

To: Clergy and Treasurers

Regarding: Annual Audit

Please have the committee complete this form and mail this completed packet **along with year-end financial statements**, the completed audit committee certificate and the audit committee findings report to Diocesan House.

Both the national and diocesan Canons require that a reliable and credible audit of the diocesan financial records and the records of every congregation take place annually. Those audits are due in the diocesan office by September 1.

All accounts of the Diocese shall be audited annually by an independent Certified Public Accountant.

All accounts of parishes, missions and institutions shall be audited annually by:

- an independent Certified Public Accountant *or*,
- an independent Licensed Public Accountant *or*,
- such audit committee as shall be authorized by the Diocesan Executive Council.

[Title IV Canon 2 Section 1(e)]

While it is preferable to have an audit by a C.P.A. or an L.P.A., we recognize that this is not feasible for smaller churches. For such churches, in order to facilitate the completion of a credible audit by an audit committee, the following has been compiled.

Who may serve on the audit committee? Any person so designated by the vestry/mission committee may serve on the audit committee, **except** (1) any clergy person of the church, (2) any person involved in the handling and/or managing of the church finances during the year being audited, and (3) any family member of the clergy or individual handling money and/or recording entries.

What steps need to be taken by the audit committee to fulfill the canonical requirement of an annual church audit?

1. Complete this *packet*, following the instructions for each section
2. Retain a file of *work papers* associated with the audit committee's work so that next year's committee will have a guide.
3. Complete the *audit committee certificate* which states that steps have been taken to ensure that the financial statements are presented fairly in all material respects. The Audit Committee Certificate should identify exceptions when the audit committee questions any aspect of the financial statement. When this occurs, the audit committee should carefully describe the condition raising the question. Such a statement does not nullify the accuracy or the importance of the audit, but it does alert the reader that the financial statements may be affected in some way because of the variance. A sample certificate is attached.
4. *Audit Committee Findings on Policies and Procedures* – The Audit Committee should comment in a separate letter to the Vestry/Mission Committee regarding the internal control procedures in effect at the congregation. This letter should be made a part of the minutes. Exceptions to adequate procedures should also be noted in these comments. Repeat items from previous years should be noted. Good business practices and policies, as well as safeguards, should be recommended. A copy of this letter should accompany the audit report. A sample Findings letter is attached.

5. Mail the following to the Diocesan House, before September 1:

- A. A copy of this completed packet
- B. (note: If Church Insurance Company does not provide the church's insurance, copies of insurance policies must be attached to the completed packet)
- C. Audit Committee Certificate
- D. Audit Committee Findings on Policies and Procedures
- E. Year end Balance Sheet
- F. Year end Statement of Income and Expenses (with budget comparison)

Once all 5 pieces have been received, your church's audit will be complete.

Year being Audited: _____

Church: _____

City: _____

Section I: Property, Insurance, Physical Plant, Inventory

Please answer the following questions regarding **computer systems**:

1. Are current or duplicate copies of the operating system and programs maintained off premises?
2. Are the files back up daily and the backups maintained off premises?
3. Is access to the computer and computer programs limited to authorized persons?
4. Is the system password-controlled?
5. Are passwords stored securely somewhere in case of emergency? If so, who knows where they are stored?
6. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?
7. How/where are these documents stored?
8. Is there a plan for recovery of data and continuation of operations in the event of a disaster?

****NOTE: If insurance is not provided by Church Insurance Company, please attach copies of all church insurance policies to this form before mailing.****

1. Is a periodic review conducted to ensure the adequacy of the insurance coverage for:
 - A. Property?
 - B. Liability?
 - C. Fidelity bond?
 - D. Sexual misconduct?
 - E. Directors and officers liability?
 - F. Workers' compensation?
2. What are the coverage limits for the following insurance policies?
 - A. Property?
 - B. Liability?
 - C. Fidelity bond?
 - D. Sexual misconduct?
 - E. Directors and officers liability?
 - F. Workers' compensation?
3. Is a periodic review conducted to ensure that adequate controls are in place to prevent loss?
4. Are structural additions, new purchases, etc. reported to the insurance company to ensure adequate coverage?

Please answer the following questions regarding the **physical structure** of all church buildings.

1. Does the church have a pest-control contract and is the service being performed?
2. Is there a termite inspection bond?
3. Are the bricks, mortar joints, etc. free from deterioration due to damage from water, freezing, thawing?
4. Is there any water damage from poor drainage?
5. Are there any roof leaks?
6. Are all steps secure and unbroken, reducing the likelihood of someone tripping?
7. Is mold or mildew present?
8. Are gutters and downspouts functioning properly?
9. Is plumbing free of drips and leaks?
10. Is there any exposed wiring?
11. Are circuit breakers/fuses the proper size for the load?
12. Are there any broken switches or electrical plates/covers?
13. Are air filters changed on a regular basis?

Please answer the following questions regarding **property and equipment**:

1. Is there a list of fixed assets, showing date of purchase and cost?
2. Is an inventory identification procedure in effect?
3. Using preceding information, has a physical examination of assets been made, to extent possible?
4. Have any deeds and titles required been examined as evidence of ownership?
5. Are land and buildings carried on financial statements?
6. Are any liens outstanding against any property and equipment?

(Note: If there is not a list of fixed assets, either make one or make arrangements for one to be developed over the next 6 months.)

Section 2: Bank Accounts

Ascertain the number of bank accounts maintained and the purpose for which each is maintained.

Examine the canceled checks for:

1. Authorized signatures
2. Proper endorsement
3. Comparison with the cash disbursements journal for proper recording of payee and amount. If fewer than 10 checks are written each month then all items should be examined. If more than 10 per month, a random sampling of two to three months should suffice.

Confirm that all voided checks are accounted for.

Review outstanding checks. Any check outstanding longer than 3 months should be questioned.

Verify bank balance(s) and make sure bank statements are reconciled to cash.

Please answer the following questions regarding **cash**:

1. Is there a petty cash account?
2. Is the checking account(s) reconciled to the accounting records and checkbook, using unopened year-end bank statement or an independently received bank confirmation?
3. Have paid checks been examined for authorized signatures?
4. Have paid checks been examined for endorsements?
5. Have the checks been compared to the disbursements journal for payees and amounts?
6. Have all voided checks been accounted for?
7. Has the subsequent January bank statement been reviewed?
8. Are cash journal totals tested for accuracy?
9. Are receipt records compared with bank deposits for full year?
10. Are all transfers between accounts traced?
11. Does an authorized party other than a check-signer approve journal entries, and are they adequately documented?
12. Are all checking accounts (including Discretionary funds and ECW) in the name of the congregation using its Federal Employer's ID number?
13. Are non-cash gifts, such as donated goods or services, recorded as such so that a full understanding of the cost of church operations can be gained by reviewing financial statements?

Section 3: Pledges & Income

- I. Receipts:
 - A. Plate offerings: Cash receipts journal entries should be traced to weekly cash receipts records on a test basis.
 - B. Pledge receipts:
 - 1. Pledge receipts should be verified by tracing cash receipt entries to individual pledge records on a test basis. A minimum of 10% of postings should be traced. Results will indicate if a broader sampling is necessary.
 - 2. Adding machine tapes should be made of the individual pledge records with the total agreeing with the total pledge payments reported.
 - 3. Random selection of individual pledge records should be tested for accurate total and balance. A minimum of 10% should include the same individuals used in B-1.
 - C. Other Contributions
 - 1. Are non-pledge contributions credited to the proper accounts?
 - a. Are they properly acknowledged to the donor?

Please answer the following questions regarding **pledges and gifts**:

- 1. Are all other cash receipts recorded and deposited on a timely basis?
- 2. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?
- 3. Do the records of total receipts per individual pledge agree with the amounts recorded and reported in the cash receipts journal?
- 4. Have the postings and math on individual pledge records been tested?
- 5. How many individual pledges were sampled?
- 6. Is there budgeting of contributions that can be reasonably estimated?
- 7. Are contribution budgets periodically compared to actual, and are significant differences investigated?
- 8. Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events?
- 9. Are future bequests and gift files, such as proceeds from life insurance policies or sale of property willed to a congregation, maintained on a current basis?
- 10. Are files kept on life income, endowment and annuity gifts, including information on the nature of the principal, investment of the principal, or use of the principal income, as well as correspondence with donors or beneficiaries, and copies of pertinent documents?
- 11. Are individuals designated to be responsible for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc. received?

Please answer the following questions regarding **securities and trust and endowment funds** as applicable:

1. Is the securities listed verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts?
2. Is the name verified in which securities are registered?
3. In the case of coupon bonds, are coupons of those that have not matured intact?
4. Is the market value of securities established at the date of the examination?
5. Are securities examined or confirmed if held by depository or transfer agent?
6. Are brokers reports examined for securities bought or sold through broker?
7. Were security purchases or sales authorized by appropriate Vestry/Mission Committee action and recorded in the minutes?
8. Have cash receipts records of dividends and interest been compared with record of securities held?
9. Has a list of trust and endowment funds been obtained, including their terms and locations of the investments?
10. Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund?
11. Have the agency accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed?
12. Does the Vestry/Mission Committee or other authoritative body approve all restricted gifts and grants?
13. Are all investments held in the name of the church only?
14. Is the income/dividends/interest of investments recorded?
15. Are all investment accounts included in financial reports to the Vestry/Mission Committee?

Section 4: Payables, Payroll and Indebtedness

- I. Disbursements
 - A. Review disbursements to see that supporting documentation (invoices, written requests, etc.) are properly approved and that amounts agree with check amount.
 - B. All disbursements should be compared to budgeted amounts and material variances should be explained.
 - C. Examine a sufficient number invoices for authorized signature verifying that the items were received (or services performed) so that the committee may be satisfied that goods and services were acknowledged by a person authorized to do so.
 - D. Review expense reimbursements (travel/business expenses) to see that they are in accordance with the reimbursement plan of the congregation?
 - E. Are disbursements supported by vouchers approved by authorized party other than check signer?

- II. Restricted Funds
 - A. Obtain a list of restricted funds showing:
 - 1. The source and date;
 - 2. Terms governing the use of principal and income;
 - 3. To whom and how often reports of condition are to be made, and
 - 4. How the funds are to be invested.
 - B. Examine the donor letter, or trust or agency agreement, for each new gift and contribution received during the fiscal year.

Please answer the following questions about **payroll/employees:**

- 1. Have total wages been reconciled with quarterly Federal Form 941, Form W-2, Form W-3 and other required forms on hand for each employee?
- 2. Have total withholding taxes been reconciled with Form 941?
- 3. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns?
- 4. Has it been determined that all Federal and State and local withholding taxes were remitted on a timely basis to avoid penalties?
- 5. Is a current, signed Form W-4, I-9 or other required forms on hand for each employee?
- 6. Has a housing resolution been included in the Vestry minutes for each cleric employed by the congregation?
- 7. Do salaries paid match budgeted amounts? If not, explain in your audit letter.
- 8. Do individual earnings for employees agree with the check register records?

9. Did all employees receive a W-2 – clergy and lay employees?
10. Did individuals (non-employees) and unincorporated entities that were paid \$600 or more during the year receive 1099s?
11. Does a real employee exist for every payroll check written?
12. Have all benefits been paid on behalf of the employees?
 - A. Pension?
 - B. Health Insurance Premiums?
 - C. Other?
13. Are personnel files maintained to include:
 - A. Employment application and/or letter of employment?
 - B. Authorization of pay rates and effective dates?
 - C. W-4
 - D. I-9
 - E. New hire reporting?
14. Are there adequate records to:
 - A. Show computation of gross pay?
 - B. Account for all deductions from gross pay?
 - C. Support payroll tax returns and forms W-2?
15. Are payroll tax payments made on a timely basis?

Please answer the following questions regarding **indebtedness** to the extent applicable:

1. Is all borrowing or indebtedness authorized by the Vestry/Mission Committee and the Diocesan Executive Council?
2. Have unpaid balances per church records been reconciled with balances as reported by creditor?
3. Is a detailed schedule of all loans prepared, including name of creditor, date of origin, original amount of debt, interest rate payment schedule, monthly payment, unpaid balance, loan purpose, and authorizing body?
4. Are all loans and/or lease agreements in writing and properly safeguarded?
5. Are all liabilities noted on Financial Reports?

Please answer the following questions regarding **payables**:

1. Is documentation provided to support checks written to “cash”? (Note: there should be a church policy against writing checks to “cash”)
2. Have payments made subsequent to the end of the year been investigated for items which should have been included as an expense and account payable in the audit year?

3. Have inquiries been made as to any unpaid items from the audit year that should have been included as a payable?
4. Have inquiries been made as to any paid items from the audit year that should not have been expensed but recorded as a prepaid item?

Section 5: Policy & Internal Controls

Please answer the following questions regarding **internal controls**:

1. If there are prior recommendations on internal controls, have those recommendations been implemented?
2. Is there an accounting policy and procedure manual? If so, is it up to date?
3. Is the current version of the *Manual of Business Methods in Church Affairs* available?
4. Is the budget approved by the Vestry/Mission Committee?
5. Are all changes to the budget authorized by the Vestry/Mission Committee recorded in the minutes of the meetings?
6. Does the Vestry/Mission Committee review the budget periodically throughout the year?
7. Does the Treasurer submit a monthly report to the Vestry/Mission Committee or finance committee?
8. Does this report compare actual to budget?
9. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?
10. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e. at least weekly?
11. Are there at least two unrelated persons responsible for counting and depositing the collections?
12. Are the persons responsible for counting receipts rotated on a regular basis?
13. Do the counters have a standardized form for recording the deposit information?
14. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?
15. Is there a control prohibiting the cashing of personal or church checks from the currency received?
16. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt?
17. Are all cash receipts deposited into the general operating checking account?
18. Are periodic statements provided to donors of record (at least quarterly)?
19. Do acknowledgments of contributions in excess of \$250 include a receipt from the church which states that it is "the contemporaneous acknowledgement required by the Internal Revenue Code, and states that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits"?
20. Is the bank notified immediately of all changes of authorized check signers?

21. Are all disbursements made by check, except for small expenditures made from petty cash?
22. Are all checks pre-numbered and used in sequence?
23. Is there a clearly-defined approval process for all disbursements?
24. Are all voided checks properly cancelled and retained?
25. Are all checks made payable to specified payees and not to cash or to bearer?
26. Are all disbursements supported by original documentation?
27. Is signing blank checks prohibited?
28. Is using a signature stamp or pre-printed signatures prohibited?
29. Does all supporting documentation accompany checks presented for signature?
30. Are all account signers authorized by the Vestry/Mission Committee?
31. Is more than one signature required for any check?
32. If not, do checks for more than \$500 require more than one signature?
33. Are all documents requiring special approval of funding sources of the Vestry/Mission Committee properly documented in the minutes?
34. Is there an appropriate explanation accompanying each journal entry?
35. Are all journal entries approved by a knowledgeable authority other than the person initiating the entry?
36. Is adequate documentation maintained to support each journal entry?
37. Are all bank accounts reconciled within 10 days of receipt of bank statement?
38. Do two different people perform the tasks of opening and reconciling the bank statement?
39. Does someone complete the bank statement reconciliations other than the person who participates in the receipt or disbursement of cash?
40. Are all journal entries for bank charges and bank account interest recorded routinely?
41. Are all bank accounts included on financial reports to the Vestry/Mission Committee?
42. Is the responsibility for the petty cash fund assigned to one person?
43. Is adequate review made of documentation before the fund is reimbursed?
44. Are check cashing and making loans to employees using petty cash prohibited?
45. Is the petty cash protected from theft or misplacement? If so, what is the policy?
46. Are permanent records such as articles of incorporation, by-laws, etc. kept in a safe place?

47. Is there a record retention schedule? Is it followed? Are out-dated record destroyed securely?
48. Are files kept at the church office for (1) parochial reports (2) audits and (3) budgets, so that they are easily referenced?

Section 6: Discretionary Fund

Check that the discretionary fund is in the congregation's name and uses the congregation's federal ID number.

If a separate checking account is used for discretionary funds, all income for that fund must pass through the congregation's general bank account and subsequently a check should be written to transfer the money to the separate discretionary fund account.

If the discretionary Fund is not audited by this committee, an individual (often the treasurer, but not necessarily) must audit the discretionary fund for correctness of record-keeping, verification of supporting documentation, etc.

Audit Committee Certificate

For the Year Ended: _____

Church name: _____

Church address: _____

Church city: _____

Audit Completion Date: _____

To the Rector, Wardens and Vestry/Mission Committee:

We have inspected the financial statements of

_____ (church name)

as of December 31, _____, and the related statements for the year then ended.
(audit year)

Our inspection was made in accordance with the audit guidelines of the *Manual of Business Methods in Church Affairs*, and the financial statements are prepared on a

_____ basis in accordance with the principles adopted by
(cash, modified accrual, or accrual)

the Episcopal Church and approved by its General Convention except as noted. (*note exceptions and attach to signed certificate*).

We have taken steps to see that the accompanying financial statements present fairly, in all material respects, except as noted on attachment, the financial position of the Congregation at year-end; and that the changes in the net assets and its cash flows for the year then ended are in accordance with the principles authorized by General Convention of the Episcopal Church on a basis consistent with that of the preceding year.

Our inspection and certificate are not meant to be construed as an audit and opinion rendered by a Certified Public Accountant.

Sincerely,

Members of the Audit Committee (*list names and phone numbers of Audit Committee Members and have each member sign the Audit Committee Certificate*)

Audit Committee Findings on Policies and Procedures

For the Year Ended: _____

Church name: _____

Church address: _____

Church city: _____

Audit Completion Date: _____

During the course of the above inspection, the following items pertaining to internal control and other operation matters were noted. The first group includes areas of management control where prior year auditor recommendations have been implemented; the second group includes comments and recommendations of current-year auditors.

Areas where prior year auditors' recommendations have been implemented (*might be continued on an attached page*):

Comments and recommendations of current year auditors (*might be continued on an attached page*):

Sincerely,

Members of the Audit Committee (*list names and phone numbers of Audit Committee Members and have each member sign the Audit Committee Findings*)