



De-Scarifying Audits for the Local Church

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Introduction

- The UMC *Book of Discipline* assigns the responsibility for the annual audit of the financial records to the committee on finance.
- In layman's terms, each church has a responsibility to audit financial information and report any discrepancies to the annual conference.

Definitions

- Local Church Audit – an **independent** evaluation of the financial reports and internal controls to verify reliability of the information
- Audit – the process that provides reasonable assurance that good stewardship is being used in handling and accounting for the funds and assets of the local church

Ultimate Goals of the Audit

- Protection for the persons that the local church elects to financial leadership roles from unwarranted charges or improper handling of funds
- Trust & confidence of the financial supporters of the church (which leads to continued support)
- Continuity in accountability & transparency regardless of turnover in personnel
- Assurance that gifts made with restrictions are administered properly & to provide checks & balances

Definitions

- Designated Funds – assets that have voted on by church leadership to be used for a particular purpose. Can be changed if the voting leadership chooses as a whole to make a change.
- Independent Audit – must not be subject to control or influence by anyone who has responsibility for the financial accounts. Depending on church size, this **could** be a CPA firm or a person in the church unrelated to anyone with financial responsibilities.
- Internal controls – policies & procedures to minimize financial risk of fraud, errors, etc.

Definitions

- Internal Control Policy – documents the processes & procedures to be followed to **safeguard** the assets of the church
- Permanently Restricted Funds – donations that are for a particular purpose when the original gift is not spent, only the earnings
- Temporarily Restricted Funds – donations that are only to be used for a particular purpose
- Unrestricted Funds – donations that are made for the general use in the ministry of the church

Purpose of the Audit

- Independently verify the reports of the treasurer & financial secretary
- Follow the money & test how it is disbursed/received
- Document that the donated & earned funds have been used according to stipulations made by donors
- Review accounting controls (reduce loss of assets due to errors or fraud)
- Verify proper segregation of duties or mitigating controls
- Reasonableness of systems or procedures in light of church size & budget
- Records that show donors' stipulations for use of gifts made to the local church

Groups to be Included in the Audit

- Trustees
- Memorial Funds
- Local Church Foundation or Endowments
- All other separate treasuries or bank accounts maintained by a group using the same EIN as the church:
 - UM Men
 - Pastor's discretionary fund
 - UM Youth Fund
 - Sunday School

Selecting an Auditor- Very Small Churches

- For churches that are considered to be very small (e.g. 10-20 members, minimal funding) – an **independent qualified** member of the church or other volunteer from another church can perform the audit & evaluate internal controls (See Appendix A & B for suggested procedures but not all should be necessary). They should report results to the church's finance committee.
- **Please note that ideal internal controls are not expected as long as church leadership works to mitigate weaknesses in key risk areas (cash receipts, cash disbursements, etc.)**

Information Required for the Audit

- Copies of all policies & procedures related to finance & treasury & copies of minutes approving those policies
- Copies of all minutes from the finance committee, the trustees, the admin board, & any other entities with separate accounts
- Listing of all bank & investment accounts, including authorized signors
- All financial statements for each month of the year being audited, December of the previous year & January of the subsequent year

Information Required for the Audit

- Bank & investment account statements for the same period
- Bank reconciliations for the same period
- Original books of entry or print out of all transactions for the year (if computerized)
- All paid invoices, payroll data & files, income transmittals & deposit records for the same period
- The Financial Secretary's records & other income records for the same period
- Any prior audit findings & internal control items noted

Appendix A – General Audit Procedures

- Compare prior year ending balances to current year beginning balances to make sure they agree
- Review any 'unusual' balances (negative cash/asset amounts, etc.)

Appendix A – General Audit Procedures

○ Cash

- Agree all of the bank reconciliations to the bank statements
- Follow outstanding amounts to the next month to ensure that they cleared in a timely manner
- Make a listing of any checks or deposits outstanding longer than 3 months & ask church treasurer to inquire with recipients
- Agree each cash balance to the Fund Balance Report provided to the DS annually

Appendix A – General Audit Procedures

● Investments

- Agree each balance to a year-end investment statement
- Review all withdrawals for the year
- Select any 'material' withdrawals & obtain supporting documentation
- Ensure invested funds are held by a trustworthy & reliable entity

Appendix A – General Audit Procedures

- Church Property
 - Obtain a listing of all property held by the church
 - Agree the total to the financial reports
 - Review insurance coverage for adequacy
- Credit Cards
 - Obtain a listing of who has access to the credit card
 - Review all credit card transactions for the year & select any that are 'material' to verify to supporting documentation

Appendix A – General Audit Procedures

- Tithes & Offerings
 - Select 6 Sundays to test
 - Agree the total of the detailed listing of what was collected to the amount entered in the ledger
 - Select 3-5 individual donations from the detailed listing & agree to what was entered in the individual's record of giving for the year

Appendix A – General Audit Procedures

- Other Income – If there is any, review any amounts that exceed 10% of the church's total revenue for the year
- Donations – If there are any significant donations not designated, confirm with the donor that this is correct. If there are any significant designated donations, confirm that they are being properly used.

Appendix A – General Audit Procedures

- Cash Disbursements
 - Select 10-15 expenditures from the accounting ledger, review that the check/disbursement cleared the bank, & assess if it was charged the correct account
 - Select 10-15 checks from the bank statements, review the supporting documentation, & assess if it was charged to the correct account
 - Select 1-2 payroll checks & verify the correct wage amounts are paid

Appendix A – General Audit Procedures

- Insurance Policies – Perform a general review to ensure adequate coverage
- In accordance with the *Book of Discipline*, review to ensure bonding is in place for the church treasurer if necessary. If you don't know if this is needed, ask your DS.

Selecting an Auditor – Less than \$500K in Annual Receipts

- An **independent qualified** member of the church or other volunteer from another church can perform the audit & assess the design of the internal controls (See Appendix A & B in the Local Church Audit Guide for suggested procedures. These should serve as a **MINIMUM** guideline, more procedures may be deemed necessary). They should report results to the church's finance committee.
- **Proper internal controls should be in place for a church of this size.**

Selecting an Auditor – Between \$500K & \$1M in Annual Receipts

- An audit, in accordance with Generally Accepted Auditing Standards (GAAS) or reduced level audit (referred to as Agreed Upon Procedures, which are outlined in Appendix A) by an **external Certified Public Accountant every 3 years.**
- In the alternate years, the audit & internal controls evaluation can be performed an **independent qualified** member of the church or other volunteer from another church

Confidentiality & Record Retention

- All information acquired during the audit needs to be kept confidential
- Church finance committees should also annually review:
 - Adequacy of insurance coverage
 - Systems for retaining & accessing meeting minutes with financial implications
- All audit work papers, financial records, & other information should be retained for **at least 7 years** in a secure, limited access, storage area. (Good practice to label the boxes & indicate a shred date for future reference)

Conducting the Audit

- Prior to the audit, the auditor (either volunteer or CPA) should meet with church leadership, including the finance committee, to determine all procedures needed to be performed to ensure all financial information is examined.
- Church leadership is responsible for disclosing all of the financial information that needs to be included in the scope of the audit.
- After the audit is completed, the auditor should again meet with church leadership to report any findings.

Internal Controls Review

- An essential part of an audit is a review of the internal control structure for cash receipts & disbursements, **regardless of the size of the church.**
- Ideally, 4 individuals are required for regular financial procedures:
 - Financial Secretary
 - Treasurer
 - Person to review invoices
 - Person to review bank reconciliations

Reporting & Review

- All accounts should be reconciled monthly
- Someone other than the Treasurer should review bank reconciliations at least semiannually (including supporting documentation)
- The Treasurer should make detailed report of budget & designated fund activities to Finance Committee at least quarterly

Fund Balance Report

- Available on the Conference website homepage on the left (<http://www.iaumc.org/>)
- Due to be filed with your District Supervisor by March 1st, 2015 (THIS SUNDAY)
- Enter information in column (c) as a negative number
- Enter information in column (d) as a positive number if it was a transfer in & a negative number if it was a transfer out
- Formulas at the bottom should agree to your totals
- Very high level of financial statements but a good start for your audit information

Resources

- GCFA Forms:
<http://www.umc.org/gcfa/forms>
- Iowa Conference:
<http://www.iaumc.org/audit>
- IRS: www.irs.gov

Questions???

- Contact Emily Graber, Senior Staff Accountant at the Conference at:
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