

Arkansas Conference - United Methodist Church Finance/Audit/Internal Control Guidelines

“We don't want anyone suspecting us of taking one penny of this money for ourselves. We're being as careful in our reputation with the public as in our reputation with God.” (2 Cor. 8:20-21- The Message)

The Book of Discipline contains provision for the Committee on Finance at each local church to adopt written financial policies and internal controls. The Committee on Finance is also tasked with the responsibility of making provision for an annual audit of the financial statements of the local church. Complete provisions are included in the Book of Discipline 2008 section 258.4. The General Council on Finance & Administration (GCFA) also publishes “The Local Church Audit Guide” which is an excellent publication for local churches to utilize regarding auditing and internal controls.

The GCFA defines an audit for the local church as:

“A local church audit is an independent evaluation of the financial reports and records and 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 the assets are being safeguarded, and whether the law, the Discipline, and policies and procedures are being complied with.”

A professional audit can be costly and require a significant amount of time. A certified audit requires independent verification by the auditor to substantiate representations made by the local church financial staff or volunteers about the financial records of the church. An alternative process called a financial review is less costly and more simply requires the auditor to make inquiries of church financial staff or volunteers to corroborate the financial records of the church. In lay terminology, an audit provides a high degree of assurance the financial statements are free of material errors and fraud, whereas the financial review just tests whether the financial statements make sense without applying the testing undertaken in an audit.

A certified audit or financial review should be undertaken as appropriate to protect both the church and the persons handling and managing the financial operations of the church. It also provides certain assurances to the congregation that the funds are being managed wisely and used as designated when given. Finally, it provides a system of checks and balances to insure that the financial operations of the church are operating within the guidelines of generally accepted practices and principles.

Because of the importance of safeguarding donations provided to local churches, the Arkansas Conference Council on Finance & Administration (CFA) recommends that each local church subscribe to certain minimum financial, reporting, and internal control procedures.

For churches with total income of less than \$500,000 annually:

- 1) Ensure that the monthly/quarterly/annual bank statements for each account maintained by the church are received unopened by an appropriate person designated by the church that is not related to or affiliated with the person(s) responsible for deposits and disbursements of the local church. If the church receives statements online, then provisions will need to be made for the designated person to have access as a read only viewer of the statements. The designated person should have sufficient skill and knowledge to read and understand a bank statement and should review said statement for any irregularities. Any questions should be brought to the attention of the appropriate church representative (i.e. Treasurer, Finance Committee chairperson, Pastor, District Superintendent).
- 2) That each church within this category seek to establish the minimal practice of conducting and completing a financial review by a qualified person or firm within six months of the end of each fiscal year. This may be accomplished by utilizing the services of a person within the congregation with financial knowledge or expertise or possibly by utilizing the treasurer of a neighboring church by trading review services with said neighboring church. Further, the person or firm conducting the review should not be the pastor and should have no relationship or appearance of a relationship with the person or persons responsible for the church's financial management. The person(s) conducting the financial review is not required to be a Certified Public Accountant (CPA) but must have appropriate qualifications for conducting the work asked to be performed.

As part of the financial review the following should be minimally accomplished:

- a) Review the minutes of all Church/Charge Conference, Finance Committee, Board of Trustees, and Administrative Board/Council meetings for the period being reviewed.
- b) Review the financial policies and practices of the local church.
- c) A list of all bank and investment accounts should be obtained including authorized signatories.
- d) Review all bank and investment account statements for the review period.
- e) Review all bank reconciliations for the review period.
- f) Review all monthly financial statements for the review period.
- g) Conduct a review of an appropriate random sampling of bank deposits, and payroll records for the review period. This should include 941s, year end W-2s, 1099s, transmittal documents, and proper reporting of withheld employee taxes.
- h) Test supporting documentation of a random sampling of paid invoices to ensure that said invoices were properly approved, sufficiently documented, included in the budget, and paid from the appropriate account.
- i) Conduct a fluctuation analysis on balance sheet and income statement accounts which have had a significant change versus the prior year in terms of total dollar change or percentage change.
- j) Verify the existence of current W-4s and I-9s for all staff.

- k) If the church participates in a Section 125 plan or retirement plan, ensure that executed documents are in place for plan provisions and that withholding is being done properly.
- l) Inspect insurance policies of the church for appropriate levels of coverage, ensure that policy premiums have been paid timely, and that policies have not expired.
- m) If the church utilizes business credit cards, ensure that the church has a written policy and that it is being followed by inspecting an appropriate random sampling of statements and expenses paid by the church. Under no conditions should personal purchases be allowed with business credit cards.

For churches with total income of more than \$500,000 annually:

- 1) Ensure that the monthly/quarterly/annual bank statements for each account maintained by the church are received unopened by an appropriate person designated by the church that is not related to or affiliated with the person(s) responsible for deposits and disbursements of the local church. If the church receives statements online, then provisions will need to be made for the designated person to have access as a read only viewer of the statements. The designated person should have sufficient skill and knowledge to read and understand a bank statement and should review said statement for any irregularities. Any questions should be brought to the attention of the appropriate church representative (i.e. Treasurer, Finance Committee chairperson, Pastor, District Superintendent).
- 2) That each church within this category should seek to establish the minimal practice of conducting and completing a certified audit by a qualified person or firm within six months of the end of each fiscal year. The audit should be completed by a person or firm with some formal training in non-profit accounting and auditing procedures. Further, the person or firm conducting the audit should have no relationship or appearance of a relationship with the pastor of the church nor the person or persons responsible for the church's financial management. The person(s) conducting the audit is not required to be a Certified Public Accountant (CPA) but must have appropriate qualifications for conducting the work asked to be performed.

As part of the audit the following should be minimally accomplished:

- a) Review the minutes of all Church/Charge Conference, Finance Committee, Board of Trustees, and Administrative Board/Council meetings for the period being audited.
- b) Review the financial policies and practices of the local church.
- c) A list of all bank and investment accounts should be obtained including authorized signatories.
- d) Review all bank and investment account statements for the audit period.
- e) Review all bank reconciliations for the audit period.
- f) Review all monthly financial statements for the audit period.
- g) Conduct a review of an appropriate random sampling of bank deposits, and payroll records for the audit period. This should include 941s, year end W-2s, 1099s, transmittal documents, and proper reporting of withheld employee taxes.
- h) Conduct a review of an appropriate random sampling of bank deposits, and payroll records for the audit period. This should include 941s, year end W-2s, 1099s, and transmittal documents. Assurance of proper reporting of withheld employee taxes should be conducted.
- i) Test supporting documentation of a random sampling of paid invoices to ensure that said invoices were properly approved, sufficiently documented, included in the budget, and paid from the appropriate account.
- j) Conduct a fluctuation analysis on balance sheet and income statement accounts which have had a significant change versus the prior year in terms of total dollar change or percentage change.

- k) Verify the existence of current W-4s and I-9s for all staff.
- l) Test the amount paid for clergy compensation and staff compensation during the past year versus the approved budget for the year.
- m) If the church participates in a Section 125 plan or retirement plan, ensure that executed documents are in place for plan provisions and that withholding is being done properly.
- n) Confirmations should be sent to all bank and investment institutions and the annual conference (for benevolences and special gifts) to independently confirm that records of the institutions agree with the financial statements of the church.
- o) Ideally, confirmations should be sent to an appropriate random sampling of church contributors to confirm amounts shown on year end statements of giving issued by the church.
- p) Inspect insurance policies of the church for appropriate levels of coverage, ensure that policy premiums have been paid timely, and that policies have not expired.
- q) If the church utilizes business credit cards, ensure that the church has a written policy and that it is being followed by inspecting an appropriate random sampling of statements and expenses paid by the church. Under no conditions should personal purchases be allowed with business credit cards.
- r) If the church has any debt from notes payable or lines of credit, these should be confirmed with the lender to verify principal and interest paid during the audit period and balances owed at the end of the audit period. Remaining terms and conditions should also be noted.

**Arkansas Conference- United Methodist Church
Internal Control Expectations -2010**

It is essential that all local churches have basic internal controls in place to reduce the possibility of fraud or theft and to protect the individuals charged with handling the financial operations of the church. The following represent some minimum expectations of all local churches.

- A. **Bank Accounts.** Local churches should strive to have as few bank accounts as possible in order to streamline financial activity and record keeping.
- B. **Bank Statements.** Bank statements should be opened and inspected by a person other than the person responsible for handling receipts/disbursements. If the church utilizes online banking, read-only access should be provided to the inspector.
- C. **Bank Reconciliations.** All accounts maintained by the church should be reconciled monthly unless no activity occurs in the account during the prior month. Ideally, a person other than the one handling receipts/disbursements should perform this activity.
- D. **Church Software.** If the church utilizes a church management software package, prudent use of passwords and access to financial records should be maintained to reduce risks of inappropriate activity and to protect the privacy of donors.
- E. **Computer Systems.** If the church utilizes computers for digital storage of financial and contribution records, these should be backed up on a regular basis (i.e. at least once per week) and the backup should be kept off premises.
- F. **Contribution Statements.** Donors to the local church should receive contribution statements on a regular basis, but no less than semi-annually at the end of the first six months of the fiscal year and at the end of the fiscal year. It should be noted in the church bulletin or newsletter when contributions statements are being mailed and any discrepancies should be reported to the appropriate church representative (i.e. Church Treasurer or Finance Committee Chairperson).
- G. **Designated/Restricted Gifts.** The church may accept gifts for designated or restricted purposes which are within the mission and defined purposes of the church and should properly account for said gifts with assurances that they are only used for the designated/restricted purposes as intended by the donor. Under no conditions should the church seek or accept tax-deductible gifts to pass or transfer monies to a named individual for personal use that would otherwise be disallowed under the federal or state tax code if the gift went directly to the individual.
- H. **Disbursements.** The person(s) responsible for preparing checks for disbursement shall not be listed as a signatory on church bank accounts. Disbursements should be minimally handled or coordinated by two unrelated persons with at least one person designated to prepare checks for disbursement and another person designated to review the check, supporting documentation, and sign the check.

- I. **Fidelity Bond.** All persons handling funds for the church should be bonded and/or covered on the church insurance policy under employee dishonesty provisions.
- J. **Fixed Assets.** An inventory of all fixed assets owned by the church should be maintained and kept current. It should be updated at least once annually to reflect dispositions and purchases made during the previous year.
- K. **Mail.** Checks received in the mail payable to the local church should be promptly stamped “for deposit only” to the local church.
- L. **Offering.** The offering should be collected by at least two unrelated persons. It should either be counted immediately following services to obtain a deposit total or appropriately secured (i.e. in a safe, bank night deposit, etc.) until such time as two unrelated persons can count the offering. The counted funds should remain secured until such time as a bank deposit can be made. Deposits should be made within 72 hours of the offering.
- M. **Safe Deposit Box.** The church is advised to maintain a safe deposit box for the safe-keeping of important records including property deeds, vehicle titles, articles of incorporation, and insurance documents.
- N. **Segregation of Duties.** Reasonable efforts should be made to segregate financial duties at the church among two or more people, if possible.