

Church Audit Manual

This Audit Manual has been specifically designed for churches with small and moderate size operating budgets.

Paragraph 258.4c of the *2000 Book of Discipline* notes under the responsibilities of the Finance Committee “The committee shall make provision for an annual audit of records of the financial officers of the local church and all its organizations and shall report to the Charge Conference.”

The audit should be accomplished as soon as possible after the close of the calendar year. The audit is an important process to reasonably ensure that the financial management of church funds is adequately accomplished.

The auditor needs to be qualified, but not necessarily a “professional” auditor. It can be a person from your congregation as long as they are not involved in the record keeping process or closely related to someone who has those responsibilities.

The Audit Report form and any supporting written report should be sent to the District Superintendent.

I. HOW TO PLAN THE AUDIT

1. Obtain the books of account and supporting records from the Treasurer(s) for each fund of the church. Obtain the donor ledger from the Financial Secretary.

The essential records needed, in addition to the books will include:

- ★ List of all bank and investment accounts and persons authorized to sign checks or approve transactions.
 - ★ Bank statements, and cancelled checks, if returned by bank, for the 12 months being audited.
 - ★ Copy of Current Expense Budget for the year.
 - ★ Invoices supporting check payments.
 - ★ Payroll records including payroll tax returns.
 - ★ Count sheets (for each Sunday's collections for the 12 months being audited).
 - ★ Pledge envelopes for 4 weeks (on a random basis), if available.
2. Obtain a copy of each Treasurer's reports for the 12 months being audited and the prior December's reports.
 3. Obtain a copy of last year's audit report, assuming one was prepared.

NOTE: The United Methodist Book of Discipline requires that each church make an audit annually, and file its audit report on the Conference's form - "Report of the Annual Audit".

4. When should your audit work be started?

NOTE: Each church is required to file a "Statistical Report" with the Conference by February 15 of each year.

Each Treasurer's report is needed on or about the end of January for the preparation of this "Statistical Report".

Generally, audits are not started until April-June of each year (based on the personal schedules of the members of the Audit Committee, or Auditor, if only one member).

5. Who should and should not do the audit:
 - a) Any person who was involved in preparation or reconciliation of church records should not be the auditor.
 - b) Persons with financial training/experience, from your own congregation, not excluded by (a) above, are acceptable.
 - c) Qualified person(s) from outside the congregation, whether hired or gratis volunteers are acceptable.
 - d) Exchange of qualified persons from another church (United Methodist or others) to do each other's audit is acceptable.

II. AUDIT PROCEDURES

CURRENT EXPENSE FUND

NOTE: The Current Expense Fund is the "operating fund" of all United Methodist churches.

Budgeted income and expenses flow through this fund. Generally, it is the dominant fund of a church, especially small churches.

INCOME:

1. Compare all weekly report totals (or "count sheet" totals, where a church has a Counting Team) of the Financial Secretary to the Treasurer's cash receipts records and to deposits as shown on the bank statements.
 - a) Note and investigate any deposits which do not correspond with bank and/or Treasurer's amounts.
2. Compare the envelopes to the donor ledger, checking amounts and names.
 - a) Investigate any variances and comment accordingly.

DISBURSEMENTS:

1. Select a reasonable period (one month minimum) and compare cancelled checks with entries in the Treasurer's records, noting that date of checks, payees are in agreement.
 - a) Note and investigate any discrepancies found.

2. Compare annual salaries of all employees who are subject to withholdings, to the totals shown on federal forms W2 (annual wage statement) and 941 (quarterly form for reporting all salaries and withholdings).
 - a) Note and investigate the difference between the total salaries recorded on the Treasurer's records and the total reported to the federal government.

GENERAL:

1. Compare the total of each department/category budget total to the yearly total department/category disbursements, as reported by the Treasurer.
2. Note all department/category "over budget" expense totals and significant individual items. Were such "budget overruns" properly approved by the Finance Committee/Administrative Board?

YEAR-END BALANCES:

1. Reconcile year-end cash balances with bank statements.
 - a) Note and investigate any discrepancies.

OTHER FUNDS

1. Trace all receipts recorded in the Treasurer's record of cash receipts to the bank statements for the year.
 - a) Note and investigate any differences.
2. For larger disbursement items, compare with entries in the Treasurer's record of cash disbursements with cancelled checks and invoices.
 - a) Note and investigate any differences.
3. Reconcile the year-end balance for each bank account to the balance in the Treasurer's record.
 - a) Note and investigate any differences.

4. Reconcile the year-end balance for each investment account to the balance in the Treasurer's record.
 - a) Note and investigate any variances.

III. THE AUDIT REPORT

1. Complete the audit report furnished annually by the Conference entitled "Report of the Annual Audit" (copy enclosed):

Front side

Receipts, disbursements, and balances for each of your church's funds

Reverse Side

Exceptions and recommendations should be noted for all major points covering weaknesses in record keeping, internal controls and other financial/operational functions.

2. Auditor's responsibility

This "responsibility" is stated on the bottom of the reverse side of the report form as:

"The Auditor/Auditing Committee has examined the accounts listed on the preceding page; has reconciled receipts and disbursements with bank deposits, checks issued for vouchers drawn, and bank balances; has found the balances displayed to be correct and the records properly kept, except as noted above."

3. Other form or type of report

Some churches (often larger churches) have elected to have a more detailed audit report prepared, in addition to the "short form" report required by the Conference.

Examples of such alternative types of reports are available from the Conference Treasurer's office.

IV. CONTROLS/PROCEDURES TO BE OBSERVED

In preparing the audit report, the more significant points relating to "control/procedure weaknesses" should be commented on.

The following CHECK LIST may be helpful in identifying the areas for comment. Other control weakness may be observed and should be noted. A "no" answer could warrant comment.

CHECK LIST

<u>Subject</u>	<u>Yes</u>	<u>No</u>
Does it appear that:		
(1) Deposits are made in a timely manner?	_____	_____
(2) Money is counted by two unrelated persons other than the Treasurer or Financial Secretary?	_____	_____
(3) Reports are made on a regular basis to the Finance Committee and Administrative Board?	_____	_____
(4) Bank statements are reconciled monthly and by someone other than persons who write checks?	_____	_____
(5) Bills are paid in a timely manner?	_____	_____
(6) Expenses are properly approved for payment and recorded?	_____	_____
(7) Were all bills paid by check?	_____	_____
(8) Authorized signatures for bank and investment accounts are current?	_____	_____
(9) Computer based records have a back up file that is stored off premises?	_____	_____

While this internal control list may generate audit report comments, others may result from observations/findings during the audit process.