

FIRST CONGREGATIONAL CHURCH OF WOODSTOCK

INTERNAL AUDIT REPORT FOR 2024 FINANCIAL YEAR

An Internal Audit Team was created for this project consisting of John Cimochoowski, Bruce Lyman, Ruth Trahan, Holly Ware and Bruce Staehle. The procedures used are adapted from those that the Episcopal Diocese of Connecticut requires to be performed annually on its churches with revenue less than \$750,000, where a full independent audit is not required. Our internal audit's focus is on identifying opportunities to strengthen processes and controls and bringing these to the attention of those charged with governance.

The team met on April 23, 2025 to perform the procedures listed below, which included testing a sample of transactions selected by Bruce Staehle. The Bookkeeper was exceedingly helpful in making all necessary materials readily available which greatly facilitated the ability of the team to complete the necessary tasks expeditiously. The Finance Team has provided responses to each finding, indicating any changes to policies and procedures to be implemented as a result. The Finance Team consists of Governing Board Liaison – Finance, Suzanne Cimochoowski; Governing Board Liaison – Facilities, Charles Bottieri; Treasurer Bill Moylan and Bookkeeper Toby Bishop.

The Internal Audit Team appreciates the Finance Team's commitment to transparency, accountability and good stewardship by supporting this internal audit.

Respectfully submitted May 13, 2025,

Bruce Staehle

OBJECTIVES:

- A. Do the published financial statements fairly reflect the underlying accounting records?
- B. Are assets supported by account statements or other appropriate documentation?
- C. Are liabilities supported by account statements or other appropriate documentation?
- D. Was income properly counted and recorded?
- E. Were disbursements properly documented, approved and appropriately categorized?
- F. Are there any indications of items missing from the financial statements?
- G. What internal control improvements should we focus on making?

PROCEDURES AND FINDINGS:

A. Do the published financial statements fairly reflect the underlying accounting records?

Procedures:

1. Compare a QuickBooks Statement of Financial Position and a QuickBooks Statement of Activities with the published year-end financial statements. Use the bookkeeper's financial reporting Excel file if necessary to help trace numbers from the QuickBooks sources to the financial statements. Make inquiries of the Bookkeeper or Treasurer to address any questions or concerns.

Findings:

Three QuickBooks line items were not shown on the Detail of Operating Income and Expenses but were included in the totals for the relevant categories and so were also included in the Summary of Operating Income & Expenses:

- 404.01 Faith Formation Contributions Income - Actual \$10 Budget \$0**
- 506.04 Faith in Action: Windham Association UCC Dues - Actual \$220 Budget \$260**
- 508.04 Office: Staff Development - Actual \$200 Budget \$240**

Finance Team Response: According to the bookkeeper, this was an inadvertent error when preparing the Excel printout for the year-end reports. Since the amounts were small, and were included in category totals, the financial statements still present a fair view overall of the church's financial results for the year. The bookkeeper has changed the process for producing the monthly reports to help prevent this from occurring again. The bookkeeper has also undertaken to perform additional manual verification checks on year-end reports prior to their publication in the annual report. A corrected copy of the report will be placed in the archived copy of the 2024 annual report.

B. Are assets supported by account statements or other appropriate documentation?**Procedures:**

1. For each bank account, trace the amount listed on the financial statements to the register balance according to the bank reconciliation. Trace the balance on the bank statement to the bank reconciliation. Scan the bank reconciliation for reasonableness and trace any unusual or questionable items to supporting documentation. Questionable items might include deposits that have not cleared within a normal timeframe, transfers between accounts where only one of the accounts shows the item as outstanding, and uncleared checks more than six months old that have not been voided.

Findings: No exceptions noted

2. For the Schwab and United Church Funds investment accounts, trace the amounts listed on the financial statements to account statements or to account reconciliations if they have been prepared. Make inquiries of the Bookkeeper or Treasurer about any reconciling items such as deposits or withdrawals in transit and read supporting documentation to confirm such items are appropriately treated in the financial statements. Processing delays may cause some transactions to be in process at year-end, but such items should be evaluated skeptically as they could have a significant impact on the financial statements.

Findings: No exceptions noted

3. For any other assets [Prepayments], trace the amounts listed on the financial statements to supporting documentation, such as underlying QuickBooks records and invoices for items treated as Prepayments.

Findings: No exceptions noted

C. Are liabilities supported by account statements or other appropriate documentation?

Procedures:

1. For Accounts Payable and Accrued Expenses, trace the amounts listed on the financial statements to supporting documentation, such as underlying QuickBooks records and invoices. Examine the supporting documentation for all disbursements over \$500 made in the month after the year in question to ensure that all such items relating to the prior year were included in Accounts Payable and Accrued Expenses.

Findings:

The Christmas Eve offering in aid of United Services' crisis response team was not accrued as a 2024 expense. It was paid to United Services in 2025.

Finance Team Response: The bookkeeper implemented accrual accounting for the operating fund but had not yet done so for the fourteen congregation-designated and donor-restricted funds, which have continued to be recorded on a cash basis. The Christmas Eve offering was treated as Other Restricted Funds and so was accounted for on a cash basis. The bookkeeper has committed to implement accrual accounting in the year-end accounts for all funds going forward.

2. For Accrued Payroll, determine whether staff were paid up to date prior to year end or whether there is a payment lag for which Accrued Payroll should be recorded, e.g., if hourly staff are paid for work performed one week in arrears, an accrual for one week's pay may be appropriate. Trace any Accrued Payroll shown on the financial statements to supporting calculations.

Findings: No exceptions noted

3. For Deferred Pledge Income, trace the amount shown on the financial statements to the underlying QuickBooks records, identifying the amounts and dates of contributions making up the balance of Deferred Pledge Income. Confirm with Suzanne Cimochofski (responsible for recording pledge payments) that these were all of the 2025 pledges paid in advance as of the end of 2024. Note that the auditors do not need to know the names relating to each of the payments to perform this test.

Findings: No exceptions noted

4. For any other liabilities [Security Deposits], trace the amount shown on the financial statements to supporting documentation and confirm that the liability was incurred prior to year end.

Findings: No exceptions noted

D. Was income properly counted and recorded?

Procedures:

1. Select 6 Sundays from the calendar year judgmentally. For each Sunday selected, obtain the cash count sheet and related deposit ticket and deposit receipt. Verify that the count sheet was signed by two different authorized counters (the Financial Secretary can provide a list of authorized counters). Verify that the amounts from the count sheet were entered into QuickBooks using an appropriate line item in the chart of accounts.

Findings:

No count sheet, deposit slip or deposit receipt was located for the 7/14/24 deposit.

Finance Team Response: Both the bookkeeper and the Governing Board Liaison – Finance use the deposit record when entering the transaction into QuickBooks and later entering donations into ChurchTrac, so the item must have been misplaced after that. We have experienced the cash deposit documents getting out of order in the files due to their physically smaller size. We are attaching them to a sheet of 8.5” x 11” paper as a temporary measure to make them easier to keep in order in the files. We will revise the cash count form to be a full 8.5” x 11” sheet of paper to provide a permanent solution.

2. Select 12 deposits in total judgmentally from the bank statements for all the bank accounts. Trace each deposit to supporting documentation and verify that it was entered into QuickBooks using an appropriate line item in the chart of accounts.

Findings: No exceptions noted

3. Select 6 deposits judgmentally from the account statements for the Schwab, United Church Funds and any other investment accounts. Trace each deposit to supporting documentation and verify that it was entered into QuickBooks using an appropriate line item in the chart of accounts.

Findings: The Schwab account deposit dated 1/23/24 on the statement was dated 1/30/24 in our QuickBooks accounting software and the deposit dated 12/13/24 on the statement was dated 12/12/24 in QuickBooks.

Finance Team Response: These dates have been corrected in QuickBooks.

E. Were disbursements properly documented, approved and appropriately categorized?

Procedures:

1. Verify that each staff member's pay for the year as shown in the financial statements was consistent with the budget approved by the congregation. For this purpose, consider any line item within \$100 to be acceptable. For any staff member employed for part of the year, obtain their employment start and finish dates for the year and calculate an expected salary expense based on the annual budget and the portion of the year worked. Compare that amount to the actual expense recorded. If the amounts differ by more than \$100 make inquiries of the bookkeeper or treasurer and document any explanation in the Findings.

Findings:

The Communications Coordinator's expected salary expense was \$122 more than the actual expense recorded.

Finance Team Response: The Communications Coordinator worked less than the regular 16 hours in some pay periods, resulting in an actual expense lower than the expected amount calculated during the internal audit.

2. Select [3] pastor expense reimbursements judgmentally from those listed in QuickBooks. Trace each disbursement to supporting documentation, confirm the disbursement was appropriately authorized and verify that it was entered into QuickBooks using an appropriate line item in the chart of accounts.

Findings:

The 6/6/24 expense reimbursement did not have attached to it the payment confirmation from our bank's online bill payment system.

Finance Team Response: It is our normal practice to attach payment confirmations to the supporting documents for each online bill payment. The omission on this occasion appears to have been an oversight. The reimbursement itself was appropriately authorized and entered into QuickBooks using an appropriate line item in the chart of accounts.

3. Select 2 disbursements judgmentally from statements for each of the Schwab and United Church Funds accounts (4 items in total). Trace each disbursement to supporting documentation, confirm the disbursement was appropriately authorized and verify that it was entered into QuickBooks using an appropriate line item in the chart of accounts.

Findings:

There was no documentation showing authorization for the four transactions tested.

Finance Team Response: For the investment accounts, only authorized personnel have online access to initiate transactions, so each transaction is inherently authorized even though there is no paperwork demonstrating this. The bookkeeper has read-only access. We view the electronic process as a suitable safeguard.

4. Select 12 other disbursements judgmentally from the bank statements, to include transactions for all of the bank accounts. Trace each disbursement to supporting documentation, confirm the disbursement was appropriately authorized and verify that it was entered into QuickBooks using an appropriate line item in the chart of accounts.

Findings:

Two transactions paid from the Chicken BBQ checking account had no evidence of approval.

Finance Team Response: John Cimochoowski is authorized to approve invoices for Chicken BBQ expenses and to sign checks written from the Chicken BBQ checking account. The two transactions were inherently approved by him since he wrote the checks, even though there was no documentation on the invoices evidencing the approval.

F. Are there any indications of items missing from the financial statements?

Procedures:

1. Scan the financial statements. Based on your knowledge of the church's activities and considering all the information you have seen in the internal audit, does it appear that any assets, liabilities, income, expenses or funds have been omitted from the financial statements? If so, make inquiries of the Treasurer, Bookkeeper or Governing Board Finance Liaison to address any concerns. Document any unresolved issues in Findings.

Findings: No exceptions noted

G. What internal control improvements should we focus on making?

Procedures:

1. Have the Treasurer and Governing Board Finance Lead complete and sign the Internal Control Questionnaire reflecting the state of the church's internal controls as of December 31st of the year in question. Read the responses and make appropriate inquiries if any of the responses do not match your understanding of the church's policies and procedures.

Findings:

No exceptions noted.

2. For each item answered “Not applicable” evaluate whether it is appropriately considered not to apply. For each item answered “No” evaluate any comment that may explain how the risk of that control not being in place is mitigated. Discuss the “No” answers with the Treasurer and Governing Board Finance Lead and obtain their recommendations for internal control improvements that we should focus on making. List in the Findings section below all the questionnaire items answered “No” along with any explanation of how risk is mitigated and any statement from the Treasurer or Governing Board Finance Lead as to the feasibility and benefits of making improvements to the internal control in question.

Findings:

CR8: There is no policy prohibiting cashing of checks.

Finance Team Response: We have not had a formal policy for this matter. This risk is reduced because cashing checks is not a current practice. On May 7, 2025, the Finance Team adopted a policy prohibiting cashing of checks.

CR11: Cash receipts are not well safeguarded from theft or misplacement until deposited.

Finance Team Response: This risk is reduced by cash receipts generally being small and their being kept in the office, which is generally locked when unoccupied. We have purchased a secure deposit lockbox and intend to install it shortly.

CR12: Checks received are not restrictively endorsed “for deposit only” or remotely deposited immediately upon receipt.

Finance Team Response: There is sometimes a delay as the office is not staffed full-time. We have purchased a secure deposit lockbox and intend to install it shortly. We will change the instructions to counters to have them stamp checks “for deposit only” when they are received in a collection.

CD6a: There is no policy prohibiting the signing of blank checks.

Finance Team Response: This risk is reduced because manual checks are rarely used, having largely been replaced by online bill payment. On May 7, 2025, the Finance Team adopted a policy prohibiting the signing of blank checks.

CD6b: There is no policy prohibiting the use of a signature stamp or pre-printed signatures.

Finance Team Response: We do not have a formal policy for this matter. This risk is reduced because manual checks are rarely used, having largely been replaced by online bill payment. On May 7, 2025 the Finance Team adopted a policy prohibiting the use of a signature stamp or pre-printed signature.

CD6f: More than one signature is not required for any check.

Finance Team Response: We do not have a formal policy for this matter. This risk is reduced because manual checks are rarely used, having largely been replaced by online bill payment.

JE2: Journal entries are not approved by a knowledgeable person of authority other than the person initiating the entry.

Finance Team Response: This arises because our congregation has too few people with knowledge of journal entries to put this control in place. The risk is reduced by the treasurer's oversight of the bookkeeper, including monthly reviews of budget vs. actual expenses and of bank reconciliations.

BA1: All bank accounts are reconciled on a monthly basis with the general ledger, but not with the checkbook.

Finance Team Response: Only the Chicken BBQ account has an actual checkbook. The risk is reduced by reconciliation with the general ledger, which provides a strong control when combined with frequent monitoring of the bank accounts using online banking access.

BA2: Bank account reconciliations are not completed by someone other than the person who participates in the receipt or disbursement process.

Finance Team Response: This arises because we have too few people with finance skills to separate these tasks. The bookkeeper prepares the bank reconciliations, remotely deposits checks and prepares items for disbursement by the treasurer. The risk is reduced because the bookkeeper has neither signature authority over a bank account nor online banking rights to execute transactions. Also, the treasurer reviews the bank reconciliations each month.

BA3f: The bank is not immediately notified of all changes of authorized check signatories.

Finance Team Response: We thought we had notified the bank of such changes when a new treasurer or assistant treasurer was added, but in April 2025 learned that former signatories had not been promptly removed by the bank. We will take additional steps to confirm with the bank that signatory changes have been implemented after future changes are made.

PE1: Formal approval of the Governing Board is not required for all property and equipment additions and dispositions.

Finance Team Response: We do not have a formal policy for this matter. Our Governing Board is focused on policy and strategy. It delegates authority to team leaders, including allowing the Facilities team leader to make decisions for minor additions and dispositions of property and equipment. Major items require approval by the congregation, through the budget process or by a separate vote, such as the recent parsonage sale.

PE2: No detailed inventory of all property, furniture, fixtures and equipment is maintained.

Finance Team Response: We do not have a formal policy for this matter. Keeping extensive detailed records is not seen as a high-value use of volunteer time. We have a few assets of significant value, that are documented in detail for insurance purposes.

PE3: No periodic review is conducted to ensure the adequacy of insurance coverage.

Finance Team Response: We do not have a formal policy for this matter. This risk is reduced because our insurer revises our coverage annually automatically to reflect inflationary cost increases in building replacement costs. Our contents are insured for a portion of this value, so their coverage is automatically adjusted too.

L3: There are not periodic reviews to determine compliance with any debt or lease provisions.

Finance Team Response: We do not have a formal policy for this matter. This risk is reduced because we currently have no debt and our only lease (other than tenant leases) is for a copier, which only has an insurance compliance requirement.

PR8: Forms W-2 wages are not reconciled to the general ledger accounts and quarterly payroll tax returns.

Finance Team Response: We do not have a formal policy for this matter. This risk is reduced by our monitoring of budget vs. actual payroll expenses and by our use of an outsourced payroll provider, MinistryWorks, which produces the W-2s and prepares our payroll tax returns.

CS6: A printed copy of all journals, general ledger, financial statements and any other computerized records is not retained.

Finance Team Response: We use a higher-tech approach, cloud backup, for our financial records, as this is less vulnerable to fire risks. We use QuickBooks Online for accounting, with a cloud backup by Intuit. We use MinistryWorks for payroll, with a cloud backup of all reports. We save monthly financial statements and other key financial documents in Google Drive.

DF1: Clergy have not established their policy with respect to the treatment of honoraria.

Finance Team Response: We do not have a formal policy for this matter. This risk is reduced by the fact that, to the best of our knowledge, Rev. Kevin has not received honoraria while at FCCW so the question of appropriate disposition has not arisen.

PT1: There is no policy prohibiting officers from receiving compensation for services.

Finance Team Response: This is a Governing Board matter. On May 7, 2025, the Finance Team agreed to recommend to the Governing Board that it adopt this policy.

PT2: There is no policy prohibiting church members from becoming employees.

Finance Team Response: This is a Governing Board matter. On May 7, 2025, the Finance Team agreed to recommend to the Governing Board that it adopt this policy.

PT3: There is no policy prohibiting Governing Board members from receiving compensation for their services (such as lawyer billing for legal services, etc.)

Finance Team Response: This is a Governing Board matter. On May 7, 2025, the Finance Team agreed to recommend to the Governing Board that it adopt this policy.

#