

**Unitarian Universalist Church of Arlington
Internal Review/Audit for Fiscal Year 2014-15
Summary and Recommendations (June 2016 Revision)**

The Audit Working Group of the Board of Trustees for 2015-16 is pleased to provide this revised report about its internal audit, reviewing the 2014-15 fiscal year. We are grateful for the support of the UUCA staff, both paid and volunteer, for the many hours they gave us, and for their close attention to the details of the topics we selected for examination. The Chief Administrative Officer (CAO), Tamara Srader, has estimated that approximately 20 hours were spent in preparation by paid staff. Many thanks to Tamara Srader and Beth Enriquez for assisting us. The members of the Audit Working Group are Paula Bendl Smith, Chad Ohlandt, John Bohman, and Peter Vitaliano.

Some Background

The By-laws of the Church and Board policy require an independent external review or audit at least every other year, and they require at least an internal review for the other years. Article XII, section 8 of the Bylaws mandates:

“The Board of Trustees through an internal audit committee, shall direct an annual review or audit of a type or nature it deems appropriate: except that every two (2) years the Church shall conduct either a review or an audit by an outside auditor.

The Audit Working Group is the internal audit committee under this section. According to Section 2.10 of the Policy Manual, the Audit Working Group/Committee is the only permanent standing committee of the Board.

Our review of the 2014-15 fiscal year did not involve many traditional audit functions. For example, we did not try to do an in depth examination of the back up for, nor did we otherwise attempt to test systematically, the Church’s Financial Statements for the 2014-15. We also did not attempt a comprehensive review the Church’s internal controls and cross checks.

Instead, the Working Group chose some specific areas for review and consideration. Our intent was not to be exhaustive, but to follow-up and examine selected concerns and interests of the members of the Working Group, based on the experience we had accumulated while serving on the Board and in other leadership roles at the Church. The Working Group researched internal audits and reviews in general, and studied how they had been conducted at some other UU churches. We also paid close attention to the last UUCA internal audit. We then identified the questions set forth in the table below for review.

Selection of an Accounting Firm for Future Years

The efforts of the Working Group also involved soliciting bids for future external audits. We requested proposals from three independent accounting firms for a possible multi-year arrangement with three audits over five years. The Working Group received only one proposal in response, from UHY. UHY conducted our last external audit, following the Board's decision to switch auditors after many years with the prior firm. It was the Board's view that switching audit firms after a period of time would provide a different perspective and might help assure objectivity. By soliciting proposals from three CPA firms, the Working Group complied with Board policy.

We reviewed the single proposal we received, determined that the firm's fees were at an anticipated level and represented a modest increase from the amount charged for the last outside audit, and noted that the Board was satisfied with the firm's work in performing the last audit. The Working Group, therefore, recommended hiring UHY.

A Note about Policy Basis for Audits/Reviews

Under the theory of policy-based governance, the review and audit functions are part of the Board's monitoring the Executive. The basis for the review/audit function is more than that at UUCA, because the congregation itself has mandated this process. It is a required duty of the Board in the Church's by laws. It is also part of the Board's fiduciary responsibility to oversee Church funds.

Results of Internal Audit

The Working Group reviewed documentation provided by the CAO in the UUCA Volunteer Room on May 2, 2016. Each Working Group member reviewed two or more of the topics and developed questions for further discussion. We also developed some recommendations for consideration by the Board and Executive. We will finish our work with an internal audit exit interview with Tamara, Aaron, Steve and the new board president this summer. This report will then be post on the website.

	TOPIC	REVIEWER
#1	Review policies and procedures for determining use of the church spaces by external and internal groups and the rental rates paid by each.	Peter
#2	Review and verify all insurance and bonding.	John
#3	Review documentation of car leasing for Senior Minister	Chad & John
#4	Review written documentation of the role/ responsibilities of UUCA financial advisors, Treasurer, CAO, and bookkeeper.	Paula
#5	Review written procedures and rationale for special accounts.	Peter
#6	Review documentation for employee health and retirement benefits	Chad & John

#7	Review last internal audit recommendations, and follow-up if needed	Working Group
#8	Selected review of general ledger entries	John

Review of Policies and Procedures for Determining Use of the Church Spaces by External and Internal Groups and the Rental Rates Paid by Each

We reviewed the procedures for the use of Church space, and we discussed with staff how they have been applied in practice. The Committee noted that the Church gives away space, or gives discounts, to some community groups

Recommendation: The Working Group recommends that the written procedures for use of Church space be reviewed and updated by the Executive. Questions for consideration might include:

1. Are there or should there be written policies that clearly establish specific lower and/or no cost rates for internal groups’ use of the church spaces, other than the “1/2 price to members” rate specified for the Fellowship Hall.
2. How are the rental rates established under the provision that “Non-profit (501(c)(3)) fund-raisers by outside groups will be charged a non-profit rental rate- even though sponsored by a UUCA group?”
3. Who should have discretion to make decisions about these and other discount rates, what guidance should they follow, and how much documentation should there be of those decisions?
4. Should the after-midnight increased rates for the Center and Fellowship Hall and for the event coordinator be included in the general Fee Schedule for Church Facilities?
5. When were the written rental rates last adjusted and how often should that happen?

Review of Insurance and Bonding

The policy through Guide One Insurance was reviewed. It includes Commercial Property, Commercial General Liability, and Commercial Crime coverage. The policy is comprehensive, includes bonding, and among many other coverage items: Directors and Officers, Employment Practices, Legal Expense Reimbursement, Sexual Misconduct. There is an exclusion for earthquakes. The annual premium was in excess of \$7,000.

Recommendation: The Working Group recommends that the Executive review the Church insurance and bonding. Some questions for consideration would include:

1. How long has the Church worked with the same insurance agency? Should the Church formally seek proposals from three firms?
2. Would less comprehensive coverage be sufficient? Should any of the coverages be dropped? Should other coverages be added?
3. Does the commercial crime coverage extend to others in addition to employees? It should cover everyone handling money
4. Can the dollar limits for sexual misconduct be clarified and perhaps increased?
5. Is there is liability coverage related to use of alcohol on premises?

Review of Documentation of Car Leased for Senior Minister

The documentation shows that an electric car is leased by the Church and used exclusively by the senior minister. The Board authorized the leasing of an electric car, but staff made the arrangements. There is an additional automotive insurance policy as required by the lease. The senior minister's salary was reduced by the amount of the cost of the lease. There was no evidence that multiple bids were solicited prior to entering into the lease.

During the review of the lease arrangements, there was a discussion of who is generally responsible for the accurate implementation of the financial and employment terms and conditions of the senior minister's contract.

Recommendation: The Working Group recommends a follow-up review by the Executive to make sure that the Church has structured this arrangement correctly, and it is reporting it correctly for IRS purposes.

Recommendation: In addition, the Working Group recommends follow-up with the Executive and the Board to clarify roles and responsibilities in implementing the terms and conditions of the employment of the Executive by the Church.

Review Written Documentation of The Role And Responsibilities of the UUCA Financial Advisors, Treasurer, CAO, and Bookkeeper

Endowment: There are no current written policies related to the Endowment other the Board's executive limitations.

Recommendation: The Working Group recommends that the Executive develop for Board review and approval Endowment materials which explain: how to donate, what the fund is used for, and why donations are important. The Endowment should be clarified, including roles and responsibilities by the Executive and the Board.

Financial Advisors: The Executive works informally with a team of financial advisors. The written guidelines or procedures addressing a number of financial committees are dated from before UUCA renewed policy based governance. These groups are not Board Committees. Two components of the financial advisers, the Finance Committee and the Investment Committee, are currently active.

Finance Committee: The Executive authorizes the Finance Committee and directs it to review available monthly and annual financial statements of UUCA. The Finance Committee is responsible for volunteer assistance with UUCA financial operations and condition, assisting and advising the Executive and Treasurer. This assistance and advice includes budget preparation, the monthly report of the Treasurer and the Board, the audit, content of relevant Executive Limitations and such other matters of church finance that may, from time to time, arise. The Finance Committee also advises the Treasurer in maintaining the church records and preparation of reports. In addition, the Committee assists the Executive from time to time in understanding the Church's financial situation, and when a major financial decision is to be made. The Finance Committee meets monthly. Current members are Gene Mulligan, Bob Gayer, Chad Ohlandt, Bill Piez, Don Leverenz, Diane Ullius, Allen Kieswetter, Peter Vitaliano, and Bill Fogarty with professional staff representation including Aaron McEmrys, Tamara Srader, and Beth Enriquez.

Investment Committee: The Investment Committee takes charge of managing all investments of the Church, with the objective of assuring that all Church investments are managed in a coordinated and prudent manner. Funds managed include endowment fund, general fund, replacement reserves, memorial gifts and bequests. A substantial part of each account is kept in cash, but funds not likely to be drawn soon are invested in order to bring a higher return, consistent with managing liquidity. The Investment Committee meets monthly. Current members are Gene Mulligan, Bob Gayer, Chad Ohlandt, Bill Piez, Phyllis Woodring, and Peter Vitaliano with professional staff representation including Aaron McEmrys, Tamara Srader, and Beth Enriquez.

Recommendation: The roles, responsibilities, and authority of the financial advisors should be clarified by the Executive in writing. Consideration should be given to whether to call these working groups.

Role of the Treasurer: The actual role of the Treasurer has evolved to that of a very helpful assistant and consultant to the Board and Executive with financial matters. The formal role of the Treasurer is defined in the By-Laws and in the Policy Manual. Under a strict application of the principles of policy-based governance, the role of the Treasurer would be greatly diminished.

Recommendation: The Working Group recommends that Board next year study the role of the Treasurer and determine whether to recommend a change in that role by an amendment to the By-Laws.

Job Description of Church Administrator: The Working Group reviewed the job description of the Chief Administrative Officer and has no further recommendations at this time. For information purposes the job description follows:

The CAO is responsible for deploying the church's resources to support the mission of the church. She provides leadership and guidance to the Senior Minister in relation to finance/budgeting processes and in the development, administration, and implementation of policies and procedures. She supervises the administrative and support staff and works collaboratively with volunteers as well as staff. Responsibilities include:

Financial - Prepare church budgets related to financial, human, and physical resources; be accountable for the control of these resources once budgets are approved. Produce and interpret financial statements as needed, working with staff and volunteers. Direct all financial operations of the church, including audits. Support the annual pledge drive and other fundraising activities, working with staff and volunteers.

Human Resources - Supervise paid staff in performance of their duties and in administration of benefits. Facilitate communications and build relationships between and among lay leaders, church members and friends, ministers, staff, vendors, and the larger community. Create and manage cross-functional teams as needed.

Other Internal Operations - Manage development, implementation, and maintenance of strategic plans and capital improvement plans. Assist in formulating policies for effective and efficient operation of the church; implement policies adopted by the Board; develop operating procedures to support the policies. Define short-term and long-range facility needs; execute plans to meet those needs; manage church facilities, purchasing, and event management.

Job Description of the Bookkeeper: The Working Group reviewed the job description of the bookkeeper and has no further recommendations at this time. The role of the bookkeeper includes: general bookkeeping, consisting of general ledger and accounts payable, employee and contractor payroll and taxes, financial reporting, primary contact for audit function both internal and external, deposits other than rentals, on-line donations, handling money, accounting for memorial gifts and bequests, canvass support, capital campaign support.

Review Written Procedures And Rationale for Special Accounts

The Working Group reviewed the listing of special accounts and discussed the development and use of such accounts with staff.

Recommendation: The Working Group recommends that the written policies and procedures for establishing and maintaining special accounts be reviewed and updated by the Executive. Questions for consideration might include:

1. Are there written rationales and objectives for all of the special accounts and/or a more recent description of the funds than that provided?
2. Is there a procedure that triggers the closing of inactive funds and transferring the balances to the general operating account?
3. Are there procedures to ensure that activities by the special fund organizations do not expose the church to any financial risk?

Review Documentation for Employee Health And Retirement Benefits

UUCA Health Allowances

The Working Group reviewed the structure and amounts of the health expense and premium reimbursements provided to Church employees, as well as how the payment of premiums is made from an account type structure. The various payments and reimbursements made during a month were reviewed. This proved to be too complex for the Working Group to evaluate fully, and there are concerns among the members of the Working Group about whether the current arrangements meet current legal and regulatory requirements, both with regard to the overall set up and to differences in amounts among those covered.

Recommendation: The Executive should conduct a comprehensive review, possibly with the assistance of a benefits consultant, of whether the current arrangement is compliant with recent legal and regulatory changes and with contractual obligations, and what alternative structures are available. The Working Group recommends that any problems be identified in a timely fashion, with the goal that any new structure, or other solutions, will be implemented no later than January 1, 2017.

Retirement Plan

The UUA Retirement Plan uses TIAA-CREF. The employer contributes a percentage of compensation after the employee works enough hours in a 12-month period. Employees may also select to defer additional amounts from their compensation. A monthly payment of the contributions to the Retirement Plan was reviewed by the Working Group, and no issues requiring additional follow-up were identified. The employer contribution is the same percentage of compensation for all employees. The uniform percentage was reduced

in the current year's budget, and the Working Group is seeking documentation for the change. The Working Group does not have any recommendations or questions at this time.

Review Last Internal Audit Recommendations, and Follow-Up If Needed

The Working Group reviewed the last set of recommendations with the CAO, and does not have any follow-up recommendations from the last internal audit.

Selected Review of General Ledger Entries

The Working Group reviewed the general ledger, mostly to gain a general understanding of the scope of Church expenses. The Bookkeeper reviewed with us some of the procedures she follows. A monthly payment (4/14/2015, for charges mostly in March) on the Church credit card was reviewed. It did not appear that anyone had used the card for personal expenses, and all of the items charged seemed to be Church-related. The CAO itemized the charges. It was noted that checks may be signed only by the two assistant treasurers as well as by the Treasurer. The practice is to pay the full balance due on the credit card every month.

The Working Group also followed up with a review of a sample of the Church's payroll. The Church uses the Paychex payroll service. The salaried employees are paid twice per month, and hourly staff every other week. It does not appear that anyone who should be treated as an employee, and who is scheduled and works regularly, is treated as an independent contractor. It appears that the lowest hourly rate for such regular employees is \$15.00/hour, which is above the living wage of \$14.50/hour for Arlington County, Virginia, as reported for 2016 by the Living Wage Calculator developed by Dr. Amy K. Glasmeir at MIT: <http://livingwage.mit.edu/counties/51013>. Hourly employees punch a time clock, and their leave balance is tracked. Salaried employees track their leave on their own. The Working Group does not have any recommendations or questions related to its review of the check register.