

Corridor District of the North Carolina Conference

The United Methodist Church

Audit Information

Section 258.4(d) of the 2012 Book of Discipline makes it MANDATORY that every church finance committee “shall make provision for an annual audit of the financial statements of the local church and all its organizations and accounts. **The committee shall make a full and complete report to the annual charge conference**

An “audit”, as the term is used in the Discipline, is meant to be a process that provides reasonable assurance that **good stewardship** is being used in handling and accounting for the funds and other assets of the local church.

A local church audit is an **independent** evaluation of the financial reports and records of the internal controls of the local church by qualified persons for the purpose of reasonably verifying the reliability of financial reporting, determining whether assets are being safeguarded, and whether the law, the Discipline, and policies and procedures are being complied with.

“Independent” means that the auditor must not be subject to control or influence by anyone who has responsibility for the financial accounts and records of the local church. There should not be even the appearance of a relationship that may dilute the perception of the independence of the auditor.

Information needed for audit:

- 1) Copies of all church policies and procedures related to finance and treasury functions and copies of minutes approving those policies (if available).
- 2) Copies of all minutes from the finance committee, the trustees, the administrative board, the previous charge conference.
- 3) List of all bank and investment accounts, including the person authorized to sign on each, and including any special use accounts under the control of the pastor(s) and in the name of the church.
- 4) All financial statements for each month of the year, plus December of the prior year and January of the subsequent year (a fourteen month period).
- 5) Bank and investment account statements for the same period
- 6) Bank reconciliations for the same period.
- 7) Original books of entry (which will be the general and subsidiary journals. For those books that are computerized, a print-out of all transactions by account for the entire year.

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- 8) All paid invoices, payroll data and files (including 941s, year-end W-2s, 1099s, and transmittal forms), income transmittals and deposit records for the fourteen month period.
- 9) The Financial Secretary's records and other income records for the same period.

Auditing process:

(1) Auditing Cash:

Every category of cash and all other invested funds must be audited at year end; bank and savings accounts, CDs held in the name of the church or the church foundation, and any petty cash accounts held in the office of the church or elsewhere.

- Review Bank Confirmations to see that the ending balance (Dec 31) as stated by the bank is the same figure used on the December statement.
- Check to see that the current authorized signers as listed by the bank are the same names listed in the church records.
- Review all bank reconciliations to see that the beginning balance of one month is the same as the ending balance of the previous month.
- Pick a month and actually perform a bank reconciliation.
- Count cash in petty cash accounts if applicable.
- Review expense type for their appropriate charging to program area or administrative accounts.

(2) Auditing Income and Receipts

Determine if the deposits as listed by the financial secretary and the treasurer match those listed on the bank statements. Verify on a test basis the deposits for Sundays during the calendar year using the following procedure:

- Compare at least 10 of the counters' documentation to the Sunday deposit slips and bank statements. Report findings.
- Using Donor Confirmations, determine whether the amount paid as reported by the donor is the same as recorded and received by the financial secretary. Report findings.
- Review the original books of entry to determine if other income has been recorded accurately (i.e., appropriate account, correct amount, unrestricted or designated vs restricted, etc). Trace the entries to the financial statement. Report findings.

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(3) Disbursements

- Compare approximately three samples per month of actual disbursements (checks written, electronic withdrawal, etc) to invoice for authorization.
- Ensure that sample disbursements have been recorded appropriately.
- For insurance premium disbursements, check to see whether the amount disbursed is the same as invoiced.
- Verify that income designated for special mission purposes has been distributed or allocated accordingly.

(4) Payroll and Taxes

- Check staff-parish relations committee and charge conference records versus payroll records to verify that correct salaries or rates have been paid.
- Reconcile payroll with tax records and tax payments made.
- Verify that the appropriate amounts have been reported on the 941's, W-2's, and 1099's and that the forms have been transmitted to the federal, state and local tax authorities on a timely basis.
- Verify the existence of current W-4's and I-9's for all staff.
- Track the payroll and tax records to the actual disbursements made, and recorded with the original books of entry.
- Verify pension contributions with 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.

(5) Control System

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 that the local operates efficiently and effectively, 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.**

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Segregation of Duties: It is important that the duties be segregated among two or more persons. Example: the financial secretary and the church treasurer should not be related.

- The person performing the audit should not be related to either the financial secretary or church treasurer.
- At least two people should count the Sunday morning collections and they should not be related to each other nor should either one be the financial secretary or treasurer.
- Receipt and disbursement functions should be performed by different people – although this may not be possible in small churches.

Authorization for disbursements:

- Everyone who approves disbursements must be authorized to do so. The auditor should look for resolutions and actions in the minutes of the finance committee and the governing body that addresses authorizations.
- The check signer(s) 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.

Finance Reports:

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

Other Areas to Check during Audit

- **Does the church have fidelity bond coverage for people handling church funds (such as counters, financial secretary, treasurer)?**
- **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-2's, 1099's filed with appropriate authorities in a timely manner?**
- **Are payroll taxes being paid on time?**

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- **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?**