

AUDIT REPORT *for* MESA VIEW UNITED METHODIST CHURCH FOR THE YEAR ENDED DECEMBER 31, 2014

✓ PROCEDURES PERFORMED

The independent audit team from High Desert United Methodist Church. The team followed guidelines for church audits set forth by the Book of Discipline of the UMC and the General Council on Finance and Administration (GCFA) of the United Methodist Church. The team conducted the audit of Mesa View UMC July 13th and 14th of 2015.

FINANCIAL STATEMENTS: *(Copies on file in Audit Working Papers)*

Income Statement dated 12/31/14:

Church & Pre-School Income	\$ 425,473.83
<u>Church & Pre-School Expenses</u>	<u>\$ 397,064.11</u>
Net Ordinary Income	\$ 28,409.72
Dedicated/Restricted Income	\$ 40,197.25
<u>Dedicated/Restricted Expenses</u>	<u>\$ 35,474.81</u>
Net Dedicated/Restricted Income	\$ 4,722.44
<u>Combined Net Ordinary & Dedicated/Restricted Income</u>	<u>\$ 33,132.16</u>

Balance Sheet dated 12/13/14:

Current Assets <i>(Cash/Checking)</i>	\$ 4,233.45
<u>Fixed Assets <i>(Buildings/Furnishings)</i></u>	<u>\$1,685,527.59</u>
<u>Total Assets</u>	<u>\$1,689,761.04</u>
Current Liabilities <i>(Payroll Liabilities)</i>	\$ 3,812.14
<u>Long Term Liabilities <i>(Mortgage)</i></u>	<u>\$ 858,585.38</u>
<u>Total Liabilities</u>	<u>\$ 862,397.52</u>
Prior Year Equity	\$ 794,231.36
2014 Net Income	<u>\$ 33,132.16</u>
<u>Total Equity</u>	<u>\$ 827,363.52</u>
<u>Total Liabilities & Equity:</u>	<u>\$ 1,689,761.04</u>

- ✓ Examined copies of the Income Statement and Balance Sheet produced by MVUMC Quick Books accounting program.
- ✓ Verified that Combined Net Income (\$33,132.16) from the Income Statement agreed with 2014 Net Income on the Balance Sheet.
- ✓ Verified that the Current Cash/Checking amount (\$4,233.45) in the Balance Sheet agreed with the ending reconciled balance on US Bank Statement dated 12/31/14.
- ✓ Unable to verify Fixed Asset amounts (\$1,685,527.59) in the Balance Sheet. (See recommendation #1)
- ✓ Verified that the Current Payroll Liabilities (\$3,812.14) as of 12/31/14 in the Balance Sheet were shown as paid on US Bank statement dated 01/31/15.
- ✓ **Verified that the Long Term Mortgage Liability in the Balance Sheet agreed with the balance (\$858,585.38) as of 12/31/14 by the Texas Methodist Foundation.**

BANK STATEMENTS: *(Originals on file in the MVUMC archives)*

- ✓ Examined year end bank statement from US Bank dated 12/31/14. Reconciled bank statement agrees 12/31/14 cash account balance in Quick Books.
- ✓ There were no deposits in transit. Uncleared checks were traced to following months bank statements for clearance. Only one check remains uncleared from 2014. That is check # 24606 dated 12/22/14 made payable to M.A. in the amount of \$12.75. (See recommendation #2)
- ✓ Examined three other months US Bank statements and traced customer deposits, other deposits, debit card withdrawals, other withdrawals and check withdrawals to Quick Books Profit & Loss Detail statements. No discrepancies noted.
- ✓ We verified that two signatures are required and present on all checks drawn on MVUMC accounts. Signatures currently authorized include the Treasurer and 4 other designated signers. No signer may sign a check which is made payable to them.

CHURCH REVENUE: *(Includes Dedicated and Restricted Funds)*

Ten (10) Sundays were selected at random and the corresponding Quick Book deposit summaries for those dates were examined. *(Copies on file in Audit Working Papers)*

- ✓ Each Quick Book deposit summary was traced to a corresponding MVUMC prepared deposit and then to a corresponding US Bank statement. No discrepancies were noted.
- ✓ Each Quick Book deposit summary was traced to a corresponding batch report from Church Windows where individual giving records are recorded. Batch totals were in agreement with the deposit summary and US Bank deposit slips, and corresponding "Cash Count" records showed cash detail but no check documentation was available to verify individual giving as recorded in Church Windows. (See recommendation #3)
- ✓ The process for collecting, counting, and deposit of Church revenue was reviewed. Currently, the Financial Secretary counts the Sunday collection along with items received during the week in the office or in the mail and kept in a locked safe in the Finance Office. Sometimes an additional person was available to assist in the counting but not on a regular basis. After the collection is counted, the Financial Secretary makes the appropriate entries into Church Windows to record individual giving. The Financial Secretary then makes out a deposit slip, detailing the cash, currency and check components of the deposit, puts it in a sealed bag and delivers it to US Bank. The deposit is made on a timely basis either that Sunday afternoon or the following Monday morning. While no discrepancies were noted, the current collecting, counting and deposit of church funds does not meet United Methodist Book of Discipline or GCFA guidelines. (See recommendation #4)
- ✓ We verified the Finance Chairperson and/or Bookkeeper has no ability to record entries or otherwise alter individual giving records of the church in Church Windows ... or distribute annual/interim giving statements provided to members or others who contribute money or gifts to the church. The Finance Chairperson and/or Bookkeeper does not participate in counting Sunday offerings.
- ✓ We verified the Financial Secretary has limited authority to make entries in Quick Books account records for the purposes of recording deposits.

PRE-SCHOOL: (Includes Tuition, Registration, and Other PS Income)

Two (2) deposits were selected at random and the corresponding Quick Book deposit summaries for those dates were examined. *(Copies on file in Audit Working Papers)*

- ✓ We ascertained that individual tuition payments are recorded in a “Student Payment Tracking” spreadsheet maintained by the Pre-School Director. Copies of cash receipts or checks are kept to provide supporting documentation for the individual tuition payments.
- ✓ The process for collecting, counting, and deposit of Pre-School revenue was reviewed. Currently, the Pre-School Director and Assistant count the tuition and other receipts on a weekly basis. Cash and Checks received before being counted are kept in a lock-box located at the entry to the Pre-School. After the receipts are counted, the Pre-School Director then makes out a deposit slip, detailing the cash, currency, and check components of the deposit ... and delivers it to US Bank. While no discrepancies were noted, the current collecting, counting and deposit of Pre-School funds does not meet Book of Discipline or GCFA guidelines. *(See recommendation #5)*
- ✓ We verified the Pre-School Director has no ability make entries in Quick Books account records for the purposed of recording deposits. The Finance Chairperson and/or Bookkeeper perform that function.

EXPENDITURES: (Includes Church, PS, & Dedicated/Restricted Expenditures)

Eleven (11) expenditures paid for by check were selected at random from Quick Books general ledger and the following procedures were performed. *(Copies on file in Audit Working Papers and MVUMC Archives)*

- ✓ We examined each “Expense Authorization and Request for Payment” that initiated an expenditure entry in Quick Books and authorized a check to be drawn on the US Bank checking account.
- ✓ The process for issuance of a check is for the Finance Committee Chairperson to fill out an “Expense Authorization and Request for Payment” when presented with an invoice, receipt, or request from an authorized individual ... and budget authority is ascertained. This form with the attached documentation is signed by the Finance Committee Chairperson. The signed document authorizes the Bookkeeper to enter the expense into Quick Books and create a check. The Bookkeeper then initials the form indicating completion of those acts. The completed form with the attached unsigned check is then given to the Treasurer who reviews the documentation and together with a designated co-signer signs the check. The signed check and accompanying “Expense Authorization and Request for Payment” documentation is then returned to the Bookkeeper for distribution. The check is distributed to the appropriate payee and the form with attached documentation is filed in the Finance Office. The third-part “advice” copy of the check is also filed in the Finance Office but is not attached to the “Expense Authorization and Request for Payment” with other supporting documentation. *(See recommendation #6).* All required signatures were verified and no discrepancies from the process or errors in accounting for the expense transactions were noted.

EXPENDITURES: *(Continued)*

Four (4) expenditures paid for by debit card were selected at random from Quick Books general ledger and the following procedures were performed. MVUMC did not have a credit card during 2014. *(Copies on file in Audit Working Papers and MVUMC Archive)*

- ✓ We examined each “Expense Authorization and Request for Payment” initiated by a US Bank debit card withdrawal that required an expenditure entry in Quick Books.
- ✓ The Debit Card and accompanying Pin Number is kept in a locked file cabinet in the Finance Office until used. The Debit Card is authorized for use by the Pastor, Administrative Assistant, Pre-School Director, and Trustee Chairperson. Other persons must have specific approval from the Pastor or Finance Committee Chairperson to utilize the card. When the Debit Card is utilized, the user must obtain an invoice or receipt. The process then requires the Finance Committee Chairperson to create an “Expense Authorization and Request for Payment” when presented with the invoice or receipt. The form with the attached documentation is signed by the Finance Committee Chairperson. The signed document authorizes the Bookkeeper to enter the expense into Quick Books and initial the form indicating performance of that act. The signed “Expense Authorization and Request for Payment” documentation is then filed in the Finance Office. All required signatures were verified and no discrepancies from the process or errors in accounting for the debit card transactions were noted.

PAYROLL: *(Includes Church and Pre-School Employees)*

The process for Payroll was reviewed. Employee salary and hourly pay rates are set and approved by MVUMC SPRC. Employees are paid every two weeks *(26 pay periods per year)*. The pay period begins on a Monday and ends two weeks later on a Sunday. Time Cards are turned in on the Monday following the Sunday end of the pay period. Time worked for Pre-School employees are clocked in/out on a computer that generates a time card every two weeks. Time worked for church employees are kept manually by the Administrative Assistant. Payroll is prepared on Tuesday or Wednesday following the Sunday end of the pay period. The Bookkeeper prepares the payroll using Quick Books payroll accounting. Entries for hours worked or salary earned by employees are entered into Quick Books which calculates the appropriate gross wages, deductions, and net pay. Pay checks are generated and printed by Quick Books with the appropriate pay and withholding information displayed. Reports are then generated by Quick Books which summarizes the payroll period by various categories. Pay checks are distributed the Thursday following the Sunday end of the pay period and dated the Friday following the Sunday end of the pay period. *(Copies of bi-weekly Pay Roll reports are on file in MVUMC Archives)*

This payroll process was examined including:

- ✓ verification of pay rates approved by SPRC
- ✓ submission of Time Cards by employees,
- ✓ entry of pay rates and hours worked in Quick Books,
- ✓ creation of Pay Checks and Pay Roll reports by Quick Books,
- ✓ distribution of Pay Checks to employees,

All these processes were verified and no discrepancies or accounting errors were noted.

PAYROLL: *(Continued)*

The process for filing reports and paying Federal and State employer/employee taxes was reviewed.

The IRS 941 Employer Federal Tax report is filed monthly for liabilities incurred the prior month. The tax report summarizes the employer/employee Social Security tax due, the employer/employee Medicare tax due, and employee Federal tax withholding due. The report is due no later than the 15th of the month following the liability incurred. *(Copies are on file in MVUMC Archives)*

The NM Employee Withholding Tax report is filed monthly for liabilities incurred the prior month. The tax report summarizes the employee NM State withholding due. The report is due no later than the 25th of the month following the liability incurred. *(Copies are on file in MVUMC Archives)*

The IRS 941 Quarterly Federal Tax report is filed quarterly for liabilities incurred the prior quarter. The tax report summarized the monthly 941 Employer Federal Tax reports. The report is due no later than the 30th of the month following the quarter in which liabilities are incurred. *(Copies are on file in MVUMC Archives)*

This Federal and State reporting process was examined including:

- ✓ review of reports,
- ✓ verification of payment for taxes due shown on the reports as paid by US Bank drafts on US Bank statements for the following months.

All these processes were verified and no discrepancies or errors in accounting were noted.

INSURANCE POLICIES:

MVUMC maintains both a Comprehensive Commercial Insurance Policy (*UM10012220*) and a Workers Compensation Policy (*WC6-621-094053-064-15-96*) through the NM Conference approved vendor Church Insurance Agency Corporation (CIAC). Verified that insurance policies are in force and comply with minimum levels set by the NM Conference.

BONDING:

Bonding for the Pastor, Church Treasurer and other officers/employees is adequate and covered by the Church Insurance Agency. Verified that bonding is adequate and current as required by the Book of Discipline ¶258.4b.

MINUTES:

Reviewed all minutes of the Charge/Church Conference, Leadership Council Trustees, and Finance Committee for 2014. No discrepancies with the accounting and financial statements for 2014 were noted.

FINANCIAL POLICIES:

MVUMC has an established Financial Policy approved by the Leadership Council 04/20/2014. The Finance Committee is in the process of approving Financial Procedures to implement the Financial Policy. We commend MVUMC for this effort.

INTERNAL CONTROL CHECKLIST

CONTROL DESCRIPTION	IN PLACE	IF "NO" DESCRIBE DEFICIENCIES
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Receipts and Disbursements		
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Treasurer and Financial Secretary not be same person or in same immediate family residing in same household.	Yes	
Counting Team (two unrelated persons) should count offerings and document totals (not Treasurer and not Financial Secretary)	No	Financial Secretary counts offering
Offerings deposited same or next business day	Yes	
Offering count details given to Financial Secretary for recording	Yes	
Offering totals given to Treasurer or Financial Secretary to record deposit.	Yes	
Financial Secretary's deposit log compared to Bank Statement to verify deposits (Bank Reconciliation performed)	Yes	
At least two persons listed as authorized signatures on all accounts including checks and electronic fund transfers.	Yes	
Treasurer is authorized to make electronic payments of bills and maintains support for electronic payments as with paper checks.	Yes	
Financial Policy written and approved by Leadership Council and Financial Procedures written and approved by Finance Committee.	Yes	
Invoices required for all payments from all accounts	Yes	
Someone other than Treasurer approves invoices for payment	Yes	
Treasurer only makes payment after invoice is approved. A policy may be implemented where routine, budgeted expenses (<i>mortgage, utilities</i>) may be paid without recurring approval.	Yes	

Reporting and Review		
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All accounts reconciled monthly	Yes	
Someone other the Treasurer performs Bank Reconciliation	Yes	
Finance Committee Chairperson makes detailed report of budget and designated fund activities on a routine basis as Finance Committee meets.	Yes	

Tax Reporting Requirements		
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W-2's issued for employees including pastors and 1099s issued by 1/31/xx for preceding year (<i>federal law requirement</i>)	Yes	
Payroll tax forms and deposits done as required for payroll amount and IRS and SSA reporting done by appropriate due date (<i>federal law requirement</i>)	Yes	
Housing Allowance or exclusions approved annually at Charge Conference and kept on file (<i>federal law requirement</i>)	Yes	

Other General Requirements		
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List prepared of all church property for insurance purposes	Yes	No list is currently prepared
List prepared of safety deposit box contents w/access by 2 unrelated people.	Yes	Not Applicable
Computer records backed up and password protected for security	Yes	
Ideally 4 persons required for regular financial procedures. Possible to be accomplished with 3 persons if proper segregation is achieved.	Yes	

RECOMMENDATIONS

1. MVUMC does not maintain a detailed documented list of what makes up the \$1,685,527.59 of Fixed Assets on the Balance Sheet. Currently Fixed Assets are comprised of [a] Building 4701 Montano (\$1,010,472.74), [b] Capital Improvements (\$7,959.98), [c] Ministry Center (\$641,199.39), and [d] Furniture and Equipment (\$25,895.48). The balances for [a], [b], and [c] currently recorded are the mortgage balances from 12/31/2011. No accumulated depreciation is recorded.

A certified appraiser should be employed to assess the current value of the property at 4701 Montano Road NW ... Land (*not depreciable*) and the three buildings on the property (*YMCA Building, Worship Center, and Office Complex – all depreciable*).

In addition an inventory of all Furniture and Equipment valued at an actual or estimated price amount meeting or exceeding an amount to be determined by the Finance Committee should be conducted. Furniture and Equipment bought in subsequent years at or exceeding the amount determined by the Finance Committee should be added to that category. A depreciation account for Furniture and Equipment at depreciation schedules recommended by Generally Accepted Accounting Principles (*GAAP*) should be established.

In addition to providing a more accurate value for the Balance Sheet, Such documentation would be necessary in the event of an insurance claim.

2. Uncleared checks from the previous fiscal year should be cleared no later than 90 days following the end of the calendar year. Check #24606 dated 12/22/14 made out to M.A. in the amount of \$12.75 should be investigated and a new check issued if the previous one was lost ... or cancelled if unable to locate payee.
3. Documentation for individual checks deposited in the weekly church deposits does not currently exist. Such documentation is needed to adequately trace and verify individual giving amounts to entrees in Church Windows. It is recommended that the Counters or Finance Secretary make copies of checks included in each deposit and be filed with the appropriate deposit documentation for each Sunday.
4. The Book of Discipline and GCFA audit guidelines requires that counting of all funds collected by the church be performed by two (2) persons not related to each other. The Finance Secretary should not be a counter but should only verify and prepare the deposit after receiving the counting report. Procedures should be implemented to comply with the Book of Discipline and GCFA audit guidelines.
5. The Book of Discipline and GCFA audit guidelines requires that counting of all funds collected by the church (*including the Pre-School*) be performed by two (2) persons not related to each other. The deposit should be prepared by a person other than the two counters after receiving the counting report. Currently the counting of Pre-School funds is performed by two persons not related to each other. The actual deposit should be performed by another individual to comply with the Book of Discipline and FCFA audit guidelines.
6. To provide adequate documentation of expenses paid by check, the signed "Expense Authorization and Request for Payment", invoice or receipt, and proof of payment (*third-part "advice" copy of check*) should all be stapled together.