

Report No. 10
AUDIT & REVIEW COMMITTEE

In Acts 5:1-11, we learn of an instance in the early church where a couple did not tell the truth about a church financial matter. Peter said to the husband, “How is it you have contrived this deed in your heart? You have not lied to men but to God.” Later, Peter said to the wife, “How is it that you have agreed together to tempt the Spirit of the Lord?” The story illustrates the high standard of financial integrity and accountability required of all members of Christ’s universal church.

As United Methodists, we respond to the working of the Holy Spirit through a connectional polity based upon mutual responsiveness and accountability (§ 101). Connectionalism is fundamental to our identity as United Methodists. Our connectionalism allows all United Methodists to participate in ministries beyond the reach or imagination of any single person or single congregation. Our wide breadth and depth of ministries necessitates an equally broad system of accountability for those ministries.

General agencies are an important part of our common ministry. General agencies are fiscally accountable to the General Council on Finance and Administration (GCFA) which is accountable to the whole United Methodist Church through the General Conference. In accordance with *The Book of Discipline 2004*, GCFA has established a Committee on Audit and Review, at least half of whose members are not members of GCFA. The Committee on Audit and Review has the duty to review audits of all treasuries receiving general Church funds in accordance with all established auditing standards; to review the utilization of financial assets in achieving the mission of the agency; to monitor the compliance of agencies receiving general Church funds with the fiscal accountability policies set forth in *The Book of Discipline 2004* and with the recommendations made by external or internal auditors; and to establish and conduct the internal auditing functions for all agencies receiving general Church funds.

Internal Audit

The Internal Audit Department currently has three internal auditors. By the end of the 2005-2008 quadrennium, this department will have completed over 80 internal audits of general agencies, and other entities receiving general Church funds. In addition to performing internal audits, this department also provides consulting services to a number of annual conferences and episcopal offices, and has worked on a number of special projects with various departments and entities. The Internal Audit Department continues to perform operational and compliance audits; however, it has increased the number of program audits performed. Some of the more significant program audits performed include Strengthening the Black Church, Asian American Ministry Program, Igniting Ministry Media Campaign, The Advance, and the Ministerial Education Fund.

External Audit Firm

A new external audit firm, Crosslin Vaden & Associates, was hired to perform external audit services for the general agencies starting with Fiscal Year 2006. Crosslin Vaden & Associates was selected after a formal bidding process that included four other prominent external audit firms. The team that conducted the bidding process included two GCFA Audit & Review Committee members, the treasurers of the General Board of Church and Society, the General Board of Global Ministries, and the General Board of Higher Education and Ministry, as well as the Director of Internal Audit. We would like to thank these individuals. The hiring of Crosslin Vaden & Associates will save the Church approximately \$145,000 in FY 2007 and approximately \$350,000 over the next four years based on the fee that was paid to our previous external auditor in FY 2006. The treasurers and CFOs of the general agencies expressed gratitude for the quality of the work and the professionalism displayed by the new firm.

GCFA Audit & Review Observations

General Agencies The overall level of control at the general agencies continues to improve; however, the Committee has the following comments:

Since internal controls are the responsibility of management, we recommend that executive management teams at the agencies become more involved in establishing and reviewing internal controls. We also note that most agencies have yet to formally document their current internal control structure, a step that is necessary in order to facilitate the proper review by upper management. Such documentation is also important for the training of new employees.

Secondly, management at the agencies should ensure that the agencies' goals and objectives approved at General Conference and established by the agency's governing board are communicated and understood by all staff. The goals and objectives need to be clearly identified and should be made concrete enough to have measurable results. The goals and objectives should also be prioritized so that all those involved in the budgeting process will understand the specific ramifications of not fully funding the agency's budget request. We hope the Connectional Table will implement this recommendation in the coming quadrennium. By doing so, the Committee can better meet its duty to review the utilization of financial assets in fulfilling the agencies' mission.

Finally, we encourage each general agency to establish its own independent and technically competent audit committee, reporting directly to the agency board of directors.

Other Entities

The Committee reviews the external audits of other entities that receive funding from the Church. The Committee would like to report that the following entities have had significant internal control issues over the last two years:

- Africa University (Not to be confused with the Africa University Development Office)
- The National Council of Churches
- The World Methodist Council

The Committee has strongly recommended specific corrective actions to the respective management and will continue to monitor progress.

Episcopal Offices

Many of the episcopal offices continue to have management letter comments surrounding internal controls, more specifically, a proper segregation of duties. We recommend that the conference's accounting department perform the accounting function for the episcopal office. If the annual conference does not perform the accounting function, the bishop will need to perform additional administrative and accounting activities.

Future Activities

The GCFA Audit & Review Committee, with the help of the Internal Audit Department, has the following goals and objectives for the next quadrennium. Additional staff may be needed in order to accomplish all of the activities listed below.

We would like to work more collaboratively with the Connectional Table. We believe this collaboration would help both entities as we strive to carry out our Disciplinary mandates.

We would like to continue to build our relationships with existing general agency audit committees and assist those agencies that are establishing new audit committees.

In addition to continuing to perform compliance, operational, and program audits; we would like the Internal Audit Department to increase the number of episcopal office audits that are performed.

We would like to increase the Internal Audit Department's ability to provide services to the annual conferences.