

CHAPTER VI: AUDIT GUIDELINES FOR CONGREGATIONS

CHAPTER CONTENTS

<i>Introduction</i>	VI-2
<i>Purpose</i>	VI-2
<i>Pre-Audit Advice</i>	VI-2
<i>Reasons for an Audit</i>	VI-2
<i>Approved Auditors</i>	VI-2
<i>The Committee Examination</i>	VI-3
<i>Scope of the Committee Examination</i>	VI-3
<i>Accounts to be Audited</i>	VI-3
<i>Objectives of the Audit</i>	VI-3
<i>Timing of the Audit</i>	VI-4
<i>Contents of the Audit Report</i>	VI-4
<i>Filing of the Audit</i>	VI-5
<i>Section A. Audit Program Checklist</i>	VI-6
<i>Section B. Sample Audit Committee Certificate</i>	VI-11
<i>Section C. Sample Audit Committee Findings on Policies and Procedures</i>	VI-11
<i>Section D. Instructions for the Audit Program</i>	VI-12
<i>General</i>	VI-12
<i>Pre-Audit Needs</i>	VI-12
<i>Receipts</i>	VI-13
<i>Disbursements</i>	VI-14
<i>Bank Accounts</i>	VI-15
<i>Investments</i>	VI-15
<i>Restricted Funds</i>	VI-16
<i>Loans</i>	VI-16
<i>Property and Equipment</i>	VI-17
<i>Payroll Records</i>	VI-18
<i>Receivables and Payables</i>	VI-18
<i>Insurance</i>	VI-19
<i>Discretionary Fund</i>	VI-19
<i>Work Papers</i>	VI-19
<i>Audit Committee Certificate</i>	VI-19
<i>Audit Committee Findings on Policies and Procedures</i>	VI-20

Introduction

- a. *Purpose:* These audit guidelines are to assist auditors in performing the annual audit of the financial statements of congregations of The Episcopal Church (TEC).
- b. *Reasons for an Audit:* Annual audits are required by the Canons of TEC 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 his/herself against suspicion of mishandling those assets. Similarly, rectors, vestries, vicars, bishops' committees, treasurers, and other persons holding positions of fiduciary responsibility may be liable for any losses, which would have been discovered by an ordinary audit but were not discovered because of failure 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.

- c. *Pre-Audit Advice:* When meeting with the auditors, be prepared to discuss plans and objectives. Auditors are in the position to advise and serve one's interest when they understand the goals that have been set and when expectations of their services are clearly explained.

Keeping good records saves money by helping the auditor avoid using professional time for routine work, such as gathering information.

Keep the 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.

- d. *Approved Auditors:* The Canons permit the auditing of congregational accounts by "an independent Certified Public Accountant or by such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority." This is an alternative to a full financial statement audit; regulations may vary among dioceses, however.

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 be helpful in a search. Generally, when people do not know an accountant in the community, they will ask friends for a recommendation. 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.
- e. *The Alternative Committee Examination:* While the Canons permit an alternative audit by committee where approved by a diocesan authority, audits completed by CPAs or LPAs are preferred. To accommodate parishes with limited income, some dioceses have authorized Alternative Audit Procedures. These Audit Guidelines were specially prepared for audit by committees. The Audit made by an audit committee will be termed a Committee Examination. 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 include at least one financial expert.
- 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 Examination:* 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 TEC 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. *Statements to be Audited:* All accounts must be subject to audit. The audit requirement covers not only the operating accounts of the organization, but also all of its restricted, endowment, and property funds, and the accounts, if any, of its affiliated organizations. No church money is exempt from the requirements 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's financial statements are to ascertain the following:

- a. 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.
 - b. That the various transactions during the year are proper and are documented appropriately (i.e., authorized, appropriate church purposes, complete and accurate);
 - c. That the various transactions during the year are recorded in the proper amounts and in the proper accounts and that there were no “off the books” accounts or activity;
 - d. That the assets, liabilities, income and expenses, which should be in the financial records, are shown in the proper amounts and accounts;
 - e. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and
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 Audit Report shall consist of:
- a. The Report of the Independent Auditor (or Audit Committee Certificate in the case of a Committee Examination);
 - b. The Statement of Financial Position;
 - c. The Statement of Activities;
 - d. The Statement of Functional Expenses;
 - e. The Statement of Cash Flows;
 - f. Footnotes to the Financial Statements;
 - g. Audit Program Checklist;
 - h. The Audit Committee Findings on Policies and Procedures; and
 - i. 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 made 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 and/or others responsible 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, including the Vestry and the appropriate diocesan authority.

Section A. Audit Program Checklist

Please copy this section for Audit Committee use. 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

	<i>Pre-Audit Discussion</i>	Yes	No	N/A
a.	Objectives and scope of audit discussed?			
b.	Time Schedule arranged?			
c.	Reimbursement for out of pocket expenses discussed?			
d.	Availability of workspace established?			
e.	Availability of required records established?			
f.	Availability of <i>Manual of Business Methods in Church Affairs</i> determined?			
g.	Assistance of staff requirements established?			
h.	Engagement letter setting forth agreements between Vestry and Audit Committee discussed?			

3.	<i>Pre-Audit Documents Required for Review:</i>	Yes	No	N/A
a.	Original signed Vestry minutes			
b.	Minutes of any group authorized to disburse monies			
c.	Annual financial report to parish			
d.	Treasurer's interim reports			
e.	Annual Parochial Report			
f.	Names of those authorized for check signing, fund withdrawal or transfer, and disbursing approval			
g.	List of securities held			
h.	Arrangements made for receiving unopened bank statement(s) or mailing requests for confirmation of bank balance(s), loan balance(s) and investments			
i.	Copy of previous year's audit and internal control letter			
j.	Organizational Chart			
k.	Chart of Accounts			
l.	Budget			
m.	General ledger			
n.	Cash receipts journal			
o.	Cash disbursements journal			
p.	Bank statements for audited year, plus last statement for previous year and first for current year			
q.	Paid checks and deposit slips			
r.	Payroll records with Forms I-9, W-2, W-3, W-4, and State and Federal withholding records			
s.	Savings account passbooks			
t.	Other investment records			

4.	<i>Cash, Wires, EFTs</i>	Yes	No	N/A
a.	Is the petty cash fund imprest?			
b.	Is the checking account(s) reconciled to the accounting records and checkbook, using unopened year-end bank statement(s) or an independently received bank confirmation?			
c.	Have paid checks been examined for authorized signatures?			
d.	Have paid checks been examined for endorsements?			
e.	Have the checks been compared to the disbursements journal for payees and amounts?			
f.	Have all voided checks been accounted for?			
g.	Has the subsequent January statement been reviewed?			
h.	Are disbursements supported by vouchers approved by authorized party other than check signer?			

i.	Are two signatures required on large checks (e.g., for \$500 or more)?			
j.	Is the bank notified immediately of all changes to authorized check signers?			
k.	Are cash journal totals tested for accuracy?			
l.	Are receipt records compared with bank deposits for the full year?			
m.	Are all transfers between accounts traced?			
n.	Does an authorized party other than a check-signer approve journal entries, and are they adequately documented?			
o.	Are all checking accounts (including discretionary funds and Episcopal Church Women) in the name of the congregation using its Federal Employer Identification Number?			

5.	<i>Pledges and Other Gifts:</i>	Yes	No	N/A
a.	Do the records of total receipts per individual pledge agree with the amounts recorded and reported in the cash receipts journal?			
b.	Have the postings and arithmetic on individual pledge records been tested?			
c.	Number of individual pledge records sampled:			
d.	Are records from separate gift systems reconciled to the general ledger on a periodic basis?			
e.	Is there budgeting of contributions that can be reasonably estimated?			
f.	Are contribution budgets periodically compared to actual, and are significant differences investigated?			
g.	Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events?			
h.	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?			
i.	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?			
j.	Are individuals designated to be responsible for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc. received?			

6.	Securities	Yes	No	N/A
a.	Is the securities list verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts?			
b.	Is the name verified in which securities are registered?			
c.	In the case of coupon bonds, are unmatured coupons intact?			
d.	Is the market value of securities established at the date of the examination?			
e.	Are securities examined or confirmed if held by depository or transfer agent?			
f.	Are brokers reports examined for securities bought or sold through broker?			
g.	Were security purchases or sales authorized by appropriate Vestry action and recorded in the minutes?			
h.	Have cash receipts records of dividends and interest been compared with records of securities held?			
i.	Have all manager statements been received and reconciled to the general ledger?			
j.	Have audited financial statements of alternative investments been received / evaluated?			
k.	Have future capital commitments been tracked periodically and reconciled to the subscription agreement?			
l.	Has the portfolio been reviewed to ensure it is in line with the approved investment allocation policy?			

7.	<i>Trust and Endowment funds:</i>	Yes	No	N/A
a.	Has a list of trust and endowment funds been obtained, including their terms and locations of the investments?			
b.	Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund?			
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?			

8.	<i>Property and Equipment:</i>	Yes	No	N/A
a.	Is there a list of fixed assets, showing date of purchase and cost?			
b.	Is an inventory identification procedure in effect?			
c.	Using preceding information, has a physical examination of assets been made, to the extent possible?			
d.	Have any deeds and titles required been examined as evidence of ownership?			
e.	Are land and buildings carried on financial statements?			
f.	Are any liens outstanding against property and equipment?			

9.	Liabilities: Payroll Taxes	Yes	No	N/A
a.	Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3 and other required forms?			
b.	Have total withholding taxes been reconciled with Form 941 and other required forms?			
c.	Has it been determined that all Federal, State and local withholding taxes were remitted on a timely basis to avoid hidden penalties?			
d.	Is a current, signed Form W-4, I-9 or other required forms on hand for each employee?			
e.	Has a housing resolution been included in the Vestry minutes for each cleric employed by the congregation?			

10.	<i>Other Indebtedness:</i>	Yes	No	N/A
a.	Have appropriate church officials properly authorized all indebtedness?			
b.	Have unpaid balances per church records been reconciled with balances as reported by creditor?			
c.	Is a detailed schedule of all loans prepared, including name of creditor, date of origin, original amount of debt, collateral (if any), interest rate payment schedule, monthly payment, unpaid balance, loan purpose, and authorizing body?			

11.	<i>Payables</i>	Yes	No	N/A
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?			
b.	Have inquiries been made as to any unpaid items from the audit year that should have been included as a payable?			
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?			

12.	<i>Other</i>	Yes	No	N/A
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?			
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?			
c.	Is there a policy covering the procedure for write-offs of receivables or loans, approval required, provision for reserves?			
d.	Is there a process in place for ongoing review of the budget?			

Section B. Sample Audit Committee Certificate

Date _____

To the Rector, Wardens and Vestry of (Church Name; Church Address; City and Zip)
Subject: (Audit Year) Audit of (Church Name)

We have inspected the statement of financial position of (Church Name) 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 – *accrual being the preferred method*) basis in accordance with principles adopted by The Episcopal Church and approved by its General Convention except as noted. (*Note exceptions here, if any: e.g., was depreciation recognized?*)

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 its 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*)

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*)