

**LOCAL
CHURCH
TREASURER
HANDBOOK**

-

SECTION 4

LOCAL CHURCH AUDITS

Prepared for the
Upper New York Conference
Of the United Methodist Church

Updated: October 5, 2018
Updated: August 28, 2020
Updated: August 12, 2021

STATEMENT FROM YOUR CONFERENCE COMMITTEE ON FINANCE & ADMINISTRATION (CF&A)

The information provided in this Local Church Audit – Section 4 of the Local Church Treasurer Handbook is meant to guide treasurers and financial stewards of local churches with what needs to be done regarding annual church audits.

Some documents within this section of the guide have been utilized from the General Church on Finance and Administration for the United Methodist Church (GCFA) website (www.gcfa.org). Please check that website frequently for the latest information.

This update of August 12, 2021 includes the revised GCFA Audit Guide and attachments for 2021.

If you have any questions about any of the documents or issues discussed within this document, please contact a member of the Upper New York Conference CF&A directly.

The Upper New York Conference is not engaged in providing legal or accounting advice or services. The service of a competent professional should be sought for legal and tax advice.

Thank you.

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SECTION 4 – LOCAL CHURCH AUDITS

Introduction

The Book of Discipline, and the Conference Council on Finance & Administration mandate that annual audits must be completed for each local church. These audits are necessary for all local churches, no matter how small or how large.

There are frequently many questions regarding these audits, most specifically: WHAT IS A LOCAL CHURCH AUDIT?

A local church audit is an independent evaluation of the financial reports and records and the internal controls of the local church by a qualified person or 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.

The Discipline mandates that every local church finance committee shall make provision for an annual audit of the records of the financial officers of the local church and all its organizations and shall report to the charge conference in order to

(1) to protect persons the local church elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;

(2) to build the trust and confidence of financial supporters of the church in the way their money is being accounted for (trust and confidence lead to improved patterns of financial support);

(3) to set habits of fiscal responsibility to assure that when there is turnover in personnel there will be continuity in accountability and nothing will fall through the cracks;

(4) to assure that gifts made to the church with special conditions attached are consistently administered in accordance with the donors' instructions and thus let donors know their gifts are used as intended; and

(5) to provide checks and balances for sums received and expended.

Please note that:

- **Conducting an audit is not a symbol of distrust!**
- **It is a mark of responsibility!**
- **It is good stewardship demonstrated for all to see!**
- **It is a message to local church donors that you care about their gifts!**

Having these audits conducted is a minimum requirement of the Upper New York Conference, as set by the Conference Council on Finance and Administration (see Section 1 of the Local Church Treasurer Handbook)

This section includes an “Internal Audit Preparation List” to assist churches in compiling the information that an auditors may require.

The Local Church Audit Guide, which includes Recommended Procedures and a checklist for the use of the auditor is also attached, together with the Local Church Audit Frequently Asked Questions. This guide is located on the gcfa.org website.

Please note that pursuant to the guide, the local church audit is not simply the Fund Balance Report. It contains much more information, which can be located in the Guide.

This section also includes:

- Report of the Trustees form
- Report of the Finance Committee form
- Fund Balance Report form
- GCFA Insurance Worksheet

INTERNAL AUDIT PREPARATION LIST

- Balance Sheet as of December 31st
- Income Statement for the year ended December 31st
- Monthly financial statements as prepared for finance or council meetings
- Year-to-date general ledger for all accounts
- Check register for entire year
- Copy of last year's audit report (if anything was cited on that report, please indicate how that issue was fixed, or if not, why not) If no audit was completed, copies of the balance sheet and income statement for the prior year
- Copies of all board and committee minutes for the year (Administrative/Church Council, Finance, Trustees)
- Memo detailing the processes for recording and reporting cash receipts, cash disbursements and payroll
- Provide information on any accounts that are not included in the general ledger (UMW, missions, memorials, UMM, Trustees, etc.)
- Provide an analysis of current year to prior year income and expenses. Provide explanations for any variances of 10% or greater
- Copies of all bank statements and bank reconciliations for the year
- Copies of all investment statements and reconciliations for the year
- Copy of the investment policy
- Copy of the endowment policy
- Copy of the debit card policy
- Copy of the accounting and financial policy
- Copy of the Finance Committee Annual Report sent to Conference
- Copy of the Trustees Annual Report sent to Conference
- Copy of Charge Conference Minutes
- Print-out of last year's statistical report (can be printed from the EZRA system)
- Copy of Lay Leadership Report (nominating report) for year under audit and subsequent year
- Copies of all monthly billing statements from Conference, showing payments made

- Fixed asset schedule including beginning balance, purchase, disposals, ending balances.
- Listing of accounts payable (any bills still owed at the end of the year)
- Copies of quarterly Forms 941 (federal payroll reports)
- Copies of quarterly NYS-45 (state payroll reports)
- Copies of W-3 and W-2s
- Copies of any letters or notices received from the Internal Revenue Service or New York State Tax during the year, including responses to same
- Copies of 1099s
- Copy of clergy compensation package worksheets for the year under audit
- Indication of status of pastor/clergy serving, i.e. elder, deacon, provisional elder, provisional deacon, licensed local pastor, certified lay minister, lay servant/speaker, laity
- Copies of any notes or mortgages owed during or at the end of the year, including copies of the note, and statement showing the payments made, allocation of payments and balance owed at year-end
- Listing of fund balances/restricted net assets, including beginning balances, current year additions, current year subtractions, and ending balances
- Copies of weekly counters sheets/summaries and deposit slips
- Access to all paid bills for the year
- Access to all giving statements for the year

LOCAL CHURCH AUDIT GUIDE



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SUPP(i)RT

This booklet is given to you as a service of the Committee on Audit and Review of the General Council on Finance and Administration of The United Methodist Church (GCFA). We hope you will find it useful. If you have concerns or suggestions, please contact us at:

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DISCLAIMER

The General Council on Finance and Administration and the Committee on Audit and Review are not responsible for the conduct of local church audits, nor do they provide legal or financial advice to local churches through this booklet. Local churches should seek assistance and advice from their local advisors when specific issues arise. This booklet is provided to you as a service; it should be used to increase the knowledge of auditing principles within your local church, including the understanding of why audits should be conducted and the uses to which they can be applied to local church officials.

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LOCAL CHURCH AUDIT GUIDE

Fifth Edition

INTRODUCTION

The United Methodist *Book of Discipline* (the “*Discipline*”) assigns the responsibility for the annual audit of financial records to the committee on finance. The committee “shall make provisions 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” (§258.4d). The purpose of this audit guide is to assist the committee in its work.

KEY DEFINITIONS

A local church audit – an independent evaluation of the financial reports and records of the internal controls of the local church by a qualified person or 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.

Audit – 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. The ultimate goals of the audit include:

- *Protection for the persons the local church elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;*
- *Trust and confidence of the financial supporters of the church in the way their money is being accounted for (trust and confidence lead to improved patterns of financial support);*
- *Fiscal responsibility to assure that through turnover in personnel there will be continuity in accountability and transparency; and*
- *Assurance that gifts made to the church with restrictions attached are consistently administered in accordance with the donors’ instructions and to provide checks and balances for funds received and expended.*

Independent audit – The *Discipline* states the need for independence on the part of those conducting the annual audit. 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. An independent auditor is one who is unrelated to those with financial responsibilities in the church. If a CPA or accounting firm is chosen, the firm should be unrelated and separate from those with financial responsibilities in the church.

Internal controls – policies and procedures that are followed to help minimize financial risks by helping to deter potential fraud, detect errors or omissions and protect innocent workers.

Internal control policy – a policy prepared for a church that documents the processes and procedures to be followed to help safeguard the financial assets of the church.

Net assets without donor restrictions – net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the church. These net assets may be used at the discretion of church leadership. Net assets with donor restrictions may be further classified with the following sub-classifications:

- *Invested in Property and Equipment* – represents net assets invested in property and equipment, net of accumulated depreciation.
- *Designated* – assets that have been voted by the local church’s governing board, such as its church, council or equivalent body, to be used for a particular purpose. Because the stipulation for its particular use was made by the church itself, that stipulation (or designation) can be changed by the action of the body that put it in place.
- *Undesignated* – represents the cumulative net assets without donor restrictions excluding those net assets invested in property and equipment and designated for specific activities.

Net assets with donor restrictions – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the church or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Trust clause – The *Discipline* ¶12501 states that “all properties of United Methodist local churches and other United Methodist agencies and institutions are held, *in trust*, for the benefit of the entire denomination, and ownership and usage of church property is subject to the *Discipline*.” When conducting an audit, the auditor should assess any impact of ¶12501 on the information to be presented in the audited annual financial statements or in the results of other procedures performed. (Refer to recommended procedures for item 6. “Church Property” on pages 14 and 15.)

SELECTING AN AUDITOR

The type of auditor selected and the type of audit performed at each church each year will be dependent on the amount of funds received by the church. In general, the following guidelines should be used to determine the type of audit that should be performed each year as well as the type of auditor who should perform the audit (i.e. if a certified public accountant firm should be hired to perform the audit or if an independent volunteer will be adequate):

- 1. For churches that are considered very small (e.g., those with 10 to 20 members and with minimal funding and asset balances), the processes and internal controls in place may vary greatly. For those churches, an independent qualified member of the church or other volunteer from another church can perform audit procedures and evaluate internal controls and report the results directly to the church's finance committee. The recommended procedures included in Appendix A of this guide should serve as example procedures that may be performed. Depending on the nature of the church activities and assets, many of these procedures may not be relevant and as such, may not need to be performed. In addition, other procedures may be considered necessary based on the nature and activities of each specific church. In addition to the financial transaction procedures, the auditor should assess the design of the church's internal controls (see Appendix B for an internal control checklist to be completed). While smaller churches may not have ideal internal controls in place, church leadership should work to implement internal controls in key risk areas to help ensure assets are not misappropriated or misused and errors are detected quickly.*
- 2. For churches with less than \$500K in receipts, an independent qualified member of the church or other volunteer can perform audit procedures and evaluate internal controls and report the results directly to the church's finance committee. The recommended procedures included in Appendix A of this guide should serve as the minimum expected financial transaction procedures. Other procedures may be considered necessary based on the nature and activities of each specific church. In addition to the financial transaction procedures, the auditor should assess the design of the church's internal controls (see Appendix B for an internal control checklist to be completed).*
- 3. For churches with between \$500K and \$1M in receipts, the recommended procedures outlined in Appendix A or a financial statement audit conducted in accordance with generally accepted auditing standards (GAAS) should be completed and reported on by an external Certified Public Accountant (CPA) every three years. If the recommended procedures are performed by the CPA, the procedures would be performed as part of an Agreed Upon Procedures (AUP) engagement. As part of either type of engagement, the auditor would be expected to communicate any internal control deficiencies that are identified during the audit procedures.*

In the alternate years, a review similar to number one in this list should be conducted. A volunteer or member of the church could perform and report on the procedures and perform the internal control evaluation.

- 4. For churches between \$1M and \$2M in receipts, a financial statement audit conducted in accordance with GAAS should be completed and reported on by an external CPA at least every two years. An agreed upon procedures engagement is not permitted in the place of the GAAS audit.*

Similar to #2 above, in the alternate years when the GAAS audit is not performed, a volunteer or member of the church could perform and report on the recommended procedures and perform the internal control evaluation.

- 5. For churches with receipts greater than \$2M, an external financial statement audit conducted by an independent CPA in accordance with GAAS should be performed every year. Any identified internal control deficiencies should be reported by the independent CPA. An agreed upon procedures engagement is not permitted in the place of the GAAS audit.*

Each of the scope amounts included above should be calculated as the average for each of the last three fiscal years for the church. Further, the applicable procedure or audit reports should be presented within six months of the fiscal year end.

THE PURPOSE OF AN AUDIT

The purpose of an audit is the summation of the items presented below:

- Independently verify the reports of the treasurer(s) and financial secretary.*
- Follow the money and test how it is treated at different steps.*
- Document that donated and earned funds of the congregation have been used as stipulated by the donors.*
- Reviews accounting controls (systems that reduce the possibility of loss, embezzlement or errors).*
- Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances).*
- Reasonableness of systems and procedures in the light of all factors, including the size of the church and its budget.*
- Records that show donors' stipulations for the use of gifts made to the local church.*

It should be noted that a "review" or "compilation" performed by an independent CPA is not considered an acceptable form of an "audit." Both of these types of engagements are significantly less in scope than an audit performed in accordance with professional standards. A "review" only requires the auditor to perform inquiry and analytical procedures. Confirmation of balances and detailed testing are not performed. A "compilation" is simply

the compilation of data provided by the church. No actual testing is performed. Both a “review” and “compilation” offer very limited assurance on the accuracy of the underlying financial statements. For these reasons, neither should be performed in the place of an actual audit (or the recommended procedures outlined in this guide).

In addition, the following information should be presented to the audit or finance committee of the church for their consideration:¹

- *Adequacy of insurance coverage.*
- *Systems for retaining and accessing meeting minutes that have financial implications (i.e. Finance Committee, Trustees, Charge Conferences).*

A local church’s unique circumstances may suggest that additional steps should be taken. It is important to document the financial processes of your particular local church.

¹For larger churches only being subjected to a GAAS audit, these items may not be reviewed by the external financial statement auditor. If not, church leadership should review this information internally and provide it to the finance or audit committee.

GROUPS TO BE INCLUDED IN THE AUDIT

We Methodists are instructed by the *Discipline* to audit not only the financial offices of the local church, but “all its organizations...” That means that the treasuries that are to be audited include:

- *Trustees, if their funds are held separately*
- *Memorial Funds (if any)*
- *Local Church Foundation or Endowment funds*
- *All other separate treasuries or bank accounts maintained by a group using the same employer’s tax identification number as the church, including, for example:*
 - *United Methodist Men*
 - *Pastor’s discretionary fund*
 - *United Methodist Youth fund*
 - *Church school*
 - *Others*

In addition, the accounts held by the United Methodist Women (UMW) at each church should be audited each year. UMW funds are different from other church offices in that, according to the *Discipline*, they are owned by the UMW local unit and are not owned by the local church. Consequently, the funds should not be consolidated with all other funds. The financial reporting, procedures performed, and results of procedures performed should be presented separately.

INFORMATION REQUIRED FOR THE AUDIT

For audits performed by a qualified member of the church or other volunteer, the person(s) must obtain access to the following information and materials (at a minimum) during the audit:

1. *Copies of all church policies and procedures related to finance and treasury functions and copies of minutes approving those policies.*
2. *Copies of all minutes from the finance committee, the trustees, the administrative board, the previous charge conference(s), and any other entity listed on the prior page.*
3. *Listing 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 14-month period).*
5. *Bank and investment account statements for the same period.*
6. *Bank reconciliations for that 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.*
8. *All paid invoices, payroll data and files (including 941's, year-end W-2's, 1099's and transmittal forms), income transmittals and deposit records for the 14-month period.*
9. *The Financial Secretary's records and other income records for the same period.*
10. *Access to the deeds and other related supporting documentation for all real property owned by the church.*

For audits performed by an independent external auditor, similar information will be requested.

CONFIDENTIAL INFORMATION

The person(s) conducting the audit may obtain access to confidential information and must treat that information accordingly. The auditor's work papers may contain confidential information. These work papers as well as all financial records should be retained for at least seven years in a secure, limited access, storage area.

CONDUCTING THE AUDIT

As discussed above, the audit may be performed via the following based on the amounts of the funds received (averaged over the prior three years):

- *Procedures conducted by an independent member of the church or volunteer.*
- *Procedures conducted by an independent accountant hired by the church.*
- *Financial Statement Audit performed by an independent CPA hired by the church.*

For recommended procedure evaluations, the auditor (either a volunteer or CPA) should meet with church leadership (including the finance or audit committee) and determine the procedures to be performed to ensure all necessary financial information is included in the scope of the procedures. It is worth noting that church leadership will be responsible for identifying all financial information and processes to be included in the scope of the procedures. As part of an AUP engagement, the auditor should work to understand the church's internal controls within the processes being audited and then communicate any deficiencies identified during the performance of the procedures.

For financial statement audit engagements, the CPA will conduct the audit in accordance with generally accepted auditing standards to obtain reasonable assurance that the financial statements are not materially misstated. As part of the audit, the CPA will communicate any significant internal control deficiencies identified during the audit.

INTERNAL CONTROLS REVIEW

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 on paper as well as in practice. Internal control systems that are only policy and are not enforced are no better than having no system at all.

The following guidelines are intended to assist those with financial responsibilities in local churches to identify and implement basic internal control procedures. These minimum standards should be increased for churches with higher volumes of transactions and should be considered for lower volumes of transactions. Ideally, all local churches will meet these minimum standards and these procedures should be reviewed to ensure practice of each of these during the annual evaluation.

RECEIPTS AND DISBURSEMENTS

- *Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household.*
- *Counting team (at least two unrelated persons) should count offerings and document totals – not treasurer and not financial secretary.*
- *Offerings should be deposited the same or next business day.*
- *Offering count details should be given to financial secretary for recording.*
- *Offering totals should be given to the treasurer or financial secretary to record deposit.*
- *The Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer).*
- *At least two persons should be listed as authorized signatures on all accounts. This should also be the case for setting up electronic payments (or EFTs). For EFTs, one of those individuals should be a Trustee or a member of the Finance Committee (other than the Secretary or Treasurer).*
- *The Treasurer is authorized to make electronic payments of bills. The Treasurer shall maintain support for every electronic payment just as with the support for paper checks.*
- *Financial policy and authority guidelines should be written and approved by the Finance Committee.*
- *Invoices should be required for all payments from all accounts.*
- *Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment.*
- *Typically, the Treasurer should make payments only after the invoice is approved. A policy may be implemented where routine, budgeted expenses (i.e., rent/mortgage, electric bill, etc.) may be paid without recurring approval; non- routine expenses must be approved prior to payment.*

REPORTING AND REVIEW

- *All accounts should be reconciled monthly.*
- *Someone other than treasurer should review bank reconciliation at least semiannually – including bank statements, invoices, checks written, and financial reports.*
- *The Treasurer should make detailed report of budget and designated fund activities to the Finance Committee at least quarterly.*

TAX REPORTING REQUIREMENTS

- *W-2s must be issued for employees, including pastors, and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement).*
- *Payroll tax forms and deposits done as required for payroll amount (federal law requirement) – payroll reporting should be completed for the IRS and SSA by appropriate due date for filing method.*

- *Housing allowance or exclusions approved annually at charge conference and kept on file (federal law requirement).*

OTHER GENERAL REQUIREMENTS

- *Prepare list of all church property for insurance purposes – include item description, serial number and value.*
- *Prepare list of safety deposit box contents – update authority as needed – access should be allowed by two unrelated people.*
- *Computer records are backed up and password protected for security.*
- *Ideally, four individuals are required for regular financial procedures: financial secretary, treasurer, person to review and approve invoices and person to review bank reconciliations. It is possible for this to be accomplished with 3 individuals if proper segregation is achieved.*

The steps outlined in this section have been compiled into a checklist for easier use during an audit. This checklist is included as Appendix B. When all the audit review 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 of the audit.

AUDITOR'S WRITTEN REPORT

The type of report provided at the conclusion of the audit will be dependent on the type of audit performed. For agreed upon procedure and financial statement audits performed by an independent CPA, professional audit standards will dictate the reporting provided by the auditor.

For audits performed by church member, the reporting ideally will provide the following, at a minimum:

1. *Listing of Procedures Performed and Related Results.*
2. *Statement of Financial Position (balance sheet or listing of all assets and liabilities if full financial statements are not prepared for the church).*
3. *Statement of changes in net assets (statement of activities or listing of all income and expenses if full financial statements are not prepared for the church).*
4. *Comments, if any, on internal control deficiencies or issues with church procedures noted during the evaluation.*

The reporting should be provided in written format to the audit committee (or finance committee if there is no audit committee) to disclose the results of testing and any

findings or observations during the audit. The *Discipline* requires that the report ultimately be delivered to the Charge Conference.

AUDIT REPORT PREPARATION

While the audit report is in draft format, the auditor should meet with the audit or finance committee to discuss the audit report. The final audit report, along with any responses the finance committee may choose to add, should then be delivered to the charge conference.

If the auditor meets with either the finance committee or the charge conference, the committee should be made aware of restrictions on closed meetings in the *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. Examples of discussions that should happen in closed session include, but are not limited to, suspicion of inappropriate use of church funds or embezzlement. Suspicions should not be discussed in open meetings. Closed meetings will include only the members of the committee that is meeting, plus any invited guests, such as the auditor or the church's legal advisor. The committee should be aware of the manner in which closed meetings must be reported, as set out in the *Discipline*. The appropriate paragraph of the *Discipline* should be provided to the legal advisor prior to the meeting.

When the auditor has delivered the audit to the charge conference with responses of the finance committee, the audit process is finished for that fiscal year. The auditor's findings and Report of the Annual Audit should be kept by the church permanently. The reports should be provided to the subsequent year's audit team for review in preparation for the next audit.

Local Church Audit Guide Recommended Procedures

1. Obtain a copy of (1) the previous year end's balance sheet (statement of financial position) and "statement of income and expenses" (statement of activities) for the year then ended and (2) the balance sheet and year-to-date statement of income and expenses available as of the end of the current year (the "Test Period"). For both sets of statements, agree each amount on such financial statements to the corresponding amounts in the church's general ledger. (Note: The statements used should be the same ones provided to and used by the church's Finance Committee.)
2. Using the balance sheet as of the end of the Test Period, identify any "credit" account balances included in the "Assets" section of the church's balance sheet or "debit" balances included in the "Liabilities" or "Equity" or "Net Assets" sections of the balance sheet. For all such balances identified, obtain an explanation from the church's accountant of the nature of the account and why it has a "credit" (for asset accounts) or "debit" (for "liability" or "net assets" accounts) balance. Summarize such explanation(s) in your report to the finance committee.
3. If the balance sheet at the end of the Test Period reflects an accumulated deficit, ask the church's accountant to explain the source or sources of the funding for that deficit, and provide the explanation in the final report to the Finance Committee. (Note: sources of funding for the deficit might include one or more of the following: bank borrowings, negative working capital (e.g., accounts payable and other short-term liabilities exceed cash balances), restricted assets used to support ongoing church operations).
4. Cash balances - Obtain copies of the monthly bank statements and corresponding bank reconciliations for each church bank account for the end of the Test Period and for one other month end during the Test Period, and perform the following:
 - a. Agree the "balance per bank" from the reconciliation to the corresponding ending balance of the bank statement, and the "balance per books" (or general ledger) to the corresponding amount in the church's general ledger.
 - b. Obtain written confirmation of such balances directly from the bank or banks.
 - c. If there are deposits in transit included in the bank reconciliations, agree such amounts to the following month's bank statements. If such deposits are not recorded by the bank in the church's bank statements in the following month within three business days following the preceding month end, obtain an explanation for the delay from the church's accountant and include that explanation in the final report to church's Finance Committee.
 - d. If there are outstanding checks included in the reconciliations, select fifteen checks from the following month's bank statement(s) that have dates on or before the date of the end of the bank reconciliation tested. Agree the amounts of selected checks to the corresponding outstanding check amounts included in the list of outstanding checks included in the bank reconciliation being tested. (For example, to test the completeness of the list of outstanding check list used in the bank reconciliation for December 2019, select checks from the January 2020 bank statement with dates on or before December

- 31, 2019) and agree them to the corresponding amounts included on the December 2019 bank reconciliation.)
- e. Prove the mathematical accuracy of the total dollar amount of outstanding checks included in the bank reconciliation(s) by adding the list(s) of outstanding checks and agreeing that amount to the total amount used in the bank reconciliation(s).
 - f. Include a listing of outstanding checks that have been outstanding more than six months in your final report to the Finance Committee.
 - g. Obtain an explanation of any other reconciling items used in the bank reconciliation(s) and include the explanation of any significant reconciling items in the final report to the Finance Committee.
 - h. Agree each General Ledger cash balance as of December 31 of the prior year (for example, if these procedures are performed in 2020, use balances as of December 31, 2019) to the corresponding year-end cash amount included in a copy of the church's signed "cash" report filed with the Conference office.
5. Investments – Obtain a listing of individual investments comprising the balance or balances of any investments included in the church's balance sheet as of the end of December of the previous year and as of the end of the Test Period, and perform the following procedures as of the end of the Test Period (It would be unusual if the church has no "investment" account(s)). At least a small number of members in larger churches sometimes give stocks or bonds to their churches in lieu of or in addition to cash gifts due to the tax advantages associated with such gifts. However, if the Church does not have such account or accounts, skip this step.):
- a. Add the individual investment amounts comprising each investment account included on the Church's balance sheet and agree each such amount to the corresponding amount in church's balance sheet.
 - b. Agree the amount of each individual investment on the listing to the corresponding amount on the appropriate reports received from the investment custodian(s) or trustee(s) used by the Church.
 - c. Obtain written confirmation of all investment balances from the investment custodian(s) or trustee(s), including the number of shares or bonds held for each security, the cost basis for each security, and the market value for each security as of the end of the testing period.
 - d. Select five "withdrawal" transactions at random from the monthly or quarterly investment reports received from the investment trustee(s) or custodian(s) for the Test Period. Agree the proceeds from such withdrawals to corresponding deposits recorded in the church's cash account(s).
 - e. Understand where invested funds are held (i.e., the custodian) and ensure that a Service Organization Control report is received from the custodian, or some other assurance is provided that the funds are accounted for accurately and the custodian has adequate and effective internal controls.
6. Church Property – Obtain a listing of all property owned or occupied by the church and perform the following:
- a. Request the title and/or deed to the land, building and vehicles.
 - b. Determine and report where the title and deeds are maintained.

- c. Determine through discussions with management whether insurance is in place for all of the identified assets. Report the amount of coverage and the type of insurance.
- d. Assess any impact of ¶2501 and ¶2503 of the Discipline on the information to be presented in the audited annual financial statements or in the results of other procedures performed. According to ¶2501, “all properties of United Methodist local churches and other United Methodist agencies and institutions are held, in trust, for the benefit of the entire denomination, and ownership and usage of church property is subject to the Discipline.” Consider these sections of the Discipline when documenting the listing of properties owned by the church as well as when documenting the ownership structure in the notes to the annual financial statements and the results of the audit procedures. An example of a footnote in audited financial statements might be as follows:

Note X -- Restrictions on Church Property

As indicated by ¶2501 of The Book of Discipline ("Discipline") of The United Methodist Church ("UMC"), titles to all real and personal property held by a local church are held "in trust" for the benefit of the UMC, and subject to the provisions of its Discipline. In addition, ¶2503 of the Discipline requires the inclusion of a "trust clause" in deeds for real property, which generally indicates the premises shall be kept, maintained, and disposed of for the benefit of the UMC, and subject to the Discipline. (Refer to the Discipline for its provisions.)

- 7. Church Credit/Purchasing Cards – Some churches provide credit cards to staff and certain committee chairpersons or members to use to purchase products and services for the church. If the church uses such credit cards, perform the following:
 - a. Obtain a copy of the credit card statement(s) as of the end of the Test Period and for one other month-end during the period. Using the statements provided by the card issuer, confirm the any card balance(s) from the previous month(s) were paid in the statement months. For example, if the end of the Test Period is April 2019 and the other month selected at random for testing is September 2018, confirm that any beginning of the month card balances due (i.e., card balances as of the end of March 2019 and August 2018) were paid in the months of April 2019 and September 2018. If not, confirm that the unpaid balances were reflected in the appropriate church balance sheet, and include any such unpaid balances in your report to the Finance Committee.
 - b. Additional credit and procurement card transaction testing should be performed as part of 11.c. below.
- 8. Tithes and offerings received:
 - a. Select six Sundays from the Test Period. For each Sunday selected, obtain a copy of the summary counting sheet prepared by the counters for that Sunday. Agree the amounts received as shown on the counting sheet to the corresponding amounts recorded in the church's general ledger for that Sunday.
 - b. Select twelve “credit” entries from the church’s various “revenue” accounts recorded in the General Ledger or Cash Receipts Journal (or similar accounting record) during the Test Period. Agree the amounts selected into the corresponding bank deposit recorded in the church’s bank statements and to giving records of the church. (Note: the amount selected will likely be one of several entries that together add to the total deposit reflected in the bank statement. If that is the case, agree the specific general ledger entry from the general

- ledger to the list of entries that comprise the total deposit, and prove the arithmetic accuracy of the listing to ensure the total of the list of entries agrees with the total deposit reflected in the bank statement.)
- c. Verify with the church's accountant (i.e., the staff person responsible for maintaining the general ledger and other accounting records for the church) that he or she has no ability to record entries in or otherwise alter the individual giving records of the church or distribute annual or interim individual giving statements provided to members or others who contribute money or other gifts to the church. Also, confirm such individual does not participate in counting the Sunday offerings.
 - d. Verify that the church's financial secretary (the person responsible for maintaining the individual giving records of the church used to provide church members with annual giving statements at year-end) that he or she has no ability to record entries in the accounting records (general ledger, payroll ledger, and other subsidiary accounting records other than the individual records of the church) or otherwise alter such records. Also, confirm such individual does not participate in counting the Sunday offerings.
 - e. Select five (5) journal entries in the general ledger recorded to revenue accounts during the Test Period from sources other than cash receipts or cash disbursements. Agree the amounts of such journal entries to supporting documentation and determine the propriety of such journal based on the supporting documents reviewed. Include in your report a description of any journal entries for which supporting documentation was not available, or where you could not conclude entries were appropriate and necessary.
9. Other income – If the church has other sources of income (e.g., childcare or preschool tuition and fees, property rentals, and such amounts exceed ten (10) percent of the church's total revenues for any of the preceding three years, develop limited procedures to test the completeness and accuracy of such amounts, and describe the procedures performed and the results of such procedures in the final report to the Finance Committee. (Note: Any such procedures should be reviewed with and approved by the Finance Committee or its designee prior to any such procedures being performed.)
 10. Donations – For significant donations to the church (to be determined based on the size of each church), confirm with the donor the amount and intended purpose of the donation. Review to ensure the donation is being used in accordance with its intended purpose and has been accounted for completely and accurately.
 11. Church expenses/expenditures and cash disbursements – Judgmentally select twenty-four (24) expenditures recorded during the Test Period from the general ledger (if individual cash disbursements are recorded directly in the general ledger) or from the cash disbursements journal or register and payroll register or records (if the church posts a summary of expenses from such journals or registers.) In addition, judgmentally select 18 cash disbursements selected from bank statements covering the Test Period. (Note: Care should be taken to select a wide variety of expenditures for testing, and at least one entry for each month of the Testing Period.) For each individual expenditure or cash disbursement selected, perform the following:
 - a. For salary or wage payments selected, agree the pay rate used to determine the payment to the applicable schedule of salaries and pay rates approved by the Staff Parish Relations Committee. Recalculate the salary or wages paid based on such approved salary and wage rates and if applicable, the approved timecard or sheet (or similar record) approved by the employee's supervisor.

- b. *For payroll tax or benefit payments, recalculate the amount of expense recorded and payment made or remitted based on approved tax or benefit rates in effect at the time of the payment.*
 - c. *For expenditures paid for using a church credit or procurement card, agree the charge to a copy of the supplier receipts submitted as support for the charge, and determine the appropriateness of the specific expense account to which the charge was recorded. Confirm the credit card charge was approved for payment in accordance with the established practices of the church. Also, agree the charge for the month to inclusion in the monthly credit card statement received by the church and used as a basis to pay the monthly credit or procurement card charge.*
 - d. *For expenditures paid using church-issued checks, agree the amount of the expenditure selected to the supporting documentation (typically, this will be an invoice issued by the supplier of the products or services purchased or a supplier contract). Recalculate the charges on the invoice based on the quantities and unit costs listed on the invoice. Confirm the purchase was approved for payment in accordance with the established practices of the church. Agree the appropriate details (dollar amount of the purchase and the supplier's name) to the cancelled check or appropriate details provided in the bank statement received from the bank. For all expenditures, determine the account in which the expenditure was recorded was appropriate given the nature of the expenditure and consistent with the established practices of the church.*
12. Review all insurance policies in effect (according to church leadership) and ensure adequate types and levels of coverage are in place for local church needs. If minimum requirements for coverage are set by the annual conference, ensure policy levels comply with these minimum levels.
13. In accordance with *Discipline* ¶258.4.b, review to ensure bonding is in place for the church treasurer. Further, review the bond amount with church leadership to ensure the bonding is appropriate for the assets held by the church. Review the current policy and payment information to ensure the bonding policy is current.

Appendix B

Local Church Audit Guide Internal Control Checklist

During the performance of the audit/procedures, the auditor should review to determine whether the following internal controls are in place within the church:

CONTROL DESCRIPTION	CONTROL IN PLACE (YES/NO)	IF "NO", DESCRIBE ANY DEFICIENCIES
Receipts and Disbursements		
1. Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household		
2. Counting team (at least two unrelated persons) should count offerings and document totals – not treasurer and not financial secretary		
3. Offerings should be deposited the same or next business day		
4. Offering count details should be given to financial secretary for recording		
5. Offering totals should be given to the treasurer or financial secretary to record deposit		
6. The Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer)		
7. At least two persons should be listed as authorized signatures on all accounts. This should also be the case for setting up electronic payments (or EFTs). For EFTs, one of those individuals should be a Trustee or a member of the Finance Committee (other than the Secretary or Treasurer).		

8. The Treasurer is authorized to make electronic payments of bills. The Treasurer shall maintain support for every electronic payment just as with the support for paper checks.		
9. Financial policy and authority guidelines should be written and approved by the Finance Committee.		
10. Invoices should be required for all payments from all accounts		
11. Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment		
12. Typically, the Treasurer should make payments only after the invoice is approved. A policy may be implemented where routine, budgeted expenses (i.e., rent/mortgage, electric bill, etc.) may be paid without recurring approval; non-routine expenses must be approved prior to payment		
Reporting and Review		
1. All accounts should be reconciled monthly		
2. Someone other than treasurer should review bank reconciliation at least ideally semiannually (but at least annually) – including bank statements, invoices, checks written, and financial reports		
3. The Treasurer should make detailed report of budget and designated fund activities to the Finance Committee (or Administrative Council if Finance Committee approves this reporting) on a routine basis as the committees meet		
Tax Reporting Requirements		
1. W-2s must be issued for employees, including pastors, and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement)		

2. Payroll tax forms and deposits done as required for payroll amount (federal law requirement) – payroll reporting should be completed for the IRS and SSA by appropriate due date for filing method		
3. Housing allowance or exclusions approved annually at charge conference and kept on file (federal law requirement)		

CONTROL DESCRIPTION	CONTROL IN PLACE (YES/NO)	IF “NO”, DESCRIBE ANY DEFICIENCIES
OTHER GENERAL REQUIREMENTS		
1. Prepare list of all church property for insurance purposes – include item description, serial number and value		
2. Prepare list of safety deposit box contents – update authority as needed –access should be allowed by two unrelated people		
3. Computer records are backed up and password protected for security		
4. Ideally, four individuals are required for regular financial procedures: financial secretary, treasurer, person to review and approve invoices and person to review bank reconciliations. It is possible for this to be accomplished with three individuals if proper segregation is achieved.		

FINANCIAL SERVICES

STRENGTH OF SERVICE FOR THE FINANCES OF YOUR MINISTRY

GCFA Financial Services can help you implement solid processes and procedures regarding the financial administration of your ministry so that it can run efficiently and effectively. Let us give you back the time and energy you need for ministry. Let us help you pay it forward.

- Increase Efficiency & Data Accuracy
- Ensure Federal and State Regulation Compliance
- Align Financial Resources to Missional Goals
- Achieve Operational, Strategic, Compliance, and Reporting Objectives

PAYROLL PROCESSING

• • • •

- Process & distribute payroll via direct deposit
- Calculate, file, and remit all applicable payroll taxes
- Process deductions including retirement and health benefits
- Ensure compliance with relevant tax legislation

CREDIT CARD PROGRAM

• • • •

- Manage a centralized, international credit card program
- Customized programs and individual credit limits
- Capable of full integration with Concur Expense Tracking Software
- Online access to review credit card expenditures available

FINANCIAL ASSESSMENT

• • • •

- Evaluate accounting processes for strengths and weaknesses
- Provide customized accounting and financial support
- Design and implement improvement plans
- Create confidence in financial processes for management

FINANCIAL ANALYSIS

• • • •

- Review expenditures, reserves, and assets, with feedback
- Provide guidance to reduce costs and increase revenues
- Improve efficiency and streamline reporting
- Prepare annual spending plans with analytics

Local Church Audit Guide Recommended Procedures

Purpose: The following procedures have been provided by the General Council on Finance and Administration to assist local churches and their auditors when planning and performing local church audits. These procedures should serve as a starting point for the audits and may be modified, as needed, based on the scope of the audits performed and the complexity of the local church.

- 1. Obtain a copy of (1) the previous year end's balance sheet (statement of financial position) and "statement of income and expenses" (statement of activities) for the year then ended and (2) the balance sheet and year-to-date statement of income and expenses available as of the end of the current year (the "Test Period"). For both sets of statements, agree each amount on such financial statements to the corresponding amounts in the church's general ledger. (Note: The statements used should be the same ones provided to and used by the church's Finance Committee.)**

Testing Results

Results Description

- 2. Using the balance sheet as of the end of the Test Period, identify any "credit" account balances included in the "Assets" section of the church's balance sheet or "debit" balances included in the "Liabilities" or "Equity" or "Net Assets" sections of the balance sheet. For all such balances identified, obtain an explanation from the church's accountant of the nature of the account and why it has a "credit" (for asset accounts) or "debit" (for "liability" or "net assets" accounts) balance. Summarize such explanation(s) in your report to the finance committee.**

Testing Results

Results Description

- 3. If the balance sheet at the end of the Test Period reflects an accumulated deficit, ask the church's accountant to explain the source or sources of the funding for that deficit, and provide the explanation in the final report to the Finance Committee. (Note: sources of funding for the deficit might include one or more of the following: bank borrowings, negative working capital (e.g., accounts payable and other short-term liabilities exceed cash balances), restricted assets used to support ongoing church operations).**

Testing Results

Results Description

- 4. Cash balances - Obtain copies of the monthly bank statements and corresponding bank reconciliations for each church bank account for the end of the Test Period and for one other month end during the Test Period, and perform the following:**
 - a. Agree the "balance per bank" from the reconciliation to the corresponding ending balance of the bank statement, and the "balance per books" (or general ledger) to the corresponding amount in the church's general ledger.**
 - b. Obtain written confirmation of such balances directly from the bank or banks.**

Local Church Audit Guide Recommended Procedures

- c. If there are deposits in transit included in the bank reconciliations, agree such amounts to the following month's bank statements. If such deposits are not recorded by the bank in the church's bank statements in the following month within three business days following the preceding month end, obtain an explanation for the delay from the church's accountant, and include that explanation in the final report to church's Finance Committee.
- d. If there are outstanding checks included in the reconciliations, select fifteen checks from the following month's bank statement(s) that have dates on or before the date of the end of the bank reconciliation tested. Agree the amounts of selected checks to the corresponding outstanding check amounts included in the list of outstanding checks included in the bank reconciliation being tested. (For example, to test the completeness of the list of outstanding check list used in the bank reconciliation for December 2013, select checks from the January 2014 bank statement with dates on or before December 31, 2013) and agree them to the corresponding amounts included on the December 2013 bank reconciliation.)
- e. Prove the mathematical accuracy of the total dollar amount of outstanding checks included in the bank reconciliation(s) by adding the list(s) of outstanding checks and agreeing that amount to the total amount used in the bank reconciliation(s).
- f. Include a listing of outstanding checks that have been outstanding more than six months in your final report to the Finance Committee.
- g. Obtain an explanation of any other reconciling items used in the bank reconciliation(s), and include the explanation of any significant reconciling items in the final report to the Finance Committee.
- h. Agree each General Ledger cash balance as of December 31 of the prior year (for example, if these procedures are performed in 2014, use balances as of December 31, 2013) to the corresponding year-end cash amount included in a copy of the church's signed "cash" report filed with the Conference office.

Testing Results

Results Description

5. Investments – Obtain a listing of individual investments comprising the balance or balances of any investments included in the church's balance sheet as of the end of the December of the previous year and as of the end of the Test Period, and perform the following procedures as of the end of the Test Period (It would be unusual if the church has no "investment" account(s)). At least a small number of members in larger churches sometimes give stocks or bonds to their churches in lieu of or in addition to cash gifts due to the tax advantages associated with such gifts. However, if the Church does not have such account or accounts, skip this step.):
 - a. Add the individual investment amounts comprising each investment account included on the Church's balance sheet, and agree each such amount to the corresponding amount in church's balance sheet.
 - b. Agree the amount of each individual investment on the listing to the corresponding amount on the appropriate reports received from the investment custodian(s) or trustee(s) used by the Church.

Local Church Audit Guide Recommended Procedures

- c. Obtain written confirmation of all investment balances from the investment custodian(s) or trustee(s), including the number of shares or bonds held for each security, the cost basis for each security, and the market value for each security as of the end of the testing period.
- d. Select five "withdrawal" transactions at random from the monthly or quarterly investment reports received from the investment trustee(s) or custodian(s) for the Test Period. Agree the proceeds from such withdrawals to corresponding deposits recorded in the church's cash account(s).
- e. Understand where invested funds are held (i.e., the custodian) and ensure that a Service Organization Control report is received from the custodian, or some other assurance is provided that the funds are accounted for accurately and the custodian has adequate and effective internal controls.

Testing Results

Results Description

6. Church Property – Obtain a listing of all property owned or occupied by the church and perform the following:
 - a. Request the title and/or deed to the land, building and vehicles.
 - b. Determine and report where the title and deeds are maintained.
 - c. Determine through discussions with management whether insurance is in place for all of the identified assets. Report the amount of coverage and the type of insurance.
 - d. Assess any impact of ¶2501 and ¶2503 of the Discipline on the information to be presented in the audited annual financial statements or in the results of other procedures performed. According to ¶2501, "all properties of United Methodist local churches and other United Methodist agencies and institutions are held, in trust, for the benefit of the entire denomination, and ownership and usage of church property is subject to the Discipline." Consider these sections of the Discipline when documenting the listing of properties owned by the church as well as when documenting the ownership structure in the notes to the annual financial statements and the results of the audit procedures. An example of a footnote in audited financial statements might be as follows:

Note X -- Restrictions on Church Property

As indicated by ¶2501 of The Book of Discipline ("Discipline") of The United Methodist Church ("UMC"), titles to all real and personal property held by a local church are held "in trust" for the benefit of the UMC, and subject to the provisions of its Discipline. In addition, ¶2503 of the Discipline requires the inclusion of a "trust clause" in deeds for real property, which generally indicates the premises shall be kept, maintained, and disposed of for the benefit of the UMC, and subject to the Discipline. (Refer to the Discipline for its provisions.)

Testing Results

Results Description

Local Church Audit Guide Recommended Procedures

7. **Church Credit/Purchasing Cards** – Some churches provide credit cards to staff and certain committee chairpersons or members to use to purchase products and services for the church. If the church uses such credit cards, perform the following:
- Obtain a copy of the credit card statement(s) as of the end of the Test Period and for one other month-end during the period. Using the statements provided by the card issuer, confirm the any card balance(s) from the previous month(s) were paid in the statement months. For example, if the end of the Test Period is April 2014 and the other month selected at random for testing is September 2013, confirm that any beginning of the month card balances due (i.e., card balances as of the end of March 2014 and August 2013) were paid in the months of April 2014 and September 2013. If not, confirm that the unpaid balances were reflected in the appropriate church balance sheet, and include any such unpaid balances in your report to the Finance Committee.
 - Additional credit and procurement card transaction testing should be performed as part of 11.c. below.

Testing Results

Results Description

8. **Tithes and offerings received:**
- Select six Sundays from the Test Period. For each Sunday selected, obtain a copy of the summary counting sheet prepared by the counters for that Sunday. Agree the amounts received as shown on the counting sheet to the corresponding amounts recorded in the church's general ledger for that Sunday.
 - Select twelve "credit" entries from the church's various "revenue" accounts recorded in the General Ledger or Cash Receipts Journal (or similar accounting record) during the Test Period. Agree the amounts selected into the corresponding bank deposit recorded in the church's bank statements and to giving records of the church. (Note: the amount selected will likely be one of several entries that together add to the total deposit reflected in the bank statement. If that is the case, agree the specific general ledger entry from the general ledger to the list of entries that comprise the total deposit, and prove the arithmetic accuracy of the listing to ensure the total of the list of entries agrees with the total deposit reflected in the bank statement.)
 - Verify with the church's accountant (i.e., the staff person responsible for maintaining the general ledger and other accounting records for the church) that he or she has no ability to record entries in or otherwise alter the individual giving records of the church or distribute annual or interim individual giving statements provided to members or others who contribute money or other gifts to the church. Also, confirm such individual does not participate in counting the Sunday offerings.
 - Verify that the church's financial secretary (the person responsible for maintaining the individual giving records of the church used to provide church members with annual giving statements at year-end) that he or she has no ability to record entries in the accounting records (general ledger, payroll ledger, and other subsidiary accounting records other than the

Local Church Audit Guide Recommended Procedures

individual records of the church) or otherwise alter such records. Also, confirm such individual does not participate in counting the Sunday offerings.

- e. Select five (5) journal entries in the general ledger recorded to revenue accounts during the Test Period from sources other than cash receipts or cash disbursements. Agree the amounts of such journal entries to supporting documentation and determine the propriety of such journal based on the supporting documents reviewed. Include in your report a description of any journal entries for which supporting documentation was not available, or where you could not conclude entries were appropriate and necessary.

Testing Results

Results Description

9. **Other income** – If the church has other sources of income (e.g., child care or preschool tuition and fees, property rentals, and such amounts exceed ten (10) percent of the church’s total revenues for any of the preceding three years, develop limited procedures to test the completeness and accuracy of such amounts, and describe the procedures performed and the results of such procedures in the final report to the Finance Committee. (Note: Any such procedures should be reviewed with and approved by the Finance Committee or its designee prior to any such procedures being performed.)

Testing Results

Results Description

10. **Donations** – For significant donations to the church (to be determined based on the size of each church), confirm with the donor the amount and intended purpose of the donation. Review to ensure the donation is being used in accordance with its intended purpose and has been accounted for completely and accurately.

Testing Results

Results Description

11. **Church expenses/expenditures and cash disbursements** – Judgmentally select twenty-four (24) expenditures recorded during the Test Period from the general ledger (if individual cash disbursements are recorded directly in the general ledger) or from the cash disbursements journal or register and payroll register or records (if the church posts a summary of expenses from such journals or registers.) In addition, judgmentally select 18 cash disbursements selected from bank statements covering the Test Period. (Note: Care should be taken to select a wide variety of expenditures for testing, and at least one entry for each month of the Testing Period.) For each individual expenditure or cash disbursement selected, perform the following:
 - a. For salary or wage payments selected, agree the pay rate used to determine the payment to the applicable schedule of salaries and pay rates approved by the Staff Parish Relations Committee. Recalculate the salary or wages paid based on such approved salary and wage

Local Church Audit Guide Recommended Procedures

rates and if applicable, the approved timecard or sheet (or similar record) approved by the employee's supervisor.

- b. For payroll tax or benefit payments, recalculate the amount of expense recorded and payment made or remitted based on approved tax or benefit rates in effect at the time of the payment.
- c. For expenditures paid for using a church credit or procurement card, agree the charge to a copy of the supplier receipts submitted as support for the charge, and determine the appropriateness of the specific expense account to which the charge was recorded. Confirm the credit card charge was approved for payment in accordance with the established practices of the church. Also, agree the charge for the month to inclusion in the monthly credit card statement received by the church and used as a basis to pay the monthly credit or procurement card charge.
- d. For expenditures paid using church-issued checks, agree the amount of the expenditure selected to the supporting documentation (typically, this will be an invoice issued by the supplier of the products or services purchased or a supplier contract). Recalculate the charges on the invoice based on the quantities and unit costs listed on the invoice. Confirm the purchase was approved for payment in accordance with the established practices of the church. Agree the appropriate details (dollar amount of the purchase and the supplier's name) to the cancelled check or appropriate details provided in the bank statement received from the bank.
- e. For all expenditures, determine the account in which the expenditure was recorded was appropriate given the nature of the expenditure and consistent with the established practices of the church.

Testing Results

Results Description

12. Review all insurance policies in effect (according to church leadership) and ensure adequate types and levels of coverage are in place for local church needs. If minimum requirements for coverage are set by the annual conference, ensure policy levels comply with these minimum levels.

Testing Results

Results Description

13. In accordance with *Book of Discipline* ¶258.4.b, review to ensure bonding is in place for the church treasurer. Further, review the bond amount with church leadership to ensure the bonding is appropriate for the assets held by the church. Review the current policy and payment information to ensure the bonding policy is current.

Testing Results

Results Description

Appendix B

Local Church Audit Guide Internal Control Checklist

Purpose: The following internal control examples have been provided by the General Council on Finance and Administration to assist local churches when evaluating their internal controls. These examples should serve as a starting point for the internal control evaluation and may be modified, as needed, based on the size and scope of the church; however, the general purpose of the internal controls should be considered regardless of the size and complexity of the local church.

Control Description	Control in Place (Yes/No)	If "No", describe any deficiencies
Receipts and Disbursements		
1. Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household.		
2. Counting team (at least two unrelated persons) should count offerings and document totals – not treasurer and not financial secretary.		
3. Offerings should be deposited the same or next business day.		
4. Offering count details should be given to financial secretary for recording.		
5. Offering totals should be given to the treasurer or financial secretary to record deposit.		
6. The Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer).		
7. At least two persons should be listed as authorized signatures on all accounts. This should also be the case for setting up electronic payments (or EFTs). For EFTs, one of those individuals should be a Trustee or a member of the Finance Committee (other than the Secretary or Treasurer).		

Local Church Audit Guide
Internal Control Checklist

Control Description	Control in Place (Yes/No)	If "No", describe any deficiencies
8. The Treasurer is authorized to make electronic payments of bills. The Treasurer shall maintain support for every electronic payment just as with the support for paper checks.		
9. Financial policy and authority guidelines should be written and approved by the Finance Committee.		
10. Invoices should be required for all payments from all accounts.		
11. Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment.		
Receipts and Disbursements (continued)		
12. Typically, the Treasurer should make payments only after the invoice is approved. A policy may be implemented where routine, budgeted expenses (i.e., rent/mortgage, electric bill, etc.) may be paid without recurring approval; non-routine expenses must be approved prior to payment.		
Reporting and Review		
1. All accounts should be reconciled monthly.		
2. Someone other than treasurer should review bank reconciliation at least ideally semiannually (but at least annually) – including bank statements, invoices, checks written, and financial reports.		

Local Church Audit Guide
Internal Control Checklist

Control Description	Control in Place (Yes/No)	If "No", describe any deficiencies
<p>3. The Treasurer should make detailed report of budget and designated fund activities to the Finance Committee (or Administrative Council if Finance Committee approves this reporting) on a routine basis as the committees meet.</p> <p>Tax Reporting Requirements</p> <p>1. W-2s must be issued for employees, including pastors, and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement).</p> <p>2. Payroll tax forms and deposits done as required for payroll amount (federal law requirement) – payroll reporting should be completed for the IRS and SSA by appropriate due date for filing method.</p> <p>3. Housing allowance or exclusions approved annually at charge conference and kept on file (federal law requirement).</p>		
<p>Other General Requirements</p> <p>1. Prepare list of all church property for insurance purposes – include item description, serial number and value.</p> <p>2. Prepare list of safety deposit box contents – update authority as needed – access should be allowed by two unrelated people.</p> <p>3. Computer records are backed up and password protected for security.</p>		

Appendix B

**Local Church Audit Guide
Internal Control Checklist**

Control Description	Control in Place (Yes/No)	If "No", describe any deficiencies
4. Ideally, four individuals are required for regular financial procedures: financial secretary, treasurer, person to review and approve invoices and person to review bank reconciliations. It is possible for this to be accomplished with 3 individuals if proper segregation is achieved.		

LOCAL CHURCH AUDIT GUIDE FAQs



UMC
SUPP(i)RT

Local Church Audit Frequently Asked Questions

What is an audit?

The *Book of Discipline* defines a local church audit is an independent evaluation of the financial reports and records of the internal controls of the local church by a qualified person or persons for the purpose of reasonably verifying the reliability of financial reporting, determining whether assets are being safeguarded, and determining compliance with the law, local church policies and procedures, and the *Book of Discipline*. In accordance with the Local Church Audit Guide, the audit may be performed as a financial statement audit or agreed upon procedures performed by an independent Certified Public Accountant (CPA), or procedures performed by a non-CPA who is otherwise independent. The nature of who performs the audit and how it is performed is dependent on the size of the church.

Why would a local church want an audit?

This is a commonly asked question. The first reason is that Section 258.4(d) of the *Book of Discipline* makes it **MANDATORY** that every local 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.” There are more

reasons than that for annual audits. Here are a few:

- To protect the persons the local church elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;
- To build the trust and confidence of the financial supporters of the church in the way their money is being accounted for (trust and confidence lead to improved patterns of financial support);
- To set habits of fiscal responsibility to assure that when there is turnover in personnel there will be continuity in accountability and nothing will fall through the cracks;
- To assure that gifts made to the church with special conditions attached are consistently administered in accordance with the donors’ instructions, and thus let donors know their gifts are used as intended;
- To provide checks and balances for sums received and expended.

Conducting an audit is not a symbol of distrust. It is a mark of responsibility. It is good stewardship demonstrated for all to see. It is a message to local church donors that you care about their gifts.

Do I have to be a fiscal expert to understand local church auditing?

No. Local churches all over the United Methodist world do a great job of filling their responsibilities to make provisions for an annual audit without the benefit of formal training in accounting or fiscal management, whether it's an audit by outside professionals, or whether it's by some person in the congregation with financial knowledge or expertise, or whether it's by the treasurer of a neighboring church.

In defining a local church audit, what does "independent" mean?

"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.

For example, the treasurer, her husband or cousin should not conduct the audit, nor should her best friend. Persons who handle any of the church funds should not perform the audit and even if the pastor does not handle church funds, the pastor should not do it.

To be "qualified" to audit a local church must a person be a CPA?

Not always. Per the Local Church Audit Guide, a CPA is not always required to audit each church (depending on the size of the church). This means that it is not always necessary to have an audit signed off by a professional who states that the audit performed in accordance with professional standards for the performance of audits. The keys are that the audit must be performed by a "qualified" person or persons, and that the auditor must be independent.

Who can perform a local church audit?

Generally, a non-CPA who is "qualified" to perform a local church audit will have some experience with accounting principles, such as those gained through bookkeeping, office management, or accounting courses. The person must have the time to devote, have the initiative to follow through on asking banks and donors for information verifying financial data and then to complete the reports identified later in this booklet. Sometimes a small local church will agree with another small local church in the same locale to have the treasurer of each audit the other. Often churches have accounting professionals in their congregations who are not serving that church in any of the financial offices who are willing to perform the audit as donation of services.

If a church is unable to find an independent knowledgeable member of the church to perform financial audit procedures (for non-CPA audits), the church can consider working with a sister church to determine whether they have a member who would be willing to perform the procedures. (Reference the "Selecting an Auditor" section of the LCAG, page 5)

When selecting an auditor, churches should consider using an independent CPA to perform an audit every year (regardless of the size of the church). If an independent CPA only performs an audit every two or three years, the cost of the CPA's opening balance sheet procedures and them having to re-learn church processes may result in it being more cost effective for them to perform the audit every year. When considering this, churches should evaluate the cost versus the benefit of using a CPA each year. (Reference the "Selecting an Auditor" section of the LCAG, page 5)

For churches with less than \$2 million in average receipts, but for which significant account balances have accumulated, church leadership should consider having an independent audit performed every year. In these instances, the value of ensuring the accuracy of the reported information and ensuring the assets are appropriately safeguarded (via the testing of internal controls) would likely exceed the cost of the independent audit.

What are restricted funds and why do they matter?

Restrictions come about when a donor imposes a stipulation on a gift that limits its use to a specified purpose. If a local church accepts a gift which can be used only for a specified purpose, that gift must be accounted for separately from gifts given to the organization in furtherance of its general purposes, such as money dropped in the plate on Sunday morning. The reason why you should care why it is important to account separately for restricted assets is that if they are used for purposes other than the one (or more) specified, the donor (or an heir of a deceased donor) may be entitled by law to ask for return of the gift, even years later.

What is an example of a restricted gift?

Suppose member Jane Doe gives \$10,000 and simultaneously delivers a letter that her gift is to be used to help buy a new piano. If the gift is accepted, the \$10,000 would be a restricted gift to be accounted for in the church's records as a restricted asset. Jane's letter should be kept in the church's financial records and the money spent only to buy a new piano.

Here's a second example. Suppose member Jack Roe gives \$100,000 and writes to say that his gift is to be invested and the income from it used to buy music for the music program. The \$100,000 is a restricted asset also.

Can restricted assets be spent?

While both are restricted assets in the example in the previous question, the money for the piano is called "temporarily restricted" which means that the donor-imposed stipulation can be fulfilled by the action of the church in deciding to buy that new piano, then doing it. Assets that are "temporarily restricted" can ultimately be spent, though they must be spent for the specified purpose.

The money given by Jack is to be *invested* is "permanently restricted," meaning that the full \$100,000 was stipulated by the donor to be held permanently. Note that the income from the gift is to be used only for a specific purpose. To make a fine point, the income is temporarily restricted in that it can be spent by action of the church in deciding to buy music but the gift itself is permanently restricted. These

two types of assets should be reported separately. Sometimes churches do not refine their accounting records to the point of separately reporting temporarily and permanently restricted assets in financial statements because they don't have enough of either to warrant the time. That works if the records are clear enough to be able to distinguish between what can ultimately be spent and what must be held permanently. When a gift is accepted subject to a stipulation for use in a particular way, the result is a contract to use it only in that way.

Donor stipulations should be kept permanently so the church will know what has been contracted to be done.

The local church cannot change any restriction without the specific consent of the donor, which should be written.

How do restricted assets differ from designated assets?

Designated assets are those assets that have been voted by the local church's governing board, such as its church council or equivalent body to be used for a particular purpose. For example, suppose the board decides to set aside from money on hand the amount of \$5,000 to send five persons the following year to an appropriate seminar on making disciples. Following the vote, the \$5,000 should be reported as a "designated" asset.

Because the stipulation for its particular use was made by the church itself, that stipulation (or designation) can be changed by the action of the body that put it in place. There is no other party involved as in the case of the receipt of restricted gifts. Next year, if the board decides the \$5,000 can be better used for some other purposes, such as to buy a new van, for example, it can vote to apply the money for that purpose.

What does an audit do?

For starters, an audit should:

- Independently verify the reports of the treasurer(s).
- Follow the money and test how it is treated at different steps.
- Document that donated and earned funds of the congregation have been used as stipulated by the donors.

In addition to tracking the cash through the system, an auditor typically will evaluate:

- Accounting controls (systems that reduce the possibility of loss or errors).
- Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances).
- Reasonableness of systems and procedures in the light of all factors, including the size of the church and its budget.
- Adequacy of insurance coverage.
- Systems for retaining and accessing meeting minutes that have financial implications (i.e. Finance Committee, Trustees, Charge Conferences).
- Records that show donors' stipulations for the use of gifts made to the local church.

A local church's unique circumstances may suggest that additional steps should be taken. It is important to document the financial processes of your particular local church. Additional steps are outlined in the Local Church Audit Guide to give more detail in how to do an audit.

Which groups within the church should be included in the audit?

The *Book of Discipline* instructs us to audit not only the financial officers of the local church, but "all its organizations...." That means the treasuries that are to be audited include:

- Financial Secretary
- Church Treasurer
- Trustees Treasurer
- Memorial Fund Treasurer (if any)
- Local Church Foundation or Endowment funds
- All other separate treasuries or bank accounts maintained by a group using the same tax identification number as the church, including, for example, United Methodist Men, Pastor's discretionary fund, United Methodist Youth fund, church school, and others.

The only exception is the United Methodist Women, which should be audited but may be audited separately because according to the *Book of Discipline*, the funding actually belongs to the local UMW unit and not to the church.

What kind of information does an auditor need to look at?

The person(s) or the auditing firm must obtain access to the following information and materials:

1. Copies of all church policies and procedures related to finance and treasury functions and copies of minutes approving those policies.
2. Copies of all minutes from the finance committee, the trustees, the administrative board, the previous charge conference(s), and any other entity listed on the prior page.
3. Listing 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 that 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.
8. All paid invoices, payroll data and files (including 941's, year-end W-2's, 1099's 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.

How should confidential information be treated in an audit?

The person(s) conducting the audit may obtain access to confidential information and must treat that information accordingly.

The auditor's work papers may contain confidential information. These work papers as well as all financial records should be retained for at least seven years in a secure, limited access, storage area.

How is a local church audit conducted?

After the books are closed for the year but before the audit begins, the auditor should prepare confirmation forms for banks, the annual conference, insurance companies and donors. Those confirmations are essential for providing the auditor with independent verification of bank account balances and authorized signatures, monies sent to the annual conference for benevolence funds and special gifts, the coverage level(s) and related premiums for all insurance policies and , on a test basis, donor contributions.

The nature and extent of the audit procedures performed should be based on the size and complexity of the church. The *Local Church Audit Guide* includes recommended procedures that should be considered when planning and performing the audit. In addition, useful tips are provided in the upcoming sections (starting below) in this FAQ document.

How does the local church auditor get bank confirmations?

For each bank and investment account, the auditor requests the balance as of December 31st, and a list of the person(s) authorized to sign on that account. The *Local Church Audit Guide* provides detailed steps of how to get an account balance confirmed.

How can the auditor get Annual Conference confirmations?

The auditor should send a letter or a memorandum to the annual conference treasurer requesting the person to confirm the amounts received from the church for annual conference benevolences and special gifts. Requests can be made by mail including a self-addressed envelope (for quicker turnaround time) or sent by email.

How can donations be confirmed?

The auditor should randomly sample about one percent of the total number of those who give. We suggest that not more than ten givers need to be sampled, but they should be selected randomly. The auditor should make the selections and not suggest the treasurer or other local church finance officer pick the donors to check. Copies of year-end giving statements provided by the local church to donors be used may be used to facilitate the process.

All these confirmations are an essential piece of the auditing process. Second requests may be required if confirmations are not responded to in a timely fashion. The responses should be addressed directly to the auditor, not to the auditor in care of the church.

How will insurance companies confirm coverage?

After the auditor locates all the policies the local church officials have identified as in effect, the auditor will write a letter or memo to the insurance agent or agents. The names and addresses of the agent should be on the policy information provided by the church. The letter should request the confirmation of the policy number identified in the letter, the level of coverage and the anniversary date and premium. As with all inquiries sent, we recommend specifying a date by which the information should be returned and that a return envelope, addressed and stamped, be enclosed.

How does the actual process begin?

When the confirmations are all received, the auditor should be ready to dig in and get to work. A good place to start is with looking at the cash.

What is involved in auditing the 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. At this time the auditor must have the list of all bank accounts and person(s) authorized to sign on each, a copy of all financial statements for each month being audited, and the bank account statements and reconciliations for that same period. Then these steps should be followed, at a minimum:

- Review the bank confirmations to see that the ending balance as stated by the bank is the same figure used in the December statement, then check to see that the current authorized signers as listed by the bank are the same names listed in the church records. If the list fails to match, inform the treasurer, who should investigate any differences.
- Review all bank reconciliations to see that the beginning balance of one month is the same as the ending balance of the previous month. Note whether the book balance as listed on the bank reconciliation is the same balance presented on the financial statements.
- Pick a month and actually perform a bank reconciliation for each account using the original books of entry, the financial secretary's records and any subsidiary journals. If you find a discrepancy between your reconciliation of the month and the reconciliation provided by the treasurer(s), research the discrepancy to find an explanation or an error.
- The auditor should independently count cash in all petty cash accounts. The count should agree with the books. Review expense types for their appropriate charging to program area or administrative accounts. Ascertain suitability and adherence to policies. Receipts should be provided for all petty cash expenditures.

How are income and receipts audited?

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 procedures:

Test the counter's documentation versus the Sunday receipt deposit slips and bank statements. Review original book of entry for correct posting of Sunday deposits.

Using the donor confirmations obtained as outlined above in this booklet, determine whether the amount paid as reported by the donor is the same as recorded and received by the financial secretary. If there is a difference, research for a timing difference, inaccurate recording or some other explanation.

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 statements.

How are disbursements audited?

Basic steps for auditing disbursements should include, at a minimum:

- Review the Finance Committee, the Charge Conference and other committee minutes, as appropriate, for actions concerning disbursements, including apportionment payments. Reconcile those actions with any actual payments made.
- Test to ensure that all of the disbursements have been properly authorized.
- Review the original books of entry and disbursements journal to ensure that all disbursements have been recorded appropriately.
- For insurance premium disbursements, check to see if the amount disbursed is the same as that listed by the insurance company as premiums due.
- Verify that income designated for special mission purposes has been distributed or allocated accordingly.
- If there is a purchase order system in conjunction with disbursements, note whether the purchase orders have been authorized and approved by the appropriate person(s) and matched against the actual disbursement or invoice.

What should be done with payroll and tax records?

Here are the steps needed to check out payroll and tax records:

- Reconcile all 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. Also verify the existence of current W-4's and I-9's for all staff. Remember that the IRS views clergy as an "employee". The church may not do Social Security withholding for clergy but can make voluntary income tax withholding pursuant to a W-4 form, at the pastor's request.
- Test that the appropriate amount of taxes has been deducted from the paychecks can be tracked back to the W-4 as submitted by each staff person.
- If the church is not using an accountable reimbursement plan for clergy, or other staff, the appropriate allowances need to be recorded on the W-2 form (or 1099 form, if it still being used) issued by the church to the clergy.
- Track the payroll and tax records to the actual disbursements made, and recorded with the original books of entry.
- If irregularities are found in any of the above, research to determine the nature of the error or cause.

How would the audit verify that amounts paid in payroll are accurate?

In order to verify payroll amounts, do the following basic 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 (TDA's), 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.

What should be reviewed in the local church internal control structure?

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 person 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. Authorization 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 the 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-2's and the like filed with appropriate authorities in a timely manner?

Are payroll taxes being paid on time?

Are computer software and data files back 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?

What will report the results of the audit?

The type of report provided at the conclusion of the audit will be dependent on the type of audit performed. For agreed upon procedure and financial statement audits performed by an independent CPA, professional audit standards will dictate the reporting provided by the auditor.

For audits performed by church member, the reporting ideally will provide the following, at a minimum:

1. Listing of Procedures Performed and Related Results
2. Statement of Financial Position (balance sheet or listing of all assets and liabilities if full financial statements are not prepared for the church)
3. Statement of changes in net assets (statement of activities or listing of all income and expenses if full financial statements are not prepared for the church)
4. Comments, if any, on internal control deficiencies or issues with church procedures noted during the evaluation

The reporting should be provided in written format to the audit committee (or finance committee if there is no audit committee) to disclose the results of testing and any findings or observations during the audit. The Book of Discipline requires that the report ultimately be delivered to the Charge Conference.

How and when is the Audit Report prepared?

The report is 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.

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

Is the audit report confidential?

If the auditor meets with either the finance committee or the charge conference, ¶721 of the *Book of Discipline* applies. 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.

This is a lot of work. Is this required even for small churches?

Some review of financial records should be done for all churches. The Local Church Audit Guide provides criteria for what level of evaluation or audit should be done according to the volume of transactions. For very small churches with very small amounts of money or other assets, consideration can be given to the appropriate level of evaluation for the financial records. A best effort should be done in every church to review financial records and controls. The level of work to be done may decrease if the risk of loss is lower due to lower levels of funding. Resources are stretched many times in very small churches so the churches should do their best in the situation they are in to comply with at least a basic financial evaluation in every church.



Report of the Trustees

The trustees are amenable to the Charge Conference and as such are required to make an annual report

(¶ 2550). Additional reports should be made as requested by the Charge Conference or Church Council or equivalent. Numbers in parentheses refer to paragraphs in the 2016 Book of Discipline.

Copies of this report should be filed with the recording secretary, pastor, district superintendent and the board of trustees.

_____ Church _____ Charge
_____ District _____ Annual Conference

For the period beginning _____, and ending _____
DATE OF PRIOR CHARGE CONFERENCE DATE OF CURRENT CHARGE CONFERENCE

1. Organization for the present conference year was effective (date) _____, by electing the following officers (no less than three, and up to nine persons):

	Name	Term Expires
President	_____	_____
Vice President	_____	_____
Secretary	_____	_____
Treasurer	_____	_____
Member	_____	_____
Member	_____	_____
Member	_____	_____
Member	_____	_____
Member	_____	_____

2. Is the local church incorporated (¶2529.1a)? Yes No

3. a. Name or names in which title to each piece of property is recorded, as shown by civil land records (¶¶2536, 2538):

	Name(s)	Office	Book	Page
Church Buildings	_____	_____	_____	_____
Church Buildings	_____	_____	_____	_____
Parsonages	_____	_____	_____	_____
Parsonages	_____	_____	_____	_____
Other	_____	_____	_____	_____
Other	_____	_____	_____	_____

b. Who is the custodian of deeds and other legal papers?

c. Where are they kept?

4. Does each deed contain trust clause (¶2503)? Yes No

5. Do you have a long-term plan for the replacement of facilities and equipment as they deteriorate? Yes No

6. a. Insurance (¶2533.2, 2550.7)

Item Insured/ Insurance	Replacement Value	Amount of Coverage	Type of Coverage	Company	Restricted By Coinsurance (Yes or No and amount)		Expires When
Church Buildings	\$	\$			Y <input type="checkbox"/>	Amount::	
					N <input type="checkbox"/>		
Parsonages	\$	\$			Y <input type="checkbox"/>	Amount:	
					N <input type="checkbox"/>		
Church Furnishings and Equipment	\$	\$			Y <input type="checkbox"/>	Amount::	
					N <input type="checkbox"/>		
Parsonage Furnishings and Equipment	\$	\$			Y <input type="checkbox"/>	Amount::	
					N <input type="checkbox"/>		
Vehicle(s)	\$	\$			Y <input type="checkbox"/>	Amount::	
					N <input type="checkbox"/>		
General Liability		\$			Y <input type="checkbox"/>	Amount::	
					N <input type="checkbox"/>		
Worker's Compensation					Y <input type="checkbox"/>	Amount::	
					N <input type="checkbox"/>		
Directors and Officers/Errors and Omissions/Crime		\$			Y <input type="checkbox"/>	Amount::	
					N <input type="checkbox"/>		
Professional Liability Coverage (Including Sexual Misconduct)		\$			Y <input type="checkbox"/>	Amount::	
					N <input type="checkbox"/>		

b. Have the buildings been inspected for fire and other safety hazards within the past year? Yes No

c. Have you assessed the replacement value within the last 5 years? Yes No

d. Who performed the assessment?

e. Does the church have a Safe Sanctuary Policy? Yes No

f. Is the amount of insurance adequate? Yes No

(to determine adequacy of coverage, please use the GCFA Insurance Worksheet found at <http://www.gcfa.org/gcfa/united-churches-of-christianity-insurance-requirements>)

7. a. Has an annual accessibility audit for church properties been conducted (§ 2533.6)? Yes No
(attach as a report; an example accessibility audit form may be found at <http://www.gcfa.org/forms-and-resources>)

b. If needed, have you developed an accessibility plan? Yes No (Attach plan)

8. Provide a detailed list of income-producing and permanent funds:

Item	Date Received	Amount	Where Invested	Income	How Income is Used for Ministry

(Attach as a supplement a statement "clarifying the manner in which these investments made a positive contribution toward the realization of the goals outlined in the Social Principles of the church and showing the investments are socially responsible..." § 2533.5 and § 2550.9)

President of Trustees _____

Printed Name: _____

Date: _____

Annual Report of the Board of Trustees, 2017-2020

Prepared and edited by the General Council on Finance and Administration and authorized as the official form for this purpose.



Report of the Finance Committee

The report of the Finance Committee shall be made on this form, or one revised and adapted by the Annual Conference. Numbers in parentheses refer to paragraphs of the 2016 *Book of Discipline*.

Copies of this report should be filed with the recording secretary, pastor, district superintendent and chairperson of the committee on finance

_____ Church _____ Charge
_____ District _____ Annual Conference

For the period beginning _____ and ending _____
DATE OF PRIOR CHARGE CONFERENCE DATE OF CURRENT CHARGE CONFERENCE

I. ORGANIZATION

1.a. Has the committee been organized according to the 2016 *Book of Discipline* (§258.4)? Yes No

b. Names of officers?

Chairperson _____ Vice Chairperson _____
Treasurer(s) _____ Financial Secretary _____

II. BUDGET AND COMMITMENT PLAN

2.a. Has the committee submitted to the Church Council, or its equivalent, a complete budget for the ensuing year? Yes No

If not, why not?

b. Did the committee give the Church Council an opportunity to request financial support for recommended ministries (§258.4)? Yes No

If not, why not?

3. How frequently does the Financial Secretary/Treasurer send members and contributors regular reports of their giving?
 Monthly Quarterly Semi-annually Annually No, we do not send reports

4. Is giving by individual participants in the local church regularly reviewed? Yes No;

If not, why not?

5. What are the plans for raising sufficient income to meet the budget adopted by the Church Council (§258.4)?

6. Does the Financial Secretary/Treasurer report regularly to the Church Council on the giving trends in the church/charge? Yes No

If not, why not?

III. THE HANDLING OF CHURCH FUNDS

7. Does the Treasurer regularly make reports to the Committee on Finance and the Church Council on the financial position of the church (§258.4b)? Yes No

If not, why not?

8. Are all benevolences and other connectional funds remitted monthly to the conference treasurer (§258.4b)?

Yes No

If not, why not?

9.a. What bank(s) have been designated by the Church Council as a depository (§258.4d)?

b. Are all accounts FDIC insured and in amounts at or below the current FDIC insurable limit? Yes No

If not, why not?

c. Are all accounts in the name of the church? Yes No

If not, why not?

10.a. Has the committee established written financial policies to document the internal controls of the local church (§258.4d)? (Attach as a supplement.) Yes No

b. Have these policies been reviewed by the committee and found to be adequate and effective (§258.4d)?

Yes No

11. Are the church offerings counted by a counting committee in accordance with the mandates of the Discipline (§258.4a)? Yes No

If not, why not?

12. Are all funds deposited promptly in accordance with procedures developed by the Committee on Finance (¶258.4a, d)? Yes No

If not, why not?

13. Are financial officers of the church bonded (¶258.4b)? Yes No

If not, why not?

14.a. Have the financial records of the church and all its organizations been audited for the prior fiscal year (¶258.4c)? Yes No

b. If not, why not?

c. Were there any recommendations or exceptions? Yes No

d. If there were recommendations or exceptions, how has the church addressed them?

Signed _____

Printed Name: _____

Date: _____

Report of the Finance Committee 2017-2020

Prepared and edited by the General Council on Finance and Administration and authorized as the official form for this purpose.

**General Council on Finance and Administration
Insurance Worksheet**



Church name _____

Prepared by _____

Date _____

PROPERTY COVERAGE Current Insurer Name Renewal Date Insured Limits ◀

Total Property Limits - Building and Contents _____

Co-insurance % _____ ◀

Yes or No

Does policy cover replacement costs? _____

Has a commercial replacement cost appraisal been completed in the last 3 years? _____

Has the property limit increased annually via inflation guard coverage? _____

Does the policy provide blanket property coverage? _____

LIABILITY COVERAGE Current Insurer Name Renewal Date Per Occurrence Limit Aggregate Limit ◀

Insured items: _____

Commercial General Liability _____

Pastoral Counseling Liability _____

Sexual Misconduct Liability _____

Hired & Non-Owned Auto Liability _____

Hired & Non-Owned Auto - Physical Damage _____

Employee Benefits Liability _____

Medical Payments _____

Crime/Employee Dishonesty Coverage Current Insurer Name Renewal Date Per Occurrence Limit Aggregate Limit ◀

Crime/Employee Dishonesty Coverage _____

Director & Officer's/Employment Practices Liability Coverage Current Insurer Name Renewal Date Per Claim Limit Aggregate Limit ◀

Director's & Officer's Liability _____

Employment Practices Liability _____

Umbrella Coverage Current Insurer Name Renewal Date Per Occurrence Limit Aggregate Limit ◀

Umbrella Liability _____

Workers' Compensation Coverage Current Insurer Name Renewal Date Per Occurrence Limit Aggregate Limit ◀

Bodily Injury by Accident - Each Accident _____

Bodily Injury by Disease - Policy Limit _____

Bodily Injury by Disease - Each Employee _____

Commercial Auto Coverage Current Insurer Name Renewal Date Auto Liability Limit ◀

Commercial Owned Auto _____



Fund Balance Report

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 of an accountability of funds can be found in the 2017-2020 United Methodist Church Financial Records Handbook and in Guidelines for Leading Your Congregation: FINANCE available at <http://www.cokesbury.com>, and The Local Church Audit Guide, available at <http://www.gcfa.org/forms-and-resources/financial-forms/>.

THIS REPORT IS TO BE COMPLETED BETWEEN JAN. 1 AND FEB. 1
 THIS REPORT SHOULD NOT BE INCLUDED WITH YOUR OTHER CHARGE CONFERENCE FORMS

Copies of this report should be filed with the recording secretary, pastor, district superintendent and chairperson of the committee on finance

	Church	Charge
	District	Annual Conference
For the period beginning _____, and ending December 31, _____		

1. Receipts, Disbursements, and Balances (Round to the nearest dollar)

LOCAL CHURCH FUNDS (Use those applicable to your church.)	(a) Balance at Beginning of Period	(b) Cash Received and Recorded	*(c) Total Disbursements for Period (-)	*(d) Transfers + (-)	(e) Balance End Of Period
General Fund					
Benevolence Fund					
Building or Improvement Fund					
Board of Trustees' Fund					
United Methodist Women					
United Methodist Youth Fellowship					
United Methodist Men					
Church School					
Other Organizations or Funds (enter name):					
Name:					
Total amount of cash in all treasuries of the church					

2. The Auditors Auditing Committee (check one) 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 (attach additional pages as needed):

3. Recommendations for changes in financial policies and practices (attach additional pages as needed):

Signatures of the Church Audit Committee, (if applicable)

_____, Chairperson _____, Member
Printed Name: _____ Printed Name: _____
Date: _____ Date: _____

Fund Balance Report, 2017-2020

Prepared and edited by the General Council on Finance and Administration and authorized as the official form for this purpose.

Welcome To GCFA Group Ruling Website

We are excited to offer this service to our local churches, annual conferences, and other ministries within the United Methodist connection. We hope you will find this online application to be a straightforward and convenient process for obtaining a group ruling certification letter for your organization. To begin the application, please click the 'Begin Application' button below.

If you have any questions or difficulties with the application, please use the links available throughout the application to contact GCFA's Legal Services Department.

Thank you for this opportunity to serve you and your ministry.

A. Moses Rathan Kumar
General Secretary and Treasurer

Begin Application

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Contact the GCFA Legal Services Department at legal@gcfa.org.
For technical support please contact the Web Site Administrator at support@gcfa.org.