restricted and unrestricted funds may be comingled in accounts.
- Depreciation might not be calculated and included in reports.
- The organization operates on a cash basis versus an accrual basis.
- Transfers between accounts is often done by organization but not allowed by GAAP.

Three reasons an organization might need an Audit rather than an internal review:

One, the organization wishes to borrow money from a lending institution, and they want to see at GAAP formatted financial report to compare your organization to other organizations.

Two, your organization's By-Laws might require an Audit from time to time or in special circumstances.

Three, your organization might choose the Audit route because some of your major donors expect it and it would go a long way to helping them feel at peace.