



**Diocese of North Carolina**  
**Procedures for Audit Committee**  
Revised for the 2014 audit year and forward  
until such time as Diocesan Council requests a change.

**Canon 17**

***Business Methods in Church Affairs***

[Renumbered in 1997; Amended in 2000; Amended in 2002]

In this Diocese, and in all its parishes, missions, and institutions, the following standard business methods shall be observed:

- (a) Trust and permanent funds, and all securities of whatsoever kind, shall be deposited with a federal or state bank, or savings and loan association, or a diocesan corporation, or with some other agency approved in writing by the Department of Business Affairs and Administration of the Diocesan Council, under either a deed of trust, or an agency agreement, providing for at least two signatures on any order of withdrawal of such funds or securities. But this paragraph shall not apply to funds and securities refused by the depositories named as being too small for acceptance. Such small funds and securities, and trust and permanent funds of missions shall be deposited with the Trustees of the Diocese, added to the Common Trust Fund and invested as a part of those funds. Income from such invested funds shall be paid quarterly to the parish, mission or organization entitled thereto.
- (b) Records shall be made and kept of all trust and permanent funds showing, in respect to each trust and each fund, at least the following:
  - (1) 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.
  - (4) How the funds are invested.
- (c) Treasurers and custodians other than banking institutions shall be adequately bonded, except treasurers of funds that do not exceed \$500 at any one time during the fiscal year.
- (d) Books of account shall be so kept as to provide the basis for satisfactory accounting. The Department of Business Affairs and Administration may establish a system of accounts.
- (e) The fiscal year begins January 1st.
- (f) All accounts shall be audited annually by a certified or independent public accountant, or by such an accounting agency as shall be permitted by the Department of Business Affairs and Administration.
- (g) The expense, if there be any, of auditing the account of the Treasurer of the Diocese by a certified public accountant shall be paid by the Treasurer out of the Episcopal Maintenance Fund.
- (h) All buildings and their contents shall be kept adequately insured.
- (i) The Department of Business Affairs and Administration may require copies of any or all accounts described in this section to be filed with it, and shall report annually to the Convention of the Diocese upon its administration of this canon.
- (j) Minutes of all meetings of governing bodies shall be made and kept, showing all resolutions which have been officially enacted.
- (k) No vestry, trustee, or other diocesan institution shall borrow except as provided in Canons 10, 20 or 23



## THE EPISCOPAL DIOCESE OF NORTH CAROLINA

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To Vicars/Sr. Wardens and Treasurers:

In response to concerns about the Audit Policies and how they relate to our smaller congregations, the Diocese of North Carolina put these procedures together for those congregations with less than \$50,000 in “Line D” Parochial Report income. These Audit procedures will assist congregations in performing a successful audit by committee, and will engage your congregations in adequately demonstrating the financial well being of the accounting functions. In most instances, especially in insurance and asset management, this audit program goes farther than what would be accomplished in an outside audit.

Please understand that the only internal audit that meets the canonical requirement for congregations with less than \$50,000 in line “D” parochial report income and is “permitted by the Department of Business Affairs and Administration” is attached. Failure to follow this procedure will result in appropriate canonical action. It is not appropriate for the members of the Vestry, Finance Committee or anyone who can approve expenditures or sign checks to perform the internal audit.

This captures the primary issues with respect to parish financial management found in the “Manual of Business Methods in Church Affairs” for our smaller congregations. These congregations are allowed to use the following format, but encouraged to review the longer format for their own benefit. There is a link to the most recent manual on the diocesan website ([www.episdionc.org](http://www.episdionc.org)) as well as the long form audit program.

If you have any questions, please contact the Diocesan office.

Faithfully,

Marlene Weigert,  
Canon to the Ordinary for Administration

## Audit Program Checklist

For Mission Congregations with Parochial Report Line D income of \$50,000 or less

Audit for the period of January 1, \_\_\_\_\_ to December 31, \_\_\_\_\_

Church Name	
City	
Vicar	
Senior Warden	
Junior Warden	
Treasurer	
<b>Federal Tax ID#</b>	

Date(s) audit conducted	
Audit Committee Members:	
Date received by Vestry	

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\_\_\_\_\_  
Signature, Chair of Audit Committee

7/25/16

<b>Understanding the Bookkeeping System and Financial Reports</b>	Yes	No
Has the Treasurer read and made use of the current manual of Business methods?		
Is a chart of accounts in use that includes ALL church funds?		
Is the primary bookkeeper a paid employee of the church?		
<b>From Treasurer's final year-end report</b>		
Does it include year-end cash reconciliations for each separate fund?		
Does it include a Revenue and Expense statement for all funds of the church?		
Are any bank accounts in excess of the FDIC insurance limit of \$250,000?		
If so, has the church considered an additional bank account for overage funds?		
Are the Treasurer's permanent files backed up to a secure location?		

<b>Audit Documents Reviewed by Committee:</b>	Yes	No	N/A
Vestry minutes (especially to confirm approval of annual budget, monthly financial reports and the annual housing allowance declaration)			
Does annual financial report to the congregation explain budget variances?			
Parochial Report was submitted on _____ (date)			
Review last year's audit and internal control letter. Were the recommendations adopted and/or action taken on them?			
Review bank statements for audited year plus last statement for previous year and first for current year. Are there any unusually large deposits or withdrawals?			
Other financial or investment records. Are there any unusually large deposits or withdrawals?			
Have you verified/reviewed the authorized signers and Federal Tax ID number on all bank accounts of the church.			

<b>Cash/Pledges/Support/Other Financial</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Is/are the checking accounts reconciled monthly?			
In a 5% sample of all checks, (if checks are returned) do the payees and amounts match the check register or disbursements journal?			
Do the endorsements of those checks sampled match the payee?			
Have all voided check been accounted for?			
Any bank accounts regularly exceed FDIC \$250,000 insured limit?			
Church discretionary funds under sole clergy control outside the primary church bank accounts are to be part of the annual audit. <b>Are they?</b>			
If you employ a process for counting receipts, are those persons doing so required to be unrelated? People able to authorize disbursements should never be those counting funds.			
Does documentation support any checks written to "Cash"?			
<b>Do acknowledgements of contributions in excess of \$250 include a statement that only intangible religious benefits were received in exchange for the contribution?</b>			
Do the records of total receipts agree with the amounts recorded in the cash receipts journal?			
Are total budgeted contributions periodically compared to actual, and are significant differences investigated?			
Has all indebtedness been properly authorized by appropriate church and diocesan officials?			
If you have adopted one, has the vestry reviewed the investment policy statement in the last three years?			
Are pension payments and withholding tax payments up to date for all eligible employees? (Supply clergy who you have paid more than \$200 in three consecutive months are eligible for pension payments)			
Have all withholding tax payments been made on time?			
<b>Do all employees get a W-2? Only short term supply clergy and contractors should get 1099's</b>			
Is a current, signed Form w-4 on hand for each employee?			
Was a proper housing allowance resolution adopted and recorded in the minutes by the vestry?			
<b>Is there current space use agreement and insurance certificate on file for all organizations regularly using the church property/facility?</b>			

Required attachments:

1. Year-end Treasurer's report. Please show total receipts and total disbursements for the year. Please comment on any variances of 10% or more in any report item
2. Proof of Cash form for all bank accounts. This should reflect reconciliation of cash balances at year-end and explain any variances
3. Copy of insurance declaration page (typically front page of policy). The Diocese of NC must be named as an additional insured on your property and casualty policies

4. Account Listing (attached)
5. Audit Committee Certificate (Exhibit A)
6. Copy of Audit Committee Finding and Recommendations if applicable (Exhibit B)

Account listing:

**Bank Accounts:**

Institution & Branch	Type of Account	Beginning Balance 1/1	Ending Balance 12/31

**Investment and Endowment Funds:**

Name of Fund	Date of Origin	Use limitations	Income this year	Market Value

**Loans and other obligations:**

Creditor	Date of Origin	Original Balance	Interest Rate	Monthly Payment

**Exhibit A.  
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 (Name of Church) as of December 31, (Audit Year), and the related statement of activities and cash flows for the year then ended.

Our inspection was made in accordance with the audit guidelines of the Manual of Business Methods in Church Affairs and the financial statements are prepared on a (cash, modified accrual, or accrual – 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: Was depreciation recognized? Were donated services recorded?)

We have taken steps to see that the accompanying financial statements present fairly, in all material respects, except as noted above, the financial position of the Congregation at December 31, (Audit Year); and that the changes in 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)*

**Exhibit B.**  
**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:

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Comments and recommendations of current year auditors:

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Members of the Audit Committee

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