Church Name & City____________________________ Audit Report for the Year __________

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, 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.

Do note that an audit of this nature is unlikely to catch fraud unless it is especially blatant.

Following are the questions for the Audit. 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. 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.

Items Needed for Audit

The following is a list of items that need to be available in order to complete the audit:

1. Vestry minutes from November of year prior to year of audit to February of current year
2. Approved budget for fiscal year being auditing.
3. Balance Sheet as of 12/31 of fiscal year being audited
4. Financial Report as of 12/31 of fiscal year being audited as presented at the annual meeting
5. Parochial Report for fiscal year being audited
6. Insurance records
7. All Bank statements from December of year prior to year of audit to January of current year & passbook savings accounts, along with their monthly reconciliations
8. Investment statements from December of year prior to year of audit to January of current year
9. Any restricted gift documents
10. Copy of approved signers card or authorization form from the bank and investment firms for all accounts
11. All invoices paid/dated within fiscal year being audited
12. All mileage reimbursement documentation.
13. All payroll records along with the payroll tax records submitted to taxing authorities
14. Copies of pledge statements issued to contributors as requested by auditors
15. Rector's pension computation
16. All income records (ie. pledges, donations, etc.)
17. At least one copy of this workbook.

Administration

These questions relate primarily to the administration of the church and various procedures that should be in place. The Senior Warden, Priest-in-charge, Treasurer, or a member of the Vestry should be able to answer these questions. The bookkeeper may not be able to answer these questions.

1. Are the audit reports for previous years available to the auditors? Yes___ See notes___

   Check with diocesan office for the report prior to doing audit

2. Have recommendations from previous years' audits been implemented? Yes___ See notes___

   Please note on the Comments page whether the congregation has taken steps to implement previous recommendations from auditors.

3. Are Vestry Minutes for the year being audited available and complete? Yes___ See notes___

4. If a Finance or Investment Committee is authorized to expend or invest funds, are there minutes of such committee meetings and are they complete? Yes___ See notes___

   You should see at least 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___

6. Does the Vestry receive Financial reports at every meeting? Yes___ See notes___
   Diocesan Canon requires a report of the assets of the congregation and an income and expense report of the operating fund at every meeting and, as directed, a report of the income and expenses of other funds.

7. Was the Parochial Report for the audit year filed prior to the due date? (March 1) Yes___ See notes___

8. Insurance

   (a) Is a copy of the current policy available for:
   Property & Liability Yes_____ See notes_____
   Workers' Compensation Yes_____ See notes_____
   Automobile (if applicable) Yes_____ See notes_____

   (b) Are premium payments up-to-date? Yes_____ See notes_____

9. 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?

10. Is there a space use agreement and insurance certificate for each outside organization using church facilities? Yes_____ See notes_____

There are examples of these on the diocesan website. In lieu of an insurance certificate, a letter of indemnification is acceptable for individuals and unorganized entities.

11. Is the congregation in compliance with Title II, Canon 6 of the Diocese of NWPA? Yes___ See notes___

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.

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

See the current editions of the Diocesan Misconduct Policies. All clergy, lay employees, officers, members of the vestry, Sunday school teachers, and volunteers supervising youth activities need to have completed the training.

13. 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.

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

Bookkeeper

These questions relate primarily to the bookkeeping and fair reporting of the financial affairs of the congregation. An officer of the congregation may be able to provide the answers to these questions but the presence and knowledge of the bookkeeper will most likely be required.

15. 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.

16. 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.

17. 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.

18. If needed, has a revised parochial report been prepared and submitted? Yes___ See notes___

A revised financial page of the parochial report should be filed with the Diocesan office 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.

19. 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.*

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

21. 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 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.

22. 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___

23. Examination of **ALL** assets.

For each and every asset of the congregation and all of its organizations, please use the Asset Worksheet to answer the following questions:

*You need to stress that **all** checking, savings and investment accounts in the name of the church must be examined.*

a) What is the name of this asset?

b) Who controls this asset? (The Vestry, ECW, Youth Group, etc.)

c) Were you able to review the bank statements, reconciliation reports, and accounting of this asset?

d) Is the church's tax ID number used on this asset?

e) Did you receive a copy of the bank signature card (signed list) for this asset??

f) Was this asset regularly reconciled throughout the year?

g) Was this asset used correctly? (No organization account should be used for normal operating expenses. For example: a separate Altar Guild account should NOT be used for flowers, candles, bread and wine.)

h) Is any part of this asset restricted in its use? What is the restriction?

i) Is this restriction imposed by the donor or the controlling committee?

j) Have these restrictions been honored?

k) Were there any unusual receipts? What were they?

l) Were there any unusual expenses? What were they?

m) Has all activity with this asset been properly shown in the accounting records?

(see comment and discussion below)

n) Has this asset been properly shown in the Parochial Report?

o) Has this asset been properly shown in the report to the Annual Meeting?

p) What was the year-end balance of this asset. *If the balance changed significantly from the previous year, comment on this change.*

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. Have all mileage reimbursements followed IRS guidelines? Yes_____ See notes___
    a. Miles being reimbursed DO NOT include the regularly scheduled commute between work and home.
    b. The correct IRS standard business rate is used to calculate the reimbursement amount.
    c. Are any volunteers being reimbursed? Purpose of travel? Business rate or volunteer rate?

25. 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 NWPA.

    Please gather and list details of what type and version of computer equipment and software the organization is using or whether they outsource their financial services.

26. Are clergy and lay salaries reported to Church Pension Group correctly and are they up to date? Yes___See notes___

27. Are diocesan assessment and any diocesan loans current? Yes___See notes___

28. Are utility payments current? Yes___See notes___

29. Are any mortgages or other loan payments current? Yes___See notes___

Almoner

These questions relate to the use and reporting of the congregation's Alms Fund. They may require the presence and expertise of the Almoner as well as the records of the Fund.

30. Is the Alms account in the name of the church? Yes___See notes___

31. Is the church's tax ID number used for the account? Yes___See notes____

32. Did you receive a copy of the bank signature card (signed list) for each account? Yes___See notes___

33. 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___

34. 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__

35. Is the alms account reported quarterly to the Vestry/Bishop's Committee and annually at the Annual Meeting of the congregation? (Canon 11.G) Yes___ See notes__

AUDITORS COMMENTS

Note on Audit Report sheet comments about any question above that you could not answer in the affirmative. Use additional sheets as necessary.

AUDITORS RECOMMENDATIONS

Note on the Audit Report sheet 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 alms 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).*

Submit the completed audit report along with a copy of the **Balance Sheet** and the year-end R**eport of Income and Expenses** for all accounts no later than September 1st to:

The Priest-in-charge and the Vestry of the congregation

and also to the

Episcopal Diocese of NWPA

145 West 6th Street

Erie, PA 16501

IF YOU HAVE QUESTIONS OR NEED INFORMATION, PLEASE CONTACT CINDY DOUGAN, CANON FOR FINANCE

(800-643-2351; 814-456-4203; cdougan@dionwpa.org **)**

#	Yes	No	Notes
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8b			
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23			Use Separate Asset Worksheet
24a			2014 Business Rate = .56 per mile
24b			
24c			

#	Yes	No	Notes
25			Accounting System Used:
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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

______________________________ ______________________________

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______________________________ ______________________________

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