

Report of the FUCSJ 2015 Audit Committee

Committee: Bob Howd, Bev Harrison, Joyce Miller

To: The Programs and Operations Council, the Board, the Finance Committee, and the Members of the Congregation

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Summary

The 2015 FUCSJ Audit Committee has audited the financial records and procedures of the First Unitarian Church of San Jose for the fiscal year June 2014 – May 2015, including responses to previous audit reports. We have found no evidence of significant errors or omissions. As far as we, as non-professionals, can determine, the financial procedures of the First Unitarian Church of San Jose comply with acceptable practices for churches and with the church by-laws. Expenditures for the fiscal year were within budget. Income in excess of expenditures was transferred to the Operational Reserve Fund and Building Maintenance Fund as specified by current operating procedures.

Acknowledgments

We offer our thanks to Office Manager Dana Spinney, Bookkeeper Sue Evanicky, Treasurer Bill Shepard, and Interim Finance Officer Dena Dickinson for all their efforts in keeping the church spending and accounting on track, as well as helping the Audit Committee in completing the audit and preparing this report.

Specific Findings:

(Procedures for this audit were based on: Internal Financial Review for UU Congregations, J. Wu and R. Mero, November, 1998.)

Review of procedures for counting cash and check collections: The procedures are complete and clear, and appear to be followed. All incoming funds are handled through this procedure, and the bank deposit receipts that were randomly checked all matched the collection records. None of the counting people are record-keeping people, and training appears to be adequate.

Determine whether there is proper authorization for expenditures: Randomly selected Invoices and reimbursement requests were found to be in order, with appropriate signatures and receipts for reimbursements. Invoices were traced to the ledger and canceled checks, and found to be in order. Review of Transaction Detail found no inappropriate expenditures.

Determine if office procedures are appropriate and assets are properly safeguarded: File systems were inspected and found to be in order. Office procedures are generally well documented and followed, although the update of the procedures manual is still in progress. Blank checks are securely locked up. Church offices may not be secure enough, since so many keys are available that unlock them all. The current bank signature authorization card still needs the signature of two persons to send to the bank, so this task should be completed. A physical inventory was produced last year. It appears to be up to date, and is on the Office Manager's computer and backed up to the cloud.

Determine if bank statements are properly reconciled: Bank statements are reconciled monthly, and check of several reconciled bank statements found them to be in order. The accounting software does not accept a reconciliation until all discrepancies are resolved. The complete Transaction Detail spreadsheet appeared to be in order, except for a few confusing entries, which are being addressed by the Bookkeeper (notes provided to Finance Officer and Treasurer).

Determine if income and expenses are properly recorded and tracked over the year: Payments to staff for salaries and expenses, and tax payments, are in order, and appear to match authorized and budgeted amounts, although salary agreements could be clearer. Expenditures were properly tracked versus the budget. However, there was some confusion about the year-end deficit in 2014 and surplus in 2015, and categorization of specific items, including Endowment funds (see recommendations).

Determine the accuracy and adequacy of the financial reports: Reports of the Finance Officer to the POC and of the Treasurer to the Board are acceptable and of adequate detail for appropriate monitoring of the ongoing fiscal status of the church.

Review the budgeting process for adequacy: The budget process is generally satisfactory, although one long-term troubling item remains unresolved. The budget does not include an item for paying down the mortgage balance (because this is not an expense in the accounting software - see recommendations). Otherwise, the budget was adequately prepared, authorized, and followed throughout the year.

Determine if financial records are adequately safeguarded: The current bookkeeping system, with storage of financial records in the cloud, ensures timely backup, and appears to be adequately secure. The church offices and computers used to access the financial records appear to be adequately secure, although passwords need to be made available for emergencies (see recommendations).

Recommendations:

1. Provide a record of all computer and software passwords in secure location, presumably in a sealed envelope in the church safe.
2. Address expense of mortgage payments in the annual budget. Failure to include this monthly expense has distorted the budget process.
3. We recommend that annual salary and benefit changes be documented with a form initiated by the Personnel Officer and given to the bookkeeper, the employee or contractor and to the employee's or contractor's personnel file.
4. A consistent, documented procedure should be developed for handling of year-end surpluses or deficits. The operating deficit of about \$31K in 2014 and surplus of about \$49K in 2015 were apparently paid out of cash in hand (Retained Earnings). Should deficits be paid out of Operating Reserve, and surpluses placed into Operating Reserve and/or Building Maintenance funds, or other funds as determined by the Board? If deficits are simply taken out of Retained Earnings, then the concept of Reserved Funds becomes meaningless, as their original purpose was to avoid hiding deficits.
5. We recommend that an Equity line item be added to the financial reporting system for Endowment funds so that endowment contributions are not, even temporarily, placed into the operating income category.
6. List both assets and liabilities for the Partner Church fund or set up a separate category so the temporary restricted fund is not included as Net Income. If both assets and liabilities were listed it would greatly reduce the confusing volatility in the balance sheet and P&L statement and avoid confusing them with real income, especially since income and payments are generally split across 2 or more fiscal years. A separate category for this restricted income, kept off the balance sheet,

might be even better. Funds collected for the Church Campout might also be handled in this manner.

7. Complete revision of the Office Procedures Manual.
8. We recommend consideration of rekeying many of the locks in the church to enhance security. Specifically, we recommend that the church offices be keyed to a different standard than the current master key. In addition, we recommend resetting the combination to the safe.

Review of Responses to Previous Audit Recommendations:

We are not aware of whether the status of contractors has been reviewed recently or regularly as recommended in the 2014 audit, which is partly why we have recommended in item 3 that employment changes be clearly documented.

We agree that a marketing survey of church rental rates would be useful, and has not been recently done.

The recommendation that copies of important church documents should be kept offsite seems to us to have been adequately addressed by storage of membership and financial records through our cloud storage account.

We agree that regular reminders should be made to donors to include notes in the memo lines of their checks to identify where the funds they are donating should be directed, and are not aware of any procedure that has been developed to include such reminders in church mailings.

We also agree that a "Member's Only" section of the church website should be established to provide access to the church directory, and hope that it can be accomplished in the ongoing updates to the website.

We note the earlier recommendation that the combination of the church safe should be changed at some time, and recommend that this be followed up to determine how this can be accomplished.

We acknowledge the concern of the 2014 Audit Committee that two authorizing signatures are apparently not currently required for large wire transfers (>\$1,000), unlike checks, and request that the Finance Committee develop a procedure to implement this.