

## **Audits**

The National and Diocesan Canons require that each congregation's financial records are audited annually. Such an audit serves to protect the financial officers and employees of the church and often leads to improvement in the church's financial management procedures.

Ideally, the services of a professional auditor should be secured to do this church audit. Frequently, however, this service may be costly and beyond the economic means of the congregation.

Another approach is for a team of accountants and/or business people to audit the books of a neighboring congregation, and vice versa. In such a "congregational exchange," the audit is performed for little if any cost and the utilization of auditors outside the congregation helps preserve the objectivity of the audit.

We thank you for your time and effort in conducting this audit. If we can be of any help, please contact us.

### **AUDIT KIT**

Please use the audit kit below for churches under \$500,000. For churches over \$500,000, we ask for an independent audit by a CPA.

### **Send audits by September 1 to:**

Doug Horner  
Episcopal Diocese of Pennsylvania  
3717 Chestnut Street, Suite 300  
Philadelphia, PA 19104

# AUDIT PROGRAM CHECK LIST FOR 20xx

For Churches with Operating Budgets of \$500,000 or less

Audit for the period of January 1, 20xx to December 31, 20xx

Parish/Mission	
Region	
City	
Rector/Vicar	
Senior Warden	
Junior Warden	
Treasurer	
Date(s) audit conducted:	
Audit Committee Members:	

## Audit Committee Certificate

To the Rector or Vicar, Wardens and Vestry:

The audit committee has inspected the financial position of the church in accordance with the audit guidelines of the Diocese of Pennsylvania. We have taken steps to see that the financial statements and report of the Treasurer's funds present fairly the assets and liabilities of the church; and that the receipts and expenditures and changes in all fund balances for the audit year are in accordance with the principles authorized by General Convention of the Episcopal Church, and of the Diocese of Pennsylvania.

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

\_\_\_\_\_(Signature) .(Date) Chair of Audit Committee

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## **Orientation**

Since 1979, the Executive Council of the Episcopal Church has provided a common financial accounting template for Episcopal parishes and missions. The purpose of this practice is to

thoroughly engage the local churches in adequately demonstrating the financial well-being of their accounting functions. In most respects, especially in insurance and asset management, this audit program goes farther than what would be accomplished in an outside audit.

The latest template version is the "Manual of Business Methods in Church Affairs." This is essential reading for the core financial team of every church, and a new version is available on the website.

<b>Understanding the Bookkeeping System</b>		Yes	No
Has the treasurer read & make use of the Manual of Business Methods			
Has the audit committee agreed that the audit shall cover <b>all</b> funds of the church?			
Are the treasurers' permanent files retained in a secure location that supports his/her work? A secure back-up of information can be critical to your record-keeping.			
Does this include original cash receipts and disbursements records?			
Does it include a file of published and accepted Financial Reports?			
Does it contain payroll and General Ledger books or comparable information?			
Do checks in excess of a certain level require two signatures? If yes, \$			
Is a chart of accounts in use that includes <b>all</b> church funds?			
Is the primary bookkeeper a paid employee of the church? All churches in the Diocese of Pennsylvania should be covered by at least \$10,000 of Fidelity Bond insurance.			
<b>Understanding and Verifying the Financial Reports</b>		Yes	No
<b>1</b>			
Working from the full-set of the Treasurer's final year-end report:			
Do they include a year-end balance sheet in separate fund form?			
Do they include a Revenue and Expense statement for all funds of the church?			
Is the Revenue and Expense statement in comparative form? Meaning, does it reflect <b>prior year/budgeted amounts/variance</b> to budget/etc.?			
Are discrepancies over 5% in the comparative statement explained in footnotes?			
Are any bank accounts in excess of FDIC insurance limits?			
If so, has the church considered an additional bank account for overage funds?			
Have you verified the authorized signatory names and <b>Federal Tax ID number</b> on all bank accounts of the church? The names should be current and the ID number should be that of the church for all accounts.			

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<b>Audit Documents Reviewed by Audit Committee:</b>	Yes	No	N/A
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Do Vestry/Vestry Committee minutes confirm approval of annual budget, monthly financial reports and annual housing allowance?			
Minutes of all groups authorized to disburse church funds.			
Does annual financial report to parish report on budget variances?			
Treasurer's interim reports			
Annual Parochial Report, submitted on _____ (date)			
List of those authorized for check signing (confirm with bank), fund withdrawal or transfer, and disbursing approval			
List of securities, trusts and endowments held			
Review of last year's audit and internal control letter. <b>Were recommendations approved and complied with?</b>			
Chart of Accounts			
General Ledger			
Cash Receipts Journal			
Cash Disbursements Journal			
Bank statements for audited year, plus last statement for previous year and first for current year. Used to complete attached proof of cash report for all accounts.			
Paid checks and deposit slips ( <b>Sample at least 5%</b> ) <b>Are there any unusually large deposits or disbursements?</b>			
Payroll records with Forms 1099, W-2, W-3, W4 and State and Federal withholding records.			
Savings Account statements.			
Other investment records. <b>Are there any unusually large deposits or disbursements?</b>			

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<b>Cash:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Is/are the checking account(s) reconciled monthly?			
<b>In a sample of 5% of paid checks:</b> Do paid checks have authorized signatures?			
Do paid checks have endorsements?			
Do payees & amounts match the disbursements register?			

Have all voided checks been accounted for?			
Are disbursements supported by vouchers approved by authorized party other than check signer?			
If you employ a process for counting receipts, are those persons doing so required to be unrelated? Those counting funds should never be those able to authorize disbursements.			
Are receipts records compared with bank deposits for the year?			
Are all transfers between accounts able to be traced?			
Do any bank accounts exceed FDIC insured limits?			
If a clergy-controlled discretionary fund exists outside of the primary church accounts, is it audited? <b>It should be!</b>			
Does documentation support any checks written to "Cash"?			

<b>Pledges/Support:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Do the records of total receipts agree with the amounts recorded in the cash receipts journal?			
Are total contribution budgets periodically compared to actual, and are significant differences investigated?			
<b>Do acknowledgements of contributions in excess of \$250 include a statement that any goods or services provided consist solely of intangible religious benefits?</b>			
Are future bequest and gift files, such as proceeds from life insurance policies or sale of property willed to a parish, maintained on a current basis?			
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?			

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<b>Investments:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Has the vestry reviewed or created an investment policy in last three years?			
Does your church use an outside money manager/broker? If yes, primary manager is			

If a manager/broker is used, have you reviewed their level of compensation (fees & commissions) in the last three years?			
Is the market value of securities established at the date of this audit examination?			
Are brokers reports examined for securities bought or sold through brokers? <b>Watch for excessive fees!</b>			
Were security purchases or sales authorized by appropriate vestry (or committee) action and recorded in the minutes?			
Have receipts records of dividends and interest been compared with record of securities held?			

<b>Trust and Endowment Funds:</b>	Yes	No	N/A
Do you have an active planned giving program in use at your church? <b>This should be a priority for your church!</b>			
Has a list of trust and endowment funds been obtained, including their terms and locations of the investments? (A <b>summary paragraph of each funds' history is beneficial to the church corporate memory and ensures future compliance in terms of usage of the assets</b> ).			
Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund?		•	
Have the "agency" accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed?			

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<b>Property and Equipment:</b>	Yes	No	N/A
<b>Please complete the list below of your Vestry Members and/or Trustees.</b>			
<b>Is there a list of fixed assets, showing date of purchase and cost?</b>			
<b>Has an extensive physical examination of property and assets been made to the extent possible? YEAR:</b>			
<b>Are the land and buildings carried on the financial statements?</b>			

<b>Are any liens outstanding against any property and equipment?</b>			
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<b>Liabilities:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
<b>Payroll taxes:</b>			
<b>Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3?</b>			
<b>Have total withholding taxes been reconciled with Form 941?</b>			
<b>Has it been determined that all Federal &amp; State withholding taxes were remitted on a timely basis, to avoid bidden penalties?</b>			
<b>Are pension payments up to date for all eligible employees?</b>			
<b>Is a current, signed Form W-4 on hand for all employees?</b>			
<b>Other indebtedness:</b>			
<b>Has all required indebtedness been properly authorized by appropriate church officials (vestry/vestry committee/diocese)?</b>			
<b>Do unpaid balances per church records match balances as reported by any/all creditors?</b>			
<b>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?</b>			

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<b>Other:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
<b>Was a proper housing allowance resolution adopted for all employed clergy and recorded in the minutes by the vestry or vestry committee?</b>			
<b>Has insurance coverage been reviewed? Make sure any additional construction or additional programs - day schools, for example - have not left the church underinsured.</b>			
<b>Has there been an inquiry as to whether there are any contingencies or commitments facing the church (e.g., legal action) with prospects of potential loss?</b>			

Is there an insurance risk control plan in effect to help minimize potential loss?			
<b>Is there a current space use agreement and/or insurance certificate on file for all organizations regularly using the church property/facility?</b>			
If computers are used for financial or parishioner data, are files backed up at least weekly? Back-up should be in a secure site.			
<b>Parish Vestry and/or Trustees (If more than four, include on back):</b>			
<b>Name of Vestry/Trustee Appointed</b>	<b>Address</b>	<b>Year</b>	

**Required Attachments:**

1. Year-end treasurer's report. Show total receipts and total disbursements for the year. Please comment on any variances of 5% or more in any report item.
2. **Proof of Cash** form for all bank accounts. Should reflect reconciliation of cash balances at year-end. Committee should follow-up on unexplained variances.
3. Copy of insurance **declarations page** (front page of policy, typically). The entire policy is not required to be submitted.
4. Copy of Audit Committee Findings and Recommendations on Policies and Procedures.



## Bank Accounts

<u>Institution &amp; Branch</u>	<u>Type of Account</u>	<u>Beginning Balance</u>	<u>Ending Balance</u>
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## Securities

<u>Type</u>	<u>Invested with:</u>	<u>Interest/Dividends this Year</u>	<u>Original Cost</u>	<u>Market Value</u>
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<u>Name of Fund</u>	<u>Date of Origin</u>	<u>Use Limitations</u>	<u>Income this Year</u>	<u>Market Value</u>
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**Trust and Endowment Funds**

**Loans and Other Obligations**

**Creditor                      Date of Origin                      Prig. Balance                      Interest Rate                      Monthly Pvmt                      Current Bal.                      Purpose**