



EPISCOPAL DIOCESE OF DALLAS
Annual Audits of Parish Financial Statements & Management Practices



Episcopal Diocese of Dallas Audits of Parish Financial Statements & Management Practices

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This document can be found on the web at:

<http://edod.org>

Parish Resources

Episcopal/Diocesan Documents

Episcopal Diocese of Dallas Audits of Parish Financial Statements & Management Practices

I. Introduction

The financial statements of all parishes are required to be audited annually. This is not just a good business practice; it is a requirement supported by the both the national and diocesan constitutions, canons and customary as referenced below:

The Constitution & Canons of The Episcopal Church, Adopted and Revised in General Convention 1789-2006

Canon 1.7, Section 1.a.

“All accounts of Parishes, Missions or other institutions shall be audited annually by an independent Certified Public Accountant, or independent Licensed Public Accountant or such audit committee as shall be authorized by the Finance Committee, Department of Finance or other appropriate diocesan authority.”

The Constitution and Canons of the Episcopal Diocese of Dallas

Canon 29, Section 29.4

“All accounts of Parishes, Missions or other institutions shall be audited annually by an independent Certified Public Accountant, or such Audit Committee as shall be authorized by the Department of Finance of the Diocese.”

Customary of the Diocese of Dallas

Customary II, Section A, 7.d

“An audit of the books of the congregation is required annually by Canon, and must be submitted by 1 September of each year. Audits need not be made by a CPA. A syllabus for use by congregational audit committees is available from the diocesan office. The clergy in charge of congregations are reminded that these audits protect them, as well as the congregation itself.”

If a parish has sufficient financial resources available, an independent audit performed by a Certified Public Accountant is the preferred option for meeting the annual audit requirement. However, forming an Audit Committee of parishioners with appropriate background or experience is also an option.

In an effort to assist those parishes using an Audit Committee to meet the annual audit requirement, this document has been prepared to provide directions on how to complete that task. Various resources were used in the preparation of this document including *The Manual of Business Methods in Church Affairs from the Episcopal Church USA*. Development of this document also included testing of the procedures by individuals both with and without financial backgrounds during the completion of actual parish audits. As a result, we are comfortable that this “self-audit” program will be a useful tool for the missions and parishes of the Diocese.

Although referred to as an audit, the result of this process is not an independent opinion as provided by a Certified Public Accountant.

Technical assistance in the completion of an annual audit can be obtained from the Treasurer or Assistant Treasurer of the Diocese by calling the diocesan office or emailing treasurer@edod.org.

Annual audits are to be submitted to the Diocese of Dallas Treasurer by September 1st. The audits can be mailed to Diocesan Office at 1630 N. Garrett Avenue, Dallas, Texas 75206 or can be submitted electronically to treasurer@edod.org.

II. Process Overview

- A. Audit Committee is selected. The Committee should consist of three or more people who have not been involved with the handling of accounting or financial transactions during the audit period. Thus, members of the Vestry and the Treasurer (or their immediate families) may not serve on the Audit Committee.
- B. Audit Committee conducts initial meeting with Rector, Senior Warden, Treasurer, & Bookkeeper to:
 - determine timing of audit
 - determine contact person for information requests
 - review Information Request (Exhibit A)
 - complete Internal Control Questionnaire (Exhibit B) *Negative responses indicate an opportunity for improvement, and should initiate heightened scrutiny during the audit.*
 - determine contact person for clarification of questions
 - if bank statements indicating loan balances are not available, send third party loan verification requests (Exhibit C)
- C. Once documents in B. are available, committee meets to:
 - review results of Internal Control Questionnaire
 - divide audit checklist among members of the audit committee
 - select disbursement records to be reviewed and submit request to appropriate contact person (should include at least 10% of items and 50% of dollar value)
- D. Audit Committee conducts financial (Exhibit D) and management (Exhibit E) audits, with members initialing each section as completed. The audit work papers should be kept on file with the parish administrator for one year.
- E. Audit Committee prepares recommendations and submits to the Vestry a report containing:
 - Audit Committee Financial and Management Audit Report to vestry (Exhibit F), signed by all Audit Committee members
 - Internal Control Questionnaire
- F. After Vestry approves audit results, submit to the diocese copies of the following:
 - Financial and Management Audit Report, signed by all Audit Committee members
 - Year-end Statement of Financial Position (Balance Sheet)
 - Year-end Statement of Activities (Income/Expense report or Profit/Loss report)
 - Internal Control Questionnaire
 - Minutes of the Vestry, showing receipt and acceptance of the audit

The Finance Committee of the Diocese looks forward to working with each of the congregations that elect to use this new procedure to meet the requirement for an annual audit. We also hope to benefit from your comments and feedback which will allow us to make adjustments to the program based on user experience. Please know that we are here as your resource.

On behalf of the Finance Committee

Faithfully,
Mary Sonom
Treasurer

Exhibit A
Episcopal Diocese of Dallas
Information Request for
Audit of Parish Financial Statements & Management Practices

Initial Meeting Information Checklist for Financial Audit

- The most recent audit, with work papers.
- For the audit period, copies of the standard chart of accounts, vestry minutes, finance committee minutes, budget, Sunday count sheets, pledge statements with the names hidden (listing by household of amount pledged & amounts given by date), monthly financial statements & annual financial statements (balance sheet & income statement). If vestry approval of clergy housing allowance & annual budget occurred prior to the audit period, obtain a copy of those minutes as well.
- The parochial report for the audit period, if completed.
- A list of all bank accounts & copies of all signature cards for the audit period.
- A copy of the parish's accounting policies. If this document does not exist, then one should be developed. An example is attached as Exhibit G.
- If the process whereby financial contributions move from plate or mail to bank is not documented in the accounting manual, request a meeting with the appropriate person(s) to explain the process.
- Copies of a list of transactions (including any journal vouchers) that occurred for the year in all accounts.

Initial Meeting Information Checklist for Management Audit

Parish Checklist

- List of restricted funds & rules for disbursements
- List of those who have Safe Church Training & date of completion
- Prior Parochial Reports
- Vestry minutes
- Current loan documents
- List of software on parish computers & proof of purchase

Personnel Checklist

- Organization chart
- Job descriptions
- Background checks
- Personnel files
 - W4
 - W2
 - I-9 & copies of supporting proofs of identification
 - Benefit applications
 - Attendance records
- List of those receiving 1099s
- Copies of Self Audit for Workers Comp

Initial Meeting Information Checklist for Management Audit**Procedures Checklist**

- "Key to door policy" & list of key holders
- Wedding & Funeral policies
- Youth outing policy & parental release forms
- Copy of Diocesan & Parish policies
 - Constitutions & Canons
 - Customary
 - Cash management
- Episcopal Church Manual of Business Methods

Property Checklist

- Titles to property
- Church Bylaws
- Application for Incorporation
- Plats of property
- Tax exemption filings
- City inspections
- Property Insurance policy
- Appraisal Report from American Appraisal
- Video inventory of all church property

Exhibit B
Internal Control Questionnaire

The following Internal Control Questionnaire is taken from the Manual of Business Methods in Church Affairs. It is intended to provide guidance for setting up an accounting system, a checklist for periodic review & evaluation of an existing system, & to assist a congregation's internal audit committee.

The format is a series of questions, most of which refer to some recommended internal control. The normal answer to a question will be positive. A negative response suggests an area of the system that could be strengthened.

General: The following items are intended to provide general information to aid understanding of the overall accounting & internal control system.

	Yes	No	N/A
1. Are prior internal control questionnaires & auditors' recommendations available?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Have recommendations of prior reports on internal controls been implemented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is a complete & current chart of accounts, listing all accounts & their respective account numbers, available?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Is there an accounting policy & procedure manual?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Is it up to date?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Is a current edition of this manual available?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is the accounting system using a double-entry bookkeeping method?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Have the findings of external auditors been reported to the Vestry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Budget: The development & use of a budget is a critical management tool that will aid in the stewardship & administrations of church resources & programs

1. Is the budget approved by the Vestry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are all the changes to the budget authorized by the Vestry & recorded in the minutes of the meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is there a periodic review of the budget by the Vestry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Cash Receipts: Clearly stated policies & procedures regarding the handling of cash & other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt (plate offerings or via mail) until the time the funds are counted & deposited?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are the collection receipts counted & deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e. at least weekly?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are there at least two unrelated persons responsible for counting & depositing the collections?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are the persons responsible for counting receipts rotated on a periodic basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Do the counters have a standardized form for recording the deposit information?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Are the counters' sheets retained & reconciled with actual deposits, & are all discrepancies investigated?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is there a control prohibiting the cashing of checks from the currency received (i.e. a counter takes cash & writes a check to replace it, artificially increasing the amount that counter contributes to the church?)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Cash Receipts:

	Yes	No	N/A
8. Are all of the pledge envelopes or other memoranda retained & reconciled to the recorded amounts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Are all other cash receipts recorded & deposited on a timely basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Are all cash receipts deposited into the general operating checking account?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Are checks photocopied prior to being deposited?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. 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?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Are pledge payments by household tracked & compared to their annual pledge?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Are periodic statements provided to donors of record (i.e. at least quarterly)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Are all gifts of securities (stocks, bonds) sold immediately upon receipt?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. Do acknowledgments of contributions in excess of \$250 include a receipt from the recipient organization which states that it is "the contemporaneous acknowledgment required by the Internal Revenue Code, & states that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits"?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. Are all discrepancies investigated?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

1. Are all disbursements made by check, except for small expenditures made from petty cash?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are all checks pre-numbered & used in sequence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is there a clearly defined approval process for all disbursements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are all voided checks properly cancelled & retained?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are all checks payable to specified payees & not to cash or bearer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Are all disbursements supported by original documentation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Check signing:			
a. Is signing blank checks prohibited?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Is using a signature stamp or pre-printed signatures prohibited?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Does all supporting documentation accompany check presented for signature?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Are two signatures required for all checks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. If not, do checks for more than \$500 require more than one signature?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. If signature imprint machines are used, are the keys kept under lock & key except when in use?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Cash Disbursements:

	Yes	No	N/A
9. Are all disbursements requiring special approval of funding sources or the Vestry properly documented by the Vestry or Finance Committee members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Are there adequate controls & segregation of duties regarding Electronic Funds Transfers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Journal Entries: Journal Entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important book of original entry as the cash receipts & cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are all journal entries approved by a knowledgeable authority other than the person initiating the entry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is adequate documentation maintained to support each journal entry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Bank Account Reconciliation: The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording & accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt of bank statement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do two different people perform the tasks of opening & reconciling the bank statement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Do the reconciliation procedures provide for:			
a. Comparison between the bank statement & the cash receipts journal of dates & amounts of deposits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Investigation of bank transfers to determine that both sides of the transactions have been recorded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Investigation of all bank debit & credit memos?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Review of all checks outstanding more than 90 days?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Are checks more than 180 days outstanding voided during the year-end reconciliation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Is the bank immediately notified of all changes of authorized check-signers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are all journal entries for bank charges & bank account interest recorded routinely?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Are all bank accounts included on financial reports to the Vestry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Credit Cards: These tools are very useful in parish life, but appropriate controls should be in place.

1. Is there a church credit card? If so, who is authorized to use it? (list names)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there a written policy for credit card usage?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the credit card balance paid in full every month?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. If the balance is not paid in full, why not?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Do the cardholders submit receipts on a monthly basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

	Yes	No	N/A
1. Is the responsibility for the petty cash fund assigned to one person?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are all petty cash funds maintained on an impress basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is adequate review made of documentation before the fund is reimbursed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Is the petty cash fund reimbursed at least monthly?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are check cashing & making loans to employees prohibited?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Is the actual petty cash protected from theft or misplacement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Investments: Procedures for proper recording & control of all investment instruments will help to assure that all assets & related income are accounted for & properly recorded.

1. Does the parish own stocks or bonds currently?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are all investment instruments held in the name of the church only?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the authorization for the sale &/or purchase of investments provided for by the Vestry or authorized Investment Committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are all investment instruments adequately protected from fire, theft, or misplacement, preferably in custody by a bank, broker or other financial intermediary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Is the income/dividends/interest recorded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Are all investment accounts included in financial reports to the Vestry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Property & Equipment: Certain procedures involving the physical assets of the church will aid in detecting, identifying & preventing losses.

1. Is formal approval of the Vestry required for all property & equipment additions & dispositions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is a property & equipment inventory maintained (video or document) which lists the following details:			
a. Date acquired?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Detailed description?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Cost or fair market value at time of donation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Any funding source restrictions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is a periodic review conducted to compare the actual property, furniture, & fixtures, & equipment with the recorded inventory listing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Is there a safe deposit box?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
a. Is there an inventory of its contents?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Who is authorized to enter it? (list names)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are permanent records such as articles of incorporation &, if applicable, by-laws & real estate deeds kept in a safe place?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Are they up to date?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Have there been any significant fixed asset disposals or acquisitions during the audit period?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Insurance: Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

	Yes	No	N/A
1. Is there a periodic review conducted to ensure the adequacy of the insurance coverage for:			
a. Property?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Liability?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Fidelity Bond?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Sexual Misconduct?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Directors & Officers Liability?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Workers' Compensation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there a policy related to sexual misconduct?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is there a periodic review conducted to ensure that adequate controls are in place to prevent loss?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Liabilities & Other Debt: All liabilities & other debt must be clearly reported, & all provisions or restrictions complied with.

1. Is all borrowing or indebtedness authorized by the Vestry & the appropriate diocesan board or committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are all loan agreements &/or lease agreements in writing & properly safeguarded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are all liabilities noted on Financial Reports to the Vestry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:			
a. Date, amount & donor gift?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Any restrictions or limitations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the Vestry vote to accept all restricted gifts & grants, promising to abide by restrictions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are written acknowledgments issued for whom they are required?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Payroll: The application of policies & procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities. It is strongly recommended that payroll be processed by a professional service. Questions 3, 4, 5 & 8 are necessary only if payroll is still processed in-house, whether manually or with an in-house computer software program.

1. Are personnel files maintained to include:			
a. Employment application &/or letter of employment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Authorizations of pay rates & effective dates?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Internal Revenue Service Form W4?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Department of Justice Form I-9?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Payroll:

	Yes	No	N/A
e. New hire reporting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there a written record of hours worked, approved by a Supervisor when applicable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are there adequate records to:			
a. Show computation of gross pay?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Account for all deductions from gross pay?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Support payroll tax returns & Forms W-2?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are payroll tax returns filed on a timely basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are Forms 1099 being provided for all individuals who are not employees & for all unincorporated entities paid \$600 or more annually?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Are Form W-2 wages reconciled to the general ledger accounts, & all four quarterly payroll tax returns?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Are clergy housing allowances recorded in the minutes of the Vestry no later than the first meeting of the year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Computer Systems:

1. Are current or duplicate copies of the operating system & programs maintained off premises?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is access to the computer & computer programs limited to authorized persons?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is there adequate documentation, including user manuals, available on-site for all computer programs?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Is there a plan for recovery of data & continuation of operations in the event of a disaster?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Is there a list of software on parish computers & proof of purchase?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Exhibit C
Example of Third Party Loan Verification Request

Church Letterhead or email

XYZ Agency
Any Street
Any City

To Whom It May Concern:

In connection with the annual review by our audit committee, please provide the following information concerning our indebtedness to you:

Principal Balance as of December 31, 20XX \$_____

As of December 31, 20XX, interest was paid though _____

(Add any other information needed, such as the interest rate or due date of next payment, if not available from existing records)

Please return this information directly to the chairperson of our audit committee in the enclosed, stamped envelope.

Thank you for your assistance,

Sincerely,

Name, Treasurer (or other officer title)

Exhibit D
Episcopal Diocese of Dallas
Financial Statement Audit Procedures

I. Audit Report

- Review the most recent audit report (if available) to determine if prior recommendations have been implemented.

II. Bank Statements (All Accounts – Quarter Ending 3/31, 6/30, 9/30, & 12/31)

- Review vestry minutes to ensure authorization of account signers for audit period.
- Verify that the "checkbook" is maintained in a safe place at all times.
- Ensure that Bank Reconciliation's are performed on a timely basis (within 10 days after receipt).
- Review canceled check copies for fictitious payees & proper signatures for expense level (Example: Two signatures required for amounts >\$500.) Review the signatures to ensure check signers are on approved signers list in vestry minutes. The auditor should account for all missing/voided checks.
- Outstanding items greater than three months should be investigated.
- Items greater than 180 days should be written off after attempts to rectify the outstanding items.
- Determine whether the bank fees, if any, seem reasonable.

III. Budgets

- Ensure minutes state that Vestry has approved initial budget, & any changes.
- Review budgets to actual.
- Review variances > 10%.

IV. Cash Accounts

- Verify that reconciled cash balances tie to the balance sheet. All investment & savings accounts are to be recorded in the financial statements.
- Trace amounts per the year end financials to the financial institutions statements. Reconcile any differences.
- Obtain a listing of all authorized signers on all accounts. Ensure that this list is current.
- Ensure that all accounts have two or more signers.
- Ensure a process is in place to ensure cash receipts maintained in a "safe" place prior to their deposit, including deposits received via mail.
- Review minutes to ensure approval of prior year's audit, with appropriate attachments, including a signed letter & auditors' recommendations.

V. Cash Disbursements

- Test a minimum of 10% of items & 50% of dollar value from each fund (including Ministry funds). Testing should include payments throughout the audit period & not limited to one month. All disbursements should have appropriate documentation on file. Verify that check amount matches documentation.
- Verify that payments have been properly approved &/or reviewed. If online bill payment is utilized, verify written procedures for scope online bill payment (recommended for only for utilities).
- Verify that payments have been posted to the proper funds/accounts.
- Verify that payments were not paid for personal items for use outside of the parish or parish work.
- Review January payments for items other than standard utilities that should have been paid in the prior year.

VI. Collections, including weekly deposits plus deposits to Memorials, Trusts & Endowments

- Review 20% of Count Sheets & other deposit support to ensure totals tie to bank statements.
- Trace total monthly cash receipts to the financial statements & reconcile any differences.
- Ensure two names of witnesses are documented, & that the persons responsible for counting are rotated on a periodic basis. Counters should not be related (i.e. husband & wife).
- From the list of pledges obtained in the information request (Exhibit A), select a sample containing at least 10% of the pledging units & the amount contributed. Trace these donations from the count sheets to the bank deposits to the pledge statements to ensure accuracy.
- Ensure collections are deposited in a timely basis.
- Ensure Rector/Treasurer do NOT perform the counts.

VII. Contracts

- Review all contracts & ensure compliance.

VIII. Diocesan Contributions

- Inquire of the Diocesan accounting personnel as to whether the Diocese has contributed &/or loaned any monies to the parish. If yes, ensure that they are recorded as a separate line item on the financials.

IX. Fixed Assets

- Obtain copy of fixed asset listing for the beginning & ending of the audit period. If the Internal Control Questionnaire indicated a fixed asset disposal, ensure that these items have been removed from the asset listing, & any income has been properly recorded.
- Obtain copy of the parish's capitalization policy.
- Review disbursements including repairs & maintenance to ensure that any new assets have been capitalized in accordance with the parish's capitalization policy.
- Review the fixed asset inventory & identification procedures for the parish. "Is the procedure viable & working?"

X. Financial Statements

- Obtain copies of all monthly financial statements (Balance Sheet & Income Statement) for the periods covered.
- Ensure that all restricted & designated funds (altar guild, outreach, youth group, etc.) are included in Consolidated Financial Statements.
- Ensure that all bank accounts are included on monthly financial statements.
- Review disbursements including repairs & maintenance to ensure that any new assets have been capitalized in accordance with the parish's capitalization policy.
- Review statements for format, comparison to budget, & overall ease of communication.
- Ensure vestry approval of monthly Treasurer's report, with a copy of the report attached to the minutes.
- Obtain variances for items >10% from budget, if not footnoted on financial statements.

XI. Insurance (Determine if the parish has copies of the following insurance policies, & whether someone has reviewed these documents on the parish's behalf.)

- Insurance on plant & equipment
- General liability
- Worker's Compensation (WC) – review the WC estimated audit that is required by Liberty or the WC carrier
- Treasurer's bond

XI. Insurance

- Burglary
- Fine arts
- Automobile coverage
- Liability on autos used by those on Church business but yet not owned by the parish

XII. Loan Schedules

- Obtain a schedule of all loans including bank name, account number, loan date, original amount, ending balance for the years covered in the audit.
- Obtain balance confirmation from lending agency (see Exhibit C for example letter).
- Ensure that all loan amounts are properly reflected in the balance sheet.
- Ensure parish is current on its loan obligations.
- Ensure that all loans have been properly approved by the Vestry.

XIII. Ministry or Discretionary Accounts

- Ensure proper labeling on parish documents & financial statements. These funds are to be called "Ministry Funds" in compliance with the Canons of the Diocese.
- Ensure funds are not used for personal expenditures of the Clergy.
- Ensure all ministry funds comply with EDOD Business Policy – Clergy Ministry Funds.

XIV. Non-Cash Receipts

- Ensure that the Vestry minutes reflect acceptance of non-cash (stocks, bonds, land) donations & obtain a copy of the policy for non-cash gifts. Diocesan recommendation is to sell stocks & bonds upon receipt, & not to accept gifts of land until a third party buyer has been found.
- Ensure the balance sheet reflects the fair market value of these securities.

XV. Parish Accounting Policies

- Compare topics included in the parish's existing accounting policy document to attached example (Exhibit G) to ensure completeness.

XVI. Parochial Report

- A copy of the report & instructions were mailed to Parish from New York. A copy may be found on diocesan website.
- Completed form sent to Diocesan Office by March 1.
- Membership must start with prior year ending value.
- All data required on Page two to be taken from the Church Registry.
- Average Sunday Attendance is only for Saturday & Sunday Services.
- Operating Income & Operating Expenses should be equal.
- Financial data should have agreement with Audit data.

XVII. Payroll

- Obtain copies & review quarterly 941 payroll tax returns & supporting calculations.
- Ensure that the 941 Returns were filed in a timely manner.
- Obtain a listing of all employees & verify that an I-9 & a W-4 form are on hand.

XVII. Payroll

- Trace the deductions per the W-4 form to actual.
- Review minutes to ensure designation of all clergy's housing allowance amounts (should be in minutes prior to beginning of audit period).
- Ensure that the salary paid has been authorized by appropriate personnel. Select a sample (10% is a good benchmark) of employees paid & test for salary approval, hours worked, & proper approvals.
- Ensure that the employee received either a W-2 or if a contract employee a Form 1099.

XVIII. Petty Cash

- Ideally, the petty cash should be an "imprest" account & reconciled & reimbursed monthly.
- Verify that any payments made out of petty cash are properly supported by receipts.
- Are proper approvals made by personnel other than those receiving reimbursement if no receipt is available?
- Is a "surprise" count made of petty cash at least once a year by someone who is not in charge of it?
- Perform a count of the petty cash & reconcile any differences.

XIX. Pledge Statements

- Ensure that pledge statements are sent out at least bi-annually.

XX. Restricted Funds

- Ensure that monies have been spent in accordance with their designations.
- Was the donor notified & approval in writing granted that the monies could be used elsewhere if monies have not been spent accordingly?

XXI. Reimbursable Expenses

- Does the parish have a "Check Request" form for reimbursements to laity & staff members for items purchased on behalf of the parish? If not, recommend one.
- All reimbursements should be supported by receipts & approved by appropriate personnel.
- Ensure that no one should approve their own reimbursements.

XXII. Sales Tax

- Test reimbursements to ensure that sales tax was not paid by persons buying items for the parish. This can result in a significant cost savings for the parish.

XXIII. Trust or Endowment Funds & Foundations

- Is there an active planned giving program in use at your church? If not, this should be a priority for your parish & vestry.
- Obtain a list of trust & endowment funds, including their terms & locations of the investments. (A summary paragraph of each funds' history is beneficial to the church corporate memory & ensures future compliance in terms of usage of the assets).
- Determine if there has been an examination of the deed of trust or agency agreement for each trust & endowment fund.
- Has the "agency" accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed?

Exhibit E
Episcopal Diocese of Dallas
Management Practices Audit

Parish

- List of restricted funds & rules for disbursements
- List of those who have Safe Church Training & date of completion
- Prior Parochial Reports
- Vestry minutes
- Current loan documents
- List of software on parish computers & proof of purchase

Personnel

- Organization chart
- Job descriptions
- Background checks
- Personnel files
 - W4
 - W2
 - I-9 & copies of supporting proofs of identification
 - Benefit applications
 - Attendance records
- List of those receiving 1099s
- Copies of Self Audit for Workers Comp

Procedures

- "Key to door policy" & list of key holders
- Wedding & Funeral policies
- Youth outing policy & parental release forms
- Copy of Diocesan & Parish policies
 - Constitutions & Canons
 - Customary
 - Cash management
- Episcopal Church Manual of Business Methods

Property

- Titles to property
- Church Bylaws
- Application for Incorporation
- Plats of property
- Tax exemption filings
- City inspections
- Property Insurance policy
- Appraisal Report from American Appraisal
- Video inventory of all church property

Exhibit F
Sample Audit Committee Recommendation Letter to Vestry

Episcopal Diocese of Dallas
Sample Financial and Management Audit Report

NO FINDINGS

Date:

To: The Rector, Wardens and Vestry of St. Swithin's

We have completed our inspection of the 2009 financial and management records of St. Swithin's following the Episcopal Diocese of Dallas Business Policies, "Annual Audits of Parish Financial Statements and Management Policies."

Our inspection included:

- review of financial statements and supporting documentation for the year ended December 31, 2009
- review of various management documents used in the operations of the parish.

No significant irregularities came to our attention during our inspection.

Optional: We also did follow up work on the recommendations made in the prior year inspection report. The following is a list of the status of those items:

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

Audit Committee (each person's name and signature)

Episcopal Diocese of Dallas
Sample Financial and Management Audit Report

FINDINGS

Date:

To: The Rector, Wardens and Vestry of St. Swithin's

We have completed our inspection of the 2009 financial and management records of St. Swithin's following the Episcopal Diocese of Dallas Business Policies, "Audits of Parish Financial Statements and Management Practices."

Our inspection included:

- review of financial statements and supporting documentation for the year ended December 31, 2009
- review of various management documents used in the operations of the parish.

We also did follow up work on the recommendations made in the prior year inspection report. The following is a list of the status of those items:

During the course of our inspection, the following items were noted:

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

Audit Committee (each person's name and signature)

Exhibit G
Sample Accounting Policies
THE EPISCOPAL CHURCH OF CHURCH NAME

NEED FOR POLICY: To establish controls and define the limits of authority regarding funds collected and expended on behalf of and for the welfare of the Parish Community, the following is set forth as the Cash Management Policy of the Vestry of this Parish. Certain members of a parish who have been elected or appointed to handle the funds of a parish are entrusted by that parish to be confidential and above reproach in the handling of the funds. These members should follow the rules stated herein to prevent any suggestions of improprieties. Guidelines are also needed for processing of expenditures and reimbursements. The guidelines should aid the parish in the annual audit which is prescribed by the Canon of the Diocese.

INCOME

Collections: Money collected from any worship service should be put in an office safe or other secure locked area, immediately following the service, by two Vestry members. Money collected during any special event or function should be put in the same area by two parishioners, at least one of whom should be a Vestry member. Such money should be put in a separate envelope bearing the amount and function where the money was collected. Under no circumstance, should money be taken to a home to be counted nor should relatives at the same time be involved in any of the collecting or counting of funds. Relatives should not approve the others requests or actions

Counting: The counting of funds should be accomplished each Sunday after the principal service. Christmas and Easter services should have the monies taken to a “night drop” of a bank and counted afterward as soon as reasonably possible if a secure location at the church is not available. The counting must be done by two Vestry members. If one or both of the assigned Vestry members are not available to count, an alternate Vestry member must take their place. If no alternate Vestry members are available, counting must be postponed until a time when two are available. At no time should counting be done by a Treasurer, assistant Treasurer or any other person who is not a Vestry member. All checks must be stamped “For deposit only to the *Named account of the church*”. A tally sheet of checks, cash and total amount collected should be signed by the two counters, placed in the deposit bag and a copy given to the Treasurer. If the monies can not be deposited in a bank after the collection and accounting, the monies should be placed in a secure place and deposited the next day. The person filling out the deposit slip for the collections should verify that the total deposited matches the “Talley Sheet” placed with the collection. All funds donated should remain confidential and with the donor(s) known only to the treasurer/bookkeeper.

Bank Statement Reconciliation: The Treasurer should have no involvement in the counting or depositing of funds. The Treasurer should reconcile that the counting “Tally Sheets” and the bank statement as to the amounts of the deposits are equal.’ All bank statements including Ministry Funds (Discretionary Funds) should be mailed to the church to the attention of the Treasurer.

Securities: Donations of securities (stocks, bonds, mutual funds, etc.) should be sold as soon as possible upon receipt unless directed otherwise by the Vestry. The sale must be approved by the Vestry.

EXPENDITURES

Checks: All checks must have two signatures. Authorized signatures are generally the Senior Warden, Junior Warden, Treasurer and Assistant Treasurer. Other vestry members may be signatory but must

be elected by the vestry. One of the signatures must be a Warden. The person receiving a check should not be signatory nor should they approve the request.

Authorized Signatures: Authorized signatories on bank accounts should be reviewed and approved by the Vestry on an annual basis and documented in the Vestry minutes. The Treasurer should obtain copies of the revised signature cards. The bank should be notified of the removal of signatories after the vestry has removed them.

Invoices and Receipts: All invoices and receipts submitted for payment, excluding recurring contract services and utility bills, must be attached to a Request for Reimbursement form. The form must be properly filled out and signed by the person responsible for that area in the Parish. The form then needs to be approved by one of the following: Treasurer (up to \$500), Senior Warden or Junior Warden (up to \$1000) or Vestry (over \$1000). Any request for reimbursement that is not in the budget requires Vestry approval. Reimbursements for meals of others must include the purpose of the meal and the names of the attendees

Receipts for Parish Events: All receipts for expenses related to a special event or function of the Parish should be approved and submitted for payment, using a Request for Reimbursement form, by the head of the guild responsible for the event. Event expenses should not be paid on the spot from event proceeds. The guild head may request funds for expenses in advance using the Request for Reimbursement form, up to the amount budgeted. Following the event, the guild head should make an accounting of any such advance, including receipts and any money left over.

Rector's Ministry Funds: These funds belong to the parish and not to the minister. While the rector has control of the disposition of these funds, he should maintain sufficient records to stand the test of the annual audit.

Office and Liturgical Supplies: The parish administrator and the Rector will have the sole authority to authorize expenditures of this type. Any expense over fifty dollars (\$50) must have the approval of the Rector. In the absence of the Rector, in any emergency situation, expenses in this category may be approved by the Senior Warden or the Curate.

Physical Plant: The Junior Warden may authorize maintenance repairs up to and including one thousand dollars (\$1000). The Vestry must authorize any expense in excess of that amount. In an emergency situation, the Rector and Wardens have discretion to authorize expenditures in excess of one thousand dollars (\$1000), but a full and complete report of such action, and its cause, must be made at the next Vestry meeting.

Contracts: All contracts for continuing services must be reviewed by the Chancellor, be approved by the Vestry and be signed by the Rector and one or both of the Wardens. Parish members should not be considered for contract employment. Parish members who are currently so employed are exempt from this restriction.

REVIEW AND AMENDMENT

This policy will be subject to periodic review and amendment by the Vestry and by any and all persons retained for the purpose of audit. Any change and amendments of this policy will require the approval of three fourths of the voting members of the Vestry.