



Manual of Business Methods in Church Affairs

REVISED FOR THE EPISCOPAL DIOCESE OF FORT WORTH CHANGES

In accordance with Title I, Canon 7, "Of Business Methods in Church Affairs", and Resolution D-147 (1979 GC): "Accounting Principles and Practices for Dioceses, Parishes, and Other Congregations"

(Updated periodically as indicated at the end of each Chapter)

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the USA

As used in this document, all references to an "audit" that is conducted by an "audit committee," instead of by a certified public accountant or an independent licensed accountant, refer to and should be understood as being an "internal audit" conducted in conformity with this Manual of Business Methods in Church Affairs and not to an "audit" otherwise regulated by the Texas State Board of Public Accountancy.

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The Domestic and Foreign Missionary Society
of the Protestant Episcopal Church in the USA

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FORT WORTH REVISIONS 2010

The General Convention of The Episcopal Church

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The Episcopal Diocese of Fort Worth

Revisions

The Finance Committee of the Episcopal Diocese of Fort Worth revised this manual to emphasize that Committee Audits of the financial statements of an organization are internal audits and are not the same as independent audits performed in conformity with auditing standards as adopted by the American Institute of Certified Public Accountants

In addition, the Audit Committee Certificate (p 80) has been revised to state that it is not intended to be used to obtain financing.

CHAPTER II: INTERNAL CONTROLS

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Introduction

What type of bookkeeping system should we use? How many bank accounts do we need? Who should be able to sign checks? Who should deposit the weekly receipts in the bank, and how? These are just some of the questions to be answered when setting up an accounting system for a congregation. Such questions should be periodically reviewed.

Often, many of these decisions are made without adequate thought. Others may require more deliberate consideration. Altogether, the decisions that we make become the policies and procedures of the accounting system, and are referred to as internal controls. Good internal controls will ease the treasurer's job by providing greater assurance that transactions are recorded properly and result in more reliable records and protection of church assets, as well as compliance with civil laws, church canons, and organizational policies.

A system of internal controls consists of all measures used by an organization to safeguard its resources and ensure accuracy, efficiency and reliability in accounting and operating information.

Internal controls are designed to prevent or identify inadvertent errors as much as they are intended to prevent the deliberate theft or misuse of funds. Without an appropriate system, it is not possible to assure the reliability and integrity of the records or reports generated by an organization.

An effective control system ensures that procedures are in place to meet the following objectives:

- Adequately safeguard the cash, property and other assets of the office;
- Ensure that all financial transactions are appropriately documented and approved by authorized staff;
- Expend funds in accordance with donor requirements and limits;
- Provide financial reporting that is accurate, timely and conforms to approved policies.

The overriding objective of all controls is to reduce the risk of loss or misuse of funds or property to a tolerable level. Not all of the controls will be applicable to or cost-effective for all types of operations.

Section A. Internal Control Concepts & Considerations

Segregation of Duties

Proper segregation of duties is essential for an effective control system.

Every financial transaction includes five basic steps.

<i>Step</i>	<i>Example</i>
Request	Request to purchase
Approval	Approval by authorized personnel
Authorization	Review and approval to purchase or issue purchase order
Execution	Physical purchase, receiving and payment
Recording	Accounting

No individual should handle every step of a single transaction. The responsibility for authorizing purchase, accounting for and custody/distribution of the related assets must be separate.

Separate custody of assets from accounting for assets	<ul style="list-style-type: none"> • The person who maintains the inventory records should not also be receiving or issuing goods. • Someone who does not have access to or responsibility for payroll accounting should perform the distribution of payroll checks or cash. • A Cashier should not have responsibility for recording or entering the accounting entries in the ledger
Separate authorization of transaction from custody of assets	<ul style="list-style-type: none"> • Warehouse staff distributing goods should not also approve the distribution of goods • Cashiers cannot approve cash disbursements • Program staff approving purchase of supplies may not also keep the program supplies inventory
Separate authorization of transactions from accounting for transactions	<ul style="list-style-type: none"> • Check signers should not approve accounting entries • Staff authorized to hire personnel should not approve the payroll accounting entries

Authority Levels

A control system can only function effectively when all employees know which personnel have the responsibility and authority to initiate or approve expenditures or to use assets.

Authorized employees should be notified in writing of their authority levels and limits and be fully conversant with the procedures and documentation that are required before they give approval to a commitment or expenditure.

Authorization List: A written Authorization List, regularly reviewed and updated by senior management, should identify:

- The personnel authorized to approve various types of transactions
- Dollar limits for each authorized approver

The Authorization List should be readily available so that all staff are aware of the required approvals and authorized signatories.

Authorization Lists should be prepared for approving:

- Purchases
- Payments & Cash Disbursements (requires confirmation that goods or services and supporting documentation have been received)
- Accounting Transactions (Note: Finance staff should not authorize the transactions they are responsible for recording.)

Documentation & Record Keeping Standards

It is essential that financial activities and transactions are clearly and appropriately documented and recorded.

Documents must be safely stored to prevent loss or damage. A systematic filing and storage system for historical records will ensure that documents can be located when required.

To maintain uniform standards of documentation and record keeping systematic procedures need to be in place, which incorporate standard forms, approval processes and accounting procedures. A regularly updated policy and procedures manual, which clearly specifies these procedures, is essential for adequate documentation and record keeping.

Independent Reviews

Regardless of how rigorous a system of internal controls has been put in place, the potential for error exists. To ensure timely identification of errors and the need for modification to the system, each element of the control system should be independently reviewed by an individual **not** involved with the specific element. For example:

- Someone not involved with cash or accounting should perform periodic surprise cash counts;
- Program staff and management should review monthly expenditure reports;
- Inventory, or supplies, should be independently counted and verified to the bin cards/logistics system & accounting records

A formal review of the controls in place, authority levels and procedure manuals should be implemented annually.

Cash

Because cash is the asset most likely to be misappropriated, internal controls for cash receipt, maintenance and disbursement are critical. Basic controls to remember are:

- Physically protect against the theft or loss of cash;
- Do not disburse cash without proper document or authorization;
- Ensure that cash receipts and disbursements are charged to the correct source codes or accounts;
- Verify and Reconcile cash regularly:
 - The Cashier should count cash weekly and balance to the Ledger of Cashbook balance
 - The Cashier's supervisor should count cash every two months and balance to the Ledger or Cashbook
 - Other management staff should regularly conduct surprise cash counts
 - All cash counts should be recorded and filed
 - An independent person should confirm the presence of all official receipts, blank checks and disbursement vouchers.

Payroll

The major risks associated with payroll are:

- Overpayment to legitimate employees
- Payment of fictitious employees
- Failure to recover advances
- Misappropriation of payroll funds
- Under or over withholding of taxes

Clear and consistently documented activities provide good internal control over the payroll process. The following forms are recommended:

- Employee Employment Letter
- Employee Timesheets – for recording hours worked, by grant, and absences
- Employee Leave Form – for requesting and approving leave time
- Employee Action/Change Form – for recording changes in salary, benefits or other pay related actions
- Employee Termination Form – for recording the termination of a person from the payroll
- Salary Advance Form – for requesting salary advances, repayment date should be specified (i.e. next payroll date)

Personnel

Competent, trustworthy personnel are essential for an effective control system. Pre-employment background checks are useful. Select employees based on qualifications and whose relationships can be expected to avoid perceived or actual conflicts of interest.

Purchasing

The major risks associated with procurement are:

- The wrong items are purchased;
- Items are purchased at a price that is higher than necessary (either through error or through improper dealings with vendors);
- Items of inferior quality are purchased;
- Purchases are made without sufficient budgeted funds;
- Purchases are not in compliance with donor or grantor restrictions.

Every organization should make use of the following **standard purchasing forms**:

- Purchase Requisitions
- Standard Bid Requests
- Bid Summary Worksheets
- Purchase Orders
- Receiving Reports

*Using a regularly updated **Vendor List** can assist in providing a transparent purchasing process that avoids conflicts of interest and favoritism.*

1. A reasonable vendor list:
 - a. Will include the names of vendors and types of services provided;
 - b. Will include at least three vendors for each type of good or service. If fewer reliable vendors are identified, the staff should confirm in writing that fewer reliable vendors exist;
 - c. Should be reviewed at least annually.
2. The employee who develops and maintains the approved vendor list should not be the same employee who solicits bids or who selects a winning bidder.

Typical Purchasing Process:

1. A Purchase Requisition form, signed by the requester and approved by his or her supervisor or next higher level employee with sufficient authority to approve, must be prepared for all purchases.
2. The requestor should not approve the Purchase Requisition.
3. The employee approving the requisition must ascertain that the purchase is necessary to achieve program objectives and that sufficient funds remain in the budget to fund the purchase.

4. Purchasing personnel must confirm that the personnel approving the Purchase Requisition have sufficient authority according to the established Authorization List.
5. Purchasing personnel will, ideally, obtain multiple written independent bids for purchases above a certain amount.
6. The person who solicits the bids should not also approve the final selection of vendor.
7. Sealed bids may be considered for large value purchases.
8. A bid summary worksheet should be completed for all procurement requiring bids. The worksheet should document the reason for selection of the vendor and should be signed by an authorized employee as evidence of review and approval.
9. Requestors should be discouraged from making purchases themselves. Purchasing personnel should purchase as many items as possible and all items over large value purchases (as determined by the organization).
10. Centralized purchasing and blanket purchase orders of office supplies, spare parts, etc. are highly encouraged in order to take advantage of quantity discounts from vendors.

Procurement Personnel:

No employee, and especially no Purchasing personnel, shall receive anything of financial value from vendors or potential vendors.

All employees, especially Purchasing personnel, shall be required to sign "conflict of interest" statements which state that neither they nor their immediate family members have any ownership or beneficial financial interest in an existing or potential vendor.

Commitment tracking:

Most financial systems do not track commitments. As an alternative, a system to track outstanding purchase orders and contracts should be implemented. As part of the approval of new purchases, outstanding commitments must be considered to avoid over expenditures on budgets.

Advances

Advances of funds provided to employees so that they can directly pay for project expenses or travel expenses should be settled/liquidated in a timely manner and with proper documentation. Project advances are typically provided to an employee when cash is not readily available where the disbursements are ultimately made. The person receiving the advance liquidates the advance by providing receipts in the amount of the advance and/or repaying in the original currency received.

Advances in anticipation of employee travel are typically settled upon submission of a Travel Expense Report along with supporting documentation.

Procedures to ensure adequate basic control would include:

1. No employee should be given a second advance until an outstanding advance is settled.

2. Outstanding advances should be reviewed monthly to identify advances outstanding for more than 30 days.
3. Employees with advances outstanding on December 31st should be a.) issued an IRS Form 1099-Misc. recognizing the unsettled advance as income to the employee or b.) be subject to salary withholding in the amount of the unsettled advance.

Telephones

Long distance telephone usage can represent a significant expense. Control of that expense may be achieved as follows:

1. Employees may be required to reimburse the organization for personal calls.
2. Long-distance access may be restricted to phones of only those employees whose usual work involved long distance calls.
3. Special access codes may be assigned to authorized users.

Section B. Internal Control Questionnaire

The following Internal Control Questionnaire is intended to provide guidance for setting up an accounting system and a checklist for periodic review and evaluation of an existing system. The questionnaire is designed also to assist a congregation's internal audit committee. The format is a series of questions, most of which refer to some recommended internal control. The normative answer to a question will be positive. A negative response suggests an area of the system that could be strengthened.

Developing a narrative description is suggested, to provide documentation of the current review. This narrative should be retained for reference in future evaluations.

General: The following items are intended to provide general information to aid understanding of the overall accounting and internal control system.

1. Are prior internal control questionnaires and auditors' recommendations available? ☐ Yes ☐ No
2. Have recommendations of prior reports on internal controls been implemented? ☐ Yes ☐ No
3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available? ☐ Yes ☐ No
4. Is there an accounting policy and procedure manual? ☐ Yes ☐ No
5. Is it up to date? ☐ Yes ☐ No
6. Is a current edition of this manual available? ☐ Yes ☐ No
7. Is the accounting system using a double-entry bookkeeping method? ☐ Yes ☐ No
8. Have the findings of external auditors been reported to the Vestry? ☐ Yes ☐ No

Budget: The development and use of a budget is a critical management tool that will aid in the stewardship and administration of church resources and program.

1. Is the budget approved by the Vestry? ☐ Yes ☐ No
2. Are all changes to the budget authorized by the Vestry and ☐ Yes ☐ No

recorded in the minutes of the meetings?

3. Is there a periodic review of the budget by the Vestry?

☐ Yes ☐ No

Reporting: The best accounting system is of little value unless it communicates the information it contains to those responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1. Is a Treasurer's report submitted to the Vestry or accounting committee each month?
2. Is the Treasurer's report presented in sufficient detail to inform the reader about the nature of the various income and disbursement items?
3. Does the report present the current actual financial data compared with the approved budget?
4. Is there periodic reporting, at least quarterly, of all other funds And activities, including designated or restricted funds?

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

Cash Receipts: Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. 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?
2. 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?
3. Are there at least two unrelated persons responsible for counting and depositing the collections?
4. Are the persons responsible for counting receipts rotated on a periodic basis?
5. Do the counters have a standardized form for recording the deposit information?
6. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?
7. Is there a control prohibiting the cashing of checks from the currency received?
8. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?
9. Are all other cash receipts recorded and deposited on a timely basis?
10. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt?
11. Are all cash receipts deposited into the general operating checking account?
12. Are there procedures that will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded?

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

13. Are periodic statements provided to donors of record (i.e. at least quarterly)? ☐ Yes ☐ No
14. Do acknowledgments of contributions in excess of \$250 include a receipt from the recipient organization which states that it is "the contemporaneous acknowledgment 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"? ☐ Yes ☐ No
15. Are all discrepancies investigated? ☐ Yes ☐ No

Cash Disbursements: The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1. Are all disbursements made by check, except for small expenditures made from petty cash? ☐ Yes ☐ No
2. Are all checks pre-numbered and used in sequence? ☐ Yes ☐ No
3. Is there a clearly defined approval process for all disbursements? ☐ Yes ☐ No
4. Are all voided checks properly cancelled and retained? ☐ Yes ☐ No
5. Are all checks payable to specified payees and not to cash or to bearer? ☐ Yes ☐ No
6. Are all disbursements supported by original documentation? ☐ Yes ☐ No
7. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment? ☐ Yes ☐ No
8. Check signing:
 - a. Is signing blank checks prohibited? ☐ Yes ☐ No
 - b. Is using a signature stamp or pre-printed signatures prohibited? ☐ Yes ☐ No
 - c. Does all supporting documentation accompany checks presented for signature? ☐ Yes ☐ No
 - d. Are all account signers required for any check? ☐ Yes ☐ No
 - e. Is more than one signature required for any check? ☐ Yes ☐ No
 - f. If not, do checks for more than \$500 required more than one signature? ☐ Yes ☐ No
 - g. If signature imprint machines are not used, are the keys kept under lock and key except when in use? ☐ Yes ☐ No
9. Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee members? ☐ Yes ☐ No
10. Are there adequate controls and segregation of duties regarding Electronic Funds Transfers? ☐ Yes ☐ No

Journal Entries: Journal Entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important book of original entry as the cash receipts and cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry? ☐ Yes ☐ No
2. Are all journal entries approved by a knowledgeable authority other

than the person initiating the entry?

☐ Yes ☐ No

3. Is adequate documentation maintained to support each journal entry? ☐ Yes ☐ No

Bank Account Reconciliation: The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt of bank statement? ☐ Yes ☐ No
2. Do two different people perform the tasks of opening and reconciling the bank statement? ☐ Yes ☐ No
3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash? ☐ Yes ☐ No
4. Do the reconciliation procedures provide for:
 - a. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits? ☐ Yes ☐ No
 - b. Investigation of bank transfers to determine that both sides of the transactions have been recorded? ☐ Yes ☐ No
 - c. Investigation of all bank debit and credit memos? ☐ Yes ☐ No
 - d. Review of all checks outstanding more than 90 days? ☐ Yes ☐ No
 - e. Are checks more than 180 days outstanding voided during the year-end reconciliation? ☐ Yes ☐ No
 - f. Is the bank immediately notified of all changes of authorized check-signers? ☐ Yes ☐ No
5. Are all journal entries for bank charges and bank account interest recorded routinely? ☐ Yes ☐ No
6. Are all bank accounts included on financial reports to the Vestry? ☐ Yes ☐ No

Petty Cash: The following controls are intended to provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person? ☐ Yes ☐ No
2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund? ☐ Yes ☐ No
3. Is adequate review made of documentation before the fund is reimbursed? ☐ Yes ☐ No
4. Is the petty cash fund reimbursed at least monthly? ☐ Yes ☐ No
5. Are check cashing and making loans to employees prohibited? ☐ Yes ☐ No
6. Is the actual petty cash protected from theft or misplacement? ☐ Yes ☐ No

Investments: Procedures for proper recording and control of all investment instruments will help to assure that all assets and related income are accounted for and properly reported.

1. Are all investment instruments held in the name of the church only? ☐ Yes ☐ No
2. Is the authorization for the sale and/or purchase of investments provided for by the Vestry or authorized Investment Committee? ☐ Yes ☐ No

3. Are all investment instruments adequately protected from fire, theft, or misplacement, preferably in custody by a bank, broker or other financial intermediary? ☐ Yes ☐ No
4. Is the income/dividends/interest recorded? ☐ Yes ☐ No
5. Are all investment accounts included in financial reports to the Vestry? ☐ Yes ☐ No

Property and Equipment: Certain procedures involving the physical assets of the church will aid in detecting, identifying and preventing losses.

1. Is formal approval of the Vestry required for all property and equipment additions and dispositions? ☐ Yes ☐ No
2. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
 - a. Date acquired? ☐ Yes ☐ No
 - b. Detailed description? ☐ Yes ☐ No
 - c. Cost or fair market value at time of donation? ☐ Yes ☐ No
 - d. Any funding source restrictions? ☐ Yes ☐ No
3. Is a periodic review conducted to compare the actual property, furniture, and fixtures, and equipment with the recorded inventory listing? ☐ Yes ☐ No
4. Is there a safe deposit box? ☐ Yes ☐ No
 - a. Is there an inventory of its contents? ☐ Yes ☐ No
 - b. Who is authorized to enter it? _____
5. Are permanent records such as articles of incorporation, if applicable, by-laws and real estate deeds kept in a safe place? ☐ Yes ☐ No
6. Are they up to date? ☐ Yes ☐ No

Insurance: Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1. Is there a periodic review conducted to ensure the adequacy of the insurance coverage for:
 - a. Property? ☐ Yes ☐ No
 - b. Liability? ☐ Yes ☐ No
 - c. Fidelity Bond? ☐ Yes ☐ No
 - d. Sexual Misconduct? ☐ Yes ☐ No
 - e. Directors and Officers Liability? ☐ Yes ☐ No
 - f. Workers' Compensation? ☐ Yes ☐ No
2. Is there a policy related to sexual misconduct? ☐ Yes ☐ No
3. Is there a periodic review conducted to ensure that adequate controls are in place to prevent loss? ☐ Yes ☐ No

Liabilities and Other Debt: All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

1. Is all borrowing or indebtedness authorized by the Vestry and the

- appropriate diocesan board or committee? ☐ Yes ☐ No
2. Are all loan agreements and/or lease agreements in writing and properly safeguarded? ☐ Yes ☐ No
3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? ☐ Yes ☐ No
4. Are all liabilities noted on Financial Reports to Vestry? ☐ Yes ☐ No

Restricted Gifts and Income: Gifts restricted by donors are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions are observed.

1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:
- a. Date, amount and donor gift? ☐ Yes ☐ No
 - b. Any restrictions or limitations? ☐ Yes ☐ No
2. Does the Vestry vote to accept all restricted gifts and grants, promising to abide by the restrictions? ☐ Yes ☐ No
3. Are written acknowledgements issued for whom they are required? ☐ Yes ☐ No

Payroll: The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities. It is strongly recommended that payroll be processed by a professional service. Questions 3, 4, 5 & 8 are necessary only if payroll is still processed in-house, whether manually or with an in-house computer software program.

1. Are personnel files maintained to include:
- a. Employment application and/or letter of employment? ☐ Yes ☐ No
 - b. Authorizations of pay rates and effective dates? ☐ Yes ☐ No
 - c. Internal Revenue Service Form W4? ☐ Yes ☐ No
 - d. Department of Justice Form I-9? ☐ Yes ☐ No
 - e. State Withholding Forms? ☐ Yes ☐ No
 - f. New hire reporting? ☐ Yes ☐ No
2. Is there a written record of hours worked, approved by a Supervisor when applicable? ☐ Yes ☐ No
3. Are there adequate records to:
- a. Show computation of gross pay? ☐ Yes ☐ No
 - b. Account for all deductions from gross pay? ☐ Yes ☐ No
 - c. Support payroll tax returns and Forms W-2? ☐ Yes ☐ No
4. Are payroll tax returns filed on a timely basis? ☐ Yes ☐ No
5. Are Forms 1099 being provided for all individuals who are not employees and for all unincorporated entities paid \$600 or more annually? ☐ Yes ☐ No
6. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns? ☐ Yes ☐ No
7. Are clergy housing allowances recorded in the minutes of the Vestry no later than the first meeting of the year? ☐ Yes ☐ No

Computer Systems: The use of computers creates the need for additional procedures to safeguard the system and data.

1. Are current or duplicate copies of the operating system and programs maintained off premises? ☐ Yes ☐ No
2. Is access to the computer and computer programs limited to authorized persons? ☐ Yes ☐ No
3. Is there adequate documentation, including user manuals, available on-site for all computer programs? ☐ Yes ☐ No
4. Is there a plan for recovery of data and continuation of operations in the event of a disaster? ☐ Yes ☐ No

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CHAPTER VI: AUDIT GUIDELINES FOR CONGREGATIONS

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Introduction

1. *Purpose:* These audit guidelines were developed to assist auditors in performing the annual audit of the books of account of the congregations of the Episcopal Church.
2. *Reasons for an Audit:* Annual audits are required by the Canons of the Episcopal Church for all parishes, missions, and other institutions. The primary purpose of an audit is to assure that financial statements are fairly stated. Any person handling the monies or investments of the church needs an audit to protect the church assets and him/her against suspicion of mishandling those assets. Similarly, rectors, vestries, vicars, bishop's committees, treasurers, and other persons in positions of responsibility may be liable for any losses which would have been discovered by an ordinary audit but were not discovered because they failed to have an audit conducted.

In addition, an announcement to the congregation that a completed audit reveals that all monies and investments are properly accounted for will have a positive impact on stewardship.

3. *Pre-Audit Advice:* When meeting with the auditors, be prepared to discuss your plans and objectives. Auditors are in the position to advise you and serve your interest when they understand the goals you have set and when you can clearly explain what you expect and hope to get from their services.

Keep good records and help your auditor save you money by not using professional time for routine work, such as gathering information.

Keep your auditor informed of changes and new directions in the congregation.

The treasurer and others, such as Vestry members, rectors, and staff, should be available to the auditor to provide any needed information.

A copy of the *Manual of Business Methods in Church Affairs* should be made available to the auditors.

4. *Approved Auditors:* The canons permit the auditing of congregational accounts by "an independent Certified Public Accountant", by "an independent licensed public accountant", or by "such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority."
 - a. *Certified Public Accountant:* Very often the complexity and/or size of congregations necessitate an independent examination and reporting on their financial statements.
 - 1) Certified Public Accountants offer several levels of service. These include the audit, the compilation, and the review. Refer to the Glossary of this manual for definition of these terms. Neither a review nor a compilation is acceptable in place of an audit of a parish, mission, or other institution of the church.
 - 2) Certified Public Accountants engaged in public accounting are available to all who wish to engage them for independent accounting skills. These skills consist primarily of the design and installation of financial systems, audits,

investigations and reports based on audits, advice on management and financial policies, and tax return preparation.

- 3) Certified Public Accountants have met the statutory requirements of a state or other political subdivision of the United States as to age, education, residence, moral character, and expertise, and have passed a uniform examination administered by the appropriate regulatory authority.
 - 4) Certified Public Accountants are permitted to advertise their services. This should help you in your search. Generally, when people do not know an accountant in the community, they will ask friends to recommend someone. Businesspersons, especially those in the not-for-profit field, can be helpful in finding an accountant with expertise in the not-for-profit sector. Lawyers and bankers can be of assistance as well.
 - 5) Fees are based on time charges. Moreover, fees vary with the level of experience of those required to perform the work. The prevailing cost of conducting a practice in the community will affect professional audit fees. Fees also vary based upon the time of year the audit work is performed.
- b. *Independent Licensed Public Accountants:* While the CPAs and PAs are both licensed to perform the same public accounting services, they prepare differently to become licensed. A Public Accountant has a license based solely upon public accounting experience.
5. *The Committee Audit:* These Audit Guidelines were specially prepared for audit by committees. The Audit made by an audit committee will be termed a Committee Audit. The Auditor's Opinion Letter of an Audit Committee will be termed an Audit Committee Certificate. The Auditor's Comments on Internal Control will be termed Audit Committee Findings on Policies and Procedures.
- Audit committee members should be independent of the decision making and financial record keeping functions of the congregation. The members of the audit committee should have sufficient financial skills and experience to conduct a competent audit. It might be appropriate to offer reimbursement to the audit committee for out-of-pocket expenses.
- An audit committee may consist of one or more individuals. A typical audit committee has three members. The actual number of members should be determined by the size and scope of the audit.
6. *Scope of the Committee Audit:* The scope of the audit shall include:
- a. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.
 - b. Verification (or preparation) of financial statements in the form approved for the Episcopal Church as set forth in this manual. Refer to Chapter III (Bookkeeping).
 - c. A review of management control practices using the Internal Control Questionnaire found in Chapter II (Internal Controls).

7. *Accounts to be Audited:* All accounts must be audited. The audit requirement covers not only the operating accounts of the organization, but also all its restricted, endowment, and property funds, and the accounts, if any, of its organizations. No church money is exempt from the requirement of an audit. If a separate auditor has audited an account of a separate treasurer, the report should be included in the consolidated financial statements.
8. *Objectives of the Audit:* The major objectives of an audit of a congregation are to ascertain the following:
 - a. That the various transactions during the year are proper and are documented appropriately (i.e. authorized, complete and accurate);
 - b. That the various transactions during the year are recorded in the proper amounts and in the proper accounts;
 - c. That the assets, liabilities, income and expenses, which should be in the financial records, are so shown in the proper amounts and in the proper accounts;
 - d. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and
 - e. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.
9. *Timing of the Audit:* The Canons call for a church fiscal (i.e., financial) year ending on December 31 of any given year. The engagement of the auditor should be done prior to the end of the period being examined. This timing allows the auditor to include certain audit procedures that can only be performed at year-end.
10. *Contents of the Audit Report:* The auditor is responsible for submitting an audit report to the Vestry of the church. The Audit Report shall consist of:
 - a. The Audit Committee Certificate;
 - b. The Statement of Financial Position;
 - c. The Statement of Activities;
 - d. The Statement of Cash Flows;
 - e. Completed Audit Program Checklist;
 - f. The Audit Committee Findings on Policies and Procedures; and
 - g. A corrected parochial report as a result of audit adjustments, if applicable.
11. *Filing of the Audit:*
 - a. Prior to actual delivery of the audit report, the Vestry should issue a letter to the auditor stating that all records have been available for audit and there are no funds omitted.
 - b. Upon completion, the Audit Committee shall present the audit report to the Treasurer, Rector, and Wardens.

- c. Any findings and recommendations should be presented in the Audit Committee Findings on Policies and Procedures, not in the Audit Committee Certificate. These items will be discussed with the Treasurer or other responsible persons and within 30 days their written response, attached to the audit report, is presented to the Vestry.
- d. The Vestry receives the audit report upon completion.
- e. A copy of the audit report should be filed with the Bishop or Ecclesiastical Authority not later than 30 days following its completion and never later than September 1 of each year, covering the financial reports of the previous calendar year. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Ecclesiastical Authority.
- f. If, at any time during the audit, the records suggest that something is seriously wrong, the matter should be brought immediately to the attention of someone of superior authority, as well as the appropriate diocesan authority.

Section A. Audit Program Checklist

Please copy this section for use of the Audit Committee. Instructions for the Audit Program may be found in Section D.

1. General Information:

Congregation	
Street Address	
Mailing Address	
City, State, Zip	
Rector/Vicar/ Priest in Charge	
Senior Warden	
Junior Warden	
Treasurer	
Other	
Financial Records Maintained by	
Location of Financial Records	
Location of Audit	
Commencing	
Audit Committee	

2. Pre-Audit Meeting: Date _____

Attended by:

Name	Title

- | | |
|--|--|
| a. Objectives and scope of audit discussed? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| b. Time Schedule arranged? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| c. Reimbursement for out of pocket expenses discussed? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| d. Availability of workspace established? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| e. Availability of required records established? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| f. Availability of <i>Manual of Business Methods in Church Affairs</i> determined? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| g. Assistance of staff requirements established? | Yes <input type="checkbox"/> No <input type="checkbox"/> |

- h. Engagement letter setting forth agreements between Vestry and Audit Committee discussed? Yes ☐ No ☐
3. *Pre-Audit Documents Required for Review:*
- a. Original signed Vestry minutes Yes ☐ No ☐
- b. Minutes of any group authorized to disburse monies Yes ☐ No ☐
- c. Annual financial report to parish Yes ☐ No ☐
- d. Treasurer's interim reports Yes ☐ No ☐
- e. Annual Parochial Report Yes ☐ No ☐
- f. Names of those authorized for check signing, fund withdrawal or transfer, and disbursing approval. Yes ☐ No ☐
- g. List of securities held Yes ☐ No ☐
- h. Arrangements made for receipt of unopened bank statement(s) or mailing of request for confirmation of bank balance(s), loan balance(s) and investments Yes ☐ No ☐
- i. Copy of previous year's audit and internal control letter Yes ☐ No ☐
- j. Organizational Chart Yes ☐ No ☐
- k. Chart of Accounts Yes ☐ No ☐
- l. Budget Yes ☐ No ☐
- m. General ledger Yes ☐ No ☐
- n. Cash receipts journal Yes ☐ No ☐
- o. Cash disbursements journal Yes ☐ No ☐
- p. Bank statements for audited year, plus last statement for previous year and first for current year Yes ☐ No ☐
- q. Paid checks and deposit slips Yes ☐ No ☐
- r. Payroll records with Forms I-9, W-2, W-3, W-4, and State and Federal withholding records Yes ☐ No ☐
- s. Savings account passbooks Yes ☐ No ☐
- t. Other investment records Yes ☐ No ☐
4. *Cash:*
- a. Is the petty cash fund imprest? Yes ☐ No ☐
- b. Is the checking account(s) reconciled to the accounting records and checkbook, using unopened year-end bank statement or an independently received bank confirmation? Yes ☐ No ☐
- c. Have paid checks been examined for authorized signatures? Yes ☐ No ☐
- d. Have paid checks been examined for endorsements? Yes ☐ No ☐

- e. Have the checks been compared to the disbursements journal for payees and amounts? Yes ☐ No ☐
 - f. Have all voided checks been accounted for? Yes ☐ No ☐
 - g. Has the subsequent January statement been reviewed? Yes ☐ No ☐
 - h. Are disbursements supported by vouchers approved by authorized party other than check signer? Yes ☐ No ☐
 - i. Are two signatures required on checks for \$500 or more? Yes ☐ No ☐
 - j. Is the bank notified immediately of all changes of authorized check signers? Yes ☐ No ☐
 - k. Are cash journal totals tested for accuracy? Yes ☐ No ☐
 - l. Are receipt records compared with bank deposits for full year? Yes ☐ No ☐
 - m. Are all transfers between accounts traced? Yes ☐ No ☐
 - n. Does an authorized party other than a check-signer approve journal entries, and are they adequately documented? Yes ☐ No ☐
 - o. Is documentation provided to support checks written to "Cash"? Yes ☐ No ☐
 - p. Are all checking accounts (including Discretionary funds and Episcopal Church Women) in the name of the congregation using its Federal Employer's Identification Number? Yes ☐ No ☐
5. *Pledges and Other Gifts:*
- a. Do the records of total receipts per individual pledge agree with the amounts recorded and reported in the cash receipts journal? Yes ☐ No ☐
 - b. Have the postings and arithmetic on individual pledges records been tested? Yes ☐ No ☐
 - c. Number of individual pledge records sampled: _____
 - d. Is there budgeting of contributions that can be reasonably estimated? Yes ☐ No ☐
 - e. Are contribution budgets periodically compared to actual, and are significant differences investigated? Yes ☐ No ☐
 - f. Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events? Yes ☐ No ☐
 - g. Are future bequest and gift files, such as proceeds from life insurance policies or sale of property willed to a congregation, maintained on a current basis? Yes ☐ No ☐

- h. 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? Yes ☐ No ☐
- i. Are individuals designated to be responsible for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc. received? Yes ☐ No ☐
6. *Securities:*
- a. Is the securities list verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts? Yes ☐ No ☐
- b. Is the name verified in which securities are registered? Yes ☐ No ☐
- c. In the case of coupon bonds, are unmatured coupons intact? Yes ☐ No ☐
- d. Is the market value of securities established at the date of the examination? Yes ☐ No ☐
- e. Are securities examined or confirmed if held by depository or transfer agent? Yes ☐ No ☐
- f. Are brokers reports examined for securities bought or sold through broker? Yes ☐ No ☐
- g. Were security purchases or sales authorized by appropriate Vestry action and recorded in the minutes? Yes ☐ No ☐
- h. Have cash receipts records of dividends and interest been compared with record of securities held? Yes ☐ No ☐
7. *Trust and Endowment Funds:*
- a. Has a list of trust and endowment funds been obtained, including their terms and locations of the investments? Yes ☐ No ☐
- b. Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund? Yes ☐ No ☐
- c. Have the agency accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed? Yes ☐ No ☐
8. *Property and Equipment:*
- a. Is there a list of fixed assets, showing date of purchase and cost? Yes ☐ No ☐
- b. Is an inventory identification procedure in effect? Yes ☐ No ☐
- c. Using preceding information, has a physical examination of assets been made, to extent possible? Yes ☐ No ☐

- d. Have any deeds and titles required been examined as evidence of ownership? Yes ☐ No ☐
- e. Are land and buildings carried on financial statements? Yes ☐ No ☐
- f. Are any liens outstanding against any property and equipment? Yes ☐ No ☐
9. *Liabilities: Payroll taxes:*
- a. Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3 and other required forms? Yes ☐ No ☐
- b. Have total withholding taxes been reconciled with Form 941 and other required forms? Yes ☐ No ☐
- c. Has it been determined that all Federal and State and local withholding taxes were remitted on a timely basis to avoid hidden penalties? Yes ☐ No ☐
- d. Is a current, signed Form W-4, I-9 or other required forms on hand for each employee? Yes ☐ No ☐
- e. Has a housing resolution been included in the Vestry minutes for each cleric employed by the congregation? Yes ☐ No ☐
10. *Other indebtedness:*
- a. Have appropriate church officials properly authorized all indebtedness? Yes ☐ No ☐
- b. Have unpaid balances per church records been reconciled with balances as reported by creditor? Yes ☐ No ☐
- c. 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? Yes ☐ No ☐
11. *Payables:*
- a. 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? Yes ☐ No ☐
- b. Have inquiries been made as to any unpaid items from the audit year that should have been included as a payable? Yes ☐ No ☐
- c. 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? Yes ☐ No ☐

12. Other:

- a. Has insurance coverage been reviewed, and has a copy of policies been obtained and a schedule prepared detailing name of carrier, description of coverage, period covered, premium amount, and date of premium payment? Yes ☐ No ☐
- b. Has there been inquiry as to whether there are any contingencies or commitments facing the church, e.g., legal action with prospects of potential loss? Yes ☐ No ☐
- c. Is there a policy covering the procedure for write-offs of receivables or loans, approval required, provision for reserves? Yes ☐ No ☐
- d. Is there a process in place for ongoing review of the budget? Yes ☐ No ☐

Section B. Sample Audit Committee Certificate

Date _____

To the Rector, Wardens and Vestry of (*Church Name; Church Address; City & Zip*)

Subject: (*Audit Year*) Audit of (*Church Name*)

We have inspected the statement of financial position of (*Name of Church*) as of December 31, (*Audit Year*), and the related statement of activities and cash flows for the year then ended. 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 (*cash, modified accrual, or accrual*) basis in accordance with principles adopted by the Episcopal Church and approved by its General Convention except as noted. (*Note exceptions here, if any: Was depreciation recognized? Were donated services recorded?*)

We have taken steps to see that the accompanying financial statements present fairly, in all material respects, except as noted above, the financial position of the Congregation at December 31, (*Audit Year*); 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 members may choose to add language to the certificate limiting its distribution to the vestry, wardens, and diocese of the church. For example, "Our report is for the use of the Rectors, Vestry, and Wardens, of (*Church name and address*). It should not be used for the purpose of obtaining financing or for any other purpose."*

Section C. Sample Audit Committee Findings on Policies and Procedures

Date _____

To the Rector, Wardens and Vestry of (*Church Name*)

Subject: (*Audit Year*) Audit of (*Church Name*)

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:

Comments and recommendations of current year auditors:

Members of the Audit Committee (*List names and addresses of Audit Committee Members and have each member sign the Audit Committee Certificate*)

Section D. Instructions for the Audit Program

1. *General:* The following suggested procedures are merely acts that can be used to determine the appropriateness of the financial statements presented. An audit is a series of procedures to test, on a predetermined selective basis, the various transactions occurring in the year under examination. It is unrealistic to examine every transaction for the year. Therefore, certain tests are necessary to verify the reasonableness of all transactions.
2. *Pre-Audit Needs:*
 - a. Obtain a preliminary understanding of the accounting systems (both manual and computer) that generate significant financial statement items and of related principal internal accounting controls.
 - b. Obtain copies of the minutes of the Vestry meetings for the period under examination. This should include the minutes of any committee authorized to receive and disburse monies. Read the minutes regarding the election of officers, compensation of personnel, bonding of the treasurer, budget approvals, contracts entered into, items purchased, monies borrowed, purchase and sale of securities, resolution confirming clergy housing allowance for tax purposes, etc. This should be done before the actual examination of any accounting records. You may need to see the minutes of the previous year if they contain authorizations for expenditures in the year being audited.
 - c. Obtain a copy of the previous audit complete with the Committee Audit Findings on Policies and Procedures. This provides a firm set of starting balances which may differ from the Treasurer's reports. It will also offer the chance to check on the progress of corrections of management control deficiencies, an important part of the teaching process.
 - d. Obtain a copy of the annual financial statements as prepared and presented by the treasurer.
 - e. Review the procedures being used to account for church monies. Identify by name and position the individuals with responsibility for financial operations and decisions and verify with them that all the funds of the congregation are included in the statements.
 - f. Identify all bank accounts and authorized check and withdrawal signers, including those under separate treasurers.
 - g. Request that all accounting records of all funds be presented together including:
 - 1) Chart of Accounts and Organization Chart
 - 2) General Ledger
 - 3) Cash Receipts Journals
 - 4) Cash Disbursements Journals
 - 5) Bank Statements including canceled checks
 - 6) Paid Invoices

- 7) Individual payroll records including Forms W-4 and I-9
 - 8) Federal and State payroll withholding reports
 - 9) Passbooks and evidence of other investments
 - 10) Pledge Records by individual and total
 - h. Meet with members of the Finance Committee to discuss the annual financial statements. Inquire about the occurrence during the year of any significant matters of which the auditor should be informed. Also, inquire into significant variances noted on the financial statements.
 - i. Request a location in which to perform the audit. The audit can be more thoroughly and efficiently performed if it is conducted where the records are located.
3. *Receipts:*
- a. Plate offerings: Cash receipts journal entries should be traced to weekly cash receipts records on a test basis.
 - b. Pledge receipts:

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.

Adding machine tapes should be made of the individual pledge records with the total agreeing with the total pledge payments reported.

Random selection of individual pledge records should be tested for accurate total and balance. A minimum of ten percent should include the same individuals as above.

If the auditor is engaged before year end and if the church sends statements to the pledgors, the auditor can save time and effort by supervising the mailing of the year end statements. The auditor can then use this mailing to obtain direct confirmation.

The auditors should always review the pledge receipts of the congregation personnel involved in money transactions.

The decision regarding the size of the representative sample of postings and pledge records for examination depends on the dollars involved and the sophistication of the parish records.
 - c. Contributions from congregation organizations: Receipts must be listed separately for each organization and amounts entered in the cash receipts journal, traced to the weekly cash receipts records. These listed amounts shall be confirmed with their sources.
 - d. Contributions from the Diocese: Receipts must be listed and amounts entered in the cash receipts journal, traced to weekly cash receipts records.

- e. Investment and endowment income: Income from securities should be verified by an examination of the brokerage house statement. Income from investment accounts should be verified by an examination of the statements provided or confirmed by the trustee or agency. Income from savings bank deposits should be confirmed by the bank.
 - f. Restricted income: Income received for special purposes should be noted by the auditor who should trace the cash receipts journal entries to the weekly cash receipts records. The auditor should also be satisfied that the income was used for the purpose for which the gift was made.
 - g. Non-income receipts: Verify all cash receipts journal entries by tracing them and ascertaining that the proper authorization has been given for any transfer or inter-fund borrowing, or for the sale or redemption of any investments or property.
 - h. All cash receipts records should be traced to duplicate deposit slips or bank statements to ascertain that these receipts are deposited intact.
 - i. Petty cash: The auditor should be satisfied that a proper imprest system is being maintained. Petty cash is not to be used to cash personal checks. Cash flow and size of fund over audit period should be checked for possible misuse.
 - j. All receipts should be compared to budgeted amounts and material variances should be explained.
 - k. Contributions of tangible assets or services. Refer to Chapter III (Bookkeeping) for discussion and proper treatment of these contributions.
 - l. Verify the totals in the cash receipts records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.
4. *Disbursements:*
- a. Tests are to be made to satisfy that disbursements have been accurately classified, and that invoices supporting the disbursements have been properly approved and canceled or marked "PAID".
 - b. The committee must be familiar with the financial statement expenditure categories listed on the congregation's chart of accounts.
 - c. All disbursements should be compared to budgeted amounts and material variances should be explained.
 - d. Testing of Disbursements: Select a sample of disbursements. A minimum of 10 percent of postings should be traced. Results will indicate if a broader sampling is necessary. Test the disbursements to invoices as follows:
 - 1) Compare invoices with the recordings in the cash disbursements journal for a sufficient number of items to assure the committee that they are fairly recorded and classified. Comparison should include vendor's name, date and amount billed.

- 2) Examine invoices for verification signature that the items were received or services performed for a sufficient number of items so the committee may be satisfied that goods and services were acknowledged by a person authorized to do so.
 - 3) Check the arithmetic on invoices and vendors' monthly statements for a sufficient number of items to assure the committee that invoiced amounts were properly recorded on the statements.
 - 4) Travel and business expense reimbursements should be checked to see that they are in accordance with the qualified reimbursement policy of the congregation. Reference Chapter IV (Taxes) for discussion of a qualified reimbursement policy.
 - e. Verify the totals of the cash disbursements records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.
5. *Bank Accounts:*
- a. The committee should ascertain the number of bank accounts maintained and the purpose for which each is maintained.
 - b. The committee should examine the canceled checks for:
 - 1) Authorized signature(s)
 - 2) Proper endorsement
 - 3) Comparison with the cash disbursements journal for proper recording of payee and amount. If fewer than ten checks are written each month then all items should be examined. If more than ten per month, a random sampling of two to three months would suffice if a good system of accounting were evident.
 - c. The auditor should account for all voided checks.
 - d. Outstanding checks from the previous period should be examined to determine proper bank clearing and amount. Any check outstanding for a period longer than three months from the balance sheet date should be questioned for satisfactory explanation.
 - e. The auditor should verify bank balances at the end of the period being audited and should check that the closing cash amount is correctly stated.

Examine the January bank statement following the close of the audit year for items impacting the audit year.
 - f. Determine whether transfer of funds occurred between bank accounts near the date of the Statement of Financial Position. Determine that the transfers were recorded in the books in the same accounting period and that any transfers not recorded by the bank in the same accounting period appear in the appropriate bank reconciliation.
6. *Investments:*
- a. Obtain or prepare a list of securities owned showing:

- 1) The description of each security
 - 2) The serial number of bonds or securities
 - 3) The denomination of each security or its par value
 - 4) The interest rate of each bond
 - 5) The cost of each security and the amount recorded on the books
 - 6) The interest and dividends received during the year
 - 7) The market value of each bond or security as of December 31 of the year being audited
- b. Review the investment summary for reasonableness, consistency of amounts between years and obvious omissions.
 - c. Compare the securities listed with ledger accounts and/or with the statement. Whenever practicable, serial numbers should be compared with records of security purchases or gifts in order to obtain positive identification and to avoid the possibility of substitution.
 - d. Examine securities listed or obtain confirmation from the holders if any are held by depositories. It is preferable for this examination to occur as close to the examination date as possible. Insure that the securities are registered in the name of the congregation or are endorsed appropriately to be transferable to the congregation. Examine the coupons on bonds to ascertain that unmatured coupons are intact.
 - e. Examine all transactions for verification of acquisitions and disposition.
 - f. Trace acquisitions to disbursement records and sales (dispositions) to receipts records.
 - g. Examine broker statements and compare with investment ledger where applicable.
 - h. The auditor should be satisfied that the securities are being adequately safeguarded.
 - i. Examine securities for ownership, certificate number, dates, endorsements, assignments, etc.
 - j. Verify any income that has not yet been distributed.
 - k. Determine, by reference to dates of purchase and disposal of investment, interest rates and published dividend records, whether income earned and accrued income receivable have been appropriately recorded.
7. *Restricted Funds:*
- a. Obtain or prepare 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.
8. *Loans:*
- a. Obtain or prepare a schedule of all loans to include:
 - 1) The name of the lending institution
 - 2) The date or origin
 - 3) The original amount of loan
 - 4) The interest rate and payment schedule
 - 5) The monthly payment
 - 6) The unpaid balance
 - 7) The purpose of loan
 - 8) The authorizing body
 - 9) The collateral for the loan
 - 10) The restrictions placed by the lender
 - b. Review balances for reasonableness, consistency of amounts between years and obvious omissions.
 - c. Determine that any loans from the year being examined had the proper authorization and were recorded in the minutes of the Vestry or mission committee.
 - d. Verify, by direct communication with any lender, the outstanding indebtedness at the year-end as well as the terms of the indebtedness.
 - e. Reconcile the unpaid balance of all loans as reported by the congregation records to the figure reported by the lending institutions.
9. *Property and Equipment:*
- a. Obtain a list of fixed assets of significant amounts showing the cost and date of purchase, if known.
 - b. Review balances for reasonableness, consistency of amounts between years, and obvious omissions.
 - c. Examine all the deeds and titles of ownership related to the properties owned by the congregation. Review them for the proper recording of the name of the owner and to determine if any encumbrances or liens exist.
 - d. Determine if any inventory identification procedure is in effect.
 - e. The congregation must have a physical inventory of capital assets. A sampling test of this inventory is to be made by the committee.
 - f. Ensure that all property and equipment is adequately insured.

- g. If depreciation of property is recognized, review entries for accuracy.

10. *Payroll Records:*

- a. Examine the individual earnings records for name, address, social security number, number of exemptions, rate of pay, and effective date.
- b. Ensure that the salary paid is authorized and proper by comparing with the amount budgeted.
- c. Trace the individual earnings record postings to the check register.
- d. Reconcile total wages paid and total withholding taxes with the quarterly Form 941 and end-of-year Form W-3, checking that they were remitted on time.
- e. Determine if a current signed Federal Form W-4 and a Form I-9 (Immigration and Naturalization Service) is on file for each employee hired after November 6, 1986.
- f. Determine if a Form W-2 has been given to each employee (including the clergy) and that the Forms W-2 are correct and properly filed.
- g. Determine if Forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid \$600 or more annually and all recipients of educational scholarship funds of \$600 or annually.

1998 Instructions for Forms 1099, 1098, 5498, and W-2G, Department of the Treasury, Internal Revenue Service, (p. 23, Scholarships) reads,

“Do not use Form 1099-MISC to report scholarship or fellowship grants. Scholarship or fellowship grants that are taxable to the recipient because they are paid for teaching, research, or other services as a condition for receiving the grant are considered wages and must be reported on Form W-2. Other taxable scholarship or fellowship payments (to a degree or nondegree candidate) are not required to be reported by you to the IRS on any form.”

- h. Test the payroll to be sure that a real employee exists for every payroll check written.

11. *Receivables and Payables:*

- a. Prepare a schedule of accounts receivable as of the date of the Statement of Financial Position. These may include pledge payments which were made after the end of the year in which the money was pledged or authenticate obligations owed to the congregation at year end.
- b. Prepare a schedule of accounts payable as of the date of the Statement of Financial Position. These may include monies owed by the congregation to vendors at year-end for goods and services received during the year being audited. Discuss with the treasurer any old or disputed payables.

12. *Insurance:* A schedule should be prepared listing the name of carrier, description of coverage, period of insurance, premium amount and date of premium payment for the following policies which the committee is to review:

- a. Fire insurance on buildings and equipment
 - b. General Liability (Public Liability and Property Damage)
 - c. Burglary
 - d. Fine Arts
 - e. Malpractice
 - f. Worker's Compensation
 - g. Fidelity Bond
 - h. Automobile coverage on cars owned by the congregation
 - i. Non-ownership liability insurance for cars owned by others when used for congregation business
 - j. Directors' and Officers' Liability
 - k. Umbrella Liability
 - l. Other special policies held by the church
13. *Discretionary Fund*: Check that the discretionary fund is in the congregation's name, that the congregation's Federal Employer's Identification Number is the number used to identify the account at the bank, and that the fund has not been used for operating fund expenses or for the personal expenses of the clergy. If a separate checking account has been authorized, all monies for the discretionary fund must pass through the congregation's general bank account and subsequently a check should be written to transfer the monies to the separate discretionary fund checking account. Reference Chapter V (Clergy Discretionary Funds) before proceeding.
14. *Work Papers*: The committee should retain a file of the work papers that were prepared during the audit. When the next year's audit is performed, these papers could be an invaluable guide. The next auditor should be provided with a copy of the work papers. These work papers should include such things as: the complete audit and internal control check lists; lists of bank accounts, restricted funds, investments, insurance accounts and loans; the schedules prepared; the procedures followed in performing the audit and memoranda describing significant issues raised during the audit.
15. *Audit Committee Certificate*: The Audit Committee Certificate 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 noted variance.
16. *Audit Committee Findings on Policies and Procedures*: The Audit Committee should comment in a separate letter to the Vestry 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.

The Audit Committee should look for opportunities to educate the Treasurer and Vestry by teaching the accrual method of accounting.