

Speaking of salaries and payroll, how do we verify that amounts paid are accurate?

Hey! Glad to know you're still alert. But then, we knew you'd be. Here are the steps:

Check staff-parish relations committee and charge conference records versus payroll records to verify that correct salaries or rates have been paid.

If there are tax deferred annuities (TDAs), Section 125 or other salary reduction agreements, verify existence of signed agreements and proper tax withholding applied.

Verify pension contributions with the pension board. If there is a salary reduction agreement, review documents for accuracy and verify that agreements have been approved in Charge Conference or Administrative Board minutes.

Verify that housing allowance resolutions are in place and have been properly applied to reduce clergy's reportable 941 and W-2 income.

Are we ready yet to look at the control system?

Yes. As part of the audit, it is essential that the internal control structure for receipts and disbursements procedures be reviewed regardless of the size of the church. The internal control structure is the process that assures the local church's *operational* efficiency and effectiveness, that its financial reporting is reliable, that it is complying with the Discipline and with laws, and that its assets are safeguarded. The internal control process should be in place not just on paper but in actual operation.

Areas of concern that should be evaluated include:

1 Segregation of duties.

It is important that duties be segregated among two or more persons, if possible. We understand that in very small churches this may be difficult, but it is rarely, if ever, impossible. The effort by small churches is to attain reasonable segregation under all the circumstances. Here are some examples.

The financial secretary and the church treasurer(s) should not be related. These should be separate offices occupied by different individuals, who are not related by blood, marriage or employment relationships.

The person(s) performing the audit should not be related to either the financial secretary or church treasurer. Also note that at least two persons should count the Sunday morning collections and they should not be related to each other nor should either one be the financial secretary or church treasurer.

Receipt and disbursement functions should be performed by different people. (This may not be possible in small churches but is desirable.)

2 Authorizations for disbursements.

The first point is that everyone who approves disbursements must be authorized to do so. The auditor should look for resolutions and action in the minutes of the finance committee and the governing body that address authorizations.

The check signer should not be the authorizer of expenditures or the person who performs bank reconciliations. The auditor should examine the checks to determine who is signing and compare the results found to bank authorizations.

3 Finance reports.

Monthly Finance and Treasurers reports should agree with the general ledger and subsidiary journals. Balances as of the first day of each month should be same as the last day of previous month.

4 Other Areas to Check:

Does the church have fidelity bond coverage for people handling church funds (i.e., counters, financial secretary, treasurer, etc.)?
¶ 258.4b of the *Book of Discipline* requires that church treasurers be adequately bonded.

Have decisions with financial implications made by church committees and the charge conference been appropriately complied with?

Are authorized signatures with banks up to date and complete?

Is the correct church employer identification number (EIN) on all accounts?

Are investments made only by authorized persons?

Are transactions recorded in the correct year?

Are checks and cash stored in the church safe, deposited or placed in a bank night depository, and not taken to private homes or elsewhere until deposited?

Are reports such as Payroll Tax Form 941, W-2s and the like filed with appropriate authorities in a timely manner?

Are payroll taxes being paid on time?

Are computer software and data files backed up on a regular basis, and are back-ups kept off the premises?

Do all appropriate persons have a clear understanding of and is there documentation on church ownership of software and data files?

Is a current list of the contents of all safety deposit boxes maintained, and is a list of persons with authorized access likewise kept? (The auditor should confirm the contents and confirm with the depository institution the persons authorized to access the box.).

Are reports from the treasurer, financial secretary and business manager, if any, to the finance committee accurate, timely and complete enough to provide necessary information for the committee to make prudent decisions?

Is the finance committee providing to the church's governing body (church council, administrative board) sufficient information to allow it to exercise its fiduciary duties; are members of the finance committee and the governing body free to express opinions and to question management when appropriate?

Are loan documents being read and complied with?

Is there a current inventory of fixed assets? Is it kept current by entry of purchases and dispositions? Has the auditor verified the list? Is there a process for control for fixed assets?

Is there a policy on records retention, and if so, is it complied with?

For a really useful audit check-off list with items that get to the nitty-gritty, just take a look at [Addendum I](#). You'll like it!

Once these steps have been taken, the auditor should be ready to write an audit report.

Will you explain the auditor's report?

When the audit is complete, the auditor should deliver a written report to the Finance Committee. The Discipline requires that the report ultimately be delivered to the Charge Conference. A copy of the form for the Annual Audit Report is attached as **Addendum II**.

The report should be written and should include at a minimum:

- 1 Documentation of steps taken;
- 2 Report of the Annual Audit form (**Addendum II**);
- 3 Statement of Financial Position (balance sheet);
- 4 Statement of changes in net assets (statement of activities);
- 5 Statement of cash flows;
- 6 Comments, if any, on the reliability of the treasurer's financial reporting;
- 7 Comments, if any, on insurance policy coverage;
- 8 Comments, if any, on compliance with donor restrictions on gifts;

When all these steps have been completed, the auditor should review the work done with the church treasurer and financial secretary, endeavor to answer any lingering questions, then consider preparation of the report.

How and when is the Audit Report prepared?

When the audit is complete. The audit is complete when the auditor is reasonably assured that the financial records are in order, financial policies have been complied with and any discrepancies have been investigated and controls have been reviewed. With that assurance, the auditor is ready to prepare the Report of the Annual Audit for the committee on finance and the charge conference. **Addendum II**

Finally, the auditor should offer to meet with the finance committee to discuss the audit report, and should assure that the audit report, with any responses the finance committee may choose to add, is delivered to the charge conference.

Is the auditor's work finished yet?

Once the auditor has delivered the audit to the charge conference with responses of the finance committee, the audit process is finished. One final word of caution, though. If the auditor meets with either the finance committee or the charge conference, be aware of ¶ 721 of the *Book of Discipline*. Although church meetings generally must be open to all, discussions with accountants and matters involving personnel issues may be held in closed meetings if confidential information is likely to be disclosed. An example would be if there is suspicion that someone has made off with church assets. Suspicions should not be discussed in open meetings. Closed meetings will include only the members of the group that is meeting, plus any invited guests, such as the auditor or the church's legal advisor. The group should be aware of the manner in which closed meetings must be reported, as set out in ¶721. We suggest you provide the legal advisor with a copy of that paragraph.

And now the audit is finished until the same time next year.

We hope that conducting this local church audit has been a pleasant experience for you and for the local church. Remember, auditors, you are there to help, just as the Internal Audit Department is available to help you if you get in a bind while you're doing the audit. Our phone number is on [page 1](#) of this workbook.

Please don't hesitate to use it.

This is the end.

Thanks for sticking with us.

It has been a pleasure to serve you.

CHECK OFF LIST

_____ United Methodist Church
Financial Audit

Date _____

Page 1

Committee Members (Signature)

	<u>Date</u> <u>Completed</u>	<u>Initials</u>
Reconciliation of Bank & Investment Accounts		
Operating Bank Account#		
Month		
Bank Account#		
Month		
Bank Account#		
Month		
Are Bank Accounts Balanced Monthly		
Verification of Beginning and Ending Year Bal.		

BANK & INVESTMENT

- Verification of account signatories
- Verification of telephone or other transfer
- Safe deposit box access checked
- Account balances confirmed by Bank/Company
- Name _____ Confirmation Sent & Returned
- Name _____ Confirmation Sent & Returned
- Name _____ Confirmation Sent & Returned
- Name _____ Confirmation Sent & Returned

INCOME

- Two unrelated persons counting
- Timely deposit of funds
- Transmittals checked against deposits
- Transmittals checked against postings to GL
- Verification other income processes
- Designated funds directed to restricted accounts
- Pledges recorded on donor records
- Confirmations sent to donors
 - #sent _____ (Keep a list)
 - #returned _____
- Differences researched & cleared

Date _____

Date
CompletedInitials

Finance Secretary records reviewed
Finance Secretary records agree with general ledger

DISBURSEMENTS

Invoices properly approved
Check number and date noted
Purchase order system, if applicable, working
Accounts to charge noted on invoice
Any invoices to vendors over 30 days in arrears
Apportionments paid per board direction
Interest & service charges recorded
Verification of checks at random
General Ledger balances equal daily transaction
Are restricted gifts kept in separate account
Procedure in place to distribute gifts on a regular basis
Designated gifts paid out timely

REPORTS

Do reports provide complete picture
Are reports helpful to committee members
Do reports include approved budget
Over budget expenditure approvals in order
Are there controls for over expenditures
Policies for Restricted Funds reviewed
Restricted Funds used according to policy
Regular reports on pledge giving to finance committee and pastor

GENERAL LEDGER

Appropriate separation of restricted funds
Internal controls for receipts reviewed
Internal controls for disbursements reviewed
Other asset accounts reviewed
(equipment, buildings, contracts, etc.)
Accounts Payable reviewed
Accounts Receivable reviewed
Prepaid Expense account reviewed
Unearned Income account reviewed
Fund Balance from prior year correct
Correct Fund Balance carried into next year

ADMINISTRATIVE

Church has Employer Identification Number
File for EIN & tax filings safeguarded

Date _____

Date

Completed

Initials

Incorporation papers are safeguarded
Deed to church property and/or mortgage are
safeguarded
Insurance policies are safeguarded
Prior year insurance policies are safeguarded
Does church have separate bond for persons
handling money

PAYROLL

Personnel files kept by individual
Personnel files safeguarded and confidential
Salaries paid according to approval
Tax forms issued to clergy persons, employed
persons & government
Payroll tax deposits made and timely remittances to
government
Time sheets filed and approved (not by treasurer)
Employer benefits paid and current
Are there any salary reduction plans in effect
Did proper board/committee approve and is written
documentation in file
Verification of amount paid to persons on contract/
honorarium
Proper approvals for persons paid on contract/
honorarium
1099s filed for over \$600 paid on contract

Other:

Addendum II

Instructions to the Report of the Annual Audit

The auditor needs to prepare this report for the Committee on Finance and the Charge Conference. In addition, the auditor should prepare a report on the church's accounting control system and recommend any improvements to the Committee on Finance. In order to complete this report, the auditor will need last year's completed report (if this form was not used, obtain whatever form/report that was used) and the current year's general ledger(s). This annual report should include all funds maintained by the financial officer(s) of the church.

Instructions for Part I - Receipts, Disbursements and Balances:

Note: All figures are rounded to the nearest dollar.

Column a: Enter ending balances from previous year's report. Remember that last year's ending balances at 12/31/x1 should be the same as the current year's beginning balances at 1/1/x2.

Column b: Enter the cash received and recorded for each of the funds (1/1-12/31).

Column c: Enter total disbursements for the period (1/1-12/31).

Column d: Enter any transfers made between the funds (example: Board of Trustees fund makes a transfer to the Building Fund of \$1,000...Enter (\$1,000) on the Board of Trustees line and enter \$1,000 on the Building Fund line).

Column e: Enter the sum of column "a", plus column "b", minus column "c" plus or minus column "d", to equal column "e". The figures in this column should tie to the ending balances in the general ledger. If they do not, analyze any differences and make adjustments (journal entries/transfers) accordingly.

Instructions for Part II & III - Exceptions and Recommendations:

Any exceptions or recommendations should be entered in these sections of the report.

Use additional forms if necessary. When complete, the auditor or Audit Committee Chair needs to sign and date the form.

(Due FEBRUARY 15, 2005)

(File copies with the recording secretary, pastor, district superintendent, and chairperson of committee on finance.)

THE UNITED METHODIST CHURCH

COMMITTEE ON FINANCE and CHARGE CONFERENCE

Report of the Annual Audit

The Committee on Finance is required to make provision for an annual audit of the records of all the financial officers (including the financial secretary or church business manager and treasurers of the church and all its organizations) and shall report to the Charge Conference. Guidelines for handling local church funds can be found in the "Local Church Financial Records Handbook" and in "Guidelines for Your Congregation: FINANCE." They may also be found online at GCFA.org/LocalChurchResources.html.

_____ Church South Carolina Conference

_____ Charge _____ District

For the year 2004

I. RECEIPTS, DISBURSEMENTS, and BALANCES (Round to the nearest dollar; do not show cents)

LOCAL CHURCH FUNDS (Use those applicable to your church)	(a) Balance at Beginning of Period	(b) Cash Received and Recorded	*(c) Total Disburse- ments (-)	*(d) Transfers + (-)	(e) Balance End of Period
General Fund / Operations					
Benevolence Fund					
Building or Improvement Fund					
Board of Trustees' Fund					
United Methodist Women					
United Methodist Youth Ministries					
United Methodist Men					
Church School					
Memorial Fund					
Cemetery Fund					
Local Church Foundation					
Other Organizations or Funds:					
Name:					
Name:					
Name:					
Name:					
Name:					
Name:					
Total amount of cash in ALL treasuries of the church				0	

*Note: Column (c) must be entered as a negative number. Example: -50.
Column (d) may be entered as either a positive or negative number.

(over)

REPORT OF THE ANNUAL AUDIT (continued)

II. RECOMMENDATIONS:

III. The Auditor [] Auditing Committee [] (check one box) has examined the accounts listed on the front side, reviewed procedures of counting and accounting under the current *Book of Discipline*, has reconciled receipts and disbursements with bank deposits and bank balances, and has found the balances displayed to be correct, procedures proper, and records properly kept, except as noted below:

Pastor (signifies by signature that audit has been done)

Date

Auditing Committee (signatures):

- 1 _____
- 2 _____
- 3 _____
- 4 _____
- 5 _____
- 6 _____

Addendum III
STANDARD FORM TO CONFIRM ACCOUNT
BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

Original
 To be mailed to accountant

_____ Customer Name

Financial Institution:
 [_____]
 [_____]

We have provided to our accountants the following information as of the close of business on _____, _____ regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit account balance(s):

Account Name	Account Number	Interest Rate	Balance

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

Account Number/Description	Balance	Date Due	Interest Rate	Date Through Which Interest is Paid	Description of Collateral

_____ Customer's Authorized Signature

_____ Date

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below:

_____ Financial Institution Authorized Signature

_____ Date

_____ Title

Exceptions and/or Comments

Please return this form directly to our accountants: [_____]
 Approved 1990 by American Bankers Association, American Institute of Certified Public Accountants, and Bank Administration Institute [_____]
 Additional forms available from: AICPA - Order Department, PO Box 1003, New York NY 10108-1003 [_____]

(Organization's Letterhead)

January 14, 1998

William Jones
123 Main Street
Evanston, IL 60600

Dear Mr. Jones:

In connection with an examination of our accounts, [either outside firm or auditor's name] desire confirmation of your donation to [insert recipient organization's name] as of December 31, 1997.

Donation in the Amount of \$ _____ intended for use in [insert appropriate fiscal year] not restricted [or restricted, if appropriate] as to use.

If the above information is consistent with your records, please sign the confirmation below and return it directly to [Audit firm's address or auditor's address, not to the church] If your records do not confirm the above information, please note your exceptions below. A business reply envelope is enclosed for your convenience in replying.

Thank you.

Karen Taylor
[Title]

Name

Date

Exceptions, if any:

[*<< To Top of Document*](#)

