

## ***Born Again Emmaus Community Financial Audit Guidelines***

### **What does an audit do?**

For starters, 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 designated funds of the organization have been used as stipulated.

In addition to tracking the cash through the system, an auditor typically will evaluate:

- Accounting controls (systems that reduce the possibility of loss, embezzlement 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).
- Adequacy of insurance coverage.
- Systems for retaining and accessing meeting minutes that have financial implications.

### **Who can perform the audit?**

An independent, qualified member of the organization or other volunteer from an affiliated church can perform audit procedures and evaluate internal controls and report the results directly to the organization's Executive Board. The recommended procedures included in this guide should serve as example procedures that may be performed.

### **What kind of information does an auditor need to look at?**

The person(s) must obtain access to the following information and materials:

1. Copies of all policies and procedures related to finance and treasury functions and copies of minutes approving those policies.
2. Listing of all bank and investment accounts, including the person authorized to sign on each.
4. All financial reports for each month of the year, plus December of the prior year and January of the subsequent year (a fourteen month period).
5. Bank and investment account statements for the same period.
6. Bank reconciliations for that same period.
7. 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.
8. All paid invoices, income transmittals and deposit records for the fourteen month period.
9. The Treasurer's records and other income records for the same period.

### **What is involved in auditing the cash?**

Every category of cash and all other invested funds must be audited at year end; checking and savings accounts, CDs, and any petty cash accounts held. At this time the auditor must have the list of all bank accounts and person(s) authorized to sign on each, a copy of all financial statements for each month

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being audited, and the bank account statements and reconciliations for that same period. Then these steps should be followed, at a minimum:

- Review the bank confirmations to see that the ending balance as stated by the bank is the same figure used in the December statement, then check to see that the current authorized signers as listed by the bank are the same names listed in the organization records. If the list fails to match, inform the treasurer, who should investigate any differences.
- Review all 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 reports.
- Pick a month and actually perform a bank reconciliation for each account using the original books of entry, the Treasurer's records and any subsidiary journals. If you find a discrepancy between your reconciliation of the month and the reconciliation provided by the treasurer, research the discrepancy to find an explanation or an error.
- The auditor should independently count cash in all petty cash accounts. The count should agree with the books. Review expense types for their appropriate recording on the financial reports. Ascertain suitability and adherence to policies. Receipts should be provided for all petty cash expenditures.

### **How are income and receipts audited?**

Determine if the deposits as listed by the Treasurer match those listed on the bank statements. Verify, on a test basis, the deposits for Gatherings during the calendar year using the following procedures:

- Test the counter's documentation versus the receipt deposit slips and bank statements.
- Review original book entry for correct posting of deposits.
- Review the original books of entry to determine if other income has been recorded accurately (i.e. appropriate account, correct amount, unrestricted or designated, etc.).
- Trace the entries to the financial reports.

### **How are disbursements audited?**

Basic steps for auditing disbursements should include, at a minimum:

- Review the Board, Executive Board and other committee minutes, as appropriate, for actions concerning disbursements. Reconcile those actions with any actual payments made.
- Test to ensure that all disbursements have been properly authorized.
- Review the original books of entry and disbursements journal to ensure that all disbursements have been recorded appropriately.
- For insurance premium disbursements, check to see if the amount disbursed is the same as that listed by the insurance company as premiums due.
- Verify that income designated for special purposes has been distributed or allocated accordingly.

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### **What should be reviewed in the local organization internal control structure?**

As part of the audit, it is essential that the internal control structure for receipts and disbursements procedures be reviewed. The internal control structure is the process that assures the organization's operational efficiency and effectiveness, that its financial reporting is reliable, that it is complying with the laws, and that its assets are safeguarded. The internal control process should be in place not just on paper but in actual operation.

Areas of concern that should be evaluated include:

1. Segregation of duties. It is important that duties be segregated among two or more persons, if possible. Here are some examples:
  - a. No account signers should be related by blood, marriage or employment relationships.
  - b. The person(s) performing the audit should not be related to either the Treasurer or any account signatory
  - c. At least two persons should count the Gathering offerings and they should not be related to each other nor should either one be the Treasurer or account signatory.
2. Authorization for disbursements:
  - a. Everyone who approves disbursements must be authorized to do so.
  - b. The auditor should look for resolutions and action in the minutes of the Board meetings that address authorizations.
  - c. The check signers should not be the authorizer of expenditures or the person who performs bank reconciliations. The auditor should examine the checks to determine who is signing and compare the results found to bank authorizations.
3. Monthly Treasurer's reports should agree with the general ledger. Balances as of the first day of each month should be same as the last day of the previous month.
4. Other Areas to Check:
  - a. Does the organization have fidelity bond coverage for people handling funds (i.e. counters, treasurer, etc.)?
  - b. Have decisions with financial implications made by the Board been appropriately complied with?
  - c. Are authorized signatures with banks up to date and complete?
  - d. Are transactions recorded in the correct year?
  - e. Are checks and cash deposited in a timely manner?
  - f. Are computer software and data files back up on a regular basis?

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- g. Are reports from the treasurer to the Board accurate, timely and complete enough to provide necessary information for the Board to make prudent decisions?
- h. Is there a policy on records retention, and if so, is it complied with?

**What will report the results of the audit?**

The type of report provided at the conclusion of the audit will be dependent on the type of audit performed. For agreed upon procedure and financial report audits performed by an independent CPA, professional audit standards will dictate the reporting provided by the auditor. For audits performed by church member, the reporting ideally will provide the following, at a minimum:

1. Listing of Procedures Performed and Related Results
2. Statement of Financial Position (balance sheet or listing of all assets and liabilities if full financial statements are not prepared for the church).
3. Comments, if any, on internal control deficiencies or issues with procedures noted during the evaluation.

**How and when is the Audit Report prepared?**

The report is prepared when the audit is complete. The audit is complete when the auditor is reasonably assured that the financial records are in order, financial policies have been complied with, any discrepancies have been investigated and controls have been reviewed. With that assurance, the auditor is ready to prepare the Report of the Annual Audit for the Board. Finally, the auditor should offer to meet with the Board to discuss the audit report.

(from umc gcfa)