

**Leaman & Associates, Inc.**

**Small Business Accounting**

Thursday, May 12, 2011

The Wardens and Vestry  
St. Aidan's Episcopal Church  
2425 Colorado Avenue  
Boulder, CO 80302-6806

Ladies and Gentlemen:

The primary purpose of the audit is to provide assurance that the financial statements fairly represent the financial position and result of operations of the entity being audited. An audit certificate is required to be provided to the Diocese to evidence compliance with the canonical audit requirement. An additional benefit of the audit, however, is found in the Management Letter in which the auditor has the opportunity to share with management his observations and recommendations pertaining to accounting, internal control and other operating matters which attracted attention during the course of the audit. That is the purpose of this letter.

**Status of Prior Year Recommendations:**

**1. Clergy Form W-2**

There was a recommendation with regard to the completion of the form W-2 which in retrospect appears to have been in error. The current year forms W-2 have all been completed correctly.

**2. Lay Employment Policies**

**Recommendations:** It was recommended that the policy be updated to reflect the fact that the church is exempt and does not pay for unemployment insurance. As a result, employees who are laid off or otherwise terminated are not eligible for unemployment benefits.

**Findings:** The Lay Employment Policies were updated as of May, 2011. However, it still reflects that the church pays for Unemployment Insurance. It does state that "Part time employees are not eligible for unemployment." This would leave full time employees with the impression that they are eligible, which is not the case.

**Follow Up Recommendation:** Revise the Policy once more. I suggest that item 10a be revised to delete "Unemployment" and that it be expanded to state "Churches are exempt from Unemployment Taxes and therefore church employees, whether they be full or part time, are not eligible for Unemployment Benefits."

mkrt  
done 6/14/2011



**3. Financial Statements as shown on the Web Site**

**Recommendations:** The year end financial statements shown on the web site were not the final statements as revised and presented to the Vestry in August, 2010. Recommended the final, revised financial statements be posted since the web site is now the official site for the permanent records of the Parish.

**Findings:** This was done, no further recommendation.

**4. Note Payable to the Endowment Fund**

*Amy Paive  
MKF +*

**Recommendation:** The financial record needs to be updated to reflect the correct amortization of the Note Payable as was approved at the October, 2009 Vestry meeting.

**Findings:** The loan was terminated and a new loan in the amount of the balance plus an additional advance of \$40,000 was made, effective September 30, 2010, bringing the new loan balance to \$79,588.16. Monthly payments of principal and interest were to be made in the amount of \$1,750. No such payments were made from the inception of the new note through year end. Further, a look at the March 31, 2011 Balance Sheet shows no payments being made on the loan. Finally, a look at the 2011 Operating Budget shows no budgeted payments were expected to be made on the loan.

**Follow Up Recommendation:** It would appear as though the note were restructured on paper to meet the requirements of the Endowment Charter covering loans to Operations. The intent of actually servicing the loan seems unclear under the circumstances. Since you are operating on a cash basis, the accrual of interest does not appear on the financial statements to alert a reader that payments are not being made. It is possible that someone could raise issues regarding the fulfillment of fiduciary duties by both the Vestry and the Endowment Committee. Accordingly, I respectfully suggest that every effort be made to fulfill the terms of the loan that was recently negotiated between the Vestry and the Endowment Committee.

**5. All Cash Receipts and Cash Disbursements to be through the Operating Account**

*Armando  
NKR*

**Recommendation:** Review current practices and modify them where possible to conform to the guidelines in the Manual of Business Methods in Church Affairs which calls for all cash receipts to be initially deposited in the Operating Account.

**Findings:** In discussion with the accountant, and as reported on the Internal Control Questionnaire, checks received which are made payable to the Discretionary Fund are deposited directly to the fund. The accountant was not aware of any other such instances.

**Follow Up Recommendation:** Policy should dictate that all monies received, including those directed to the Discretionary Account, be first deposited to Operating and then forwarded to the appropriate account.

✓ 6. Signatures on Checks

**Recommendation:** Consider requiring two people to sign all outgoing Operating Account checks. Alternatively, consider requiring two signatures on checks over a certain amount.

**Findings:** This recommendation was discussed. It was determined that it was not practical to implement and that other internal control procedures in place were adequate to protect the assets of the Church. No follow up is required.

✓ 7. Stale/Old Outstanding Checks

**Recommendation:** Any outstanding checks over 90 days should be flagged and investigated, reissued, or cancelled as appropriate.

**Findings:** There were no old, outstanding checks on the bank reconciliation this year.

8. Inventory

**Recommendations:** Consider taking a video inventory. Keep the media recording off site and secure.

**Findings:** The detailed, written inventory continues to be a work in process.

**Follow Up Recommendation:** Again, consider the video inventory as an interim step and as a supplement to the written inventory.

9. Back Ups for computer systems and programs/recovery plan

**Recommendation:** Obtain back up copies of all operating systems and programs and store in a safe place off site. Develop a recovery of data plan.

**Findings:** The internal control questionnaire indicates that this is still in process. However, in discussion with the accountant it was learned that the backup and recovery plan covers only the primary system in the main office. The computer in use by the accountant is unprotected and there is no back up data for QuickBooks.

**Follow Up Recommendation:** The Accountant should back up her work on a flash drive weekly and maintain the backup off site. The staff should complete the collection of all operating systems and programs.

✓ 10. Investment Income and Related Transactions

**Recommendation:** The recording of investment income and related transactions must be done timely.

**Findings:** It appears that income was being posted more timely in 2010. No follow up required.

Grace P. Foster  
+ AHMC

Aracelis  
N/K  
+  
Cernie  
Muckin

## 11. Finance Committee

**Recommendation:** Review the structure of the Finance Committee for conformity with the By-Laws.

**Findings:** Did not observe this item being addressed in the Vestry minutes, but last year's report was not issued until September. It could have been addressed in early 2011.

**Follow Up Recommendation:** If this has not yet been addressed, the Vestry should review the composition of the Finance Committee so as to conform to the By-Laws.

Following are other items that came to my attention during the current audit:

### 1. Vestry Minutes

*MFF  
Koru  
Arvoda No ku*

**Findings:** There is an official minute book and it was found to include much of the data which was handed out for review at the Vestry meetings. However, not all documents were so included. At the February 2010 meeting, for instance, the Vestry approved the final 2009 financial report and approved the 2010 budget. Neither document was included with the minutes. Vestry minutes were not signed by the Clerk. Copies of the minutes are posted on the web site as "draft".

**Recommendations:** The official minute book must include copies of all materials distributed, discussed and /or approved at the meetings, even if such documents are posted elsewhere. For example, unless the approved budget is actually posted with the minutes, there is no way to verify later that a budget that appears somewhere else is actually the budget that was approved by the Vestry! Recommend that the Clerk of the Vestry actually sign the minutes, once approved or corrected by the Vestry. The Clerk's signature is evidence that these are the actual minutes approved or corrected by the Vestry and that all required attachments are included in the book. Recommend that a PDF copy of the minutes and the attachments be made after the Clerk has signed the minutes and then posted to the web site, insuring that the actual minutes, not a draft, are posted.

### 2. Vestry Minute Book

*af*

**Findings:** The clerk was very diligent about keeping copies of all e-mail correspondence when Vestry actions were taken by e-mail. However, the book became very bulky and difficult to follow because the copy of the member approval always included the original of the communication requesting the action.

**Recommendation:** When printing out a copy of a member's e-mail vote, copy only the member's communication, not the original communication to the member. All such actions taken by an e-mail vote should be confirmed in the minutes of the next regular meeting of the Vestry.

**3. Canterbury Management Agreement**

*oh well*

**Findings:** The management agreement was changed to forego the November and December payments and the revised agreement was posted in the minute book. However, there did not appear to be a discussion or action in the minutes.

**Recommendations:** Any revision to a major document requires the approval of the Vestry be documented in the minutes. It would have been helpful for the minutes to have included a discussion of the rationale for the action

**4. Endowment Loan to Operations**

**Findings:** An amortization table was prepared for this loan which showed amortization to begin in 2011. The documented loan agreement was effective September 30, 2010.

**Recommendations:** The loan amortization table should be redone to show the accrual of interest beginning October 1, 2010 and the first payment on October 31, 2010.

**5. Former Parishioner Loan**

*in process*

**Findings:** A former parishioner made a special contribution in the amount of \$35,000. He subsequently left the parish and requested the contribution to be reclassified as a loan to which the Rector agreed. Although the Vestry did retroactively approve the action of the Rector, there is still no document which formalizes the terms of the loan.

**Recommendation:** Even though the Vestry has retroactively approved the action of the Rector, the issue will not be resolved until the loan is either repaid or its terms documented. The recommendation is that the terms of the loan be documented ASAP.

**6. Balance Sheet Presentation of the Endowment Fund and the Years Fund**

**Findings:** The Balance Sheet presentations of these accounts represent the totals found in various accounts. This format was carried over when transferring data to the new QuickBooks program. The summation of all the components of the funds is shown in the Fund Balance Section of the Balance Sheet. The Asset Section should show the individual accounts.

**Recommendation:** Revise the format of the Other Assets Section of the Balance Sheet to look something like this:

Other Assets  
 Bank of the West  
 Endowment  
 Years  
 Total Bank of the West  
 Vanguard - Endowment  
 Merrill Lynch - Endowment

Colorado Episcopal Foundation  
Endowment  
Yeans  
Total CEF  
Note Receivable - Endowment  
Life Insurance - Endowment

Total Other Assets

## 7. Parochial Report

*do for 2011*

**Findings:** The total income reported on the Parochial Report was \$589,257, the total income reported on the Consolidated Income Statement was \$588,750, so close as to be a meaningless difference. However, individual amounts, except for Plate and Pledge, were very difficult to tie out.

**Recommendation:** The person preparing the report should do an Excel spread schedule with the Parochial Report line items being shown as columnar headings and the individual line items from the Income Statement being shown in the rows. Simply put the individual item from the income statement into the proper column and total the columns with the result going onto the Parochial Report. Now there will be a trail to follow for the next person to prepare the report. Simply attach this spread schedule to the file copy of the report to preserve it forever!

## 8. Fixed Assets

*Church Insurance Awarded NUKV*

**Findings:** It does not appear that the Fixed Assets have been updated for some period of time.

**Recommendations:** Update the Church building using the latest value established by the County Assessor and double check that value against the replacement value used by the Church Insurance Company. The value of the 2419 property should be just the land since the plans are to demolish the building.

This concludes my observations and recommendations. I hope you find them of value. My objective is to always add value to the audit report through the use of the Management Letter and I hope I have succeeded in this case

I find that there are not a great many management comments this year. The Parish has gone through some turmoil and turnover of staff which has appeared to make it stronger. Care has been taken to reconcile designated and restricted funds and to segregate the actual monies from the operating funds of the Church. Although this fiscal discipline has caused some hardship, the physical separation of funds has also made the operating shortfalls and shortage of working capital more prominent and thus able to be dealt with more efficiently. Additionally, the switch over to QuickBooks appears to have been accomplished with little fuss and confusion with the result being a much more user-friendly system and easy to read reports.

In summary, the major concerns are: improvements to the minutes and the minute book; adherence to the terms of the Endowment Note; establishment of terms on the parishioner note; revision of the Lay Employment Policies; completion of the inventory; and

maintaining back up on the accounting system;

I am always conscious of the costs incurred by a congregation to comply with the annual audit requirement. Normally I suggest to most congregations that they can save money by utilizing an internal audit team which follows the audit guidelines in the *Manual*. This assumes, of course, that a competent and independent audit team can be put together from within the congregation. In that case, consider using an outside auditor perhaps once every three years to insure the benefits of the "fresh set of eyes."

In St. Aidan's case, however, you have chosen to engage my service to do the audit for three years in a row. Even when using a professional auditor, I normally recommend changing auditors every four to five years, again to benefit from the "fresh set of eyes." We discussed this thoroughly in the preliminary audit interview. Thus, assuming you wished to hire me again next year, for which I would be extremely grateful, it could be my last year according to my own recommendation. There are other auditors in the Diocese that do work similar to mine, so you might want to begin researching other alternatives. I find it difficult to recommend you consider a certified audit due to the prohibitive cost involved and the fact that they are rarely well informed regarding church practice or canon law.

If there are questions or if you need further information on anything addressed in this report, please do not hesitate to ask. E-mail is always the best way to communicate.

Thank you again for the opportunity to be of service and I do hope you will consider inviting me back again, even if it is for the last time!

Faithfully

Robert S. Leaman, President  
Leaman and Associates, Inc.