

GUIDE  
TO  
AUDITING  
THE  
LOCAL CHURCH

**Florida Conference of the United Methodist Church  
Guide to Auditing the Local Church**

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This guide is provided to you as a service of the Florida Conference of the United Methodist Church. A significant portion of the content of this guide has been taken directly from the "Local Church Audit Guide" written by 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.

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**DISCLAIMER**

The General Council on Finance and Administration, the Internal Audit Department and The Florida Conference of the United Methodist Church are not responsible for the conducting of local church audits, nor do they provide legal or financial advice to the local church through this guide. Local churches should seek assistance and advice from their local advisors when specific issues arise. This guide is provided to you as a service and should be used to increase your understanding of auditing principles within your local church.

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**PREFACE**

The annual audit of the financial records of the local church is a requirement set forth in The Book of Discipline of the United Methodist Church, 2012; Part VI. Organization and Administration; Chapter One, The Local Church; Section VI. Organization and Administration; Administrative Committees, Paragraph 258.4(d).

d) The 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. A local church audit is defined as an independent evaluation of the financial reports and records and the internal controls of the local church by a qualified person or persons.

The audit shall be conducted for the purpose of reasonably verifying the reliability of financial reporting, determining whether assets are being safeguarded, and determining compliance with local law, local church policies and procedures, and the *Book of Discipline*.

The audit may include: 1) a review of the cash and investment reconciliations; 2) interviews with the treasurer, financial secretary, pastor(s), finance committee chair, business manager, those who count offerings, church secretary, etc., with inquiries regarding compliance with existing written financial policies and procedures; 3) a review of journal entries and authorized check signers for each checking and investment account; and 4) other procedures requested by the committee on finance.

The audit shall be performed by an audit committee composed of persons unrelated to the persons listed in (2) above or by an independent certified public accountant (CPA), accounting firm, or equivalent.



## **INTRODUCTION**

As a guideline for conducting the actual audit, The Book of Discipline, is somewhat lacking in providing the local church with the actual methodology for carrying out the physical audit. Thus, this guide will hopefully fill the gap, and facilitate a smoother annual audit process.

First it should be stated that an annual audit of the Local Church's Financial Records is **MANDATORY**, as set forth in the Book of Discipline of the UMC. This is a requirement of **EVERY** church within the Florida Conference of the UMC and is not based on size or attendance or some other criteria. If you are established as an active operating church within the Florida Conference of the UMC, **YOU MUST CONDUCT AN ANNUAL AUDIT.**

There are also several other good reasons for conducting annual audits, such as:

- To protect the people 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.
- 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

Note, that conducting an audit is not a symbol of distrust. It is a mark of responsibility. It is good stewardship, demonstrated for all to see. And, it is a message to your local church donors that you care about their gifts.

Regardless of the size of the church, all areas of the Audit Process should be completed.

## **WHO CAN PERFORM THE LOCAL CHURCH AUDIT?**

Local churches all over the United Methodist world do a great job of fulfilling their responsibilities to make provisions for an annual audit. It is suggested that churches with annual receipts in excess of about \$300,000 should seriously consider engaging an outside auditing firm to perform the audit. This is a recommendation and is not binding, but it seems to be prudent stewardship since more complexity is involved as receipts and expenditures become larger.

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 was performed in accordance with professional standards for the performance of audits". The 2 key issues for conducting an effective audit are that the audit must be performed by a "qualified" person or persons, and that the auditor must be "independent".

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. Throughout the Florida Conference, audits are handled in a variety of ways. Audits can be accomplished by:

- Outside professionals (It is suggested that churches with annual receipts in excess of about \$300,000 should seriously consider engaging an outside auditing firm to perform the audit.)
- Accounting professional(s) in the congregation who are not serving the local church in any of the financial offices
- A person in the congregation with financial knowledge or expertise but who do not have the benefit of formal training in accounting or fiscal management
- A financial professional from a neighboring church i.e. A small local church will agree with another small local church in the same locale to have the treasurer of each audit the other.
- A committee made up of a variety people with a blend of financial skills

Secondly, the auditor needs to be "independent". Independence means 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 even be the appearance of a relationship that may dilute the perception of the independence of the auditor.

For example:

- The treasurer, her husband, child 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.
- The church's pastor should NOT perform the audit.



## **UNDERSTANDING RESTRICTED ASSETS**

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 offering plate on Sunday Morning. The reason why it is important to account separately for restricted funds 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 the return of the gift, even years later.

Some examples of a restricted gift are:

- Member Jane Doe gives \$10,000 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.
- Member Jack Smith gives \$100,000 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.

While both these examples are restricted assets, the money for the piano is "temporarily restricted". That means that the donor-imposed stipulation can be fulfilled by the action of the church purchasing a new piano. Assets that are "temporarily restricted" can ultimately be spent, though they **MUST BE SPENT FOR THE SPECIFIED PURPOSE**.

The money given by Jack Smith is to be invested and is "permanently restricted", meaning that the full \$100,000 was stipulated by the donor to be held permanently. Note that the income from this gift is to be used only for a specific purpose. To make a fine point, the income is "temporarily restricted", while 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.

Another point to remember is that the local church cannot change any restriction without the specific consent of the donor, which must be in writing.

## **UNDERSTANDING DESIGNATED ASSETS**

Designated assets are those assets that have been voted by the local church's governing board, such as its Administrative Council, Trustees, Finance Committee 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 people the following year to a seminar on discipleship. Following the vote, the \$5,000 should be reported as a "designated" asset.

Because the stipulation for the \$5,000's 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 purpose, such as to buy a new van, for example, the board can vote to apply the money for that purpose.



## **THE AUDIT PROCESS**

Simply stated, 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.
- 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
  - Loans
  - Credit Card Usage
  - Electronic Funds Transfers
  - Electronic Payments
  - IT System Controls and Securities
- Report the results
- Retain the records
  - The auditor's work papers as well as all financial records should be retained for at least SEVEN years in a secure, limited access, storage area

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 church.

The audit should include not only the main financial accounts and records of the local church, but all its organizations. That means the treasuries that are to be audited may include:

- Memorial Fund
- Trustees Accounts & Records
- 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

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Methodist Men, Pastor's discretionary fund, United Methodist Youth fund, church school, etc.

(The only exception is the United Methodist Women, which should be audited, but may be audited separately. The Book of Discipline, ¶1318 - ¶1329)

The auditor must obtain access to the all financial documents and materials, both electronic and paper.

Throughout the audit process, the auditor is working with the church treasurer and/or financial secretary to clear up any questions or issues, as they occur.

**NOTE:** The auditor may obtain access to confidential information and **MUST** treat the information accordingly.

## **AUDIT PREPARATION**

A thorough audit preparation is critical to a smoothly run audit. After the books are closed for the year but before the audit begins, it is important to ensure that all the tools, documents, and confirmations are available to the auditor.

### **Audit Tools**

- Paper & Pencils ☺
- Church's GCFA Number
- Computer & Printer
- Access to Internet
- Access to Church & Church Organizations Records
- Audit Checklist (**ADDENDUM III**)
- Audit Schedule
- Quiet Location to perform the audit that is free of distractions

### **Documents**

The auditor must obtain access to the following information and materials:

- Copies of all Church policies and procedures related to finance and treasury functions and copies of minutes approving those policies.
- 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.
- 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.
- 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).
- Bank and investment account statements for the same period.
- Bank reconciliations for the same period.
- 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.
- 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.
- The Financial Secretary's records and other income records for the same period.
- Loans



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**Confirmations**

Confirmations are essential for providing the auditor with independent verification of bank and investment account balances and authorized signatures, monies sent to the annual conference for Apportionments, P&HB, Ministry Protection Premiums (Property Insurance & Worker's Compensation), Benevolence Funds and Special Gifts, the coverage level(s) and related premiums for all insurance policies and, on a test basis, donor contributions.

**Bank Confirmations:** For each bank and investment account, the auditor requests the balance, as of December 31<sup>st</sup>, and list of the person(s) authorized to sign on that account. (**ADDENDUM IV**)

**Annual Conference Confirmations:** The auditor should access the local church statement on the Florida Conference Website ( [www.flumc.org/monthly\\_reports.asp](http://www.flumc.org/monthly_reports.asp) ) to obtain confirmation of payments to the various accounts held through the Florida Conference. These include:

- Apportionments
- Pension
- Health Benefits
- Ministry Protection Premiums
- Special Gifts

**Insurance Coverage Confirmation:** An Annual Summary of Insurance is sent to each church from the Florida Conference at the beginning of each year and should be part of the church records. The Certificate of Insurance is sent to the local church directly from AON (The Underwriters of all local church policies)

**Donation Confirmation:** The auditor should randomly sample about 1% of the total number of those who give. It is suggested that not more than 10 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 V**). The amount in each letter should be compared to the year-end giving statements provided by the local church to donors.

All of 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. All responses should be addressed directly to the auditor, not the auditor in care of the church.



## **THE AUDIT**

Staying organized is key to a successful audit. Begin and work through each section as described below. Finish one area (as much as possible) before beginning on the next area. In general, when any discrepancies are found, research the discrepancy to the best of your ability to determine if there is a reasonable & documented explanation or if there is an error. In all areas, ascertain suitability and adherence to established church policies. Take extensive notes throughout the process to facilitate the writing of the final Audit Report.

### **Cash:**

Every category of cash and all other invested funds must be audited at year end. This may include:

- Checking Accounts
- Saving Accounts
- CD's held in the name of the church or church foundation
- Petty Cash Accounts held in the office of the church or elsewhere within the church organization

To audit the cash accounts, the auditor must have:

- The list of all bank accounts
- The Authorized Signers to each account
- A Copy of all financial statements for each month being audited
- The bank account statements and reconciliations for each month being audited
- Bank confirmations

Using this information, the following steps should be followed, at a minimum, noting any discrepancy, if/when they are found:

- Review the bank confirmations to see that the ending balance as stated by the bank is the same figure used in the December statement.
- Check to see that the current authorized signers as listed by the bank are the same names listed in the church records.
- Review the 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.

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- 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.

**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 the original book of entry for correct posting of Sunday deposits.
- Using the donor confirmations, determine whether the amount paid as reported by the donor is the same as recorded and received by the financial secretary.
- Review the original books of entry to determine if other income has been recorded accurately (i.e. appropriate account, correct amount, unrestricted or designated / restricted, etc.).
- Trace the entries to the financial statements.

**Disbursements:**

- 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 Florida Conference 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.

**Payroll:**

- Check staff-parish relations committee and charge conference records versus payroll records to verify that correct salaries or rates have been paid.



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- 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.

**Payroll and Tax Records:**

- Reconcile all payroll with tax records and tax payments.
- 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.
- Verify the existence of current W-4's and I-9's for all staff. (NOTE: The IRS views clergy as an "employee". The church may not do Social Security withholding for clergy but can make voluntary income tax withholdings pursuant to a W-4 form, at the pastor's request.)
- Test that the appropriate amount of taxes that have 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 is 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.

**Internal Control Structure:**

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 Book of Discipline and with the local, state, and federal laws, and that its assets are safeguarded. The internal control structure should be in place not just on paper but in actual operation.

The following areas should be evaluated:

- Segregation of Duties
  - Duties should be segregated among two or more persons, if possible. In small churches this may be difficult, but it is rarely impossible. The effort by small churches is to attain reasonable segregation under all circumstances. For example:  
The Financial Secretary and the Church Treasurer should not be related. These should be separate offices occupied by different

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individuals, who are NOT related by blood, marriage or employment relationships.

- 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.
- Receipts and Disbursements should be performed by different people. (This may not be possible in small churches, but every effort should be made to accomplish this, if possible.)
- Authorization for Disbursements
  - Verify that everyone who approves disbursements is authorized to do so. The auditor should look for resolutions and actions in the minutes of the finance committee and the governing body that addresses authorizations.
  - The Check Signer should not be the Authorizer of Expenditures or the person who performs check reconciliations. The auditor should examine who is signing the checks and compare the results found to bank authorizations.
- Finance Reports
  - Monthly Finance and Treasurer's reports should agree with the general ledger and subsidiary journals. Balances as of the first day of each month should be the same as the last day of the previous month.
- Church Issued Credit Cards
  - Who are the cards issued to?
  - Are they being reviewed regularly to ensure there are no personal charges to the cards?
- Electronic Banking – Policies & Procedures should be in place to include the use of Electronic Banking. Those P&P's should include:
  - Online banking and EFT activities
    - With what institutions are you using EFT?
    - Monitoring
    - Sending Electronic Payments
    - Receiving Electronic Payments
    - Electronic Check Images
  - Segregation of Duties
    - Who is authorized to initiate electronic transaction?
    - Who approves electronic transfers?
    - Who transmits electronic transfers?
    - Who records electronic transfers?
    - Who will review and reconcile electronic transfers?
  - Safeguards
    - Is In-house Banking Software password protected?



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- Strength & Security of Passwords
  - Limited access to Software
- Other Areas to Check and Questions to Answer
  - 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 by only 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 paid on time?
  - Are computer software and data files backed up on a regular basis?
  - Are Computer systems 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? (The auditor should confirm the contents of the box with the depository institution.)
  - Is a list of persons with authorized access to safety deposit boxes kept?  
(The auditor should confirm who has authorized access to the box with the depository institution.)
  - 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 an inventory of fixed assets?
  - Is the inventory of fixed assets kept current by entry of purchases and dispositions?
  - Has the auditor verified the list of fixed assets?

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- Is there a process in place for control of fixed assets?
- Is there a policy on record retention, and if so, is it complied with?

## **THE FINAL STEP – THE AUDIT REPORT**

The auditor is ready to begin the final step of the audit when he 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. When all these steps are complete, the auditor should review the work done with the church treasurer and financial secretary, endeavoring to answer any lingering questions. Now it is time to prepare the final audit report.

The auditor should offer to meet with the Finance Committee to discuss the audit report, incorporating any responses the finance committee may choose to add into the final report. Per the Book of Discipline, the final audit report is required to be delivered to the Charge Conference.

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

- Documentations of steps taken to complete the Audit
- Statement of Financial Position (balance sheet)
- Statement of changes in net assets (statement of activities)
- Statement of Cash Flows
- Comments, if any, on the reliability of the treasurer's financial reporting
- Comments, if any, on insurance policy coverage
- Comments, if any, on compliance with donor restrictions on gifts
- Attachment of the Auditor's Working Papers

The audit is complete, once the auditor has delivered the audit to the charge conference with responses of the finance committee.

One final word of caution: If the auditor meets with either the finance committee or the charge conference, be aware of The Book of Discipline, ¶722. 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 ¶722. It is suggested that you provide the legal advisor with a copy of ¶722.



## **ADDENDUM I**

### **TERMS**

**Assets** – Items owned and controlled by an entity such as cash, accounts receivable, investments, land, building, furnishings, and vehicles.

**Audit** – a formal ‘independent’ examination of an organization’s accounts or financial situation. May include but is not limited to 1) a review of cash and investment reconciliations; 2) interviews of treasurer, financial secretary, pastor(s), finance committee chair, business manager, those who count offerings, church secretary, etc., with inquiries regarding compliance with existing written financial policies and procedures; 3) a review of journal entries and authorized check signers for each checking and investment account. It 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.

**Audit Committee** – A sub-committee of the church finance committee who engages the independent auditor and to whom the auditor reports his/her initial findings.

**Auditor** – The person or group of people conducting the audit.

**Compliance** – The act or process of doing what has been asked or required by the Book of Discipline, donors, church by-laws, and governing authorities.

**Designated Assets** – 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 particular purpose.

**Disbursement** – Payment made for goods or services including, but not limited to, wages, utilities, program expenses, supplies, debt payments, and purchase of assets.

**GCFA Number** – A unique identifying number assigned to every church within the United Methodist Denomination by the General Council on Finance and Administration, The United Methodist Church.

**Independent** – 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 even be the appearance of a relationship that may dilute the perception of the independence of the auditor.

**Internal Control Structure** – The process that assures the local church’s operational efficiency and effectiveness, that its financial reporting is reliable, that it is complying with The Book of Discipline and with the laws, and that its assets are safeguarded.

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**Qualified** – 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.

**Restricted Assets** – Those assets that are subject to an imposed stipulation or specified use by the donor.

## **ADDENDUM II**

### **RESOURCE INFORMATION & LINKS**

[www.gcfa.org](http://www.gcfa.org)

[www.flumc.org](http://www.flumc.org)

[www.cokesbury.com](http://www.cokesbury.com)

(Guidelines for handling of and accountability of funds can be found in the 2013-2016 United Methodist Church Financial Records Handbook and in Guidelines for Leading Your Congregation: FINANCE available at [www.cokesbury.com](http://www.cokesbury.com))

[www.YourChurchResources.com](http://www.YourChurchResources.com) (Christianity Today)

(201\_ Church and Clergy Tax Guide)

[www.accountingsoftwarenews.com/church/church2.html](http://www.accountingsoftwarenews.com/church/church2.html)



**ADDENDUM III**

**Audit Check List**

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Audit Check List  
Addendum III**

\_\_\_\_\_ **United Methodist Church**

**Start Date:** \_\_\_\_\_

**Audit Committee Member(s): (Printed Name)**

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

**End Date:** \_\_\_\_\_

**Audit Committee Member(s): (Signatures)**

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

**Florida Conference of the United Methodist Church**  
**Audit Check List**  
**Addendum III**

| AUDIT ITEM  | Date Completed | Initials |
|---|----------------|----------|
| Reconciliation of Bank & Investment Accounts      |                |          |
| Operating Bank Account #                          |                |          |
| Month   |                |          |
| Bank Account #                                    |                |          |
| Month   |                |          |
| Bank Account #                                    |                |          |
| Month   |                |          |
| Are Bank Accounts Balanced Monthly?               |                |          |
| Verification of Beginning and Ending Year Balance |                |          |
|   |                |          |
|   |                |          |
| <b><u>BANK &amp; INVESTMENTS</u></b>              |                |          |
| 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  |                |          |
| (Name)_____ Confirmation Sent                     |                |          |
| Returned  |                |          |
|   |                |          |
|   |                |          |



**Florida Conference of the United Methodist Church  
Audit Check List  
Addendum III**

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**Florida Conference of the United Methodist Church  
Audit Check List  
Addendum III**

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Florida Conference of the United Methodist Church  
Audit Check List  
Addendum III

| AUDIT ITEM   | Date Completed | Initials |
|--|----------------|----------|
| <b><u>REPORTS</u></b>  |                |          |
| 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 & pastor       |                |          |
|  |                |          |
|  |                |          |
|  |                |          |
|  |                |          |
| <b><u>GENERAL LEDGER</u></b>   |                |          |
| Appropriate separation of restricted funds                           |                |          |
| Internal controls for receipts reviewed                              |                |          |
| Internal controls for disbursements reviewed                         |                |          |
| Other asset accounts reviewed (equipment, building, 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                          |                |          |
|  |                |          |
|  |                |          |
|  |                |          |
|  |                |          |



**Florida Conference of the United Methodist Church  
Audit Check List  
Addendum III**

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Florida Conference of the United Methodist Church  
Audit Check List  
Addendum III

| AUDIT ITEM   | Date Completed | Initials |
|--|----------------|----------|
| <b><u>ADMINISTRATIVE</u></b>   |                |          |
| Church has Employer Identification Number (EIN)                      |                |          |
| 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            |                |          |
|  |                |          |
|  |                |          |
|  |                |          |
|  |                |          |
|  |                |          |
|  |                |          |
|  |                |          |
| <b><u>PROPERTY &amp; EQUIPMENT</u></b>                               |                |          |
| List all land, building, vehicles, etc. that are 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 land              |                |          |
| Is adequate insurance maintained on all applicable building          |                |          |
| Is adequate insurance maintained on all applicable property          |                |          |
|  |                |          |
|  |                |          |
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|  |                |          |



**Florida Conference of the United Methodist Church**  
**Audit Check List**  
**Addendum III**

| AUDIT ITEM   | Date Completed | Initials |
|--|----------------|----------|
| <b><u>Internal Controls</u></b>  |                |          |
| Are financial duties segregated between 2 or more unrelated people?  |                |          |
| Do at least 2 unrelated people count the Sunday Collections?   |                |          |
| Are Receipts & Disbursements performed by different people?  |                |          |
| Verify that everyone who approves disbursements is authorized to do so   |                |          |
| Verify the Check Signer is not the Authorizer of Expenditures or the person who performs check reconciliations.  |                |          |
| Monthly Finance and Treasurer's reports should agree with the general ledger and subsidiary journals. Balances as of the first day of each month should be the same as the last day of the previous month. |                |          |
| Does church have separate bond for persons handling money  |                |          |
| Verify that only authorized personnel use church-issued credit cards.  |                |          |
| Verify that there are no personal expenses on church-issued credit cards.  |                |          |
| Are Policies & Procedures in Place for Electronic Banking?   |                |          |
| Are the Policies & Procedures being followed?  |                |          |
| Verify only authorized users can initiate electronic transactions  |                |          |
| Are Electronic transactions undergoing a formal approval process?  |                |          |
| Verify only authorized users can transmit electronic transactions  |                |          |
| Are Electronic transactions being recorded properly?   |                |          |
| Verify that Electronic Transactions are being reviewed and reconciled as appropriate.  |                |          |
| Are Banking Passwords Protected?   |                |          |
| Verify the strength & security of passwords.   |                |          |
| Verify limited access to Banking Software  |                |          |
| 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?  |                |          |
|  |                |          |



**Florida Conference of the United Methodist Church**  
**Audit Check List**  
**Addendum III**

| AUDIT ITEM  | Date Completed | Initials |
|---|----------------|----------|
| Is the correct church Employer Identification Number (EIN) on all accounts?   |                |          |
| Are investments made by only authorized persons?  |                |          |
| Are transaction 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 paid on time?   |                |          |
| Are Computer software and data files backed up on a regular basis?  |                |          |
| Are Computer systems backups 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?   |                |          |
| Confirm the contents of the box with the depository institution.  |                |          |
| Is a list of persons with authorized access to safety deposit boxes kept?   |                |          |
| Confirm who has authorized access to the box with the depository institution  |                |          |
| 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 an inventory of fixed assets?  |                |          |
| Is the inventory of fixed assets kept current by entry of purchases and dispositions?   |                |          |
| Has the auditor verified the list of fixed assets?  |                |          |
| Is there a process in place for control of fixed assets?  |                |          |
| Is there a policy on record retention, and if so, is it complied with?  |                |          |

**Florida Conference of the United Methodist Church  
Audit Check List  
Addendum III**

[illegible]

**Florida Conference of the United Methodist Church  
Standard Form to Confirm Account Balance Information with Financial Institutions  
Addendum IV**

(NOTE: Every occurrence of [ ] should be replaced with the data appropriate for the Local Church.)

[Local Church's Letterhead]

[Financial Institution Name]

[Address Line 1]

[City, State ZIP]

To Whom It May Concern:

[Current Date]

We have provided to our auditors the following information as of the close of business on [mm/dd/yyyy] 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 or 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 auditors.**

1. At the close of business on the date listed above, our records indicated the following deposit account balance(s): (Add rows to table as necessary to accommodate all accounts.)

| Account Name | Account Number | Interest Rate | Balance |
|--------------|----------------|---------------|---------|
|              |                |               |         |

2. At the close of business on the date listed above, our records indicated we were directly liable to [the financial institution] for loan(s) as follows: (Add rows to table as necessary to accommodate all accounts.)

| Account # /<br>Description | Balance | Date Due | Interest Rate | Date Through<br>Which<br>Interest Is<br>Paid | Description Of<br>Collateral |
|----------------------------|---------|----------|---------------|--|------------------------------|
|                            |         |          |               |  |                              |

The information presented by [The Local Church] is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below:

| Exceptions and/or Comments |
|----------------------------|
|                            |

[Financial Institution] Authorized Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_



**Florida Conference of the United Methodist Church  
Donor Confirmation Letter  
Addendum V**

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(NOTE: Every occurrence of [ ] should be replaced with the data appropriate for the Local Church.)

[Local Church's Letterhead]

[Current Date]

[Donor Name]

[Address Line 1]

[City, State ZIP]

Dear [Mr. and/or Mrs./Miss Donor Name],

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 within the Local Church or just the Local Church 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.

[Name of Financial Secretary or Church Treasurer]

[Appropriate Title]

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Name

---

Date

Exceptions, if any:

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