

Agreed Upon Procedures for the Year Ended and as of December 31, 2016 / Local Church Audit Guide Recommended Procedures
 Report Prepared by North Central College Team (Professor David Gray and Students – Tabin Vrba, Luke Miller, and Eduardo Gonzalez)
 August 31, 2017

Procedure	Auditor	Comments/WP Reference
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.	E. Gonzalez	Verified that values on both the balance sheet and income statement agreed with ending values found in the general ledger, without exception.
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.	E. Gonzalez	No non-normal balances noted.
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.	E. Gonzalez	Accumulated deficit was not present.
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:	T. Vrba / L. Miller	See commentary for the following procedures.
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.	T. Vrba / L. Miller	Agreed without exception.
b. If any bank statement cash balance exceeds \$100,000, obtain written confirmation of such balances directly from the bank or banks.	T. Vrba / L. Miller	Confirmation received with no exceptions noted.
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.	T. Vrba / L. Miller	Completed without exceptions noted. No deposits noted that were not deposited within three business days.

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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.	T. Vrba / L. Miller	Completed without exceptions noted.
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).	T. Vrba / L. Miller	Completed without exceptions noted.
f. Include a listing of outstanding checks that have been outstanding more than six months in your final report to the Finance Committee.	T. Vrba / L. Miller	Completed without exceptions noted.
g. Obtain an explanation of any other reconciling items used in the bank reconciliation(s), and include the explanation of any significant reconciling items (those in excess of \$3,000) in the final report to the Finance Committee.	T. Vrba / L. Miller	Completed without exceptions noted. Other than fund transfers there were no reconciling items in excess of \$3,000.
h. Agree each General Ledger cash balance as of December 31 of the prior year to the corresponding year-end cash amount included in a copy of the church's signed "cash" report filed with the Conference office.	T. Vrba / D. Gray	Agreed balances without exception.
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.):	T. Vrba / D. Gray	Reviewed all investment activity for 2016.
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.	D. Gray	Completed. Acct. 1150.02 is included in CUMC's cash total on the 12/31/16 F/Ss.

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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.	D. Gray	Completed. No exceptions noted.
c. If investment balance(s) as of the end of the Test Period exceed(s) \$100,000, 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. Gray	n/a. No balances in excess of \$100, 000 as of December 31, 2016.
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).	D. Gray	Completed. No exceptions noted.
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.	D. Gray	Procedure Not Performed. The church does not have invested funds.
6. Church Property – Obtain a listing of all property owned or occupied by the church and perform the following:	D. Gray	CUMC does not maintain a full detailed list of all church property.
a. Request the title and/or deed to the land, building and vehicles.	D. Gray	Did not review title/deeds to property.
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. Gray	Title/deeds are maintained in a bank safe deposit box per inquiry with Brenda DeGeer, CUMC Treasurer. See Procedure 12 for discussion of insurance coverage/adequacy.
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:	D. Gray	See below.

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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. 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.	D. Gray	All monthly credit card balances were paid in full in the month following purchase as described in the procedure.
b. Additional credit and procurement card transaction testing should be performed as part of 11.c. below.	D. Gray	See Procedure 11C.
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.	D. Gray	Verified that totals on deposit summaries, batch, and amount in cash ledger all matched for each chosen Sunday for the six selected dates. No exceptions were noted.
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.)	E. Gonzalez	Traced from ledger, to batch number, to bank summary to validate totals. No exceptions were noted.
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. Gray	Based on inquiry of Brenda DeGeer, CUMC Treasurer, she does not have the ability to alter individual giving records nor does she participate in counting the Sunday or other offerings.

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<p>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.</p>	<p>D. Gray</p>	<p>Based on inquiry of Mari Schirmer, CUMC Financial Secretary, she does not have the ability to record or alter accounting records. Also, she does not directly participate in the counting of Sunday offerings. <i>(Note: this procedure was performed in conjunction with the work performed on the 12/31/15 procedures. Since this inquiry was made in November 2016, it was not deemed necessary for this engagement.)</i></p>
<p>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.</p>	<p>D. Gray /T. Vrba</p>	<p>Reviewed numerous non-cash receipts/cash disbursement entries noting agreement with supporting documentation where applicable. For cash transfer entries see explanation in Procedure 4.</p>
<p>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.)</p>	<p>D. Gray</p>	<p>Other income sources do not exceed the 10% of CUMC revenue threshold.</p>

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<p>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.</p>	<p>D. Gray</p>	<p>Based on inquiry with Brenda DeGeer, CUMCTreasurer, no significant single donations (other than those noted in Procedure 5 are noted).</p> <p>Mari Schirmer, CUMC Financial Secretary, calls people who make large donations to get the distribution desired and then sends a quarterly statement. People respond if the allocations are not made as specified.</p>
<p>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:</p>	<p>D. Gray/E. Gonzalez</p>	<p>See individual procedure comments which follow. Given that we reviewed all payroll tax payments and all credit card payments, we reviewed more than the 24 expenditures from the general ledger detail.</p>
<p>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 time card or sheet (or similar record) approved by the employee’s supervisor.</p>	<p>D. Gray</p>	<p>Recalculated pastors’ wages / pay rates based on approved salary authorizations and personnel file records.</p>

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<p>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.</p>	<p>D. Gray</p>	<p>Reviewed all payroll tax returns and traced remittances to general ledger detail for cash disbursements and selected payroll taxes accounts.</p>
<p>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.</p>	<p>D. Gray</p>	<p>Performed procedures as described noting no exceptions.</p> <p>During 2016, CUMC issued separate credits cards to several of the church’s employees. Our investigation did not reveal any unusual expenses patterns or purchases. However, we did note that receipts were not always submitted in full or on a timely basis.</p> <p>In addition, we noted that in many instances it appeared that items may have been purchased without the use of the church’s sales tax-exempt status.</p>
<p>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.</p>	<p>D. Gray</p>	<p>Reviewed all credit card bill payments made in 2016 and the first payment made in 2017 based on December 2016 purchases.</p>

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<p>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.</p>	<p>D. Gray / E. Gonzalez</p>	<p>Performed procedures as described noting no exceptions.</p>
<p>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.</p>	<p>D. Gray / E. Gonzalez</p>	<p>Based on our understanding of the mission and related activities of CUMC, the expenditures appeared consistent with expectations and established practices.</p>
<p>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.</p>	<p>D. Gray</p>	<p>Obtained summary of insurance coverage. Coverage-levels appear reasonable. <i>(Note: this procedure was performed in conjunction with the work performed on the 12/31/15 procedures. Since this inquiry was made in November 2016, it was not deemed necessary for this engagement.)</i></p>
<p>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.</p>	<p>D. Gray</p>	<p>The church has \$250,000 of insurance coverage for employee dishonesty (including volunteers).</p>