



# Hope Presbyterian Church

Invite all to worship God, Grow in faith, Follow Jesus by serving others.

September 13, 2011

To: Session of Hope Presbyterian Church  
From: Financial Review Team

Subject: Letter of Findings/Recommendations

Our review of the records of Hope Presbyterian Church covered the period from January 1, 2010 to December 31, 2010. The procedures for the review followed those outlined in Chapter 5: Financial Review of the "Church Treasurer's Manual" dated March 2004 as compiled by the Financial Network Group of the PCUSA. A financial review is very limited in scope; it does not follow generally accepted audit standards and therefore we express no official opinion on the financial statement taken as a whole. Most of the Review Team also serve on the Financial Committee which is an advisory body to the Stewardship Commission and therefore lack the independence brought by an outside CPA office. This review should be considered a cursory examination; not a financial audit. A traditional audit would be performed by an outside CPA firm and therefore would be significantly more technically involved. The Stewardship Commission should include in its operating budget funding for an outside review. The following findings and recommendations are made:

1. The last outside review (work done by an outside CPA firm) was for the year ending December 31, 2004, and the report was never issued in final form nor was their draft report circulated until this past year. **We believe it is time for an outside CPA firm to be engaged for the purpose of a limited scope review of the 2011 financial activities of Hope Presbyterian Church.** This should lead to budgeting for annual external reviews by a qualified CPA firm.
2. In January of 2010, our predecessor Review Committee issued their letter of findings and recommendations on the year ending December 31, 2008. This report led to many changes of procedures and improvements to our financial operations of the church. Significant work has been performed. In the June 26, 2010, Congregational Meeting our Treasurer, Matt Ray reported the following summary of findings and corresponding action taken:

## IRS Events of 2010

- Discovered \$180,000.00 understatement of Assets (March 2010)
- Discovered failure to pay \$75,000.00 in payroll taxes in 2009 and an estimated \$157,000.00 in payroll tax penalties and interest for irregularities since 2005 (April, 2010)
- Paid \$75,000.00 in back payroll taxes (May, 2010)
- Members' donations of \$40,000.00 toward paying penalties and interest (October, 2010)
- Paid \$132,000.00 in penalties and interest (November 2010)
- Deposited \$35,000.00 in tax refunds (January, 2011)

### Financial Management Controls

- Contracted a professional payroll service, ADP, to handle payroll processing and tax reporting (April, 2010)
- Established a monthly bank reconciliation (April, 2010)
- Established a Financial Committee for drafting financial policy and oversight of financial activities (financial controls, insurance, payroll)
- Redrafted money counting procedures for tellers to reinforce controls
- Added capability to electronically scan and deposit checks to Compass Bank from the church as part of teller counting procedures.


### Findings and Recommendations


1. Income: The income review includes the recommendation to investigate adding the capability to use credit and debit cards to receive payment for fees and contributions. The research of these features is currently underway by the Finance Committee under guidance from Stewardship.
2. Disbursements: Any petty cash transaction (such as cash for travel with mission trips) should record who the person is controlling the cash. A signed reconciliation sheet should be prepared at the end of the activity to accompany returned receipts and unused cash.
3. Disbursements: Our current Operations Manual states that for amounts greater than \$300, "...approval is required by a vote of the appropriate commission and will be communicated through the moderator. (Justification for purchases above \$300 will be reflected in the minutes of the commission meeting)". This procedure is generally not followed and needs to be reviewed and streamlined. Purchases or services need to be approved before someone has to approve the payment based on a vendor's invoice already in hand.
4. Reports and General Ledger: Generation to Generation Fund assets are not marked to market; rather they are being carried on the balance sheet at historic cost. These funds are invested and should be reported at market value on the balance sheet while maintaining historic cost in a separate account in the ledger. Fair value accounting is required for investments by non-profit organizations.
5. Reports and General Ledger: Several old, unreconciled balance sheet accounts need to be reviewed, reconciled and adjusted or written off as appropriate.
6. Reports and General Ledger: Assets that are required to be recorded for depreciation need to be recorded and details entered in supporting documentation.
7. Reports and General Ledger: There needs to be written procedures developed to address cases where expenses exceed budget. These procedures should include specifying who has authority to override the budget limits and the mechanism to insure review and approval are documented.
8. Administrative: Tax paperwork from prior years currently filed in the storage closet in the narthex is not considered secure. Anyone with access to the sanctuary can get to

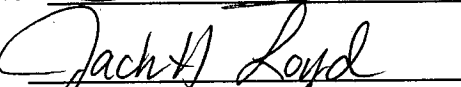
these records. The recommendation is to digitize all such records and then refer to the records retention policy regarding disposition of the paper records.

9. Administration: The church currently has no bonded individuals. The recommendation is that the treasurer, financial assistant and the trustees be bonded in an amount of \$50,000. Another option being considered is fiduciary loss insurance coverage. Having both protections should also be considered, but the cost of bonding and insurance may be cost prohibitive.
10. Payroll: The ADP payroll service reports should be reconciled with the church's general ledger records bi-weekly to coincide with payroll runs.
11. Payroll: Consideration should be given to consolidating the location of personnel files which need to remain confidential and secure. Currently records exist in the senior pastor's office, the Hope Children's Center Director's office and in the Financial Administrator's office.
12. Payroll: A "Payroll Action Form" should be used in each employees file to denote any activity that effects pay. For example, the Christmas Bonus should be noted since this amount definitely causes pastors' records to vary from totals expected from terms of call documentation.

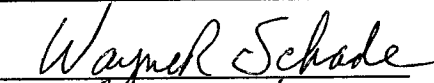
Respectfully Submitted,

Mike Regan 

Dan Devine 

Jack Loyd 

Mike O'Brien 

Wayne Schade 

Linden Welsch 

## FINANCIAL REVIEW CHECKLIST SECTION A: Income

1. Confirmations: 398 email confirmations were sent May 19, 2011 by the Office Coordinator. As of June 2, 2011, 6% or 24 of the messages sent were undeliverable, 42% or 157 of the messages were opened and read and the remaining 52% were unopened. Five responses were received and responded to by Mike O'Brien. Two were simply requests for another copy of the statement; one noted a mis-posting error that had occurred in 2010 and two dealt with 2011 contributions that had been prepaid in 2010.
  - a. Financial Administrator, Paula Croix, confirmed the mis-posting error and that it was promptly corrected.
  - b. One of the prepaid contributions (contribution paid in 2010 for the 2011 pledge) had originally been posted against that individual's 2010 pledge. It was corrected by Paula after notification by the member.
  - c. One of the prepaid contributions was hand delivered prior to 12/31 by a member. The contribution was processed on 1/3/11 and was so shown on the member statement. According to Paula, it was properly posted against the 2010 pledge of the member. The members concern dealt with it being shown as a 1/3/11 date when it had been delivered prior to 12/31/10.

Overall, the confirmation process did not uncover any significant errors or control issues. We should review the year-end accounting procedures and consider a policy that would provide that all contributions on hand on the first processing date in January be entered into the accounting records with an accounting date of 12/31. This will ensure that prepaid member contributions are correctly shown on the statements.

2. We inquired of the financial assistant and members of the money counting team, noting the cash offerings are counted by two or more unrelated persons and the checks are all scanned to the bank by the financial assistant after following established Teller check handling procedures.
  - a. At the present time, Hope is not equipped to accept payment of pledges or fees by credit or debit card or by bank transfer. These means of payment have been increasingly popular and easy to arrange with financial institutions. We recommend that Hope investigate the alternatives for accepting electronic payments with several area financial institutions and evaluate the feasibility of these payment methods prior to the 2011 stewardship campaign.
3. Bank reconciliations are prepared monthly
4. We reviewed the general ledger, G/L distribution listings, bank deposit support and bank statement for the month of October 2010. We compared the general ledger to the bank statement activity. The general ledger reconciles to the bank statement activity.

## FINANCIAL REVIEW CHECKLIST SECTION B: Disbursements

During the third and fourth weeks of May, 2011, a brief review of disbursements for Hope Presbyterian Church and Hope Children's Center was conducted by Trustees Jack Loyd and Loyal Cook with assistance from Financial Assistant, Paula Croix. For the review we selected four vendors, one staff Citibank Business charge card account, one reimbursement to an individual and two instances of petty cash usage. Guidelines for the review were based on the Disbursements Checklist from the PCUSA Treasurer's Manual as well as findings reported in the review of Hope's 2008 disbursements performed by Cheryl Nolting.

Payment recipients selected for review were Marvel Products (10% of 59 payments), Christian Brothers Piano Tuning (1 of 2 payments), Efficient Air Conditioning (4 of 6 payments including capital acquisition of a new A/C unit), Citibank card (1 of 13 payments for Music Director Nick Boltz's card), Mr. Lane Pollack (random individual receiving tuition reimbursement from HCC) and the use of petty cash for two youth mission trips.

From the Disbursements Checklist the following key items were checked:

- Invoices were properly approved
- Check number and date recorded. No canceled checks are returned from Compass Bank but each payment was checked for the presence of the system-generated check stub. Canceled check images were retrieved using BBVA Compass Bank's on-line access. Jack Loyd retrieved and printed the images.
- Account to charge was properly noted on the Request for Payment
- Vendor invoice was attached with amounts matching the disbursement
- Notation of any invoices to vendors being paid over 30 days in arrears
- Approval of the payment or reimbursement noted on the Request sheet
- Cash returned plus expense receipts for use of petty cash were properly tracked
- Maximum figure for individual approval of payments examined for adherence to procedure

Comments about the required documentation of approvals as described in the Hope Financial Operations Manual are included in recommendations below.

### Sample Disbursements Examined

- **Christian Brothers Piano Tuning (2 payments in 2010)**

- Two vendor invoices for \$270 and \$225 were combined for payment with a single check totaling \$495. Approval and required data were all in place. Payment was within 30 days.
- **Efficient Air Conditioning (6 payments in 2010)**
  - Four of the six payments to Efficient Air were examined. Approval signatures from both John Felts and Pastor Morgan were present as was all other required data. Payment was within 30 days. Payment amounts were \$5099.48, \$1754.50, \$996.00 and \$299.00.
- **Marvel Products (59 payment in 2010)**
  - 10% of the payments (6 out of 59) were randomly checked using payments number 2, 12, 22, 32, 42 and 52 in the stack. Payments were from both HCC and HPC checking accounts. Amounts paid were \$206.50, \$13.27, \$109.42, \$93.96 (covering 2 invoices), \$461.18 (covering 4 invoices and one credit) and \$240.13. Approval signatures were present as was all other required data. One of the invoices included in the \$461.18 total was over 30 days old but no late charges were incurred.
- **Mr. Lane Pollack – Misc-P Folder (one check written for reimbursement of tuition from HCC)**
  - One request for payment approved by Shelley Cox to reimburse Mr. Pollack for tuition. The total amount was \$205.00 and all data was present.
- **Citibank Business Card – Nick Boltz' staff card (13 statements in 2010)**
  - One of the thirteen statements was examined. The October statement totaled \$1265.74 which was the total to two charges. Charges were \$899.00 to Sweetwater for CD Recording equipment and \$366.74 to Austin Screen Printing. Two different designated funds were charged with the expense. Payment of the credit card statement was on time. Nick Boltz initiated the Request for Payment and it was approved by Pastor Morgan. Supporting data was present.
- **Petty Cash – Two Youth Mission Trips**
  - Two checks, each for \$200, were cashed for travel money for the youth mission trips in June 2010. Pastor Hoppe approved the requests. Both requests were charged to account 8756.
  - Accounting for trip #1 was documented with receipts for \$173.99 and a note stating \$26.01 was “written off” due to lost receipts. The missing receipts were stated to be for food and over-the-counter medicine.
  - Accounting for trip #2 was documented with receipts for \$59.42 and an envelope signed by Teller John Hummel stating \$140.58 in cash was returned to the church.

- Note that the Financial Assistant does not keep any actual cash in the office that is used for petty cash.
- **Trust Management – Mortgage Bond**
  - Checks are not written to pay the bond mortgage. The trust company drafts directly from a separate checking account. Trust Management’s fourth quarter statement was examined showing three monthly payments of \$21,015.00 being drafted from Hope. A check of Hope’s December 2010 Balance Sheet showed a long term liability balance in account #2530 (Bonds) to be \$1,650,000.00. An amortization sheet from Trust Management shows this same amount to be the outstanding principal of the remaining bonds at that time period.

#### General Comments Regarding Disbursements

Overall the documentation of disbursements appeared to be in compliance with content expected by the review checklist in terms of presence of Request for Payment/Reimbursement forms correctly documented, check stubs, and invoices. The RFP form was redesigned following the 2008 review and the changes appear to have helped eliminate some of the problems previously encountered.

#### Canceled Checks

Checklist items that requested canceled checks to be examined were deemed to be satisfied by the presence of the check stub since our bank does not return canceled checks and all bank statement have been reconciled. The additional step was taken to use the on-line access to BBVA Compass Bank’s account data to retrieve and print both front and back of several check images. All retrieved checks matched the pay-to, amount, description and endorsement expected.

#### Accounting for Use of Checks

A spreadsheet of 2010 check data from each of three checking accounts allowed sorting the data in check-number sequence to test for missing checks. What was discovered were two number sequences in each checking account that had widely different ranges. For example, HPC’s main operating account (#16786217) had January check disbursements using ranges 105821, 105822, etc. as well as 190, 191, 192, etc. Disbursements from HCC’s account #16786098 and the Designated account #16786055 had similar patterns. Financial Assistant, Paula Croix, researched the oddity and discovered that the low number sequences were “artificial” check numbers created when Compass Bank’s on-line e-payment capability was used. The higher numbered checks were actual physical checks printed and mailed from the church. Paula ceased the practice of using electronic bill payment in August when she joined the church staff because of the difficulty it posed in tracking. The prior Financial Assistant and the Accountemp contractor had used the electronic bill payer system in the early months of the year.

Once the actual printed check sequences were confirmed, we could account for every check in the sequence. Some had been used in 2009 (in effect, printed out of sequence), some had been voided and the physical copy kept on file and some had been voided due to overprinting from a previous check. This last instance happened occasionally when paying the Citibank business cards. A set of line items prints after the check and, if the list is long, it overwrites on the pre-printed check that follows in the sequence. All checks voided to overprinting were present.

#### Payment for Per Capita Allocation to Mission Presbytery

The procedure to pay the Per Capita assessment is triggered by a letter from Mission Presbytery. A letter dated 11/15/2010 to Hope Church stated we owed \$6435.00 based on our reported membership. This payment is due by January 31, 2011. In this case payment was completed in January. For the payment made in January 2010 a check was written for \$6242.25 and paid on 1/13/2010. However, no comparable letter from Mission Presbytery dated December 2009 could be found in the file.

#### Petty Cash

From the review of the Petty Cash transactions the reviewer recommends the name of the person handling the cash (on the youth mission trips, for example) be recorded. That person should sign a reconciliation sheet with the returned receipts and excess cash, if any. In one of the cases reviewed there was a statement of missing receipts but no one specific was named as the person responsible for tracking the cash.

#### Disbursements for Outreach

The process for outreach payments starts with an annual budget spreadsheet outlining all of the target mission partners selected by the Service Commission and the expected dollar amounts to be paid to them. On or about the 15<sup>th</sup> of each month the Financial Assistant calculates the planned total outreach money available based on the prior month's income. The formula takes Total Contributions from the previous month and subtracts the Bond Payment. Ten percent of this calculated result is the amount to be distributed. A "proposed" payment calculation is done using the budget spreadsheet and this document is e-mailed to the moderator of the Service Commission, the Treasurer and Pastor Morgan for their modification and/or approval. The approved payment amounts and payees are confirmed in an e-mail to the Financial Administrator who processes the checks to be signed and sent.

Distributions for "unallocated giving" are a little different. Unallocated giving occurs for items like the Joy Gift or One Great Hour of Sharing where a specific offering is requested and all of the money collected is sent to the target organization. There are no budget amounts planned for these categories of expenditure. From a process perspective, the Financial Administrator is notified when one of the unallocated collections is about to occur. As checks or cash are donated with specific notation that the gift is for the program, the money is deposited and earmarked in a designated fund. Once enough time has elapsed to allow for contributions to cease, a check is written for the total amount in the fund, leaving a zero balance.

There does not appear to be any problem with these categories of disbursement.

#### Expense and Disbursement Related to Reporting

During this review the question was asked as to how disbursements were reflected in our monthly reporting. The answer is that disbursements do not appear in any of our reports. The monthly report entitled "Analysis of Revenues and Expenses" contains expenses incurred during the month and year-to-date. What is important to note is that when invoices are received at the church and the information entered into the ACS Financial System, the amounts posted will appear in that current month's expense line items. At some point a check will be written to pay the expense but the amounts actually paid out do not appear on any reports. Check writing does not affect expense reporting. The expense total is increased as soon as an invoice's data is recorded in the system.

#### Approval Process

The procedure requiring two signatures on checks over \$600 had total compliance in the 2010 sample. However there is a documentation gap in the approval of the payment before the check is written. In the review sample, any amount over \$300 had an approval signature in addition to a requestor's signature on the Request for Payment form. This part of the procedure is fine; however, the link back to the budgeted commission is less formal than the Operations Manual outlines.

This checklist item focuses attention on a Hope Financial Operations disbursement procedure that needs both clarified and improved. That item asks if the "maximum figure for individual approval of payments is established and followed"? The Operations Manual has a procedure outlined for approving (1) credit card purchases greater than \$300 and for (2) "reimbursement requests" for amounts over \$300. However, there is no mention of approval of any amount to be paid on a "request for payment" to an outside vendor (for example, like Christian Brothers Piano Tuning which was one of the transactions in this year's examination). The procedure outlined in the Operations Manual states that:

- ...for amounts greater than \$300..., "approval is required by a vote of the appropriate commission and will be communicated through the moderator. (Justification for purchases above \$300 will be reflected in the minutes of the commission meeting)."

In the transactions sampled for this review, three amounts paid to Efficient Air Conditioning and two items on the Music Director's Citibank Card exceeded the \$300 threshold. The Citibank card had charges from Sweetwater for \$899 and Austin Screen Printing for \$366.74. The reviewer read through 2010 Commission minutes (as included in 2010 Session minutes) to see if there was any mention of these items being approved by either the Stewardship or Worship & Music Commissions. Only the replacement air conditioner (\$5099.48 to Efficient Air) was mentioned in Commission minutes (a planning number of approximately \$6000 was noted, not the specific final invoice total).

This review affirms that there is a maximum figure allowed for individual approval of payments (\$300). However, the data sampled exposes a lack of attention to the operational procedure

requiring Commission Minutes / Moderator communications reflect that items above the limit have been approved by the Commission. The Finance Committee and Stewardship Commission should evaluate the Operations Manual to insure clear language describes the required procedure. In addition, steps should be taken to continually update Commission Moderators or other expense approvers as to what backup documentation is required.

## FINANCIAL REVIEW CHECKLIST SECTION C: Reports and General Ledger

1. Under the topic of complete financial picture provided by reports, several items were noted:
  - a. Generation to Generation Fund assets are not marked to market. Fair value accounting is required for investments of non-profit organizations.
  - b. The accrued interest on outstanding compound interest bonds has not been recorded. These bonds do not pay interest currently. Accrued interest is due only at maturity.
  - c. There are several unreconciled, old balance sheet accounts that need to be reviewed, reconciled and adjusted or written off as appropriate. The accounts are: prepaid postage, operations receivable, operations receivable – special, HCC prepaid registration fees, and accounts payable – designated fund.
  - d. The property, plant and equipment accounts do not have a subsidiary ledger or supporting spreadsheet detail system. Such a system needs to be established and depreciation needs to be recalculated.
2. Under the topic of Over-budget expenditure approvals in order, several items were noted:
  - a. The Operating Fund report titled Analysis of Revenues & Expenses – Monthly shows month to date and year to date budgets for revenues and expenses. Four commissions had year to date expenses greater than their annual budgets.
  - b. There does not appear to be a viable mechanism in place to review and approve over budget expenditures.
  - c. Hope does not have a formal budget policy specifying authority for overspending a line item or a mechanism to transfer budgeted funds between line items.

## FINANCIAL REVIEW CHECKLIST SECTION D: Administrative

1. Church EIN obtained-  
The financial assistant Paula has filed a request for a copy of our IRS letter assigning the EIN number and has received the IRS notification letter for our records.
2. File for EIN and tax filings safeguarded-  
Tax filings, forms and reports for 2010, 2011 are kept in the financial assistant's office. The EIN paperwork has been put in the office. Tax paperwork for prior years is in a custodial closet in the narthex. This closet is not considered secure as anyone with access to the sanctuary can open the door. **The recommendation is to digitize all such records and then refer to the records retention policy regarding the disposition of the paper records.**
3. Deed to church property/mortgage safeguarded-this information is contained in a folder in the 4 drawer file in the assistant's office along with the file on Trust Management who holds church bonds.
4. Insurance policies safeguarded- the current and previous years policies are in a folder in the 4 drawer file cabinet in the assistant's office. The insurance committee has recently reviewed and changed the insurance policies and carriers and certifies that the coverages are adequate.
5. Church has separate bond for persons handling money-The church currently has no bonded individuals. **It is recommended that the treasurer, financial assistant and the trustees be bonded and that the limit be raised to \$50,000.** The insurance committee has received bids for this coverage and has passed that information on to stewardship for a decision on the expenditure. A recent check of the current insurance policies shows \$25K theft coverage which is considered inadequate for this bonding purpose. Additionally, the treasurer has a coded key fob that allows access to bank accounts, etc. for the purpose of transferring funds, etc.
6. Where and how documents are safeguarded-the documents in the assistant's office are secured in a locked room. The file cabinets are not routinely locked.
7. Persons with access to the financial assistant's office-the treasurer, financial assistant and the senior pastor have keys to the office.

## FINANCIAL REVIEW CHECKLIST SECTION E: Payroll

On May 11, 2011, a limited review of payroll was conducted by Linden Welsch and Mike Regan with assistance from Financial Assistant, Paula Croix. For the review we followed the guidelines included in the checklist from the PCUSA Treasurer's Manual as well as interviews with Fred Morgan, Shelly Cox and Paula Croix. In addition amounts from federal form 941 Quarterly Wage Reports, General Ledger amounts and W-3 Wage and Tax Reports for the 2010 Tax Year were compared.

From the Payroll Checklist the following items were reviewed:

1. Personnel files kept on individuals
2. Personnel files safeguard and confidential
3. Salaries paid, according to approval
4. Tax forms issued to clergy persons, employed persons, and government
5. Payroll tax deposits and timely remittance to government made
6. Time sheets filed and approved
7. Employee benefits paid and current
8. Any salary reduction plans noted
9. Session/committee approval noted and written documentation in file
10. Amount paid to persons or contract/honorarium verified
11. Proper 1099 filing of approvals for persons paid for over \$600.00 paid or contract/honorarium

### Results of the Review and Recommendations

Minor differences were noted between payroll totals reported in the General Ledger Systems and the totals included from the ADP Payroll System. There should be a bi-weekly reconciliation performed between the two systems. Payroll is run bi-weekly and could be incorporated into the accounting routine which involves a verification of available funds prior to processing.

Personnel Files are confidential and secure. However they are maintained in three locations. Hope Children's Center's is in Director Shelly Cox's office, Hope Church staff is in Pastor Fred Morgan's office, and a set of payroll related information files in the Financial Assistant, Paula Croix's office. We believe consideration should be given to files being centrally located in the Financial Assistant's office. In our review of the files, across the board pay increases were not always documented by a "personal action form." We believe such a form could easily be developed and used by the respective head of the staff. A signature for each such action is a good internal control measure. The terms of call for the pastors were exceeded by \$510.71 and there was no indication in the payroll file as to why. It was the result of their proportionate share of the Christmas Bonus money contributed for Hope Church Staff. We have no issue with the bonus; however, a "personnel action form" would have saved the review team time and energy in determining the difference.

The most important finding we have to report is that the Payroll Service performed by ADP Payroll Systems is working and we believe our responsibilities to our employees, IRS and the US Treasury are being met.