

Attachment 1

Draft progress report submitted by Kathleen M. Flaherty, CPA, Principal, Matthews, Carter and Boyce

Members of the Finance Committee and the
Board of Directors
Cedar Lane Unitarian Universalist Church
9601 Cedar Lane
Bethesda, MD 20814

We were engaged to assist Cedar Lane Unitarian Universalist Church (Cedar Lane) in its review of internal controls and financial reporting framework activities. The professional consulting services we have provided include the following: review of current internal control documentation, review of current financial reporting information to assist Cedar Lane in evaluating the financial reporting framework and its internal reporting and controls. The following is a report of the progress made to date in the above areas.

Review of internal control documentation

MCB has met with Sara Deshler, Marcia Montanio, and others to review the current internal control documentation. During this process it was noted that there are existing internal control documentation and written policies and procedures but there is not one comprehensive manual which incorporates all of the internal control procedures and financial policy and procedures. There are significant policies and procedures that have been approved by the board of directors or other committees. Significant progress has been made in preparing a *draft* comprehensive financial accounting policies and procedures manual which combines the approved policies and procedures. During the process of combining the policies they are being reviewed to reflect the actual current policies and to update to reflect best practice. Areas addressed to date include but are not limited to the following:

- Document retention schedule
- Bank account management
- Cash transactions including:
 - o Time period for maintaining copies of checks deposited
 - o Policy for cash received from sales of items (olive oil, donuts/bagels, etc.)
 - o Policy for cash received from adult programs including classes and trips
 - o Collection procedures
 - o Pledge checks received at various times
 - o Babysitting payments
 - o Minister discretionary fund
 - o Accounts payable processes
- Fixed asset tracking and presentation in financial statements including a capitalization policy
- Proper accounting treatment for receipts related to concerts including sponsorships and individual donations
- Proper accounting treatment for memory wall donations
- Endowment accounting and treatment for financial statement presentation including treatment for 'unused' designated funds, budget vs actual costs on a current year and multi-year basis

- Committee details including committee responsibilities, functions and objectives and procedures and guidelines.

Additional policies and procedures are being analyzed, combined and updated for best practices into the draft manual.

The biggest area of concern to date in this area is the lack of controls over the cash received for activities such as instructors and field trip organizers. In many instances the instructors and organizers collect the cash and maintain the cash until it is 'convenient' to bring to the office.

Review of current financial reporting information to assist Cedar Lane in evaluating the financial reporting framework

MCB has met with Sara Deshler, Marcia Montanio, and others to review the current financial reporting information and Quickbooks (QB) financial statement set-up. The summary of this review is as follows:

- The financial information and financial statements appear to be accurate and up to date as a whole with some exceptions as noted below.
- The financial statements include both restricted and unrestricted activities. However, the amounts not clearly identified as such on the face of the statements.
- There has not been consistent recording of the fixed assets. During certain years material fixed assets were capitalized and recorded on the balance sheet. In other years, and current practice, material fixed assets have been expensed in the profit and loss statement.
- Capital projects that cross fiscal years, as they were not fully expended, are recorded as negative amounts in the subsequent year's budget to actual statements in the actual amounts. This treatment has been utilized to track the entire project cost over the term of the project. This is a convoluted process and should be improved.
- The chart of accounts is 13 pages in length. A review of the chart of accounts indicates a large number of underutilized accounts and duplicative accounts. As an example there are approximately 300 expense accounts.
- There are numerous accounts that when reviewed in the financial statements contain immaterial amounts. The allocation process to obtain these immaterial balances takes considerable time. The cost benefit of such allocations and the level of detail to process should be reviewed.
- The Quickbooks (QB) program has been upgraded to the Enterprise version to provide more flexibility in the accounting system.
- Accounting classes within QB are not utilized. This results in multiple accounts for the same type of expense account (6 postage accounts and 8 copying accounts). This format does not allow the organization to determine its total costs by account classifications without some type of data manipulation.
- There are approximately 40 accounts with a budget amount of \$1,000 or less, most under \$500.
- Budget to actual reports are not easily accessed for the managers of the programs due to the current structure.

Preliminary recommendations:

1. Complete combining approved policies and procedures into a comprehensive policy and procedure manual.
2. Update the policies and procedures to reflect 'best practice'.
3. Implement the best policies to ensure that there is a consistency of the accounting amounts from year to year.
4. Utilize the QB class process. To begin this process the classes will need to be determined to reflect the significant on-going activities of the organization.
5. Modify the chart of accounts to eliminate duplicate accounts.
6. Modify the chart of accounts to include only those expense items that are significant and reflect the material activities of the organization on a day to day basis.
7. Modify the financial statement presentation to segregate and reflect temporarily restricted, permanently restricted net assets and unrestricted net assets.
8. Update the budget process to more accurately reflect the overall activity including the capital projects budget.