



July 8, 2021

To: Board of Directors
Our Savior Lutheran Church

We have performed procedures listed in the following pages, which were agreed to by Our Savior Lutheran Church, solely to assist you with respect to the accounting records for the fiscal year ended June 30, 2021. Our engagement to apply agreed upon procedures was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of Our Savior Lutheran. Consequently, we make no representation regarding the sufficiency of the procedures described in the following pages either for the purpose for which this report has been requested or for any other purpose. Each procedure and related recommendation is rated based on the following agreed upon set of criteria:

S = Satisfactory

No exceptions were found based on testing which indicate errors resulting in increase in risk or monetary loss to the organization. The document that was reviewed indicates that controls are present and functioning as designed. Any recommendations made are to enhance the current system.

O = Opportunities for Improvement

Exceptions were found to existing policies and procedures that if not corrected could result in increased risk or monetary loss to the institution. In general, policy and procedures are not sufficiently developed to be effective. Follow-up action should be taken as indicated.

U = Unsatisfactory

Exceptions or errors found that indicate an unacceptable level of functioning of controls or absence of procedures or not sufficiently developed to be effective. Corrective action plans are necessary to resolve the situation.

Our procedures and findings are noted on the following pages.

<u>Procedure</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Rating</u>
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A. The following procedures were performed on twenty-five (25) checks. Seventeen (17) of these checks were selected using a method that approximates a random sample. Eight (8) were selected from a list provided by the Church, including online bill pay transactions, electronic funds transfers, reimbursed employee business expenses, and credit card payments made by the church during the test period. Our observations and recommendations are noted below.

1. Verify that there are invoices or other documentation to support the amount of the disbursement.	All checks and disbursements examined appeared to have supporting documentation that agreed to the amount of the disbursement.	None	S
2. Verify that the check was signed by an authorized signer and properly endorsed (if copies of checks provided by the bank).	All checks and disbursements examined appeared to be signed by authorized signers and properly endorsed.	None	S
3. Agree the check number and amount to the bank statement.	All check numbers and amounts examined appeared to agree with the bank statement.	None	S
4. Approval for the disbursement is noted on the documentation.	All checks and disbursements examined appeared to have approval noted on the documentation except for the following: <ul style="list-style-type: none"> The Church's policy is that directors, ministers, and managers are authorized to make expenditures within their budget and their scope of work. As a result, approval is not documented on some disbursements, but it is within church policy. Recurring charges do not require approval. 	<ul style="list-style-type: none"> We recommend having those in charge of each department review recurring charges quarterly to ensure the charges are valid. 	O
5. Verify that the disbursement is recorded in the correct general ledger account as listed on the disbursement authorization form.	All checks and disbursements examined appeared to be recorded properly according to the disbursement authorization form.	None	S

<u>Procedure</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Rating</u>
6. Verify that disbursements are paid timely according to the vendor terms.	All disbursements appeared to be paid timely according to the vendor's terms.	None	S
7. Verify if the disbursement was processed in accordance with written disbursement policies and procedures.	All disbursements appeared to be processed in accordance with written disbursement policies and procedures.	None	S
8. Review the numerical sequence of checks issued in the current year and investigate any missing numbers. Identify any checks listed as void and inspect voided check.	All voided checks were reviewed and the missing checks were investigated, with the following exception: <ul style="list-style-type: none"> • Check # 16111 in the check sequence was missing and but not in the voided check folder. It was noted that this check did not clear the bank. 	<ul style="list-style-type: none"> • We recommend keeping copies of all voided checks and documenting any reasons for a break in the check sequence. 	O
9. Interview the bookkeeping staff to determine if blank checks are ever signed and why.	Blank checks are never signed.	None	S

B. The following procedures were performed on the largest two deposits during the 2 weeks of deposits selected from the test period. These were selected using a method that approximates a random sample. Our observations and recommendations are noted below.

1. Deposit support verified for clerical accuracy and agrees in total to the deposit.	All deposit support was clerically accurate and agreed to the deposit.	None	S
2. Agree the deposit to the bank statement or stamped deposit receipt.	All deposits agreed to the bank statement or deposit receipt for that date.	None	S
3. Agree the cash listed on the deposit receipt/bank statement to	The cash listed on the count sheet agreed to the cash deposited in the bank.	None	S

<u>Procedure</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Rating</u>
the cash on the deposit count sheet.			
4. Trace the deposit to the general ledger account. If a deposit relates to several general ledger accounts, select one of the larger amounts to determine that the deposit is properly recorded.	All deposits traced to the general ledger account noted on the deposit support.	None	S
5. For contributions, trace every 10th donor's contribution into the contribution records for that donor to determine that it was properly recorded. The first donor record will be selected haphazardly, with every 10th donor selected thereafter. This will be done for up to a maximum of 5 donors per deposit.	All contributions matched the supporting documentation for the deposit.	None	S
6. Review deposit count sheets for signatures of at least 2 persons present that participated in the counting.	All deposit count sheets were signed by 2 persons.	None	S
7. Is the person who takes the deposit to the bank different than the one who reconciles the bank statements? Is the person who takes the deposit to the bank different than the person who enters the contribution into the software? Was the deposit ever in the sole possession of the bookkeeper/contribution receipt recorder? Does the person that	<ul style="list-style-type: none"> • The deposit is taken to the bank by a courier service. • The person who does the bank reconciliation and the person who enters the contribution into the software are not the same individual. • The deposit was not in the sole possession of the bookkeeper/contribution recorder. 	None	S

<u>Procedure</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Rating</u>
reconciles the bank have the ability to make entries into the software?	<ul style="list-style-type: none"> The person that reconciles the bank account does have the ability to make entries into the software but does not perform that task. Posting of contributions is assigned to another individual in the finance department. 		
8. Verify if the deposit was processed in accordance with written cash receipts policies and procedures.	All deposits were processed in accordance with written cash receipt policies and procedures.	None	S
9. Review a contribution letter to verify: 1) The amount of cash and a description (but not value) of any property received; 2) a statement indicating whether the Church provided any goods and services in consideration, in whole or in part, for any property contributed; 3) if goods and services were provided, a description and good faith estimate of the value of those goods and services; 4) if the contribution statement was sent within a reasonable amount of time after the calendar year for the contributor to complete their federal income taxes.	All required information was included on the contribution statement and it was sent timely.	None	S
10. Inquire whether the Church reconciles the amount of contributions recorded in its giving software to the amount recorded in the general ledger software.	The church does not reconcile the amount recorded in the contribution software.	We recommend that the finance personnel reconcile the actual donor deposit totals from the church contribution software to the giving amounts posted in QuickBooks each month, making note of non-donor	O

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11. Review the processes and controls for receiving and depositing cash other than from offerings (camp registrations, daycare, preschool, coffee sales, bookstore, etc).	Money that comes in outside of normal Sunday offerings is turned in to the front office where it is counted and verified against the cash report turned in by ministry or a new cash report is created by the front office personnel if no cash report is attached and then sent to the finance office where it recounted and processed for deposit.	deposit amounts as a reconciliation difference. None	S
12. Review the processes and controls for receiving and tracking gift cards received, if applicable.	No gift cards were received by the church.	None	S

C. The following procedures were performed on each bank reconciliation for the general and payroll accounts for 2 months during the test period. Our observations and recommendations are noted below.

1. Compare the reconciled balance to the check register balance.	All balances on the reconciliation report match the check register balance for that date.	None	S
2. Compare reconciling items from the bank reconciliation to the next month's bank statement to determine that 10 selected checks and all deposits cleared or are still outstanding.	All 10 outstanding checks and all outstanding deposits cleared on the next month's bank statement.	None	S
3. Determine if there are any deposits uncleared after one month and if there are any uncleared checks over one year still showing as a reconciling item on the bank reconciliation.	No deposits were uncleared after one month and no checks are outstanding over one year.	None	S

<u>Procedure</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Rating</u>
4. Determine whether there are initials and date or other evidence that the bank statements have been reconciled soon after receipt. (If the bank statement is not reconciled soon after the end of the month, the banks are not obligated to make corrections after 60 days from the statement date.)	All bank statements were reconciled within a week after the end of the month.	None	S
5. Determine whether there are initials or other evidence that the bank reconciliations have been reviewed.	All bank statements have been initialed as reviewed.	None	S
6. Compare actual cash listed on the bank statement reconciliations to church reports of the Treasurer to the Board for the 2 selected months during the period.	All cash listed on the bank statement reconciliations matched the amounts on the board reports for the same months.	None	S

D. The following procedures were performed on the following financial reports of the Church's fiscal year end. Our observations and recommendations are noted below.

1. Compare the support documentation for assets and liabilities including bank statements, brokerage statements, fixed assets listings, accounts payable, etc. to the general ledger balance. Balances in the general ledger that are within \$100 are considered adequately supported.	All balances matched the supporting documentation.	None	S
2. Review the monthly budget report of the Church. Does it include capital expenditures?	The monthly budget of the church includes amounts for capital expenditures.	None	S

<u>Procedure</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Rating</u>
Does the budget include a cash balance forecast for each month of the year? How is the budget tied to ministry vision?	The budget report includes a cash forecast for the month and year. Budgets are submitted by staff and ministry leaders along with a description of what they plan to accomplish and how it fits in with the church's focus for the year.		
3. Review the support for restricted gift balances and note any unusual activity in the account during the period.	No unusual activity was observed during the review of the restricted fund balances.	None	S
4. Review a schedule of unpaid invoices and determine if there are any significant past due items. Determine if Accounts Payable totals are properly listed on the financial statements.	No bills are past due and accounts payable balances are listed on the internal financial statements.	None	S

E. The following procedures were performed relating to excise and payroll taxes. Our observations and recommendations are noted below.

1. State of WA: a) Compare the most recent L&I quarterly return to detail payroll records. b) Inquire if the church is withholding employee portion of Family Medical Leave Act and reporting to the state of Washington, c) Inquire how the church tracks and reports paid time off availability to employees	The L&I report for June 2021 was verified against payroll records. The church withholds the employee portion of Washington PFLM and reports it to the state. Time is tracked in QuickBooks and reported on the employee's paystub.	None	S
2. Compare the most recent IRS Form 941 quarterly return to detail payroll records. Verify the return is	The 941 report for June 2021 matches the detailed payroll records. The return appears to be filed and paid within deadlines.	None	S

<u>Procedure</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Rating</u>
filed and paid according to deadlines.			
3. Review the most recent state combined excise tax returns to discuss the type of income to be reported.	There was no reportable income observed during the 2020 tax period. Use tax was accrued and paid as required.	None	S
4. Review W-2s for 2 pastors to determine that housing allowances and other listed compensation appear to be properly reported on their W-2s.	The various types of income and benefits for the 2 pastors that were selected were properly reported as housing and wages on their W-2 forms for the year tested.	None	S
5. Inquire whether volunteers received any form of cash or non-cash benefits paid by the Church to determine whether these benefits are being properly recorded.	Volunteers do not receive any form of cash or non-cash benefits.	None	S
6. Select 3 employees' checks at random from the prior year and compare pay rate and hours to support documentation.	Hours and pay rates on the three paychecks examined agreed to support documentation.	None	S
7. Review IRS Forms 1099 most recently filed with the IRS. Discuss the types of payments reported to service providers.	The vendor 1099 set up was not correctly done in QuickBooks. Additional 1099-NEC vendor amounts were reported as other income on Form 1099-MISC in error. Mapping of the required accounts and a review of vendors paid over \$600 was not complete.	We recommend reviewing the account mapping for qualifying vendor payments. A review of all vendors paid over \$600 in a calendar year should be done to verify if they meet the requirements for 1099 reporting per IRS guidelines.	U
8. Review whether tax payments are being made on a timely basis and that forms are being filed with the IRS. Review available documentation.	All tax payments were made timely and all required forms were filed by the due date.	None	S

<u>Procedure</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Rating</u>
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F. If the church owns a vehicle that is used by a church employee, or received a vehicle or boat as a gift, the following procedures will be performed:

1. Review the calculation used by the church to compute the value of the personal use of the vehicle to be included on the employee's W-2. This will include review of logs listing total miles driven, business miles, date, and business purpose.	There is no personal use of a church-owned vehicle by employees.	None	S
2. If the church received a donated automobile during the testing period, review the Form 1098-C filed and provided to donors.	No donated vehicles were received by the church.	None	S

G. Review the following policies and provide recommendations or comments:

1. Record retention policy	The church's record retention policy follows normal recommendations for business record policies.	None	S
2. Conflict of interest policies	The church has a conflict of interest policy that is signed annually or as new board members are added.	None	S
3. Disaster Recovery policy for financial data (including electronic and hard copy backups)	The church does not have a written disaster recovery policy but financial data backups are performed regularly.	We recommend that the church create a written disaster recovery policy for electronic and paper records. This policy should include secure offsite storage.	O

Our engagement did not include a detailed examination of all transactions and cannot be relied upon to disclose all errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

We were not engaged to, and did not perform, an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management and the executive and finance committees of Our Savior Lutheran Church and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Very truly yours,

Battershell & Nichols