

Diocese of North Carolina Procedures for Audit Committee

Revised for Current Audit Year

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

Congregation, City

Audit Committee Members

Due Date: September 1

These procedures were created by the Diocese of North Carolina in order to assist congregations in performing a successful audit by committee. This document is available in MS Word format so that you can complete electronically or print to desired spacing. Note that in addition to this workbook, the inclusion of the financial statements and letters modeled in Exhibit A and B are essential to the audit documentation.

If you have any questions regarding these audit procedures, please do not hesitate to contact Maria Gillespie, Chief Financial Officer at maria.gillespie@episdionc.org, or Becky Poynter at Accountant@episdionc.org.

Please email your completed audit to audits@episdionc.org. All submissions will receive an automatic response that your submission has been received.

Section A: General Responsibility/Oversight

1. Obtain and review the audit report covering the period immediately preceding this period being audited.

Have prior audit recommendations been implemented? _____

If some prior recommendations have not been implemented, list and explain what they are and reason for not being implemented.

2. Obtain Vestry minutes, approved budget and annual year-end financial reports for the period being audited.

3. Is there an Accounting Policy and Procedures manual for this church (not the *Manual of Business Methods in Church Affairs*?) _____

4. Review the Vestry minutes for:

- a. Budget approval. Date approved: _____

- b. List other matters that affect the financial reports:

5. Are monthly financial reports prepared and submitted to the Vestry? _____

- a. Are the monthly actual numbers compared to the approved budget numbers?

- b. List and explain significant variances to budget in the audit year?

6. Review all Journal Entries (entries unrelated to cash transactions):

- a. Is there an appropriate explanation accompanying each journal entry?
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b. Are all journal entries approved by a knowledgeable authority other than the person initiating the entry?

c. Is adequate documentation maintained to support each journal entry?

7. Are periodic reviews of insurance coverage made to determine adequacy of each type of insurance? _____

Date of last insurance review. _____

8. Are inventories of furnishings and equipment for insurance purposes current and complete? (listing or video inventory) _____

Date of last update. _____

Attach a copy of the Parish/Mission Annual Report

9. Does the church have any separate entities that derive their status from the church (use the church's EIN)? List those entities in the chart below (examples include ECW, school, thrift shop...):

If these entities are not consolidated in the church's annual year-end financial reports, then **attach a copy of their financial reports or audit.**

Entity	Governed by:	Accounting by:	Audited by:

10. Is building space currently being provided to other organizations on a regular basis? If so, list those organizations in the chart below (examples include non-church operated school, AA, Boy Scouts...). Are written agreements concerning the use of the facilities and insurance certificates from the user on file?

Organization	Written Agreement on file?	Lease? If so, term:	Revenue?	Insurance Certificate on file?

11. Obtain a copy of the Parochial Report for the year being audited and compare the information with reports being audited. Explain any differences.

12. Are statements of contributions provided to parishioners? _____

How often are they provided (monthly, quarterly, annually) _____

13. Are financial reports and/or parishioner records computerized or manually maintained?

If maintained manually, what steps are being taken to become automated?

14. Briefly describe the computer system and accounting program being used.

15. For all computers used within the church:

a. Are current or duplicate copies of the operating system and programs maintained off premises?

b. Are the files backed up daily and the backups maintained off premises?

c. Is access to the computer and computer programs limited to authorized persons?

d. Is there adequate documentation, including user manuals, available on-site for all computer programs?

e. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?

f. Is there a plan for recovery of data and continuation of operations in the event of a disaster?

Section B: Current Assets

16. List all checking, savings, investment, discretionary, and entities that derive their status from the church bank and brokerage accounts. If an account is not included in this audit, explain here:

Institution	Type (checking, savings, investment)	Account #	Purpose	Current Audit Year End Bank Statement Balance

- a. Are the accounts in the name of, and addressed to, the church? _____
- b. Is the church's tax ID number used for all accounts? _____
- c. Are statements of each account available to show activity for the year?

Is the bank account reconciliation completed by someone other than the person who participates in the receipt or disbursement of cash?

If not, are the bank reconciliations reviewed and signed by someone other than the person who completed it?

d. Are bank accounts being reconciled with the books promptly after receipt?

- e. Do the reconciliation procedures provide for:
- i. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits?

 - ii. Investigation of bank transfers to determine that both sides of the transactions have been recorded?

 - iii. Investigation of all bank debit and credit memos?

 - iv. Review of all checks outstanding more than 90 days?

 - v. Are checks more than 180 days outstanding voided during the year-end reconciliation?

 - vi. Is the bank immediately notified of all changes of authorized check-signers?

 - vii. Are all journal entries for bank charges and bank account interest recorded routinely?

 - viii. Are all bank accounts included on financial reports to the Vestry?

***NOTE: You are asked to examine or test on a "Sample Basis."
The definition of "Sample Basis" is: the less number of 10% of all transactions or 25 transactions, whichever is smaller.***

17. For operating accounts, examine on a sample basis of available backup documentation (i.e., paid bills, invoices, etc.) to support disbursement and accounting of cash funds. Indicate:

a. Number of items tested. _____

b. Number of irregularities. _____
(list specific cases, if any)

18. For savings and investment accounts, examine on sample basis, activity for the period being audited. Was activity in accordance with the investment plan and appear to be in the normal course of business? If not, please comment: _____

19. Review all petty cash accounts:

- a. Is the responsibility for the petty cash fund assigned to one person? _____

- b. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund?

- c. Is adequate review made of documentation before the fund is reimbursed?

- d. Is the petty cash fund reimbursed at least monthly? _____
- e. Are check cashing and making loans to employees prohibited? _____

- f. Is the actual petty cash protected from theft or misplacement? _____

20. Review any major receivables, deferred or prepaid expenses, or other assets. Investigate, or consider confirmation of, any significant amount. List significant items: _____

Section C: Fixed Assets

21. Review methods and procedures used to report capital expenditures and equipment. Has land, buildings, property and equipment been appropriately reflected at cost on the balance sheet? _____

Has depreciation of property and equipment been recorded in the accounts? _____

22. Is formal approval of the Vestry required for all property and equipment additions and dispositions? _____

23. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:

a. Date acquired? _____

b. Detailed description? _____

c. Cost or fair market value at time of donation? _____

d. Any funding source restrictions? _____

24. Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing? _____

25. Is there a safe deposit box? _____

a. Who is authorized to enter it? _____

b. Is there an inventory of its contents? _____

26. Are permanent records such as bylaws, real estate deeds and titles kept in a safe place?

Have any deeds and titles required been examined as evidence of ownership? _____

Are they up to date? _____

27. Have bylaws been updated this year? _____

If so, **attach a copy of the updated documents.**

28. Are any liens outstanding against property and equipment? _____

Section D: Trust and Endowment Funds

29. List all trust and endowment funds (permanently restricted), including their terms and locations of the investments? If a fund is not included in this audit, please explain.

Name of Trust	Institution/ Manager	Donor documentation on file?	Restriction	Current Audit Year End Statement Balance	Current year distributions	Distributions go where?

30. Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund? _____

31. Have the agency accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed? _____

32. Is authorization for the sale and/or purchase of investments provided for by the Vestry or authorized investment committee (Investment Policy Statement)?

33. Have the Endowment Policies and Guidelines been updated this year? _____
If so, **attach a copy of the updated documents.**

34. Are all investment instruments adequately protected from fire, theft, or misplacement?

35. Is the income/dividends/interest recorded (monthly, quarterly, annually)?

36. Is the unrealized gain/(loss) recorded (monthly, quarterly, annually)?

Section E. Liabilities

37. Review the individual liabilities reported on the Balance Sheet. Are all liabilities noted on the Financial Reports to the Vestry?

38. Are operating costs (salaries, utilities, etc.) paid on time? _____

39. Is Accounts Payable being used? _____ If so, review “Accounts Payable Aging Report” and comment: _____

Are there any “held checks” (checks printed but not mailed)? _____
 If so, list and explain: _____

40. List debt sources and debt balances as of December 31st:

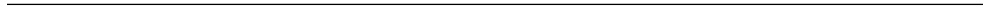
Institution	Type	Rate	Origination date	Maturity	Current Audit Year End Balance

a. Are mortgage or loan payments being made on a current basis? _____

b. Does the statement balance agree to the balance on the balance sheet? _____

c. If a Diocesan loan, does the balance agree with the Diocesan reported balances as of December 31st? _____

d. Is all borrowing or indebtedness authorized by the Vestry?



- e. Does all indebtedness involving real property have the consent of Diocesan Council and in the case of worship space, the Diocesan Standing Committee? _____
- f. Are all loan agreements and/or lease agreements in writing and properly safeguarded? _____
- g. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? _____

Section F. Cash Receipts

- 41. Review procedures and controls for cash receipts, including the collections from church services and the deposit of such monies.

- 42. Test (on a sample basis) counter sheets, deposit records, recordings of cash receipts and determine that revenues are properly recorded and appropriately classified in the financial reports. Test the procedure by following selected cash receipts from original receipt to final reporting in the financial reports. Comment on any unusual items.

- a. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?

- b. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis (e.g., at least weekly)? _____

- c. Are there at least two unrelated persons responsible for counting and depositing the collections? _____

- d. Are the persons responsible for counting receipts rotated on a periodic basis?

- e. Do the counters have a standardized form for recording the deposit information?

- f. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated? _____

- g. Is there a control prohibiting the cashing of checks from the currency received?

- h. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? _____

- i. Are all other cash receipts recorded and deposited on a timely basis? _____

j. Are all checks received restrictively endorsed —for deposit only “immediately upon receipt?” _____

k. Are all cash receipts deposited into the general operating checking account?

If not, please explain: _____

l. Are there procedures that will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded? _____

m. Are all discrepancies investigated? _____

43. Restricted income is income received for special purposes. List all restricted fund (designated fund) income categories. (Note: additions to Endowments are examined in section D. Item 29.) Examine the donor letter or trust/agency agreement for each new gift and contributions received during the fiscal year. If a fund is not included in this audit, please explain.

Source	Date Received (write 'annual' for sum of recurring gifts)	Terms Governing Use	Reporting on Use-To Whom? How Often?	Which bank account holds the funds for this category?

a. Does the Vestry or other authoritative body approve all restricted gifts and grants?

b. Are the income and other transactions periodically reported to the Vestry?

c. Are written acknowledgments issued for whom they are required? _____

Section G. Cash Disbursements

44. Review procedures and controls for the disbursement of funds from the operating account and any other accounts.

45. Determine who was authorized to sign checks during the period being audited and test (on a sample basis) cancelled checks to assure that checks were signed by authorized individuals. Note any discrepancies. _____

a. Are all disbursements made by check, except for small expenditures made from petty cash? _____

b. Are all checks pre-numbered and used in sequence? _____

c. Is there a clearly defined approval process for all disbursements? _____

d. Are all voided checks properly cancelled and retained? _____

e. Are all checks made payable to specified payees and not to cash or to bearer? _____

f. Check signing:

i. Is signing blank checks prohibited? _____

ii. Is using a signature stamp or pre-printed signatures prohibited? _____

iii. Does all supporting documentation accompany checks presented for signature? _____

iv. Are all account signers authorized by the Vestry? _____

v. Is more than one signature required for every check? _____

vi. If not, do checks for more than a certain amount \$ _____ require more than one signature?

vii. If signature imprint machines are used, are the keys kept under lock and key except when in use? _____

46. Examine (on a sample basis) supporting documentation for disbursements, including receipt of goods and approval for payment. Comment on any unusual items.

a. Are all disbursements supported by original documentation? _____

b. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment? _____

c. Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee minutes?

d. Are there adequate controls and segregation of duties regarding electronic funds transfers? _____

47. Examine (on a sample basis) the records of cash disbursements and determine that expenditures are appropriately reflected and classified in the records and financial reports. Comment on any unusual items. _____

48. Review outstanding checks. Any check outstanding for a period longer than 3 months from the Balance Sheet date should be questioned for satisfactory explanation. Note any discrepancies. _____

49. Examine the January 31st bank statement following the close of the audit year for items impacting the audit year. Comment on any unusual items. _____

Section H. Payroll

50. Examine payroll tax reports (Form 941, W-2 forms, 1099 forms, etc.) to determine that filing requirements have been met and taxes have been properly remitted. Comment on any unusual items.

51. Are personnel files maintained to include:

- a. Employment application and/or letter of employment? _____
- b. Authorizations of pay rates and effective dates? _____
- c. Internal Revenue Service Form W-4? _____
- d. State of NC Tax Form NC-4
- e. Department of Justice Form I-9? _____
- f. New hire reporting (State of NC)? _____

52. Is there a written record of hours worked, approved by a supervisor when applicable?

53. Are there adequate records to:

- a. Show computation of gross pay? _____
- b. Account for all deductions from gross pay? _____
- c. Support payroll tax returns and Forms W-2? _____

54. Was clergy compensation reported at end of year on form W-2? (Required) _____

-
- a. Was the value of life insurance premiums on coverage in excess of \$50,000 included on form W-2? (Required) _____
 - b. Was vestry approved clergy housing allowance reported or not reported in Box 14 of form W-2? (Optional) _____
 - c. Was federal income tax withheld or not withheld from compensation of clergy?

(Optional) _____

- d. Assure that Social Security and Medicare taxes have **NOT** been withheld from compensation of clergy. If they have been withheld, explain _____

-
- e. Were travel expenses of clergy disbursed on the basis of a predetermined travel allowance or an actual accounting of mileage submitted by the individual?
-

If a predetermined travel allowance was used, was that amount substantiated with actual date/mileage reporting or as required, reported on Form W-2 as taxable income to the individual? _____

55. Are pension payments up to date for all participants? _____
56. Are lay employees that work more than 1,000 hours a year covered by a CPG pension plan? (canonical requirement effective 1/1/2013) _____
57. Are lay employees that work more than 1,500 hours a year covered by a Medical Trust healthcare plan? (canonical requirement effective 1/1/2013) _____
58. Are payroll taxes being paid on a current basis and applicable payroll reports filed on time? _____
59. Has any correspondence been received from the IRS (Department of Treasury) during the year? If so, please explain issue involved and resolution: _____

60. If the parish has one or more employees (including clergy), has a workers' compensation insurance policy been obtained? (Required) _____
61. Is payroll processing outsourced? _____ If so, please list name of person or agency: _____

It is strongly recommended that all churches outsource their payroll. For more information, contact Episcopal Payroll Services at 1.800.223.6602.

62. Compare salaries paid to approved budget. Comment on any differences. _____

63. Have those non-employee individuals or unincorporated companies, who received payments of \$600 or more during the year, been issued a form 1099-MISC to report their earnings? _____

Section I. Discretionary Funds

64. Identify and list all discretionary funds and clergy positions holding these funds.

65. Are these accounts shown on the Balance Sheet of the church? _____

66. For each discretionary fund:

a. Is the account in the name of the church? _____

b. Is the church's tax ID number used to identify the account at the bank? _____

c. Examine disbursements from discretionary funds to ensure funds were used for discretionary purposes and not for operating fund expenditures. Comment on any variations. _____

d. List those individuals authorized to sign checks on the discretionary bank account. _____

Section J. Reports

67. Obtain a copy of the adjusted year-end financial statements (Revenue and Expense Report, Balance Sheet and Summary of Restricted Accounts, if applicable.) Review the financial statements and satisfy yourself that the statements appropriately account for the financial activity of the church for the year.

Attach the financial statements (Income Statement, Balance Sheet, and Summary of Restricted Accounts, if applicable)

68. Prepare an Audit Committee Certificate as a result of your review of the financial records of the church.

Attach the Audit Committee Certificate (see Exhibit A)

69. Prepare an Audit Committee Findings on Policies and Procedures as a result of your review of the financial records and the review of the internal control procedures of the church.

Attach the Audit Committee Findings (see Exhibit B)

Attach a copy of Property Insurance

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:

-
-
-

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)