

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*)

Section D. Instructions for the Audit Program

1. *General:* The following procedures merely act 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 Examination 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) Passbooks and evidence of other investments
 - 9) 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 about 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.

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 yearend and if the church sends statements to the pledgors, the auditor can save time and effort by supervising the mailing of the yearend 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. 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.
- 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. Ensure 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 of 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. Verify that the borrower is in compliance with any loan covenants.
 - f. 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 significant fixed assets 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 non-degree 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 payroll checks written.
- i. Ensure that terminated employees have been removed from the payroll in a timely manner.
- j. Review employment agreements and ensure that there are no commitments requiring accrual or disclosure.

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 authenticated 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 the 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, Vestry and bookkeeper by teaching the accrual method of accounting.

Last update November 2019