



October 10, 2010

To the Finance Committee:

Following the recommendation by the Finance Committee in its July 11, 2010 meeting, I am submitting my response to the auditor's Communications With Those Charged With Governance (Management Letter) for the audit ending December 31, 2009. There were two comments by the auditors. One comment described a material weakness and the other described a significant weakness in our internal control process. The material weakness is considered to be more problematic than the significant weakness. Both weaknesses were listed in the 2007 audit as significant. The segregation of duties weakness was upgraded to material in 2009 though it was exactly the same weakness pointed out in 2007. Our goal has been to make responses which were reasonable and cost effective in meeting the spirit of the comments. My response to the segregation of duties mirrors my response to the 2007 observation.

The 2009 Audit Report Management Letter states: "Segregation of duties (separation of accounting functions from custodial functions) is a basic component of an internal control structure. However, in the Church's case, complete segregation of duties over cash, disbursements, and the general ledger is not possible due to limited staff and resources. Finance Committee oversight and review of operations compensates for the lack of segregation of duties. We remind the Finance Committee that their review of operations is a significant part of the internal control structure. The finance committee and management are responsible for understanding the risks of fraud and ensuring the implementation of mitigating controls. Some of the risks the Finance Committee and management should consider are the risks of theft of cash before it is recorded in the general ledger and theft of cash through fraudulent payments. We recommend that the Finance Committee Periodically review these risks and the related controls."

This material weakness relates to the segregation of duties regarding handing of cash and checks and the disbursements of cash. Following this comment we made several changes to our money handling processes. First, the Church Administrator is the only individual with complete access to the accounting system. The Administrator or his/her representative is present on Sundays and is responsible for seeing that all offerings and collections are secured in the Church safe. There is a locked drop box available in the Sanctuary building which can be used to secure collections until they can be removed by the representative and placed in the safe. We took this step to decrease the instances in which money is exchanged personally between parishioners and staff. Also, envelopes are provided for ushers and others to count and record receipts. The envelopes are sealed and placed in the drop box. All receipts are counted by at least two people during the recording process. All checks which come to the Church by post are opened by the receptionist and the Administrator receives the checks, stamps them for deposit only, and puts them in the safe.

Cash and checks are deposited in the bank on a weekly basis. On Monday mornings a team of two to three tellers, non-office staff persons, count, verify, record all cash and checks, and fill out a deposit form. Monday afternoon, the office staff records all checks and cash into the Church's database system and prepares the bank deposit form. The bank deposit and the teller's receipt must match. On Tuesdays the deposit is taken to the bank.

The Office Manager is responsible for accounts payable check writing, but she is not authorized to sign checks. Each payable check is signed by two individuals. Our objective is to have the Church Treasurer sign most of the checks along with one of the other two signers. Bank statements are reconciled by a volunteer parishioner.

The safe and drop box are locked with unique keys that only the Administrator and the Office Manager have and only these two people have the combination to the safe.

We developed this system after consulting the auditors as to the best way to accomplish separation of responsibility without added cost. While it is not foolproof, we think it adequately separates responsibilities for cash management given the size staff we have and the environment we operate within. It places major liability on the Administrator, but it also addresses the concerns for internal control in the best way we could.

Additionally, two events have occurred in 2010 which further affect this issue. First, in May, 2010 First United Methodist began accepting online credit card deposits and ACH deposits and secondly, we are instituting a formal and hopefully annual internal review of our internal control system to assure we are in compliance with our own policies and update procedures when new techniques are found. The institution of the online payments system further separates and reduces the staff's need to directly handle payments to the Church. While the online system does address this problem somewhat, it is expensive both in terms of fees and in staff time to account for the deposits. I will add comments on the internal control review process further down.

The 2009 Audit Report states: "Personnel file documentation does not consistently evidence approval of salaries or pay rate changes."

In 2009 we produced a Personnel Manual which was an update from one produced in 1997. We tried to bring our personnel practices into compliance with our best understanding of current employment law. We retained a human resources consultant to produce that manual and we have begun using the manual. As part of the process of updating the manual, administrative personnel have begun asking for documentation on hiring. Minimally, we ask for a letter to the employee stating the terms of employment including hire date, compensation, and supervisory channels. The concept of updating these files as salaries change has not been institutionalized. In reality changing salary has not happened frequently, but when it has, I have to say documentation is sporadic at best. We keep personnel records in the Office Manager's office and we are trying to retain documentation of pay changes, current W-4, I-9 etc. The updated Personnel Manual was a direct response to the third item in the audit for 2007. Implementing the changes in the Personnel Manual has been slow, but we are continuing the process.

We are conducting a detailed review of our entire internal control system for the purpose of assessing real or potential risks. Dodie Brown, CPA, a member of First United Methodist Church and a member of the Finance Committee has agreed to assist in this project. We will make recommendations for improvements to our present internal control system and rewrite the Fiscal Policies and Practices Manual to bring them up to date. As we make progress, we will update the Committee. We expect to make this internal control assessment at least an annual process.

We should be able to eliminate personnel documentation issues completely. I am not as hopeful that we can totally eliminate the separation of duties issue, but we can improve our processes and further minimize potential risks in this area. There are weaknesses in our internal control systems that are both structural and cultural. In a structural sense we will always have a small staff dedicated to managing our financial resources, but there are practices and procedure we can implement to improve even with a small staff. Culturally, churches present an environment of trust which makes theft of financial resources easier. Parishioners often turn over cash without the kind of receipting mechanisms common in other businesses. We have attempted to make changes in the system that address both of these areas, but with limited success. Our goal is to continue to make progress which decreases our risk while at the same time being cost effective.

The staff welcomes input and suggestions in regard to the comments in this response.

Respectfully Submitted,



James Weaver
Church Administrator