

**Recommendations from the 2013 Internal Audit of Community United Methodist Church's
2012 Financial Statements and Accounting Records.**

It is my understanding that there was a lot of change in the record keeping and processing for the church during the 2012 accounting year. A lot of record keeping inconsistencies were identified during the 2011 audit which was communicated to the Finance Committee late in 2012; therefore, many changes were not put in place during 2012. As a result, I started my audit by reviewing the 2011 audit recommendations and I have focused my report on those items. My observations/comments to the 2011 recommendations are in ***bold italic*** below.

Payroll and Staff Policies and Procedures - Follow up of prior year audit recommendations:

There are so many items of concern in the processing of payroll and employee benefits that we recommend a complete review of the payroll process and procedures; to include assignment of wages, documentation and approvals of wage increases, assurance of compliance with federal and state regulations and ensure compliance with Conference policies...Establish a local church payroll policy and employee handbook stating those policies.

I was unable to verify corrective action in this area. I reviewed the payroll/personnel files (currently, there is only one combined file for each employee) and they are incomplete as to required documentation. By law, each employee must have an I-9 and W-4 on file. I have provided some guidance to help the church address the documentation that should be part of the files. It is recommended that two files be created, a payroll file which is accessible to the accounting staff and a personal file that would be accessible to the "parish staff committee". These files should be kept up to date. In addition, it appears that no one is tracking PTO time for the employees. In a normal business environment, the amount of PTO is communicated to the person's supervisor and to the payroll processing department. PTO would be approved by the supervisor and communicated to the payroll processing department prior to the running of the payroll for that pay period. The payroll department keeps track of the amount of PTO used and available for the employee. I was not able to find an employee manual, which would outline the church policies such as PTO, vacation, work week, benefits, etc. Without documentation, I was unable to audit any compliance to the policies.

Cash & Bank Issues - Follow up of prior year audit recommendations:

- 1) Remove bank fees and charges: ***Completed***
- 2) Investigate other banks to protect for funds over the FDIC limit: ***This was not completed. Normal cash balances do not exceed the FDIC limit therefore it is not necessary to maintain multiple bank accounts. No longer an issue once the church was not earning interest on the checking account due to the FDIC laws.***
- 3) Determine the accurate representation of cash and adjust beginning balances: ***This project was completed. The completion of this project and the monthly reconciliation of the account balances have resulted in much cleaner and accurate financial statements for the church.***
- 4) There are years of old outstanding checks. Follow required procedures to write off or reissue checks. ***This project is started, but not completed. I recommend that in the future,***

outstanding checks that are more than 3 months old be reviewed and resolved in the fourth month after they are issued.

- 5) Monthly bank reconciliations should be prepared by an independent third party. **Effective 2/2013 this recommendation was implemented. As I was auditing this area, I examined 2 months of bank reconciliations. The reconciliations were prepared by an independent 3rd party and the ending cash balances tied to the balance sheet without exception. Completed.**
- 6) Signers of checks should not be preparers of checks or someone who approves bills for payment. **This has been implemented. Preparers remain on the signing list but only sign in case of an emergency. Completed.**
- 7) There should be a list of signers for the cash accounts that should be updated on an annual basis. **Still open.**
- 8) Allocate cash on financial statement so that it reflects temporarily restrict funds. **Completed. This is tied to number 3 above.**
- 9) Two or more counters should take the weekly offering to the bank. **This has not been implemented. This would ensure extra protection to the congregation and would be an ideal procedure.**
- 10) Cash disbursements and payroll should be authorized by someone other than the individual who prepares the checks. **The cash disbursements procedure has been changed and the person who prepares the checks no longer approves the expenditure. I reviewed several months of disbursements and confirmed that the "Request for Disbursement of Funds" form was properly completed. However, I did not see any evidence of authorization for the payroll. The payroll for hourly people was supported by time cards, but the time cards were not approved by someone who would have knowledge of the hours worked. This procedure for the payroll authorization is of high importance. It was discovered that a person who did not work for a full month was paid for that month.**
- 11) Checks should be signed by someone other than the individual who prepares the checks. The check signer examines the supporting invoice or documents for approval and appropriateness before signing the check. **While I was on site one day, I witnessed the independent person reviewing the check support documents and the signing of the checks. This has been implemented.**
- 12) Any cash/checks received during the week should be secured in a locked location until the Sunday deposit is prepared. If a large check is received, it should be deposited immediately. **Still open. This procedure should be implemented.**

Cash & Donation Receipts - Follow up of prior year audit recommendations:

- 1) Establish a written policy regarding what types of donations go to the Foundations rather than the church and follow that policy. **The church has been operating under an oral policy regarding this but it has not been written up as yet. All policies are currently being written. Still open.**

- 2) Establish a written policy, a sub-committee of the Administrative Board or Finance. ***The church has subcommittee working on the written policies. In process.***
- 3) Committee to determine the wisdom and applicability of major gifts and certain forms of other gifts including non-cash donations. ***Still open.***
- 4) Establish a policy that when the church accepts funds for a certain purpose (temporary restriction), that if the cause does not materialize, the church is allowed to use such funds for other purposes after a certain period of time. This would be communicated on all donor statements. ***Still open. This is a very important policy to protect the church being responsible for restricted donated money.***
- 5) Research the source and documentation available for the Naper Bridge Fund.ect : ***Completed.***

Cash Disbursements / Bill Paying - Follow up of prior year audit recommendations:

- 1) Determine appropriate segregation of duties; the person approving invoices for payment should not also prepare the check. Also, those involved with bill payment should not be involved with cash receipts. ***This has been completed and the segregation of duties has been resolved, however, it would be helpful to document the current procedure.***
- 2) Establish additional policies and procedures for bill payments and communicate them. ***In process. Still open.***
- 3) The administrative assistant should not be the only approval for invoice and reimbursements. ***This has been changed. The administrative assistant only approves normal building and operating expenditures such as utilities, office supplies, phone, etc. Each person in charge of programs is responsible for approving the program expenses. The trustees approve major building expenses.***
- 4) Consult the Discipline to determine appropriate duties of the Treasurer, Financial Secretary, and office staff relative to receipts, disbursements, and payroll expenditures. ***In process. Still open. Still need written job descriptions, of which this would be a part.***
- 5) Establish a policy regarding the use of the charge credit card. ***The church does have a written policy on this, which was not being followed. A 6 month moratorium on use of the cards was instituted. Only the administrative assistant's card is now allowed to be used and the treasurer must give preapproval. This procedure needs to be put in writing.***
- 6) Comparison shop for lower prices on some acquisitions of items and services. ***95% Completed. The Finance Chair and Trustee Chair have renegotiated a number of contacts including insurance, cleaning service, telephone, internet access, with copiers coming up. They have also decided to give up the postage machine at the end of the contract as a cost savings measure.***

Financial Statements - Follow up of prior year audit recommendations:

- 1) The finance committee has authorized the further investigation of these accounts and the steps to resolve them. ***This appears to be well in the process of approving. The financial statements have been streamlined and much more organized as of 12/31/2012.***
- 2) Staff cannot be allowed to spend in excess of budget without prior approval. ***This appears to be in process. There were still a number of program expenses that were over budget, but the overall overage was \$2,600.***
- 3) Provide the finance committee with updated, detailed information and the authority to respond. ***This appears to be in process.***
- 4) Finance committee should review financial statements, including the balance sheet and statement of activities as part of their monthly activity. ***This appears to be in process.***
- 5) A detailed monthly review is required. ***This appears to be in process.***

Other Funds - Follow up of prior year audit recommendations:

- 1) Restrict the creation of additional funds. ***This has been done; however, it has not been documented.***
- 2) Identify who is in charge of each fund, who is making distribution decisions. ***This has been done; however, it has not been documented. Distributions for the fund purpose have been more frequent.***

General items - Follow up of prior year audit recommendations:

- 1) Church should have historical records and have them organized – ***The 2012 records were all available. This appears to be in process.***
- 2) Key control – set up a master list of all those who are given keys to the church. ***This has not been completed.***
- 3) Employees and volunteers need to be trained in their jobs and informed about the controls in place. ***This is all done verbally right now. The church has been fortunate because there have been some long term employees who have kept things consistent. The completion of this is contingent on the documentation of policies and procedures and an employee handbook.***

New items/ Recommendations:

The prior year audit uncovered the majority of issues that needed to be addressed. Unfortunately, there are still a number of items that are outstanding or in process at the time of my report.

The major area of concern that should be addressed right away is the payroll processing for employees, the lack of adequate documentation in the employee payroll files and the church's compliance the state and federal regulations.

The church maintains two systems, one for the accounting information and one for the membership activity. The weekly donations are tracked in the membership software and a detailed report is given to the bookkeeper to enter into the accounting system. I recommend that the two systems be reconciled on a monthly basis to ensure that the donations are properly reported in each system.