



# **Presbytery of Eastern Virginia Internal Control Manual Policy and Procedures**



**Introduction:**

Internal Controls are a system of policies, procedures, and practices to provide reasonable assurance that the resources of the Presbytery of Eastern Virginia (PEVA) are afforded proper due diligence, management, and accounted for with integrity. Internal control is a process and reflects tone and priority of integrity set by the management and oversight structure of PEVA. Internal Controls are a means to this end, they are not an end in themselves. Internal Controls are affected by organizational structure, roles of the personnel, level of authorization, separation of duties, adequate documents and records and independent checks on performance.

Internal Controls provide reasonable, but not absolute assurance for the safeguarding of assets and reliability of financial information. The control systems concept of reasonable assurance implies a high degree of assurances, constrained by the costs and benefits of establishing additional incremental control procedures. The cost of a control should not exceed the benefit to be derived from the control and should recognize the ability of PEVA to support that control feature consistent with its overall mission objectives. While Internal Controls cannot assure the prevention of fraud or embezzlement, Internal Controls are the foundation of sound resource management. PEVA management's and oversight teams' commitment and support of strong Internal Controls set the tone for integrity, ethics, and create an environment that deters inappropriate behavior. Internal Controls mutually serve to both protect the Presbytery and those involved in resource management.

Internal Controls will not eliminate honest errors, but will assist in identifying such errors or recognizing and documenting discrepancies that have been identified and corrected were in fact honest errors vice dishonest acts. Therefore, Internal Controls should provide for documenting the identification and correction of honest errors.

**Control Concepts:**

In general, the application of proper procedures and practices that are documented and complied with, are fundamental to proper controls. Where appropriate and cost effective, separation of duties or reviews/acknowledgement of actions ensure that resource management does not become inappropriately empowered to a single individual.

An essential element of Internal Controls is a critical review of the financial statements by the various Ministry Teams, particularly with their respective Revenue and Expense and any associated designated or restricted fund(s). It is the Ministry Teams that authorize expenditures against their budgets; therefore, as the Ministry Teams review their financial statements, those statements should properly reflect the results of month to month authorized business. Any unanticipated deviation should be raised with the financial records keeper, or Stewardship Ministry Team, if appropriate or if the financial records keeper's explanation provided is not satisfactory.

The Stewardship Ministry Team serves as the oversight team, and as such, should thoroughly review the financial statements, be provided explanations as to any deviation in accounting treatment, extraordinary transactions, and line item balances that are not within expectations.

The Stewardship Ministry Team, as the Presbytery representative oversight body, shall cause reviews to be conducted whenever and at whatever frequency they deem appropriate. In addition, the Stewardship Ministry Team shall be the body that is briefed on any Financial Review or Audit results and any special reviews that may be conducted to ensure the integrity of financial integrity.

PEVA has a very small staff; however, separation of duties is critical particularly with regard to receipt and disbursement of funds. Therefore, receipt and disbursement of funds has a two-person rule as a minimum level of control. All fund receipt processing is conducted by an individual separate from the person who posts the receipts into the accounting system. Likewise, all disbursements require at least two people. Requests for disbursement, except those specifically identified below, are generated independent of the person who enters the disbursements into the accounting system. Further, the personnel authorized to sign checks and/or review electronic fund transfers are independent of the person who prepares the checks and electronic fund transfers. The culmination of any funds entering into PEVA's financial system or exiting PEVA's financial system is reflected in the various PEVA bank statements. Therefore, an independent third party reviewer, who is not a part of the PEVA staff, is appointed by the Stewardship Ministry Team to review all bank reconciliations. This separation of duties, with the independent third party review of all banking accounts is instrumental in minimizing the opportunity for misappropriation of funds and is a key element in ensuring the integrity of funds entrusted to the care of PEVA.

Annually, the financial accounting records shall be subjected to a Financial Review or an Audit by an independent Certified Public Accountant qualified to conduct the level of review specified by the Stewardship Ministry Team.

#### **Cash Receipts:**

For the PEVA Headquarters, cash/cash receipts is a collective term to include cash, checks, money orders or any other cash equivalent.

**Cash Receipt Intake:** All cash receipts shall be received and documented by the Administrative Assistant or in her/his absence, by the Administrator. {Note: Sample Remittance Documents are provided as Attachment #1}. The financial record keeper shall not process any cash/cash receipts, nor be involved in the in-processing or deposit function.

- (1) If there is an accompanying remittance document, the document will be reviewed (not audited) for accuracy to ensure that the remittance document totals to the remitted cash and that the purpose and code for the remittance match to valid purposes/codes.
  - a. If there is an apparent error in the remittance document, the Administrative Assistant will contact the donor for correction or clarification and annotate the remittance document with any corrections/clarifications and the basis for the change (e.g., phone call & date, email, etc.).
- (2) If there is no accompanying remittance document, the Administrative Assistant shall prepare an appropriate cash acceptance document which cites the source of the funds, purpose for remittance, and appropriate code.
- (3) The Administrative Assistant will prepare a deposit slip for the appropriate bank account.

- a. A copy of any check(s) or other negotiable instrument(s) shall be made and attached to the remittance.
  - b. In the event that the remittance is actual cash, a copy of all bills shall be made such that the denomination and serial number is visible (Attachment #2). For coins, a coin count sheet shall be prepared (Attachment #3).
  - c. An adding machine tape shall be run for all the remittance documents associated with the deposit and attached to the deposit package.
- (4) The Administrative Assistant shall then deposit the funds into the appropriate bank account for each deposit slip.
  - (5) On receiving the confirming deposit slip from the bank, the Administrative Assistant shall compare the confirming deposit slip with the adding machine tape and total for that related deposit package.
    - a. If a discrepancy is noted, it should be resolved with the bank before leaving the bank's deposit counter.
  - (6) The deposit package, confirming deposit slip, adding machine tape, remittance documents with attached copies of remittance media shall be provided to the financial records keeper for recording into the accounting system.
  - (7) Anyone other than the Administrative Assistant who receives funds directly on behalf of PEVA shall take those funds to the Administrative Assistant for proper processing.

**Cash Receipt recording into the financial system:**

- (1) No cash receipt shall be recorded into the financial system other than those provided from the Administrative Assistant except for those associated with bank reconciliations, automatically deposited interest, bank initiated corrections, or other automatically generated bank account increase – all of which should be reflected on the monthly bank statement.
- (2) The financial records keeper shall review all deposits and remittance forms as a second check to ensure that the purpose and deposit codes are appropriate and that the remittance document balances to the remittance, and that the total of the remittance documents in the deposit package balances to the of the deposit slip confirmation.
  - a. In the event a discrepancy discovered in the deposit pre-review process or the deposit entry process, the financial records keeper shall not process the deposit, with the exception that the records keeper may correct obvious errors such as number inversions, misplaced decimals, or deposit codes that were omitted or are clearly in error if the verbiage of the purpose description clearly indicates the purpose.
  - b. If a deposit cannot be processed due to a discrepancy beyond that of one in which the financial records keeper is authorize to process, the discrepancy shall be reported to the Administrative Assistant (or in rare exceptions, directly to the donor with “copy to” the Administrative Assistant) describing the issue and requesting resolution.
    - i. On resolution, the Administrative Assistant shall provide, in writing, such resolution and/or confirmation of the financial record keepers resolution. Email, fax, memo, or letter shall be acceptable forms of “written” confirmation.

- ii. On receipt of the resolution/confirmation from the Administrative Assistant, the financial records keeper shall then process the deposit and attach the written resolution to the retained deposit package.
- (3) The financial records keeper shall print at least the General Ledger (G/L) Distribution Listing associated with the deposit entry into the financial system. It is highly recommended that the Total Recap Listing and the Transaction Proof List be printed as well as these additional documents provided greater detail and ability to confirm the deposit codes/purpose actually entered into the financial accounting system match the deposit code/purpose specified by the donor. All printed “proof of deposit” documents shall be added to the deposit package.
- (4) The deposit package shall be filed by month and year, and retained for at least the minimum period required for document retention.
- (5) All deposit packages shall be presented to the bank account reviewer as part of the Bank Reconciliation review.

**Disbursements:**

Disbursements will always be done via check, bank check, automatic check issued via on-line back checking, national/international wire, authorized electronic funds transfer, or payroll. Disbursements will not be made by cash.

**Disbursements by Check or automatic check issued via on-line banking**

**Ministry Team Authorized Disbursements:** Ministry Teams are responsible for managing the funds represented in the operating budget, and where authorized from designated and/or restricted funds for which authorization authority has been delegated to the Ministry Team.

- (1) A voucher directing payment shall be prepared by the requestor of the disbursement. The voucher shall cite the payee, the account line item to be charged, the purpose of the disbursement, and the amount. If multiple account line items are applicable to the requested disbursement, each line item and its associated purpose and amount shall be cited. (Sample Voucher is provided as Attachment #4)
- (2) Ministry Team requested disbursements shall be signed by the Ministry Team Moderator or higher authority (e.g., General Presbyter).

**Financial Records Keeper prepared vouchers:**

The financial records keeper shall not issue a disbursement without a supporting voucher. Normally such a voucher is submitted by a Ministry Team. However, the financial records keeper is authorized to prepare and submit with the check signing package vouchers for the following type disbursements. Such disbursement vouchers do not need to be “approved”/“counter-signed” as the retained check stub for the signed check shall serve as the approval.

- (1) Routine recurring operational or designated fund expenses such as
  - a. utility bills,
  - b. taxes (sales/property/payroll),
  - c. mortgage/note payments,
  - d. insurance,
  - e. pension plan,
  - f. 403B remittances

- g. Remittances to higher authority (GA/Synod) and designated Presbytery/Synod Validated missions
- h. Designated recurring payments for which invoices are not received

**Payments to Financial Records Keeper:**

For any payment to be made to the financial records keeper, the financial records keeper shall prepare a payment voucher as the payment requester. That voucher citing the account line item to be charged, the purpose of the requested payment, and the amount; with supporting documentation; shall be submitted for approval to one of the authorized check signers prior to processing payment. Once the approved voucher is signed, then the financial records keeper may process the voucher for payment along with the vouchers awaiting payment

**Documentation and check processing for disbursements by check or automatic check issued via on-line banking**

Authorized disbursements shall be entered into the financial system to establish the charge to the authorized account for payment. The current financial system requires the establishment of an account payable invoice; then the invoice payment is posted when a check is prepared and posted.

- (1) When invoices have been processed and prepared for payment, an “Accounts Payable-Invoice Proof List” is to be generated and printed. This document will be part of the check signing accountability package.
- (2) When checks are printed, they are assembled into a check signature package:
  - a. A “Check Proof List” or a “Check Register” must be printed to accompany the check signing package.
  - b. Attached to each check is the supporting documentation comprised of the initiating payment voucher causing the payment to be generated and if there is an accompanying invoice, letter, or statement that/those documents are also attached.
- (3) When the check signer receives the check signing package, the signer reviews the “Accounts Payable-Invoice List” against the “Check Proof List” or “Check Register” to ensure that these documents match in terms of both payees and amounts and that these documents match the checks presented for signature.
  - a. The check signer initials and dates both the “Accounts Payable-Invoice List” and the “Check Proof List” or “Check Register”.
  - b. The matching documents which have been initialed are returned to the financial records processor for the financial records processor’s accountability file. These matching documents are filed by month in the “Invoices Processed” file, are to be available for future review, and retained for at least the minimum period required for document retention.
- (4) As a general principle, a check signer should not sign a check payable to themselves. However, there are currently only two authorized signers who for business reasons are often not at PEVA at the same time and may not be available to “cross-sign” the other’s check for an extended period. In those rare cases, signing their own check may be the only pragmatic solution. When such a situation presents itself, the signing of a check to themselves must be witnessed by either the Administrator or Administrative Assistant. The financial records keeper (who prepared the check) is not authorized to be a witness.

The witness must initial and date the PEVA check stub which is retained with the paid voucher in the vendor/voucher paid files.

### **Disbursements by Electronic Funds Transfer or Direct Deposit to a Vendor's Bank**

#### **Account:**

Authorized disbursements via Electronic Funds Transfer or Direct Deposit to a vendor's bank account shall be supported by a supporting voucher similar to a payment to be made via a check. The voucher shall identify the payee, payment purpose and amount. Since the transaction is reflected differently by the PEVA bank for Electronic Funds Transfer versus Direct Deposit to a vendor's bank account, the accountability documents will differ, but the review process is similar.

- (1) For Electronic Funds Transfers, the review package will consist of a voucher for payment, an accounting system "From"/"To" transaction identification report, and bank account transfer confirmation document.
  - a. The accounting system document and the bank account confirmation document must agree in amount and date
  - b. One of the authorized check signers must initial and date the accountability package acknowledging that a "second party" acknowledges the Electronic Funds transfer.
  - c. These matching documents are filed by month in their appropriate monthly files, are to be available for future review, and retained for at least the minimum period required for document retention.
  - d. The Electronic Funds transfer will be reflected on the bank statements and the accountability package will be presented to the bank account reviewer as part of the Bank Reconciliation review.
- (2) For Direct Deposit to a Vendor's Bank Account, an ACH File must be created and uploaded to the bank for conducting a direct deposit transaction to the vendor's bank. Therefore, the supporting documents differ from an Electronic Funds Transfer.
  - a. The review package will consist of a voucher for payment, "Accounts Payable-Invoice Proof List", and bank account "Transaction Detail Report".
  - b. One of the authorized check signers must initial and date the accountability package acknowledging that a "second party" acknowledges the Direct Deposit transaction.
  - c. These matching documents are filed by month in their appropriate monthly files, are to be available for future review, and retained for at least the minimum period required for document retention.
  - d. The Direct Deposit transaction will be reflected on the bank statements and the accountability package will be presented to the bank account reviewer as part of the Bank Reconciliation review.

### **Disbursements for Payroll payments through Direct Deposit to a Vendor's Bank Account:**

All employees are required to be enrolled in a Direct Deposit program with their bank to receive payroll payments. Except in extreme emergencies, there are no payroll payments that will be made via check.

- (1) As part of the payroll processing procedure, one of the documents that shall be generated and printed is the "Payroll Check Register". This financial accounting system document

lists all employees included in that particular payroll run and the net amount that is to be paid to each individual. This is the amount that will be directly deposited into the individual's bank account.

- (2) As with a Direct Deposit transaction for vendors, payroll transactions are accomplished via an ACH File which must be created and uploaded to the bank for conducting a direct deposit transaction to the employee's bank.
  - a. The culmination of the payroll transaction by the bank is confirmation as to whom and in what amount payment is made. The bank account "Transaction Detail Report" shall be printed and made part of the payroll package.
- (3) When the payroll has been run, it must be printed to one of the authorized check signers for review. As part of their review, they shall compare the "Payroll Check Register" with the bank Direct Deposit "Transaction Detail Report" to ensure that they match by employee and in total net payroll. The check signer shall initial and date each of these documents. These documents will be retained with the payroll package in the payroll accountability file.
- (3) The payroll package shall be presented to the bank account reviewer as part of the Bank Reconciliation review. There are two documents in the payroll package that are critical in the Bank Reconciliation review.
  - a. Either the "Payroll Check Register" or the bank Direct Deposit "Transaction Detail Report" may be used to validate the withdrawal amounts recorded on the bank statement for a specific payroll period.
  - b. The Payroll Journal from the Payroll Package is the second document used in the bank account reconciliation process. The Payroll Journal is used to validate and balance with bank transfers into the Payroll bank account as a deposit.

### **Bank Account Reconciliations:**

Bank account reconciliations are the capstone event for Internal Control checks of fund flows into and out of the PEVA bank accounts. There should be no funds that enter PEVA or exit PEVA other than via the bank accounts.

- (1) All bank statements coming into PEVA shall be delivered, unopened to the Administrative Assistant. The Administrative Assistant shall
  - a. Open all bank statements
  - b. Give a "cursory scan" of the statements for any "alerting entries" or obviously concerning transactions. This "cursory scan" is not at the level of a review because the Administrative Assistant is not likely to have the information to provide a viable review, nor is the Administrative Assistant in a position for which such a responsibility should be imposed.
  - c. Maintain a written log showing the date of receipt by bank account and the date that the statement was provided to the financial records keeper. This log shall be made available for review by the Bank Reconciliation reviewer on request.
- (2) Bank accounts shall be reconciled by the financial records keeper as soon as practical after receipt of the account statements. To the extent practical, and in all except in the most unusual circumstances, bank account reconciliations shall be conducted prior to closing any particular month and in all cases all reconciliations must be completed prior to any year-end closing.

- a. During the reconciliation process, the financial records keeper shall annotate the bank statements such that it is clear that the financial records keeper has sighted the supporting documents for the associated deposits and withdrawals.
  - b. When the bank reconciliation is ready to be accepted in the reconciliation process in the financial records and the Reconciliation Report is to be run, both the “Cleared Transactions” and “Uncleared Transactions” shall be printed as part of the Reconciliation Report.
  - c. The resulting bank reconciled balance shall be compared to the General Ledger “book balance” to ensure that both are in agreement.
- (3) When the bank accounts have been reconciled, the independent third party reviewer shall be notified that the bank accounts and reconciliations are ready for review.
- (4) The Bank Reconciliation reviewer shall be presented and sight the following:
- a. Each Bank Statement and Reconciliation Report
  - b. Associated Deposit Files
  - c. Associated Bank Transfer Files
  - d. Any Invoice Payment Files, as appropriate.
  - e. Check images are currently included with the operating fund checking account and should be reviewed, at least on a sample basis, to validate that the checks and check payees represent legitimate disbursements.
- (5) The Bank Reconciliation reviewer has the right to expand the review to include any invoice and/or any journal entry (or other entry “type identifier”)
- (6) When the Bank Reconciliation reviewer has completed the review of each bank account, the reviewer will initial and date the associated Reconciliation Report.
- (7) Annotated Bank Statements and initialed Reconciliation Reports shall be made available for future review and retained for at least the minimum period required for document retention.
- (8) Annotated Bank Statements and initialed Reconciliation Reports shall be provided to the CPA which does the annual Financial Review or Audit, as requested.

**VISA or other similar credit card Account Reconciliations:**

Each VISA card or similar credit card holder shall submit a reconciliation document along with the individual credit card statement if they made any credit card purchases during the statement period.

- (1) These reconciliations shall be submitted as soon as practical after receiving the credit card statement, but must be submitted in timely enough manner so that the reconciliation can be entered into the financial records system prior to the financial records keeper closing the books for the month associated with that statement period.
  - a. The cardholder shall identify all charges on the credit card statement to an authorized accounting line under the card holder’s Ministry Team auspices. The holder cannot cite an accounting line not under the holder’s auspices without submitting a written authorization to cite the accounting line of another Ministry Team. Such written authorization must be submitted with the reconciliation package.

- i. Receipts for all expenditures shall be attached as part of the reconciliation package, except in the case of Makemie Woods. Makemie Woods is authorized to fax their reconciliations to the financial records keeper.
    1. Makemie Woods, by faxing their reconciliations to the financial records keeper is certifying that all expenditures are true and valid. They shall retain the receipts with each Makemie Woods' cardholder's statement, and shall submit the statements with attached receipts when called for by the financial records keeper, but no less than annually.
    2. If for some reason a receipt is lost, the statement shall be annotated "lost receipt". By such annotation, the cardholder is certifying and validating that the expense for which the receipt is lost is a true and valid expenditure for the benefit of PEVA and is not a personal item. If "lost receipt" becomes a recurring or of questionable concern, the Business Manager shall report this concern to the Stewardship Ministry Team. If deemed appropriate, the Stewardship Ministry Team may direct that the card for that employee be cancelled.
  - b. Although use of the PEVA VISA or other credit card is not authorized to be used for personal purchases, there are occasions where such events do occur by error or for valid and practical reasons.
    - i. When such an event occurs, the employee shall annotate their reconciliation that the charge is a personal charge and in lieu of a Ministry Team accounting line, the charge shall cite accounting line 10-00-1120 (Receivables from Staff).
    - ii. The employee shall immediately submit repayment to PEVA for any and all personal charges. Failure to remit immediate payment shall be cause for terminating authority to use and cancellation of the employee's credit card.
- (2) VISA card or similar credit card statement reconciliations shall be entered into the financial accounting system by the financial records keeper as soon as practical after receipt of the reconciliation statements submitted by the cardholders. To the extent practical, and in all except in the most unusual circumstances, card statement reconciliations shall be entered into the financial accounting system prior to closing any particular month and in all cases all must be entered prior to any year-end closing.

**Payroll:**

Payroll is one item that obtains the closest scrutiny by the most critical reviewers – the employees being paid. Therefore, it is the employees that are relied upon to provide the primary Internal Control for payroll.

- (1) Each employee shall be provided a Direct Deposit pay stub generated by the financial accounting system for each payroll. The direct deposit pay stub shall include a summary of pay items, withholding/deduction items for the current pay period and year-to-date.
- (2) The financial records keeper shall prepare a file of Direct Deposit pay stubs for Makemie Woods and one for PEVA in-house staff and for the ODU Campus Minister.

- a. Makemie Woods' Administrator or Makemie Woods' Director shall print and distribute the Direct Deposit pay stubs to its personnel immediately upon receipt of the Direct Deposit pay stub file.
- b. The PEVA Administrative Assistant shall be provided the file for the PEVA in-house staff and for the ODU Campus Minister. The PEVA Administrative Assistant shall print and distribute the Direct Deposit pay stubs to each payee immediately upon receipt of the Direct Deposit pay stub file.
- c. Both Makemie Woods and PEVA Administrative Assistant shall make distributions directly to the payee, or if the payee is not available for direct distribution, shall provide it to the payee in such a manner as to protect the confidentiality of payee information.