



**“So then, each of us will be accountable to God.”**

**“We are taking pains to do what is right, not only in the eyes of the Lord, but also in the eyes of the Church.”**

**“Who then is the wise and faithful steward?”**

**“Turn in the account of your stewardship.”**

# THE LOCAL CHURCH AUDIT GUIDE

For  
United Methodist Congregations

This booklet is given to you as a service of the General Agency Office of Internal Audit and the Committee on Audit and Review of the General Council on Finance and Administration of The United Methodist Church. We hope you will find it useful. If you have suggestions for making it better, please telephone, write, fax, or e-mail the Director of the Department, who can be reached at these numbers and addresses:

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The Legal Department tells us we should start with a disclaimer. It is a good lesson to begin this booklet with, since all organizations within the Church should be attentive to the professional advice given to them.

#### DISCLAIMER

The General Council on Finance and Administration and the Internal Audit Department 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.

## **LOCAL CHURCH AUDIT GUIDE** **Second Edition**

We will use a question and answer format in presenting the information in the following pages. The questions and answers come from the experience of those who have prepared this booklet, who are individuals who serve or have served on local church finance committees and who have been there, done that. Some are professionals in the field of church finance. The questions that follow are questions we ourselves have asked or have been asked by others.

So let's start by learning a little terminology – some definitions. You remember what the Music Man said about being good at selling musical instruments in that musical show named after him: "You gotta know the territory!" Well, let's learn the territory. It is not difficult to explore, and who knows, you might even have some fun getting to know your job better.

### **Speaking of definitions, just what is an audit?**

The *Book of Discipline* does not define what a local church audit is. It does not, for example, say that an audit must be performed by a professional, or that it must conform to generally accepted auditing standards, or that it must be prefaced by the usual representations and caveats that auditing firms incorporate into their audits.

Therefore, we have gone to the *Book of Discipline*, where we found no definition of the term "audit". We then turned to definitions used by professionals and have tempered them by the application of common sense made necessary by the fact that local churches vary so much in their resources and in their budgets. WE conclude that an "audit", as the term is used in the *Discipline*, is meant to be a process that provides reasonable assurance that good stewardship is being used in handling and accounting for the funds and other assets of the local church. To a professional auditor or accountant, how we define an audit may be closer in professional jargon to a "review". However, the *Discipline* does not call for a "review", and that is why the definition we have chosen and the steps we outline in this booklet may fall somewhere in the middle between a full-blown "audit" and the simpler "review".

Here is our practical, working definition of an audit for the local church:

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

### Why in the world would a local church want an audit?

This is a commonly asked question. Believe it or not, there's one set of answers that fits all. And yes, we know that local churches come in all sizes from a handful of members to thousands, with every gradation in between. We know, too, that your locations vary from the heart of the inner city to way out in the countryside. And yes, we've heard all kinds of related questions asked about why a local church should have an audit, including:

Why a small church with a tiny budget?

And why a big church with lots of controls in place and with a full staff of professional administrators?

And there there's this one:

Why waste the time and the money, or both, when everybody knows the church treasurer is as honest as the day is long?

Well here's the number one reason why (to paraphrase "Jesus Loves Me"):

"For the Discipline tells me so."

Section 258.4(d) of the 2008 *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."

But 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.

### But I don't I have to be a fiscal expert to understand local church auditing?

Not on your life!

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. Nor should the church's pastor.

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

No. There is no requirement that a CPA or other accounting professional must perform a local church audit. This means that it is not 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 person 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.

We do have a recommendation about professionals, though. We suggest that churches with annual receipts in excess of about \$300,000 to \$400,000 should seriously consider engaging an outside auditing firm to perform the audit. This is a recommendation and is not binding, but it seems to us to be prudent stewardship since more complexity is involved as receipts and expenditures become larger.

### Are there other definitions I should know?

Yes, there are. In particular, persons interested in church finances should know the definitions of "restricted funds" and "designated funds", and how and why each category is accounted for differently in the church's records.

### What are restricted funds, anyway, and why should I care?

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.

### Can you give me an example of a restricted gift?

You bet. Suppose member Jane Doe gives \$10,000 (hallelujah!) 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 (Thanks Jack!) 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.

### But aren't those two gifts different? One can be spent, the other can't.

Right! While both are restricted assets, the money for the piano is called "temporarily restricted". That 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 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. Remember that 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. Keep the donor stipulations permanently so you will know what the church has contracted to do.

There's another point to remember. The local church cannot change any restriction without the specific consent of the donor, which should be written.

### So 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.



## Can you outline just what an audit does?

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 will be discussed as we move on.

In the next few pages we will take you through the documents you need to examine to accomplish the foregoing.

## What about auditing money held by groups within the church?

We Methodists are instructed by the Discipline to audit not only the financial officers of the local church, but "all its organizations...." That means that 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.

### 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.

### What about 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.

### 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.

### How does the local church auditor get bank confirmations?

For each bank and investment account, the auditor requests the balance as of December 31<sup>st</sup>, and a list of the person(s) authorized to sign on that account. **Addendum III** is a standard form for obtaining this information.

### 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. We suggest the request should specify a date by which the information should be returned and that a stamped, addressed return envelope be enclosed. **Addendum V** is a suggested form of letter for asking for this information.

### How in the world 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. **Addendum IV** seeks to confirm the amounts received from the donor and to identify the period for which the donations is to be booked. Copies of year-end giving statements provided by the local church to donors be used may be used to facilitate this 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, CD's 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 the steps on the next page 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.

Now that you have the cash accounted for, we're ready to move on to income and receipts.

### What about income and receipts?

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

Test (a random sample, not to exceed 10 times; more if discrepancies are found) 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.

### Are we done yet?

Not yet. Be patient. It won't be long. First we have to talk about disbursements, payroll records, and even more exciting things!

### So, are we ready to get into disbursements?

Yes. It is now time to move to examining disbursements. Here's how:

- 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 the insurance premium disbursements, check to see whether the amount disbursed are 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.

Ask the local church for the minutes you need. They should be keeping copies in their financial records to make it easier at audit time.

## 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 traced 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.

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

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

- Check staff-parish relations committee and charge conference records versus payroll records to verify that correct salaries or rates have been paid.
- If there are tax deferred annuities (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.

## Are we ready yet to look at the control system?

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

Areas of concern that should be evaluated include:

1. Segregation of duties.

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

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

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

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

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

### Will you explain the auditor's report?

When the audit is complete, the auditor should deliver a written report to the Finance Committee. The Discipline requires that the report ultimately be delivered to the Charge Conference. A copy of the form for the Annual Audit report is attached as **Addendum II**. You can obtain an Excel, Word or PDF copy at <http://www.gcfa.org/charge.html>.

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

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

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

### How and when is the Audit Report prepared?

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

#### **Addendum II.**

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

### Is the auditor's work finished yet?

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

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

**We hope that conducting this local church audit has been a pleasant experience for you and for the local church.**

**Remember, auditors, you are there to help, just as the Internal Audit Department is available to help you in a bind while you're doing the audit. Our phone number is on Page 1 of this workbook.**

**Please don't hesitate to use it.**

This is the end.

Thanks for sticking with us.

It has been a pleasure to serve you.

**CHECK OFF LIST**

\_\_\_\_\_ **United Methodist Church**  
**Financial Audit**

Date \_\_\_\_\_

Committee Members (Signature)

Date

Completed

Initials

- Reconciliation of Bank & Investment Accounts
- Operating Band Account #
- Month
- Bank Account #
- Month
- Bank Account #
- Month
- Are Bank Accounts Balanced Monthly
- Verification of Beginning and Ending Year Balance

**BANK & INVESTMENT**

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

**INCOME**

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

Date  
Completed      Initials

Finance Secretary records reviewed  
Finance Secretary records agree with general ledger

**DISBURSEMENTS**

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

**REPORTS**

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

**GENERAL LEDGER**

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

Date  
Completed      Initials

**ADMINISTRATIVE**

Church has Employer Identification Number  
File for EIN and tax filings safeguarded  
Incorporated papers are safeguarded  
Deed to church property and/or mortgage are safeguarded  
Insurance policies are safeguarded  
Prior year insurance policies are safeguarded  
Does church have separate bond for persons handling money

**PAYROLL**

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

**PROPERTY & EQUIPMENT**

List all land, buildings, vehicles, etc. that is owned by the church  
Locate the title and/or deed to the land, building and vehicles  
Are the title and deeds maintained in a safe place  
Is adequate insurance maintained on all applicable property and equipment



**Instructions to the Report of the Annual Audit**

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

**Instructions for Part I – Receipts, Disbursements and Balances:**

- Note: All figures are rounded to the nearest dollar.
- Column a: Enter ending balances from previous year's report. Remember that last year's ending balances at 12/31/x1 should be the same as the current year's beginning balances at 1/1/x2.
- Column b: Enter the cash received and recorded for each of the funds (1/1 – 12/31).
- Column c: Enter total disbursements for the period (1/1 – 12/31).
- Column d: Enter any transfers made between the funds (example: Board of Trustees fund makes a transfer to the Building Fund of \$1,000...Enter (\$1,000) on the Board of Trustees line and enter \$1,000 on the Building Fund line).
- Column e: Enter the sum of column "a", plus column "b", minus column "c", plus or minus column "d", to equal column "e". The figures in this column should tie to the ending balances in the general ledger. If they do not analyze any differences, and make adjustments (journal entries/transfers) accordingly.

**Instructions for Part II and III – Exceptions and Recommendations:**

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

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

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

THE UNITED METHODIST CHURCH

COMMITTEE ON FINANCE and CHARGE CONFERENCE



# 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 for funds can be found in the *Local Church Financial Records Handbook* and in *Guidelines for Leading Your Congregation: FINANCE*, and *The Local Church Audit Guide*, available at [www.gcfa.org](http://www.gcfa.org).

For the period beginning \_\_\_\_\_, Church District \_\_\_\_\_, and ending December 31, \_\_\_\_\_ Charge Conference \_\_\_\_\_

## I. 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 Disburse- ments for Period (-)	*(d) Transfers + (-)	(e) Balance End Of Period
General Fund					0.00
Benevolence Fund					0.00
Building or Improvement Fund					0.00
Board of Trustees' Fund					0.00
United Methodist Women					0.00
United Methodist Youth Ministries					0.00
United Methodist Men					0.00
Church School					0.00
Other Organizations or Funds:					
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Total amount of cash in all treasuries of the church					0.00

\*Note: Column (c) must be entered as a negative number. Example: -50  
Column (d) may be entered as either a positive or negative number, for all transfers out, please use a minus sign.

**FUND BALANCE REPORT, CONTINUED**

**II. RECOMMENDATIONS**

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

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Signed: \_\_\_\_\_  
Auditor or Auditing Committee Chair

Date \_\_\_\_\_

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

**Balance Report 2005-2008**

**Fund**

**Standard Form to Confirm Account Balance  
Information with Financial Institutions**

Original

To be mailed to accountant \_\_\_\_\_

Customer Name

Financial Institution:

[ ]

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

[ ]

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

Account Name	Account Number	Interest Rate	Balance

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

Account Number/Description	Balance	Date Due	Interest Rate	Date Through Which Interest Is Paid	Description Of Collateral

Customer Name Date The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, not other deposit or loan accounts have come to our attention except as noted below:

Financial Institution Authorized Signature Date

Title

Exceptions and/or Comments

Please return this form directly to our accountants: [ ] [ ]

[Organization's Letterhead]

[Current date]

William Jones  
123 Main Street  
Nashville, TN 37203

Dear Mr. Jones:

In connection with an examination of our accounts, [either outside firm or auditor's name] desire confirmation of your donation to [insert recipient organization's name] as of December 31, 20\_\_.

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

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

Thank you.

Karen Taylor  
[Title]

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Name

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Date

Exceptions, if any:

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