

DIOCESE OF NORTHWESTERN PENNSYLVANIA
AUDIT PROCEDURE

ANNOTATED WORKBOOK FOR AUDITORS

The pages that follow have comments, guidelines, and suggestions for the questions of the Audit Procedure that has been authorized for use in this Diocese by congregations. This annotated workbook is intended to help a non-accountant who is conducting the audit. The workbook may also alert an accountant who is not familiar with The Episcopal Church to certain matters pertaining only to Episcopal congregations.

The term **Vestry** also refers to **Bishop's Committee** throughout this document.

- 1) **We want to be sure that there is financial transparency.** When the finances are accurate, transparent, and accessible, their giving increases.
- 2) **We want to be sure that there is compliance with the laws.** For example, you should make sure that all matters dealing with payroll taxes and filings are being properly done. You should make sure that all compensation paid to employees, including any bonuses or extra compensation for weddings, funerals, etc., are included in the W-2.
- 3) **We want to be sure that there is compliance with the Canons of the Episcopal Church and of the Diocese of NWPA.** For example, was the parochial report filed in a timely fashion, and was it completed in accordance with the instructions? Can you tie the year-end report of income and expenses to the parochial report? Are all organizations' accounts included in the audit in accordance with the Canon?
- 4) **We want to be sure that the Vestry is fulfilling its fiduciary responsibilities.** For example, does the Vestry receive full financial information? Are the buildings adequately insured? Is there a budget? Are Vestry and committee minutes preserved? Does the Vestry approve major expenses and note the receipt of major gifts? Is there a full report to the Annual Meeting?
- 5) **We want to be sure that basic bookkeeping is being kept up to date and that adequate internal controls are in place.** For example, are all the bank accounts reconciled regularly? Is there proper documentation for disbursements? Are the contributions records adequate? Is investment activity properly recorded and reported on?

The auditor may certainly do more than is required by these procedures.

Following are the questions from the Audit Procedures. Notes have been added when the questions are not self-explanatory. In every case in which you cannot answer a question with an unqualified "yes," you should make an explanatory comment on the last page. In most instances when you cannot answer "yes," you will want to recommend to the parish leadership that changes be made so the answer next year can be affirmative.

If you are unable to answer yes to any question below, please explain why in the comments section.

GENERAL REVIEW

1. Is audit report for previous year available? Yes___ See notes___
2. Have recommendations included in previous years' audits been implemented? Yes___ See notes___
Please note on the Comments page or in a separate letter whether the congregation has taken steps to implement previous recommendations from auditors.
3. Are Minutes for the year complete? Yes___ See notes___
4. If a Finance or Investment Committee is authorized to expend or invest funds, are the minutes of such committee meetings complete? Yes___ See notes___
You should ask to see all minutes from November of the year before the year being audited through the first months of the year after the year being audited. For example, the budget may have been approved in December of the previous year. The cleric's housing allowance resolution should have been adopted before the beginning of the year in which it was paid.
5. Review the minutes of the Vestry and such Finance/Investment Committees.
 - a) Was the budget approved by the Vestry? Yes___ See notes___
 - b) Was the housing allowance resolution voted on prior to being paid? Yes___ See notes___
 - c) Were large or unbudgeted expenditures approved? Yes___ See notes___
 - d) Were large or unusual receipts noted? Could you trace to recorded receipts? Yes___ See notes___
6. Are the financials reported to the Vestry on a monthly basis? Yes___ See notes___
7. Is balance sheet information prepared at least annually for the Vestry and congregation? Yes___ See notes___
Especially if the bookkeeping system is manual, it is very possible that no full balance sheet is ever prepared. However, the information a balance sheet contains should be given to the Vestry and the Annual Meeting. Assets include the total in all checking and savings accounts, the total in all CD and investment accounts, and amounts the parish is owed. Liabilities include the outstanding principal of all loans, mortgages and indebtedness and all accounts payable and payroll and sales taxes payable. Under the provisions of our Canons and the Laws of the state of Pennsylvania, the Vestry must receive a full report of all the parish finances at least annually.
8. Did you examine a copy of the financial report to the Annual Meeting? Yes___ See notes___
The report to the Annual Meeting should include a full report of all funds held in the name of the congregation. This includes funds held by all organizations, such as the Episcopal Church Women, etc.
9. Was the parochial report filed timely? (March 1 is the canonical due date) Yes___ See notes___
10. Are insurance records and property records complete? Are coverages adequate? Yes___ See notes___
Does the policy conform to the standard established by the Diocese?

11. Have you seen the Articles of Incorporation? Yes___ See notes___

Mission churches are unincorporated and in such cases the Diocese owns the property.

12. Is there a space use agreement and insurance certificate for each outside organization using church facilities? Yes___ See notes___

13. Have staff and volunteers attended misconduct workshops as required? Yes___ See notes___

See the revised edition of the Warranty that is part of Church Insurance's sexual misconduct rider. Congregations covered by Church Insurance need to have adopted a sexual misconduct manual. Clergy and lay employees and volunteers supervising youth activities (excluding unpaid Sunday School teachers) need to have completed the training.

14. Is the congregation in compliance with Title II, Canon 6 of the Diocese of NWPAA?

This canon refers to the maintenance requirements of official books, records and reports and the preservation of such documents in approved locations using proper retention methods.

CASH BALANCES, INVESTMENTS & INCOME

15. Have you checked to see that all operating cash accounts (including all passbook savings accounts) have been reconciled regularly throughout the year? Yes___ See notes___

*If the congregation uses a computer application, look at the reconciliation reports that should be attached to each bank statement. You need to stress that **all** accounts in the name of the church must be examined.*

16. Review all organization cash accounts (ECW, Guilds, etc.)

a) Have they been reconciled regularly? Yes___ See notes___

b) Organization accounts may not be used for general parish purposes (e.g., to receive flower donations or pay altar expenses). Are the organization accounts free of activity that should have been in the operating fund? If there was operating fund activity in these accounts, was it included in the parochial report? Yes___ See notes___

c) List any accounts that exist that you were **unable** to examine:

We strongly recommend the consolidation of all cash accounts within one general operating account.

17. Examine year-end statements of any invested funds. Are all investments properly recorded on the books? Yes___ See notes___

18. Were any restricted gifts received during the year? Have you reviewed the document detailing the restrictions? Yes___ See notes___

19. Has the congregation respected donor restrictions on all current and past gifts? Yes___ See notes___

20. Review procedures and control of plate collections, other cash receipts and deposits? Do these systems provide adequate controls? Yes___ See notes___

More than one person should be present when the Sunday offering is counted and deposited. Normally the person who records the individual contribution records should not be the same person who reconciles the bank statement. No one should be cashing checks into the offering. The entire offering should be deposited. Cash from the offering should not be used to make reimbursements or replenish petty cash.

21. Are contribution statements sent out at least twice a year? Do the statements show the pledge balance? Yes___ See notes___

CASH DISBURSEMENTS

22. Did you receive a list of authorized signatories for each account? Yes___ See notes___

23. Examine a selection of disbursements.

- a) Are there invoices (not statements) for disbursements? Yes___ See notes___
b) Are there authorizations for disbursements? Yes___ See notes___
c) Do checks have the specified number of authorized signatures? Yes___ See notes___

*Examine the documentation supporting at least 5-10 checks drawn in each of at least two months of the year. Look at large one-time expenditures, checks made out to individuals, and some from regular vendors. There should be an invoice (not a statement of account) that describes what was purchased. If it is a bill for office or maintenance supplies, for example, there should be some indication on the invoice that the items were actually received. An extraordinary item should refer to Vestry approval. If a copy of the check is not attached to the bill, the check number and date paid should be written on the bill. Payments to individuals need to be properly documented with receipts, mileage forms, etc. **Checks should not under any circumstances be made out to Cash.** For example, checks to replenish the petty cash fund should be made out to the person who cashed it: **Mary Jones/Petty Cash.***

24. Is the accounting system used adequate and properly maintained? Yes___ See notes___

This is a wide-open question because all kinds of systems are in use. Take the opportunity to see if a computerized system is possible.

All financial records should be kept in accordance with Title II, Canon 6, Section B of the Diocese of NWP.

LIABILITIES

25. Are clergy and lay pension payments calculated correctly and up to date? Yes___ See notes___
26. Are diocesan assessment and any diocesan loans current? Yes___ See notes___
27. Are utility and insurance payments current? Yes___ See notes___
28. Are any mortgages or other loan payments current? Yes___ See notes___

ALMS FUNDS

29. Is the account in the name of the church? Was it set up by Vestry resolution?
Is the church's tax ID number used for the account? Yes___ See notes___
30. Is the alms account free of operating fund activity, or if there was operating fund activity in the account, was it included in the parochial report? Yes___ See notes___
31. If the account was used for personal expenses which the IRS would consider taxable, were these amounts included in the priest's W-2? Yes___ See notes___

PAYROLL

32. Are workers properly classified as either employees or independent contractors? Yes___ See notes___

*In general employees are those who work set times at the employer's location using tools and materials supplied by the employer. Independent contractors are hired to do a job, for example to write a curriculum or put on a new roof. The employer does not set their daily work schedule, and they do not use the employer's tools and materials. Independent contractors usually submit invoices for their work. Independent contractors are **never** compensated for times they do not work—an independent contractor does not receive vacation or sick pay. Check with the diocesan finance office if there are questions. It is important to classify people correctly; the Social Security Administration wants the employer's share of the payroll tax to be paid. The PA Department of Labor and Industry also wants to know that people are properly classified as employees. The rule is that an individual is to be considered an employee and receive a W-2 unless they meet the tests to be classified as a contractor. Please also refer to the Guide to Human Resources Practices for Employees in Episcopal Churches to verify that employees are properly classified as exempt or non-exempt employees and the proper procedures are being used to record the employees actual hours worked.*

33. Are 1099s issued to independent contractors who made more than \$600? Yes___ See notes___

34. Do payroll records indicate that filing requirements were met and that withheld taxes & all employer taxes were properly calculated and remitted? Yes___ See notes___

No congregation, with the exception of small one with a volunteer financial staff, should be doing payroll in-house. The penalties are too severe if a filing deadline is missed. Encourage congregations to make the payroll and the responsibility for tax filings the responsibility of an outside agency—either the Diocesan Payroll Service or a commercial payroll service.

35. Do the salaries authorized in the budget match the amounts actually paid? Was all compensation, including any bonus, reported on the W-2? Yes___ See notes___

PAROCHIAL REPORT

36. Compare the annual report to the parochial report. Are **all** amounts entered on the parochial report in accordance with the parochial report instructions? Yes___ See notes___

If needed, refer to the instructions for the financial section of the Parochial Report and to our diocesan procedures for netting the cost of providing space from the gross amounts received for space use by outside organizations. The definitions of operating and non-operating income and expenses in the Parochial Report instructions are very clear. There should be no great difficulty in tying the report received by the Vestry and the Annual Meeting to the Parochial Report.

37. If not, has a revised parochial report been prepared and submitted? Yes___ See notes___

A revised financial page of the parochial report should be filed if you discover material discrepancies between what was reported and what should have been reported. A material discrepancy may be defined as one that amounts to 5% or more of the amount reported as Normal Operating Income (line A).

LITIGATION

38. Is there any current or threatened litigation involving the congregation? None___ See notes___

Find out about any cases where papers have actually been served and any cases that are threatened. Does the parish have appropriate legal counsel? Have there been timely communications with the insurance carrier about cases covered by liability insurance?

COMMENTS

Note in a separate letter comments about any question above that you could not answer in the affirmative. Please number your comments to correspond to the question you are commenting on.

RECOMMENDATIONS

Note here or in a separate letter any recommendations about needed improvements in systems or controls. Anything included here should be discussed with the congregation's leadership.

If you note things that you think should be improved, discuss them with the clergy and financial leaders before including them in this report. The recommendations you make should not reflect just your preferences, but should be items where

- 1) laws are being violated (e.g., not issuing 1099s or W-2s as required by law; failing to include taxable items purchased with discretionary funds on a W-2); or*
- 2) Church Canons are being violated (e.g., not including organization accounts and discretionary funds in the audit, improperly filling out the parochial report).*
- 3) a congregation is failing in its fiduciary responsibility (e.g., not reporting regularly to the Vestry, not having a budget, being inadequately insured); or*
- 4) basic bookkeeping matters are not attended to (e.g., bank accounts not reconciled, no documentation for checks, inadequate contributions records).*

AUDITOR'S CERTIFICATION

I certify: (1) that I have performed the procedures outlined above; (2) that I have noted all exceptions on this form or in an attached letter; (3) that I have included all recommendations on this form or in an attached letter; (4) that I am not an officer of the congregation being audited; and (5) that I have no conflict of interest in performing the Audit Procedure for this congregation.

Date

Auditor's signature

Auditor's telephone number

Auditor's e-mail address

Submit the completed audit report along with a copy of the balance sheet and the year-end report of income and expenses for all accounts no later than September 1st to:

The Vestry of the congregation

and also to the

*Episcopal Diocese of NWP
145 West 6th Street
Erie, PA 16501*

If you have questions or need information, please contact Mary Bowers, Assistant for Finance and Administration (800-643-2351; 814-456-4203; mebowers@dionwpa.org)