

## **Steps in Conducting the BHECM Financial Review**

The information contained in this document is based on and is compatible with the *Local Church Audit Guide* (August 2017) published by the Committee on Audit and Review of the General Council on Finance and Administration (GCFA) of The United Methodist Church. In 2012, the Virginia Annual Conference BHECM established a standardized Annual Audit Reporting Form with a verification checklist. This guide is intended to explain the financial review actions that support this checklist.

A financial review can be performed by members of the local board or volunteers related to the campus ministry who do NOT have the authority to sign checks or make financial decisions. These individuals should have knowledge of sound accounting practices.

### **Information Required for the Review**

The review team must obtain access to the following information and materials (at a minimum) during the review:

1. The incorporation papers, which could be the constitution or charter and bylaws.
2. Copies of campus ministry policies and procedures related to the finance and treasury functions.
3. Listings of all bank and investment accounts and the names of individuals authorized to sign on each.
4. 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).
5. Bank and investment account statements for the same period.
6. 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.
7. All paid invoices, payroll data, and files (including 941's (Employer's Quarterly Federal Tax Return), year-end W-2's, 1099's and transmittal forms), income transmittals, and deposit records for the fourteen-month period.
8. The Financial Secretary's records and other income records for the same period.

### **Incorporation Papers Review**

All campus ministries must have articles of incorporation (a constitution or charter), bylaws, and organizational minutes. These documents contain important rules about how a campus ministry must operate. They are also necessary to maintain tax-exempt status. A review should be made to ensure these documents are maintained and current.

#### **Related Verification Checklist:**

*Incorporation papers (if applicable) are up to date and properly filed.*

### **Review of Financial Documents**

- The Balance Sheet, also called the Statement of Financial Position provides the most comprehensive picture of the campus ministry's financial situation. This document should provide a report on the assets (what is owned) and liabilities (what is owed). The net assets (also called equity, capital, retained earnings, or fund balance) represent the sum of all the annual surpluses or deficits that an organization has accumulated.

- The Annual Budget is the primary way that the board and staff plan for income and expenses. The budget should reflect the campus ministry programs, mission, and strategic plan. The Income and Expense Report should reflect income and expenses for the previous year and the current year, to date, compared to the annual budget.

*Related Verification Checklist:*

*Do reports include an approved budget, a balance sheet, and an income and expense report?  
Are financial reports clear and provide a clear picture of the financial status of the ministry?*

**Internal Controls Review**

The internal control structure is the process that assures the campus ministry's operational efficiency and effectiveness, that the financial reporting is reliable, that it is complying with the *Discipline* and with laws, and that its assets are safeguarded. The following guidelines are considered minimum standards for Receipts and Disbursements:

- The Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household.
- The Financial Secretary's deposit log should be compared to the bank statement to verify deposits.
- At least two persons should be listed as authorized signatures on all accounts. This should also be the case for setting up electronic payments (or EFTs). For EFTs, one of those individuals should be a member of the Finance Committee (other than the Secretary or Treasurer).
- The Treasurer is authorized to make electronic payments of bills. The Treasurer will maintain support for every electronic payment just as with the support for paper checks.
- Financial policy and authority guidelines should be written and approved by the Finance Committee (or Board).
- Policies are in place to include controls for over-expenditures.
- Invoices should be required for all payments from all accounts
- Someone other than the treasurer (with authority by the Finance Committee) should approve invoices for payment.
- Typically, the Treasurer should make payments only after the invoice is approved. A policy may be implemented where routine, budgeted expenses (i.e., rent/mortgage, electric bills, etc.) may be paid without recurring approval. Non-routine expenses should be approved prior to payment.

*Related Verification Checklist:*

*Verification of account signatures. Are there controls for over-expenditures? Are there internal controls for receipts? Are there internal controls for disbursements?*

**Reconciliation of Accounts**

Every category of cash and all other invested funds must be audited/reviewed at year-end. This includes bank and savings accounts, CD's held in the name of the campus ministry, and any petty cash accounts held in the office of the campus ministry or elsewhere.

Here are the steps that 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 campus ministry records. If the lists fail 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 statements.
- Pick a month and perform a bank reconciliation, for each account using the original books of entry, the financial secretary's records and any subsidiary journals. If you find a discrepancy between your reconciliation of the month and the reconciliation provided by the treasurer(s), research the discrepancy to find an explanation or an error.

Related Verification Checklist:

*Verification of beginning and ending year balance. Reconciliation of bank & investment accounts. Are bank accounts balanced monthly?*

**Income and Receipts:**

Determine if the deposits, as listed by the financial secretary and the treasurer match those listed on the bank statement. Verify the deposits during select weeks during the spring and fall semester, using the following procedures:

- The Financial Secretary's deposit log should be compared to the bank statement to verify deposits. Deposits should be made no later than four days from receipt.
- Review the donor transmittal letters, electronic donations, and other sources of income, to determine if it has been recorded accurately (i.e., appropriate account, correct amount, unrestricted or designated vs. restricted, etc.). Trace the entries to the financial statements,
- Determine whether the amount paid as reported for the donors are the same as recorded and received by the financial secretary. If there is a difference, research for a timing difference, inaccurate recording, or some other explanation.
- Examine donor logs to ensure confirmations were sent. Confirmation letters should state that "no goods or services were received by the donor in return for this contribution."
- If appropriate, check the General Ledger (GL) for accounts receivable (goods or services provided). Receivables might have a duration of 30, 60 or 90 days or longer. Knowing how much is in receivables will tell you what has been paid and what is outstanding.

Related Verification Checklist:

*Timely deposit of funds, Transmittals checked against deposits, transmittals checked against postings to GL, verification of other income processes, designated funds checked against postings to GL, confirmations sent to donors. GL accounts receivable reviewed.*

**Disbursements**

The basic steps for auditing/reviewing disbursements should include, at a minimum:

- Review the board or finance committee minutes to determine any actions that relate to disbursements. Reconcile those actions with any actual payments made.

- Check to verify that disbursements have been properly authorized.
- For credit card purchases, verify that the receipts for the charges were properly received, or a summary of expenses were provided, and the proper GL account was charged.
- 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 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.

*Related Verification Checklist:*

*Invoices were properly approved. Purchase Order system, if applicable is working. GL accounts payable were reviewed.*

**Salaries and Payroll**

The arrangements for administering campus minister salaries differ between Wesley Foundations, Ecumenical Campus Ministries, and Hybrid Campus Ministries. However, the following checklists should apply to all administrative staff.

- Verify the Employee Identification Number.
- Personnel files must be kept on individual employees and safeguarded or confidential.
- Check budgets and/or board minutes for payroll change records to verify that correct salaries or rates have been paid.
- For campus ministers that do not have their pay administered by the VA Annual Conference ensure that:
  - W-2s and 1099s are issued.
  - Payroll tax forms and deposits are accomplished, and payroll reporting has been completed for the IRS and SSA.
  - Housing allowance or exclusions are approved annually and kept on file.

*Related Verification Checklist:*

*Ministry has Employer Identification Number, Personnel records are maintained by a designated individual, Salaries are paid according to approval, Tax forms issued to all employed persons and the government, Payroll tax deposits are made and timely remittances to government.*

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