

Basic Principles for Audit Experiences

Equipping churches for healthy annual financial stewardship responsibility

The annual audit may generate the same feelings many of us have about visiting the dentist. The amount of anxiety a dental cleaning generates usually far exceeds the actual experience. And despite our temptation to avoid it, the end result of clean teeth and fresh breath are satisfying! When there is pain or disease, the sooner it is dealt with the better. Often the recommendations are minor adjustments, but serious work is sometimes needed. And a life of moderate attentiveness to the dentist's recommendations can prevent some serious problems.



Now reread this paragraph replacing a dental visit with an annual audit!

“The amount of anxiety an audit generates usually far exceeds the actual experience. And despite our temptation to avoid it, the end result of a clean audit and verified procedures are satisfying – and cultivate generosity! And, when there are problems or ‘findings’, the sooner they are dealt with the better. Often the recommendations are minor adjustments, but serious work is sometimes needed. And a life of moderate attentiveness to the auditor’s recommendations can prevent some serious problems!” ***Uncanny, isn’t it!?!***

Each year, millions of dollars faithfully given to ministry is misappropriated, not because people succumb to temptation, but because organizations do not adequately safeguard their finance staff and volunteers. Organizations may bear equal responsibility when misconduct happens and there are significant opportunities to safeguard the gifts stewarded as well as the people who handle finances and money.

Anxiety Antidote #1 – Just Do it!

(Warning: another anxiety provoking example!) Sure, a colonoscopy is no fun and it’s invasive, but adults with access to good preventative health services give up control of their bodies for a period of time so that others can assure them of their safety from disease. Similarly, churches committed to good financial stewardship practices give up control of their record-keeping for a period of time (audit) so that others (auditor) can assure us of everyone’s safety. It may feel invasive, but your peace of mind is worth it!

AUDIT 101: While audit scope and scale depend on your ministry size, each review assesses three different but related financial management processes.

- A. Tracking Movement of Funds/Money
- B. Reviewing Report Content and Clarity
- C. Reviewing Policies and Procedures for Financial Stewardship, including transactions of income and expenses, and property and asset management.

Overview of Audit Activities

1. **VALUE of ASSETS:** An audit verifies the total value of all resources (money and property) that an organization stewards.
2. **ALL ACCOUNTS:** An audit documents all accounts, assets, investments, cd's, stocks, and property owned, managed or stewarded by the organization. This disclosure is required of all non-profit organizations.
Exceptions:
 - a) In United Methodist polity, United Methodist Womens funds are reported (fund balance) for an audit, but UMW may choose to audit separately.
 - b) Trustee Funds – Oops! These are not an exception! Regardless of the church group managing them, all gifts, bequests, memorial funds, or trustee's funds are all church funds. They are included in the annual audit.
3. **BALANCE SHEET/STATEMENT OF FINANCIAL POSITION:** All accounts with beginning and ending values and summaries of transactions, are recorded on a Fund Balance Report Form. These numbers come from bank or financial institution's statements and should match the organization's accounting system records. List accounts, not church budget categories.
4. **TESTS:** The audit process compares the bank/financial institution fund records (\$) to the church accounting system records. Auditors review financial records to:
 - a. Verify gifts made by donor's match gifts amounts recorded by Financial Secretary
 - b. Verify weekly deposit totals match bank deposit amounts
 - c. Verify income amounts in church finance accounting matches bank deposits
 - d. Verify invoices for expense match actual payments to vendors
 - e. Verify expenses recorded in church finance system matches invoice amounts
 - f. Verify donors giving records match church records on gifts received
 - g. Note any discrepancies and adjust church balances and record-keeping as needed
5. **INTERNAL CONTROLS:** Audits also check a variety of financial operational procedures. These examples are essential in all size churches.
 - a. Is weekly counting done by two unrelated adults (from different households)?
 - b. Are deposits timely? Are offerings deposited on Sunday or Monday?
 - c. Are pledges recorded on donor's records? Are quarterly statements sent?
Is progress/status of pledges reviewed and reported to pastor?
 - d. Who has authority to sign checks, make online payments, and/or use credit cards?
 - e. Do payments get authorized, dated and coded for accounts to be charged?
 - f. Are invoices paid on a timely manner? Are any payments made more than 30 days after receipt? Are finance charges being incurred?
 - g. Are expenditures within budget approved amounts?
What happens when bills exceed approved budget amounts?

- h. Are local and federal payroll, tax, benefits and recordkeeping regulations followed?
Separate file for each person and I-9, Cori, W-2, 1099 stored securely?
- i. Are donor restricted gifts tracked and accounted for appropriately? Designated funds?
Are major gifts and bequests appropriately received and managed?

6. PROPERTY/ASSETS

- a. Verify property and assets location as well as debts?
- b. Verify where legal documents are stored, insurance coverage sufficient?
- c. Are all assets reported annually in Charge Conference report?
- d. Review Policies for Finances, also Endowment, Memorial, Pastors Discretionary fund, Safe Sanctuary Policies Note Exist ____ Reviewed ____
- e. Previous year's audit in Charge Conference report?

7. **AUDIT REPORT:** The Audit/Review report includes a financial summary of all assets with transaction summaries for the audited period. A narrative summary of the procedures tested and any findings leading to any adjustments is also included. Recommendations for improving financial procedures and systems are also noted with dates and steps for implementation.

Larger congregations (budgets greater than \$1,000,000) may need an audit that includes a balance sheet/statement of financial position, cash flow statement and activities statement/functional expenses.

Congregations should demonstrate due diligence in addressing any "findings" and implement appropriate adjustments to protect both assets and the people responsible for financial activities. In the event of perceived errors or misconduct, appropriate communication with institutional leadership so that legal council can be obtained, is needed.

Additional information about conducting annual audits for United Methodist Churches and Agencies is located at the General Council of Finance and Administration (www.gcfa.org)

Audit Challenges

If no budget, use bank statements
Few or many Counters – pros and cons
Trustees funds separate – All church funds are church funds!
Not done previous year – start new and go back if issues
Few or Many accounts/treasurers
Fear of truth-telling

Information Needed for Church Audit

1. Copies of church policies and procedures related to finance and treasury functions and copies of minutes approving those policies.
2. Copies of all the minutes from the finance committee, the trustees, the administrative board/church council, the previous charge conference(s), and the other entities e.g. Local Church Foundation or Endowment funds and a list of persons holding the following positions - Financial Secretary; Church Treasurer, Trustees Treasurer, Memorial Fund Treasurer.
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. All Bank and investment account statements for the same period.
6. Church's financial records or software for accounting or data entry on income and expenses. When those records are computerized, a print-out of all transactions by account for the entire year, plus annual budget reports with approved and actual expenditures for the end of the previous year and the year being audited. If accounts are reconciled monthly, those reports are also reviewed.
7. All paid invoices, payroll data and files (including 941's, year-end W-2's, 1099's and transmittal forms), income documentation and deposit records for the fourteen month period. A sample of transactions will be tested.
8. The Financial Secretary's records and other income records for the same period. A monthly report of income with total deposited and broken down by categories is helpful. A sample of donor records will be compared with weekly income reports and donor's records of gifts made to the church record-keeping system.

Some systems will be sampled and further confirmation if needed. The audit compares the church's record-keeping system to the financial institution/banks records and donor's records of gifts to the church.

*Adapted from GCFA Local Church Audit Guide
Prepared by Bonnie I. Marden
MYTE Ministries
bonnie@myteministries.org
978-846-1260