

**REPORT OF FINDINGS OF THE FINANCIAL REVIEW  
For St. Timothy Lutheran Church  
By Kathy Lassman  
October 2010**

**I have concluded a financial review of the 2010 books for St. Timothy Lutheran Church. I based the review on materials/suggestions which are contained in Chapter 25 of the Treasurer's Manual as provided by the Synod (available online).**

**At my initial meeting with Tom Smithson, Karl Heinz and Mel Suelzle on October 6, 2010, we had a lengthy discussion on exactly what the needs of St. Timothy were in regards to its Financial Recordkeeping. We determined that the type of in-depth review that was done in 2005 was not necessary (see discussion on reasons for this below). However, what was really needed was some assistance with determining the procedures for handling incoming and outgoing funds. It was decided that my work should be divided with a portion being spent on the review and a portion writing procedures for handling congregational funds.**

**Before my initial meeting with Tom Smithson, Karl Heinz and Mel Suelzle, your Treasurer forwarded a complete General Ledger, Balance Sheet, copies of various reports and tax documents per my request. I reviewed these documents and could quickly see that the books for St. Timothy Lutheran Church were in good shape. At our meeting on October 6<sup>th</sup>, I was given additional materials for my review. After looking over these materials, I am comfortable that the financial information you are receiving currently is accurate.**

**These are some of my findings:**

**I noticed you started your fiscal year with a deficit budget. That can be a challenge, but also a step out in faith. Congratulations!**

**In comparing your budget to your actual results, I found only four expense accounts that were over budget by 25% or more. All of the variances were \$600 or less, so these variances are immaterial. In our conversation of 10/6 I learned that there is no procedure for the congregation to vote to increase a budget item when it goes over and I suggest you consider such an idea for St. Timothy. I did notice that the Council has authority to edit the budget within certain parameters (By-Law 8.2).**



I noticed that you have quite a long list of accounts and made the suggestion that to simplify things you may want to consider having fewer accounts to help eliminate errors in coding. However, there is a trade-off. With more and very specific accounts it is easier to do the budgeting for the next year. You can look at one account and know exactly how much was paid for Bibles/Literature, for example. With fewer accounts it would take some work to break out the entries in each account into their various parts. This means it may take longer to prepare a budget.

The June 2010 bank accounts (checking, savings and LCEF) all reconciled, and all outstanding checks as of June 30<sup>th</sup> were cleared in July.

St. Timothy is current on payroll taxes, L&I taxes, and Concordia Health Plans.

You have relatively few designated funds with balances, and each of these funds is being handled appropriately.

Payables throughout the year have been paid in a timely manner.

I reviewed 20 randomly selected checks, to verify that there was appropriate backup, authorizing signatures, correct coding and that the payments were made in a timely manner. On the whole I found no major issues. However, I have some recommendations for handling payables which will be covered in my presentation on the procedures I have proposed.

I selected the month of May to test for appropriate handling of the receipts, and was able to track the total deposit, plate offering, envelope offerings and other receipts to their appropriate accounts in the General Ledger and to the bank statement. I noticed that in all 5 instances tested, there were two counters, and that all totals were accurate. I did notice that sometimes checks were recorded as "Plate" offerings but were actually booked into the accounting software as "Envelope" offerings. This caused the situation where the amount booked as "Envelope" offerings did not match what was on the offering form. I have made a suggestion to eliminate this type of discrepancy and to make it easier for a reviewer to follow what was done.

During our discussion on October 6<sup>th</sup> and in subsequent emails I learned that there seems to be a glitch in Shepherd Staff which will occasionally create a situation where the accounts don't balance. The theory is this may be due to some behind-



the-scenes tweaking done by a previous treasurer. Your President and Treasurer feel that purchasing the upgrade to Shepherd Staff for small churches would fix this problem and I concur.

I reviewed all of the personnel files, and discovered that most of them did not contain I-9 forms. According to the personnel folks where I work, this is a **REQUIREMENT** of all employers. I would suggest these forms be completed by all current employees as soon as possible, and that copies of appropriate substantiating documents also be made. I also noticed that if there was a contract in an employee file, the contract expired in June of 2010. So, obviously, new contracts need to be prepared and signed.

As part of the review, I asked the Treasurer to go over the Internal Review questionnaire which is provided by Synod. This questionnaire is very detailed, and the information in it is helpful for me as a reviewer, and to your Treasurer and Council as they determine the best ways to handle the funds for St. Timothy. Any answer of "no" to a question indicates a possible internal control weakness and unfortunately there were quite a few "no" answers. I want to assure you that I don't think this is unusual. Very few churches (or other non-profits) with limited staff, and which rely mainly on volunteer workers would be able to meet all the suggested requirements outlined in the questionnaire. However, the goal is, of course, to work on policies and procedures which will move your church toward having good internal controls.

As a result of the weaknesses shown by the questionnaire answers, the second part of my task was to prepare procedures which would help St. Timothy move toward having better internal controls.

My method for preparing these procedures was as follows: I used my own experiences (over 9 years working in non-profit organizations, over 30 years as a Pastor's wife in three different parishes, 20 years as an accountant and 15 additional years as a bookkeeper), I talked with people involved with the various financial responsibilities at St. Timothy's, I discussed with Mel and Tom the areas of most concern to them about internal controls, and I reviewed the questionnaire and other materials in the Treasurer's Handbook for "best practices".

The attached procedure document was prepared and sent to Tom and Mel for review. I had requested their feedback on the contents, and they had no major issues with what I presented in that document.

You will notice it has 4 sections: Responsible person/group, task, necessary forms or equipment (e.g. an adding machine or Excel), and the reason for the activity. I have covered the functions that the Voters, Council, Office, Counters, Treasurer, President and Financial Secretary have now or should have here at St. Timothy's regarding budgeting, and money handling (incoming and outgoing). I have also included short sections on record keeping for employees and payroll.

The procedures are relatively simple – but by following each step, I believe you will be progressing toward better internal controls. This is a benefit for all members. If finances are mis-handled there can be much dissension within a church. But with good internal controls everyone can feel comfortable that the funds are being handled in the best possible manner. Good internal controls provide safety for all people involved in any aspect of your finances.

I'm hoping that the procedure document I have presented will enable St. Timothy to move a few more steps closer to having good internal controls over their financial management.

  
Kathy Lassman

  
Date