



**Episcopal Diocese of Northwest Texas  
Guidelines and Checklist  
for Conducting  
Committee Financial Audits**

**July 2015**



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The goal of this document is to assist audit committees of the Diocese. The full requirements for conducting such an audit are found in Chapter VI of the *Manual of Business Methods in Church Affairs* (available for download at [www.episcopalchurch.org/finance](http://www.episcopalchurch.org/finance)). Please refer to that document should questions arise during the process. Questions may also be directed to the Diocesan Treasurer, Finance Manager and/or Canon to the Ordinary.

**Reasons for an Audit** (from the *Manual of Business Methods in Church Affairs*, page 78)

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.

**Scope of the 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 the congregation;
- B. Verification (or preparation) of financial statements in the form approved for the Episcopal Church as set forth in the *Manual of Business Methods in Church Affairs*; and
- C. A review of management control practices using the Internal Control Questionnaire found in Chapter II of the *Manual of Business Methods in Church Affairs*.

**Objectives of the Audit** (from the *Manual of Business Methods in Church Affairs*, page 80)

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, appropriate church purposes, complete and accurate);
- B. 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;
- 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.

**Contents**

Completion of the checklist contained in this document along with the required financial statements and reports (as indicated within the checklist) make up a complete committee audit. If

additional space is required to answer any of the checklist questions, continue the answer on blank paper and attach it to the end of the checklist. Be sure to annotate those answers with the associated step number of the checklist.

### **Timing**

In accordance with the canons of the Episcopal Church, a copy of the completed checklist together with all required statements and reports must be sent to the Bishop's office no later than September 1<sup>st</sup> of the year following the year being audited.

### **Audit Committee Makeup**

An audit committee should generally consist of three individuals, though the size and scope of the congregation and audit may warrant a lesser number. Audit committee members should be independent of the decision making and financial record keeping functions of the congregation.

### **Advance Preparation**

The treasurer and/or bookkeeper should ensure the following documents are available and assembled for the audit committee, as applicable:

- Copy of prior year's audit report;
- Copy of parochial report for year being audited;
- Copy of approved budget for the year being audited;
- Copy of approved clergy housing allowance resolution(s) for the year being audited;
- Copy of the congregation's bylaws;
- Copies of Vestry/Bishop's Committee minutes for the year being audited, plus January of the following year;
- Records of all cash receipts and disbursements, including a record of worship service collections and a record of corresponding deposits;
- A description of the procedures and control of worship service collections and other receipts;
- Bank statements, savings account statements and investment reports for all accounts with applicable reconciliations, including January of the following year;
- Check stubs and/or processed checks, and voided checks;
- List of authorized signers and a copy of their signatures for all accounts;
- Paid invoices, vouchers or other backup for expenditures;
- Details of all mortgages and other loans, including a copy of the loan statement showing the balance at the end of the year;
- Details of any receivables or payables at the end of the year;
- Evidence of property and liability insurance coverage;
- Data on building appraisals and inventory of contents;
- Copy of space use agreements and insurance certificates for regular users of the congregation's property;
- Reports for payroll reporting to the Internal Revenue Service, including copies of Forms W-2 and Forms 1099;
- Copy of year-end pension statement(s) for eligible lay employees and clergy;

- Copy of year-end medical insurance statement(s) for eligible lay employees and clergy; and
- Copy of the *Manual of Business Methods in Church Affairs* (available for download at [www.episcopalchurch.org/finance](http://www.episcopalchurch.org/finance))

### **Internal Controls**

The questionnaire for assessing the management practices of the congregations (from the *Manual of Business Methods in Church Affairs*) has been incorporated into the following checklist. Audit committees may need to research the minutes and/or records of a congregation to answer some of the questions. The committee may also have to question the staff and/or leadership regarding some of the items. Make every attempt to answer each question honestly. Not all items will be applicable to every congregation. If a question does not apply, or if you cannot determine an answer, *do not answer the question*. While the questions refer to the activities in the audit year (past performance), the procedures are applicable for all years. The audit committee should note in their report the areas where internal controls should be improved.

## Audit Procedures Checklist

Note:

A copy of this completed Checklist must be submitted as part of the Audit Committee's work.  
Items in **BOLD** must also be submitted along with this checklist.

Congregation	_____
Street Address	_____
Mailing Address	_____
City, State, Zip	_____
Rector/Vicar/ Priest in Charge	_____
Senior/Bishop's Warden	_____
Junior Warden	_____
Treasurer	_____
Other	_____
Financial Records Maintained by	_____
Location of Financial Records	_____
Location of Audit	_____
Date Audit Began	_____
Date Audit was Completed	_____
Audit Committee Members	_____
	_____
	_____

### Pre-Audit Meeting

A pre-audit meeting should be held to coordinate the efforts of the audit committee with those who maintain and are responsible for the information being audited.

Date \_\_\_\_\_

Attended By (name & title) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- A. Objectives and scope of audit discussed? Yes\_\_\_ No\_\_\_
- B. Time schedule arranged? Yes\_\_\_ No\_\_\_
- C. Reimbursement for out of pocket expenses discussed? Yes\_\_\_ No\_\_\_
- D. Availability of workspace established? Yes\_\_\_ No\_\_\_
- E. Availability of required records and information established (see page 2)? Yes\_\_\_ No\_\_\_
- F. Assistance of staff requirements established? Yes\_\_\_ No\_\_\_
- G. Engagement letter setting forth agreements between Vestry/Bishop's Committee and Audit Committee discussed? Yes\_\_\_ No\_\_\_

## General

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

1. Obtain and review the previous year's audit report.

Have prior audit recommendations been implemented?

Yes\_\_\_ No\_\_\_

If not, explain what items were not implemented and why:

2. List all checking, savings, investment, discretionary, and related organizational accounts of the congregation during the audit year:

Are all of the above accounts being audited?

Yes\_\_\_ No\_\_\_

If not, list the accounts not being audited and why:

3. For all audited accounts, including clergy discretionary accounts:
  - A. Were they in the name of, and addressed to, the congregation? Yes\_\_\_ No\_\_\_
  - B. Was the congregation's tax ID number used for all accounts? Yes\_\_\_ No\_\_\_
  - C. Were statements of each account available to show activity for the year? Yes\_\_\_ No\_\_\_

Explain why any of the above items in this section were answered "no":

4. Obtain and review all Vestry/Bishop's Committee minutes, approved budgets and annual year-end financial reports for the audit period, plus January of the following year.
  - A. Date the budget was originally approved: \_\_\_\_\_
  - B. Date(s) the budget was amended: \_\_\_\_\_
  - C. Date(s) clergy housing allowance was approved: \_\_\_\_\_

What questions do these documents raise? Are there notable areas of concern?

- \* **Include with the audit packet copies of the most recent approved budget for the audit year.**
- \* **Include with the audit packet copies of approved Vestry/Bishop's Committee minutes indicating approval of clergy housing allowance resolutions for the audit year.**

5. Obtain a copy of the Parochial Report for the audit year and compare the information on page 2 of the Report with the information being audited. Explain any differences:

6. Does the congregation have bylaws? Yes\_\_\_ No\_\_\_

If so, have all financial requirements of the bylaws been fulfilled? Yes\_\_\_ No\_\_\_

If not, what areas are deficient?

**\* Include with the audit packet a copy of the congregation's most recent bylaws.**

7. Did the Congregation have a separate entity, such as a foundation, corporation or 501(C)(3) organization during the audit year? Yes\_\_\_ No\_\_\_

If so, provide the name of the entity and responsible parties:

8. Did other organizations use congregational buildings on a regular basis during the audit year? Yes\_\_\_ No\_\_\_

If so, list those organizations:

Was a written agreement on file concerning the use of the facilities and insurance certificates from the user? Yes\_\_\_ No\_\_\_

9. Was there a weekday school on site during the audit year? Yes\_\_\_ No\_\_\_

If so, describe the relationship with the congregation (i.e., separate entity renting space, congregationally sponsored, other):

Was a written agreement on file concerning the use of the facilities and insurance certificates from the user, if appropriate? Yes\_\_\_ No\_\_\_

10. Was there a complete and current chart of accounts available for the audit year, listing all accounts and their respective account numbers? Yes\_\_\_ No\_\_\_

11. Was there an up to date accounting policy and procedures manual for the audit year? Yes\_\_\_ No\_\_\_

12. Did the accounting system use a double-entry bookkeeping method? Yes\_\_\_ No\_\_\_

13. Was a current edition of the *Manual of Business Methods in Church Affairs* available to the treasurer/bookkeeper for the audit year? Yes\_\_\_ No\_\_\_

List any discrepancies from the general section not already mentioned above:

### 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.

14. Were financial reports presented to the Vestry/Bishop's Committee monthly? Yes\_\_\_ No\_\_\_

Were they prepared in sufficient detail to inform the reader about the nature of the various income and disbursement items? Yes\_\_\_ No\_\_\_

15. Did the reports present the actual financial data compared with the approved budget? Yes\_\_\_ No\_\_\_

16. Were there periodic reports to the Vestry/Bishop's Committee, at least quarterly, of all other funds, accounts and activities, including designated or restricted funds and discretionary account funds? Yes\_\_\_ No\_\_\_

17. Were reports of individuals' contributions provided to parishioners? Yes\_\_\_ No\_\_\_

How often were they provided? \_\_\_\_\_  
(Should be at least quarterly)

18. Did acknowledgments of contributions include the dates and amounts of each contribution? Yes\_\_\_ No\_\_\_

Did acknowledgments of contributions contain a statement that "no goods or services were provided, or were solely of intangible religious benefits" or other such wording? Yes\_\_\_ No\_\_\_

List any discrepancies regarding reporting:

### **Cash Receipts**

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

19. Were there safeguards in place to protect the worship-service collections from theft or misplacement from the time of receipt until the time the funds were counted and deposited? Yes\_\_\_ No\_\_\_

20. Compare all fund receipts with applicable bank deposits.

A. Do they all match? Yes\_\_\_ No\_\_\_

B. Were all worship-service collections counted and deposited on a timely basis (e.g., at least weekly)? Yes\_\_\_ No\_\_\_

21. Were there at least two unrelated persons responsible for counting and depositing the worship-service collections? Yes\_\_\_ No\_\_\_

22. Were the persons responsible for counting worship service collections rotated on a periodic basis? Yes\_\_\_ No\_\_\_
23. Did the counters of worship service collections have a standardized form for recording the deposit information? Yes\_\_\_ No\_\_\_
24. Were the forms used by counters of worship-service collections retained and reconciled with actual deposits, and were all discrepancies investigated? Yes\_\_\_ No\_\_\_
25. Was there a control (rule) prohibiting the cashing of personal checks from any currency received? Yes\_\_\_ No\_\_\_
26. Examine a 10% sample of individual pledge records, including cancelled checks, pledge envelopes, deposit slips, and statements to individuals.
- A. Did the receipts per individual pledge agree with the amounts recorded and reported for those pledges? Yes\_\_\_ No\_\_\_
- B. Were all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? Yes\_\_\_ No\_\_\_
- Number of pledges tested: \_\_\_\_\_
27. Were all other cash receipts recorded and deposited on a timely basis, at least weekly? Yes\_\_\_ No\_\_\_
28. Were all received checks endorsed immediately upon receipt as “for deposit only”? Yes\_\_\_ No\_\_\_
29. Examine a 10% sample of savings and investment account activities for the audit year.
- Were all activities in accordance with the investment plan (if any) and do they appear to have been in the normal course of business? Yes\_\_\_ No\_\_\_
- Number of items tested: \_\_\_\_\_
30. Examine all restricted gifts received during the audit year. Were they properly documented and restricted? Yes\_\_\_ No\_\_\_
31. Trace all transfers between accounts. Do they all match? Yes\_\_\_ No\_\_\_
32. Were there procedures in place that would highlight, or bring to someone’s attention, the fact that all receipts or income were not received or recorded? Yes\_\_\_ No\_\_\_

33. Were all discrepancies investigated promptly? Yes\_\_\_ No\_\_\_

List any discrepancies regarding cash receipts:

### Cash Disbursements

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

34. Were all disbursements made by check, except for credit cards or small expenditures made from petty cash? Yes\_\_\_ No\_\_\_

35. Were all checks pre-numbered and used in sequence? Yes\_\_\_ No\_\_\_

36. Was there a clearly defined approval process for all disbursements? Yes\_\_\_ No\_\_\_

37. Were all voided checks properly cancelled and retained? Yes\_\_\_ No\_\_\_

38. Check signing:

A. Was signing blank checks prohibited? Yes\_\_\_ No\_\_\_

B. Was using a signature stamp or pre-printed signatures prohibited? Yes\_\_\_ No\_\_\_

C. When checks were signed, was all supporting documentation available for the signer to review? Yes\_\_\_ No\_\_\_

D. Were all account signers authorized by the Vestry/Bishop's Committee? Yes\_\_\_ No\_\_\_

E. Was more than one signature required for all checks? Yes\_\_\_ No\_\_\_

If not, did checks for more than \$500 require more than one signature? Yes\_\_\_ No\_\_\_

F. If a signature imprint machine was used, were the keys kept under lock and key except when in use? Yes\_\_\_ No\_\_\_

39. Were all disbursements requiring special approval of funding sources by the Vestry/Bishop's Committee properly documented in the Vestry/Bishop's Committee or Finance Committee minutes? Yes\_\_\_ No\_\_\_
40. Were there adequate controls and segregation of duties regarding electronic funds transfers? Yes\_\_\_ No\_\_\_
41. Test a 10% sample of all disbursements for the audit year to support the disbursement and accounting of funds. For each disbursement:
- A. Did the cleared check have proper signatures? Yes\_\_\_ No\_\_\_
- B. Did the cleared check have a proper endorsement? Yes\_\_\_ No\_\_\_
- C. Was the check made payable to a specified payee and not to cash or to bearer? Yes\_\_\_ No\_\_\_
- D. Was the disbursement supported by original documentation (i.e., invoice, billing statement, written request, etc.)? Yes\_\_\_ No\_\_\_
- E. Was appropriate authorization for the expenditure retained? Yes\_\_\_ No\_\_\_
- F. Was the original vendor's invoice or other documentation cancelled at the time of check signature to prevent duplicate payment? Yes\_\_\_ No\_\_\_

Number of items tested: \_\_\_\_\_

List any discrepancies regarding cash disbursements:

### **Discretionary Accounts**

Discretionary accounts are typically set up for each ordained person of the congregation for use in pious and charitable situations. Though usually under the control of the cleric, these accounts are part of the congregation and must be audited. The *Manual of Business Methods in Church Affairs*, Chapter V directs how such accounts should be established and maintained.

42. List all discretionary funds held during the audit year, clergy positions holding those funds and all others who had access to them:

43. For each discretionary fund of the congregation:

A. What was the source of monies contributed?

B. Where disbursements from discretionary funds used for appropriate discretionary purposes in accordance with Chapter V of the *Manual of Business Methods in Church Affairs* and not for such things as the operating fund or personal use?

Yes\_\_\_ No\_\_\_

C. Were periodic reports of expenditures (in summary form by purpose of disbursement) provided to the Vestry/Bishop's Committee at least quarterly?

Yes\_\_\_ No\_\_\_

D. Were bank accounts reconciled within 10 days of receipt of the bank statement?

Yes\_\_\_ No\_\_\_

44. Test a 10% sample of all disbursements from each discretionary account for the audit year to support the proper disbursement and accounting of funds. For each disbursement:

A. Did the cleared check have proper signatures and endorsement?

Yes\_\_\_ No\_\_\_

B. Was the check made payable to a specified payee and not to cash or to bearer?

Yes\_\_\_ No\_\_\_

C. Was the disbursement supported by original documentation (i.e., invoice, billing statement, written request, etc.)?

Yes\_\_\_ No\_\_\_

Number of items tested: \_\_\_\_\_

45. Did all receipt activities for each discretionary account agree with the bank statements?

Yes\_\_\_ No\_\_\_

List any discrepancies regarding discretionary accounts:

## Journal Entries

Journal entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important instrument of original entry as the cash receipts and cash disbursements journals. (For smaller congregations with few accounts and maintaining their financial records manually the “journal(s)” may be their checking and saving account ledgers. If that is the case, entries beyond receipts, disbursements and bank fees are rare.)

46. Examine each of the congregation’s journals/ledgers:

- A. Was there an appropriate explanation accompanying each journal entry? Yes\_\_\_ No\_\_\_
- B. Were all journal entries approved by a knowledgeable authority other than the person initiating the entry? Yes\_\_\_ No\_\_\_
- C. Was adequate documentation maintained to support each journal entry? Yes\_\_\_ No\_\_\_

List any discrepancies regarding journal entries:

## 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.

- 47. Were all bank accounts reconciled within 10 days of receipt of the bank statement? Yes\_\_\_ No\_\_\_
- 48. Did two different people perform the tasks of opening and reconciling the bank statement? Yes\_\_\_ No\_\_\_
- 49. Did someone other than the person who participates in the receipt or disbursement of funds complete the bank account reconciliations? Yes\_\_\_ No\_\_\_
- 50. Did the reconciliation procedures provide for:
  - A. Comparison of dates and amounts of deposits between the bank statements and the cash receipts journals? 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. Were checks more than 180 days outstanding voided during the year-end reconciliation? Yes\_\_\_ No\_\_\_
- F. Was the bank notified immediately of all changes of authorized check-signers? Yes\_\_\_ No\_\_\_
51. Were all journal entries for bank charges and bank account interest recorded routinely? Yes\_\_\_ No\_\_\_

List any discrepancies regarding bank account reconciliations:

### **Petty Cash**

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

52. Did the congregation have one or more petty cash funds during the audit year? Yes\_\_\_ No\_\_\_

If so, continue with this section. If not, skip this section.

53. Review any written procedures for the petty cash fund(s), and then review all records of activity for the audit year:
- A. Was the responsibility for the petty cash fund assigned to one person? Yes\_\_\_ No\_\_\_
- B. Were vouchers, receipts or other documentation of disbursements maintained as a record of activity? Yes\_\_\_ No\_\_\_
- C. Were all petty cash funds maintained on an imprest basis, (i.e., the total amount of annotated payments or disbursements, plus cash, always equal the amount of the fund)? Yes\_\_\_ No\_\_\_

- D. Were adequate reviews made of documentation before the funds were reimbursed? Yes\_\_\_ No\_\_\_
- E. Was the petty cash fund reimbursed at least monthly? Yes\_\_\_ No\_\_\_
- F. Were check cashing and making loans to employees prohibited? Yes\_\_\_ No\_\_\_
- G. Was the actual petty cash protected from theft or misplacement? Yes\_\_\_ No\_\_\_

List any discrepancies regarding petty cash:

### **Investments**

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

54. Did the congregation have investment accounts other than a bank savings account during the audit year? Yes\_\_\_ No\_\_\_

If so, continue with this section. If not, skip this section.

55. Are all investment instruments held in the name of the congregation only? Yes\_\_\_ No\_\_\_
56. Were authorizations for the sale and/or purchase of investments provided by the Vestry/Bishop's Committee or investment committee, and annotated in the minutes? Yes\_\_\_ No\_\_\_
57. Were all investment instruments adequately protected from fire, theft, or misplacement? Yes\_\_\_ No\_\_\_
58. Was the income/dividends/interest recorded appropriately? Yes\_\_\_ No\_\_\_

List any discrepancies regarding investments:

## Property and Equipment

Certain procedures involving the physical assets of the congregation will aid in detecting, identifying and preventing losses.

59. Was formal approval of the Vestry/Bishop's Committee required for all property and significant equipment additions and dispositions? Yes\_\_\_ No\_\_\_
60. Was a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
- A. Date acquired? Yes\_\_\_ No\_\_\_
  - B. Detailed description? Yes\_\_\_ No\_\_\_
  - C. Cost of fair market value at time of donation/purchase? Yes\_\_\_ No\_\_\_
  - D. Any funding source restrictions? Yes\_\_\_ No\_\_\_
61. Was a periodic review conducted to compare the actual property, furniture, fixtures, and equipment with the recorded inventory listing? Yes\_\_\_ No\_\_\_
62. Was a safe deposit box used during the audit year? Yes\_\_\_ No\_\_\_
- A. Who was authorized to enter it?
  - B. Was there an inventory of its contents? Yes\_\_\_ No\_\_\_
63. Were permanent records such as articles of incorporation (if applicable), by-laws and real estate deeds kept in a safe place? Yes\_\_\_ No\_\_\_
64. Were property and equipment appropriately reflected on the Statement of Financial Position (or Balance Sheet)? Yes\_\_\_ No\_\_\_
65. Was depreciation of property and equipment recorded in the accounts, as applicable? Yes\_\_\_ No\_\_\_

List any discrepancies regarding investments:

## **Insurance**

Insurance should be maintained to protect against all reasonable risks of loss.

66. Was a periodic review conducted to ensure the adequacy of the insurance coverage for:

- |  |        |       |
|--|--------|-------|
| A. Property?   | Yes___ | No___ |
| B. Liability?  | Yes___ | No___ |
| C. Directors and officers liability?   | Yes___ | No___ |
| D. Fidelity bond (insurance protecting against a loss from the dishonesty or negligence of employees)?                                 | Yes___ | No___ |
| E. Sexual misconduct?  | Yes___ | No___ |
| F. If the congregation has one or more employee (including clergy), is the congregation covered under workers compensation insurance?? | Yes___ | No___ |

67. Was there a periodic review conducted to ensure that adequate controls are in place to prevent loss?

Yes\_\_\_ No\_\_\_

List any discrepancies regarding insurance:

## **Liabilities and Other Debt**

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

68. Did the congregation have any outstanding loans or mortgages during the audit year?

Yes\_\_\_ No\_\_\_

If so, list the type, purpose and year-end balance of each loan and the name and address of the lender:

Were loan payments paid on time? Yes\_\_\_ No\_\_\_

69. Was all borrowing or indebtedness authorized by the Vestry/Bishop's Committee and the Diocesan Standing Committee (and for "Missions" and "Congregations" the Diocesan Board of Trustees)? Yes\_\_\_ No\_\_\_

70. Were all loan agreements and/or lease agreements in writing and properly safeguarded? Yes\_\_\_ No\_\_\_

71. Were there periodic reviews conducted to determine compliance with any debt/lease provisions? Yes\_\_\_ No\_\_\_

72. Were all liabilities noted on Financial Reports submitted to the Vestry/Bishop's Committee? Yes\_\_\_ No\_\_\_

List any discrepancies regarding liabilities and other debt:

### **Restricted Gifts and Income**

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

73. Did the congregation have restricted gifts or income during the audit year? Yes\_\_\_ No\_\_\_

If so, continue with this section. If not, skip this section.

74. Examine all bequests, memorials, endowments, or any other restricted gifts.

A. Were they properly documented, including the date, amount and donor of the gift, as well as any restrictions or limitations on the gift? Yes\_\_\_ No\_\_\_

B. Were records maintained of restricted gifts? Yes\_\_\_ No\_\_\_

C. Did the Vestry/Bishop's Committee or other authoritative body approve the receipt of all restricted gifts and grants? Yes\_\_\_ No\_\_\_

D. Were the income and other transactions periodically reported to the Vestry/Bishop's Committee? Yes\_\_\_ No\_\_\_

E. Were written acknowledgments issued to donors? Yes\_\_\_ No\_\_\_

List any discrepancies regarding restricted gifts and income:

### Payroll

The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to governmental entities.

75. Did the congregation have any employees during the audit year, including supply clergy or others who performed work on behalf of the congregation for which they were paid? Yes\_\_\_ No\_\_\_

If so, continue with this section. If not, skip this section.

76. Examine all personnel files. Did they 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 W-4? Yes\_\_\_ No\_\_\_

D. Department of Justice Form I-9 (Employment Eligibility Verification)? Yes\_\_\_ No\_\_\_

77. Was there a written or electronic record of hours worked, approved by a supervisor when applicable? Yes\_\_\_ No\_\_\_

78. For each employee, were 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\_\_\_

79. Examine all payroll records, tax reports, Forms W-2, Forms 1099 forms, etc.

- A. Were all employees paid in accordance with the approved budget? Yes\_\_\_ No\_\_\_
- B. Were withholding taxes properly computed and filed on Form 941? Yes\_\_\_ No\_\_\_
- C. Were all payroll tax returns filed on a timely basis? Yes\_\_\_ No\_\_\_
- D. Were all payroll tax deposits made on a timely basis (at least quarterly)? Yes\_\_\_ No\_\_\_
- E. Did all employees (clergy and lay) receive a Form W-2 during the month of January of the following year? Yes\_\_\_ No\_\_\_
- F. Were Forms 1099-Misc provided to all non-employee individuals who were paid \$600 or more during the audit year, and to all unincorporated entities who were paid \$600 or more during the audit year? Yes\_\_\_ No\_\_\_
- G. Were the amounts of all clergy housing allowances recorded in the minutes of the Vestry/Bishop's Committee no later than the first meeting of the year? Yes\_\_\_ No\_\_\_

List any discrepancies regarding payroll:

### Computer Systems

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

80. Did the congregation use a computer to maintain any portion of the financial records during the audit year? Yes\_\_\_ No\_\_\_

If so, continue with this section. If not, skip this section.

81. Name of software program used: \_\_\_\_\_

82. Location(s) of computer(s) used: \_\_\_\_\_

83. How often was software data backed up? \_\_\_\_\_

84. Location of program data backup: \_\_\_\_\_  
(It should not be on the same property as the computer.)

85. Were all individuals working with the software program authorized by the Vestry/Bishop's Committee? Yes\_\_\_ No\_\_\_

Name(s) of individuals working with the software program:

86. Was adequate documentation, including user manuals, available onsite for all computer programs? Yes\_\_\_ No\_\_\_

87. Was a printed copy retained of all journals, general ledger, financial statements and any other computerized records? Yes\_\_\_ No\_\_\_

88. Was there a plan for recovery of data and continuation of operation in the event of a disaster? Yes\_\_\_ No\_\_\_

List any discrepancies regarding the computer systems:

### **Financial Statements**

Financial statements are used to present the congregation's financial activities and position in a logical and orderly manner.

89. Were there any receivables, deferred or prepaid expenses or other similar assets at the end of the audit year? If so: Yes\_\_\_ No\_\_\_

A. Were they all appropriate and properly coded? Yes\_\_\_ No\_\_\_

B. Were they received and/or coded appropriately during the year following the audit year? Yes\_\_\_ No\_\_\_

90. Where there any liabilities (payables) at the end of the year before the audit year? If so: Yes\_\_\_ No\_\_\_

A. Were they all appropriate and properly coded? Yes\_\_\_ No\_\_\_

B. Were they expensed appropriately during the audit year? Yes\_\_\_ No\_\_\_

91. Obtain a copy of the year-end Statement of Financial Position (also known as a Balance Sheet) or produce such a statement. (See the *Manual of Business Methods in Church Affairs*, Chapter III.) Does the statement accurately indicate the congregation's year-end financial position? Yes\_\_\_ No\_\_\_

**\* Include in the audit packet a copy of the year-end Statement of Financial Position/Balance Sheet, including any footnotes associated with the statement.**

92. Obtain a copy of the year-end Statement of Activities (also known as an Income Statement) for the congregation or Statements of Revenue and Expenses (also known as a Profit and Loss Statement) for each account or produce such a statement(s). (See the *Manual of Business Methods in Church Affairs*, Chapter III.) Does the statement(s) accurately indicate the congregation's year-end revenues and expenses for each account? Yes\_\_\_ No\_\_\_

What type of statement(s) is available?

**\* Include in the audit packet a copy of the year-end Statement of Activities/Income Statement or Statements of Revenue and Expenses/Profit and Loss Statements for each account of the congregation, including any footnotes associated with the statement(s).**

93. Obtain a copy of the year-end Statement of Cash Flows for the congregation or produce such a statement. (See the *Manual of Business Methods in Church Affairs*, Chapter III.) This statement reports cash flows from operating, investing and financing activities and articulates the change in cash and cash equivalents to the Statement of Financial Position/Balance Sheet.

Note: A Statement of Cash Flow *is not required* if such information is already clearly evident between the statements above.

A. Was a Statement of Cash Flow produced? Yes\_\_\_ No\_\_\_

B. If so, does the statement accurately indicate the cash flow for all accounts of the congregation for the audit year? Yes\_\_\_ No\_\_\_

- \* **Include in the audit packet a copy of the year-end Statement of Cash Flow (if produced), including any footnotes associated with the statement.**

List any discrepancies regarding financial statements:

### **Reports and Certificates**

The following reports and certificates must be produced by the Audit Committee and submitted with the audit packet.

94. Audit Committee Certificate: Produce an Audit Committee Certificate. This document comprises a listing of discrepancies in the financial records and/or statements. It must be submitted to the Vestry/Bishop's Committee for review and approval before being forwarded to the Bishop's office as part of the audit packet.

According to the *Manual of Business Methods in Church Affairs*, "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." Financial errors noted from the Audit Checklist in the recording of activities, reconciliations, reporting, etc. should be listed on this report.

A sample Audit Committee Certificate is included in the Appendix.

- \* **Include in the audit packet an Audit Committee Certificate, as described above and illustrated in the Appendix. The signatures of each member of the audit committee should appear on the Certificate.**

95. Audit Committee Statement of Findings on Policies and Procedures: Produce an Audit Committee Statement of Findings on Policies and Procedures. This document comprises a listing of the committee’s findings regarding policies and procedures and must be submitted to the Vestry/Bishop’s Committee for review and approval before being forwarded to the Bishop’s office as part of the audit packet.

According to the *Manual of Business Methods in Church Affairs*, “The Audit Committee should comment ... to the Vestry regarding the internal control procedures in effect at the congregation. ... Exceptions to adequate procedures should also be noted ... Repeat items from previous years should be noted. Good business practices and policies, as well as safeguards, should be recommended.” Deficient financial policies and practices noted from the Audit Checklist should be listed on this report.

A sample Audit Committee Statement of Findings on Policies and Procedures is included in the Appendix.

- \* **Include in the audit packet an Audit Committee Statement of Findings on Policies and Procedures, as described above and illustrated in the Appendix. The signatures of each member of the audit committee should appear on the Certificate.**

96. Parochial Report: Should the situation warrant, a revised Parochial Report from the audit year must be submitted with the audit packet. (See the *Manual of Business Methods in Church Affairs*, Chapter VIII for details regarding that report.)

Does the congregation’s Parochial Report for the audit year need to be revised and resubmitted? Yes\_\_\_ No\_\_\_

- \* **If necessary, include in the audit packet a revised Parochial Report for the audit year.**

97. Vestry/Bishop’s Committee Meeting Minutes: While not a part of the audit committee’s work, a copy of the Vestry/Bishop’s Committee meeting minutes at which the audit report is presented and accepted is also required to be submitted to the Bishop’s office to accompany the audit packet. Please assist the Vestry/Bishop’s Committee by reminding them of this requirement.

- \* **Remind the Vestry/Bishop’s Committee of their requirement to submit a copy of their minutes at which the Audit Committee Report is presented and accepted.**

98. Review of items for submission in the Audit Committee Report: The audit committee must include the following items in their report to the Vestry/Bishop's Committee. The Vestry/Bishop's Committee should, in turn, submit the report to Bishop's office along with a copy of their minutes in which they accepted the report no later than September 1<sup>st</sup> of the year following the audit year.

- A. Copy of Approved Audit Year Budget;
- B. Copies of Approved Clergy Housing Allowance Amounts (might be in the form of Vestry/Bishop's Committee meeting minutes) (if any);
- C. Copy of the Congregation's By-Laws (if any);
- D. The Statement of Financial Position/Balance Sheet;
- E. The Statement of Activities/Income Statement/Statements of Revenue and Expenses;
- F. The Statement of Cash Flows (if any);
- G. Footnotes to accompany Financial Reports (if any);
- H. A copy of this completed Audit Checklist;
- I. The Audit Committee Certificate;
- J. The Audit Committee Statement of Findings on Policies and Procedures;
- K. A corrected Parochial Report (as needed); and
- L. Copy of the Vestry/Bishop's Committee meeting minutes accepting the Audit Committee Report.

## Appendices

The samples below are based upon samples in the  
*Manual of Business Methods in Church Affairs*

Note: Most small congregations will have financial statements that are much simpler than those in the samples below.

**SAMPLE  
YEAR END FORMAT  
STATEMENT OF FINANCIAL POSITION (OR BALANCE SHEET)  
AS OF DECEMBER 31, [AUDIT YEAR]**

Assets:

Cash and cash equivalents	\$ 7,500
Accounts and interest receivable	2,130
Prepaid expenses	610
Contributions receivable	30,250
Short-term investments	14,000
Assets held for restricted purposes	52,100
Land, buildings, and equipment	617,000
Long-term investments	<u>218,070</u>
Total Assets	\$ 941,660

Liabilities and net assets:

Liabilities:

Accounts payable	\$ 2,570
Grants payable	875
Notes payable	1,685
Long-term debt	<u>55,000</u>
Total Liabilities	\$ 60,130

Net Assets:

Unrestricted	\$715,138
Temporarily restricted	24,372
Permanently restricted	<u>142,020</u>
Total Net Assets	\$881,530

Total Liabilities and Net Assets \$941,660

**SAMPLE A  
YEAR END FORMAT  
A STATEMENT OF ACTIVITIES (OR INCOME STATEMENT)  
FOR THE YEAR ENDED DECEMBER 31, [AUDIT YEAR]**

*Changes in unrestricted net assets:*

*Revenues and gains:*

Contributions	\$ 116,070	
Rental income	5,400	
Income on long term investments	5,600	
Other investment income	850	
Net realized and unrealized gains on long term investments	8,228	
Other	<u>150</u>	
Total unrestricted revenues and gains	\$ 136,298	(a)

*Net assets released from restrictions:*

Satisfaction of program restrictions	\$ 13,490	
Expiration of time restrictions	<u>1,250</u>	
Total net assets released from restrictions	<u>\$ 14,740</u>	(b)
Total unrestricted revenues, gains and other support	\$151,038	(c=a+b)

*Expenses and losses:*

Program A: Outreach	\$ 13,100	
Program B: Christian Education	8,540	
Program C: Preschool	5,760	
Management and general	92,420	
Fund raising	<u>2,150</u>	
Total expenses	\$121,970	(d)
Fire loss	<u>800</u>	(e)
Total expenses and losses	<u>\$122,770</u>	(f=d+e)
Increase in unrestricted net assets	\$ 28,268	(g=c-f)

*Changes in temporarily restricted net assets:*

Contributions	\$ 8,110	
Income on long term investments	2,580	
Net unrealized and realized gains on long term investments	2,952	
Net assets released from restrictions	<u>(14,740)</u>	(reverse of b)
Decrease in temporarily restricted assets	\$ (1,098)	(h)

*Changes in permanently restricted net assets:*

Contributions	\$ 280	
Income on long term investments	120	
Net realized and unrealized gains on long term investments	<u>4,620</u>	
Increase in permanently restricted net assets	\$ 5,020	(i)

Increase in net assets	\$ 32,190	(j=g+h+i)
Net assets at beginning of year	<u>849,340</u>	(k)
Net assets at end of year	\$ 881,530	(l=j+k)

**SAMPLE B**  
**YEAR END FORMAT**  
**STATEMENT OF ACTIVITIES (OR INCOME STATEMENT)**  
**FOR THE YEAR ENDED DECEMBER 31, [AUDIT YEAR]**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<i>Revenues, gains, and other support:</i>				
Contributions	\$116,070	\$8,110	\$280	\$124,460
Rental income	5,400			5,400
Income on long-term investments	5,600	2,580	120	8,300
Other investment income	850			850
Net unrealized and realized gains on long-term investments	8,228	2,952	4,620	15,800
Other	150			150
<i>Net assets released from restrictions:</i>				
Satisfaction of program restrictions	13,490	(13,490)	0	0
Expiration of time restrictions	<u>1,250</u>	<u>(1,250)</u>	<u>0</u>	<u>0</u>
Total revenues, gains, and other support	\$151,038	\$(1,098)	\$5,020	\$154,960
<i>Expenses and losses:</i>				
Program A – Outreach	\$13,100			\$13,100
Program B – Christian Education	8,540			8,540
Program C – Preschool	5,760			5,760
Management and general	92,420			92,420
Fund raising	<u>2,150</u>	<u>0</u>	<u>0</u>	<u>2,150</u>
Total expenses	\$121,970			\$121,970
Fire loss	<u>800</u>	<u>0</u>	<u>0</u>	<u>800</u>
Total expenses and losses	\$122,770			\$122,770
Change in net assets	28,268	(1,098)	5,020	32,190
Net assets at beginning of year	<u>686,870</u>	<u>25,470</u>	<u>137,000</u>	<u>849,340</u>
Net assets at end of year	<u>\$715,138</u>	<u>\$24,372</u>	<u>\$142,020</u>	<u>\$881,530</u>

**SAMPLE  
MONTHLY REPORT  
REVENUE AND EXPENSES  
FOR THE FIVE MONTHS ENDING MAY 31, [AUDIT YEAR]**

<u>Accounts</u>	<u>Annual Budget</u>	<u>Budget To Date</u>	<u>Actual To Date</u>	<u>Over/ Under</u>
<b>Revenue:</b>				
<i>Operating Income:</i>				
Plate offering	\$17,640	\$8,820	\$6,879	\$(1,941)
Pledge receipts	151,368	75,684	79,312	3,628
Investment income	460	230	275	45
Other income	6,420	3,210	4,018	808
Diocesan assistance	-0-	-0-	-0-	-0-
Undesignated gifts and bequests	<u>1,200</u>	<u>600</u>	<u>55</u>	<u>(545)</u>
<i>Total Operating Income</i>	<u>\$177,088</u>	<u>\$88,544</u>	<u>\$90,539</u>	<u>\$1,995</u>
 <i>Non-Operating Revenue:</i>				
Net realized gains on investments	\$1,290	\$645	\$933	\$288
Restricted gifts not for operations	2,810	1,405	864	(541)
Capital fund receipts	<u>50,000</u>	<u>25,000</u>	<u>24,300</u>	<u>(700)</u>
<i>Total Non-Operating Revenue</i>	<u>\$54,100</u>	<u>\$27,050</u>	<u>\$26,097</u>	<u>(\$953)</u>
<b>Total Revenue</b>	<u>\$231,188</u>	<u>\$115,594</u>	<u>\$116,636</u>	<u>\$1,042</u>
 <b>Expenses:</b>				
<i>Operating Expenses:</i>				
Clergy salaries	\$55,000	\$27,500	\$27,500	-0-
Clergy housing allowance	14,000	7,000	7,000	-0-
Lay employee salaries	43,000	21,500	19,842	1,658
Payroll tax expense	3,156	1,578	1,496	82
Benefits (pension, health ins., etc.)	11,244	5,622	6,018	(396)
Diocesan apportionment	18,536	9,268	9,268	-0-
Utilities	26,690	13,345	15,637	(2,292)
Office supplies	5,242	2,621	1,116	1,505
Program costs:				
- Outreach	2,400	1,200	793	407
- Christian Education	3,800	1,900	2,025	(125)
- Preschool	<u>2,300</u>	<u>1,150</u>	<u>933</u>	<u>217</u>
<i>Total Operating Expenses</i>	\$185,3698	\$92,684	\$91,628	\$1,056
Net Operating Totals	<u>\$ (8,280)</u>	<u>\$ 4,140</u>	<u>\$(1,089)</u>	<u>\$ 939</u>
(operating income in excess of operating expenses)				
 <i>Non-Operating Expenses:</i>				
Capital purchases	\$48,100	-0-	\$8,436	(8,436)
Depreciation expense	<u>6,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<i>Total Non-Operating Expenses</i>	<u>\$54,100</u>	<u>-0-</u>	<u>\$8,436</u>	<u>\$(8,436)</u>
<b>Total Expenses</b>	<u>\$239,468</u>	<u>\$92,684</u>	<u>\$100,064</u>	<u>\$(7,380)</u>
Net Totals	<u>\$ (8,280)</u>	<u>\$22,910</u>	<u>\$ 16,572</u>	<u>\$ 6,338</u>

**SAMPLE  
YEAR END FORMAT  
STATEMENT OF CASH FLOWS  
FOR YEAR ENDED DECEMBER 31, [AUDIT YEAR]**

Cash flows from operating activities:	
Change in net assets	\$32,190
<i>Adjustments to reconcile change in net assets</i>	
<i>To net cash provided by operating activities:</i>	
Depreciation	\$3,200
Fire loss	800
Increase in accounts and interest receivable	(460)
Decrease in prepaid expenses	390
Increase in contributions receivable	(3,250)
Decrease in accounts payable	(7,930)
Decrease in refundable advance	(650)
Decrease in grants payable	(425)
Contributions restricted for long-term investment	(2,740)
Interest and dividends restricted for long-term investment	(300)
Net unrealized and realized gains on long-term investments	<u>(15,800)</u>
Net cash used by operating activities	<u>\$ 5,025</u>
Cash flows from investing activities:	
Insurance proceeds from fire loss on building	\$7,550
Purchase of equipment	(1,500)
Proceeds from sale of investments	76,100
Purchase of investments	<u>(74,900)</u>
Net cash provided by investing activities	<u>\$7,250</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in endowment	\$ 200
Investment in term endowment	70
Investment in plant	<u>1,210</u>
Net cash provided by restricted contributions	<u>\$ 1,480</u>
Other financing activities:	
Interest and dividends restricted for reinvestment	\$ 300
Payments on notes payable	(1,155)
Payments on long-term debt	<u>(10,000)</u>
Net cash used by other financial activities	<u>(10,855)</u>
Net cash used by financing activities	<u>\$( 9,375)</u>
Net increase in cash and cash equivalents	\$ 2,900
Cash and cash equivalents at beginning of year	<u>4,600</u>
Cash and cash equivalent at end of year	\$ 7,500
Supplemental data:	
Noncash investing and financing and financing activities:	
Gifts of equipment	\$140
Gift of paid-up life insurance, cash surrender value	80
Interest paid	382

**SAMPLE  
AUDIT COMMITTEE CERTIFICATE**

Date \_\_\_\_\_

To the Rector, Wardens and Vestry of (Congregation Name and Address)

Subject: (Audit Year) Audit of (Congregation Name)

We have inspected the financial records and statements of (Name of Congregation) as of December 31, (Audit Year). Our inspection was made in accordance with the audit guidelines of the Diocese of Northwest Texas and the *Manual of Business Methods in Church Affairs*. We noted the following disagreements, incongruences, incorrect and/or deficient items during our review:

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).

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 Certificate)

**SAMPLE  
AUDIT COMMITTEE  
STATEMENT OF FINDINGS ON POLICIES AND PROCEDURES**

Date \_\_\_\_\_

To the Rector, Wardens and Vestry of (Congregation Name and Address)

Subject: (Audit Year) Audit of (Congregation Name)

During the course of the above inspection, the following items pertaining to internal control and other operation matters were noted:

Areas where prior year auditors recommendations have been implemented:

Comments and recommendations of current year auditors:

Members of the Audit Committee (List names and phone numbers of Audit Committee Members and have each member sign the Statement)