

**REPORT ON ANNUAL AUDIT
ALDERSGATE UNITED METHODIST CHUCH**

Introduction

The Auditors have completed an independent evaluation of the financial reports and records and the internal controls of the church. The evaluation verifies the reliability of financial reporting, determining whether assets are being safeguarded, and whether the law, the Discipline and policies and procedures are being complied with. The scope of the evaluation included samples from December 31,2006 through January 31, 2008. Below are the areas evaluated and exceptions noted.

BANK AND INVESTMENT

1. Reconciliation of Bank Accounts

An evaluation of the bank reconciliations to see that the beginning balance of one month was the same as the ending balance of the previous month could not be completed. Paper copies of monthly reconciliations were not kept and the accounting system will not print reconciliations past the previous month. This was corrected during the evaluation. A copy of the reconciliation and the check register is now kept with the monthly statement.

2 Verification of Signature Cards

A random check of signatures for verification to the bank signature card was completed. Currently only one signature is required when signing checks. It is recommended that the check signing procedures require two signatures. This is work in progress.

3. Verification of telephone or other transfer

Currently there is a Money Market savings account and an operating checking account. Money is only transferred from the Money Market account when needed. It was noted that the bank only requires a pass code to transfer the funds. They do not know with whom they are speaking when the transfer is made. It is recommended that church authorized signers on these accounts each have their own pass codes and that these pass codes are kept in their possession. This is work in progress.

INCOME

1. Process of Handling Sunday Offering

An evaluation of how Sunday offerings are handled reveals that the three offerings are not always removed and placed in the Finance Room door container using dual control. It is also noted that the funds are not placed in locked bags. In addition, only one person transfers the funds from the door-opening container to the safe in the Finance Room. On the day the process was observed, the funds were seen on the floor and on the following morning, they were still on the floor. During the week, envelopes were observed in the door-opening container. They were not always placed in the safe and were exposed during the day. The finance door container is not a secure device. Items can be reached without much effort. It is recommended that all funds be transferred from the offering plates each Sunday using dual control. Also being recommended is that the Finance Room door container be removed and written procedures be established to accept the Sunday offerings directly into the safe using dual control or into a safe with a bag drop. In addition, it is recommended that cash not be accepted during the week unless it has been placed in a sealed envelope, signed by two people across the seal and dated. For weekday offerings as well as Sunday offerings collected, it is recommended that a log be maintained to reflect the number of envelopes being accepted and the initials of the two people performing the function.

2. Safe Combination

Currently there are a number of people who have the combination to the top portion of the safe where the offerings are kept. In order to maintain dual control to the safe containing Sunday offerings, it is recommended that the combination be changed and provided to a limited number of individuals who do not have a key to the Finance room door.

3. Counting and depositing of funds

The records indicate that two people are present during the counting of funds received on Sunday. The deposit tickets also indicate that funds received on Sundays are deposited on a timely basis. It is recommended that the Financial Secretary promptly deposit funds received during the week over an established amount.

4. Transmittals

Randomly selected deposits listed by the counter's documentation verses the Sunday receipt deposit slips matched the bank statement for the same period. No exceptions were noted.

5. Pledges recorded on donor records.

Pledges are properly recorded on donor records. No exceptions were noted.

6. Designated funds directed to restricted accounts.

Designated funds are directed to the appropriate restricted accounts by the counters and are directed to the appropriate accounts on the Balance Sheet. The use of these funds is addressed in disbursements.

DISBURSEMENTS

1. Apportionment Payments

A sample of apportionment payments were reviewed for proper disbursement and that the disbursements were properly recorded. No exceptions were noted.

2. Insurance

Insurance premium disbursements were reviewed to see if the amount disbursed was the same as that listed by the insurance company as premium due. No exceptions were noted.

The most current insurance policy was reviewed. It is recommended that property coverage for the Church, the Family Life Center and Parsonage be evaluated for adequate coverage. Currently the church building is insured for 890,294 and the personal property coverage is 135,000. The Family Life Center building is insured for 2,344,233 and the personal property coverage is 349,000. The parsonage is insured for 185,832 and the personal property coverage is 30,000. The current tax value on the property listed at 1320 Umstead Road is 3,586,778 and the tax value on the parsonage is 259,675. It is also recommended that all property and equipment be appraised at least every three years to update the evaluation.

3. Invoices and Reimbursement Forms

A random selection of invoices and forms for reimbursements were reviewed. It is recommended that the appropriate committee chairperson authorize all reimbursement or requests for payouts. The minutes of the Finance Committee should reflect these actions. This is work in progress. Forms are already in place and are currently being used.

A random selection of invoices was reviewed for appropriate notation of check number and date issued, the account to charge noted and verification of the check issued. No exceptions were noted.

REPORTS

Minutes of the Finance Committee, Trustee Committee and Administration Board were reviewed. It is recommended that all reports contain detailed information, which may be needed and used as future reference. In addition, each committee should provide a copy of the minutes to the church treasurer.

GENERAL LEDGER

1. Balance Sheet

The Balance Sheet does not contain a true statement of assets and liabilities. The system does not do a good job of reflecting restricted funds balances. The liability on both the Family Life Center and parsonage is incorrect. Also, the purchase of the "Terry" property is not reflected on the Balance Sheet. Work to correct was started prior to the audit and is still work in progress. Also recommended is that furniture and fixtures be depreciated.

2. System Controls

Currently there are three people who have the same pass code to gain entrance into the system. It is recommended that the passed to gain access into the system be changed and provided only to the treasurer. The backup to the treasurer should have a separate passcode. This was corrected during the audit.

3. Restricted/Designated Funds

An evaluation of restricted/designated funds revealed that when the funds are received, they are itemized and weekly are recorded by the counter on the counters log. The funds however, go into the one Money Market savings account where funds are transferred to the operating checking account as needed. Restricted/designated funds are not in a separate account. As a result, for operating purposes, the church has used funds totaling 407,442 as of 12/31/07 and 447,103 as of 5/31/08. Of these funds, 233,465 and 255,631 as of 12/31/07

and 5/31/08 respectively consist of campaign capital funds received for the building of the Family Life Center. See Exhibit 1. The process was corrected during the audit and as of June 1, there is a separate Money Market account for restricted/designated funds.

4. Children's Weekday Ministry

For better documentation and reduction of work duplication between the Children's Weekday Ministries financial secretary and the church treasurer, it is recommended that their financial secretary maintain the accounting and payroll functions. They currently use a system, which may have accounting and payroll functions. At the end of their fiscal year (June 30,2009), it is recommended their Balance Sheet and P&L be reviewed to determine if a separate tax ID number is needed. Also being recommended is that the financial secretary present a current Balance Sheet and P&L to the Finance Committee monthly.

2. System Back-up

It is recommended that the system be backed up on a weekly basis and the backup be kept off site. This was corrected during the audit.

ADMINISTRATIVE

1. Safekeeping of Documents

It is recommended that deeds to church property, loan documentation and insurance policies be kept in a safe deposit box. A box has been rented but is empty. It is also recommended that the items currently being stored in the church safe be reviewed by the appropriate committee and items of no value be discarded. There are a number of individuals who have the combination to the safe. It is recommended that the combination be changed and provided to the treasurer.

2. Bond Coverage

The Book of Discipline requires that the church treasurer and the counters have fidelity bond coverage. There is no evidence that the church provides this coverage.

3. Credit Cards

Currently there are six American Express credit cards issued to individuals. It is

recommended that cards only be issued to the ordained staff of the church. While there is no formal purchase order system, it is recommended that part time staff members obtain approval for purchases over \$25. As part of the approval process, it is recommended a form be completed to include justification for the purchase, the amount of the purchase, where it is to be used, signed by the person requesting the purchase and approved by the appropriate individual(s). Any person who is authorized to sign checks should not be the authorizer of the expenditure. The objective of the process is to assure the church's operational efficiency and effectiveness.

4. Bulk Supply of Checks

Currently the bulk supply of checks is stored in a locked cabinet. It is recommended the checks be placed in the bottom portion of the safe located in the Finance Room and the combination given to the treasurer.

5. Keys and Combinations

It is recommended that a wall mounted dual controlled key box be purchased to house duplicate keys and combinations.

PAYROLL AND TAX FILINGS

1. Tax reporting/Payroll

Documents in file do not agree with reports sent to the IRS. There are reporting errors on the 941 shown from the IRS for the 3rd quarter of 2007. Underpayment of tax was withheld. Total wages reported on the 941's for 2007 do not match the W-3 filed for the year. The total reported on the 941's was 398,962.48. The total reported on the W-3 was 468,666.08, which is a difference of 6,970.36. The IRS mailing of the error was dated 12/24/07. The error may generate a penalty from the IRS. The error was corrected during the audit. Going forward, it is recommended that the treasurer be responsible for the tax filings and reporting. Currently payroll is not automated. It is recommended that payroll be automated and become the responsibility of the treasurer.

2. Time Sheets

Currently there are handwritten time sheets completed by the part time cleaning staff. No time sheet is being completed by the part time facilities individual. It is recommended that a wall-mounted time clock be purchased and used by the part time cleaning individuals and the part time facilities individual.

OTHER

1. The role of Treasurer as defined by the Book of Discipline is responsible for carrying out most of the financial decisions made by the committee on finance, keep accurate and detailed records, disburse funds to the causes for which they have been contributed, make monthly remittances to the conference treasurer and be certain that reserve funds are not used for current expenses. It is therefore recommended that the title of the person currently performing these functions be changed to treasurer. The minutes of the Finance Committee should reflect this change.
3. The role of the Financial Secretary is to receive funds, record and deposit all funds received by the church. There are two records kept: (1) records of moneys received and conveyed to the treasurer and (2) records of all funds received from individuals and groups. It is recommended that a financial secretary be nominated by the committee on lay leadership and formally elected to this position by the charge conference. It is also recommended that written policies and procedures be developed for handling all funds received by the church.
4. There is no policy on record retention. It is recommended that a written policy be established for record retention and approved by the appropriate committee. It is also recommended that files maintained beyond the record retention period be destroyed.
6. There is no current inventory of fixed assets. This is work in progress.
7. There are no written policies and procedures. It is recommended that established policies and procedures be written and approved by the appropriate committee(s).

OVERVIEW

It is the opinion of the auditors that the church has simply outgrown the current infrastructure. Over the past years, the church has been dependent on part time church members who unselfishly have given their time to handle many of the business functions. It is felt that the church is now headed in the right direction by hiring a full time person, the treasurer, who can oversee daily the financial and other business functions of the church.

Exhibit 1.**RESTRICTED/DESIGNATED FUNDS**

Fund Name	Date	Amount		Date	Amount
Organizational Funds	12/31/07	97,216		5/31/08	110,688
Missional Funds		38,691			44,007
Discretionary Funds		15,618			14,666
Homer Smith Mem.		1,510			
Furnishings		20,942			20,942
Capital Campaign FLC Other					1,169
Capital Funds Rec'd FLC		233,465			255,631
Total Funds		407,442			447,103