



The Episcopal Diocese of Fort Worth

AUDIT GUIDELINES FOR CONGREGATIONS

July 2020

INTRODUCTION

1. PURPOSE:

These audit guidelines were developed to assist auditors in performing the annual audit of the books of account of the congregations of the Episcopal Diocese of Fort Worth.

2. REASONS FOR AN AUDIT:

Annual audits are required by the Episcopal Diocese of Fort Worth for all parishes and missions. The primary purpose of an audit is to assure that financial statements are fairly stated. Any person handling the monies or investments of the church needs an audit to protect the church assets and him/her against suspicion of mishandling those assets. Similarly, rectors, vestries, vicars, bishop's committees, treasurers, and other persons in positions of responsibility may be liable for any losses which would have been discovered by an ordinary audit but were not discovered because they failed to have an audit conducted.

In addition, an announcement to the congregation that a completed audit reveals that all monies and investments are properly accounted for will have a positive impact on stewardship.

3. APPROVED AUDITORS:

The canons permit the auditing of congregational accounts by "an independent Certified Public Accountant", by "an independent licensed public accountant", or by "such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority."

a. CERTIFIED OR LICENSED PUBLIC ACCOUNTANT:

Very often the complexity and/or size of congregations necessitate an independent examination and reporting on their financial statements. These firms offer several levels of service. These include the audit, the compilation, and the review. A review nor a compilation is acceptable in place of an audit of a parish or mission, every other year.

b. AUDIT COMMITTEE:

Audit committee members should be independent of the decision making and financial record keeping functions of the congregation. The members of the audit committee should have sufficient financial skills and experience to conduct a competent audit.

An audit committee may consist of two or more individuals. A typical audit committee has three members. The actual number of members should be determined by the size and scope of the audit.

4. SCOPE:

The scope of the audit shall include:

- a. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.
- b. Verification (or preparation) of financial statements.
- c. A review of management control practices.

5. ACCOUNTS TO BE AUDITED:

All accounts must be audited. The audit requirement covers not only the operating accounts of the organization, but also all its restricted, endowment, and property funds, and the accounts, if any of its organizations. No church money is exempt from the requirement of an audit. If a separate auditor has audited an account of a separate treasurer, the report should be included in the consolidated financial statements.

6. OBJECTIVES OF THE AUDIT:

The major objectives of an audit of a congregation are to ascertain the following:

- a. That the various transactions during the year are proper and are documented appropriately (i.e. authorized, complete and accurate);
- b. That the various transactions during the year are recorded in the proper amounts and in the proper accounts;
- c. That the assets, liabilities, income and expenses, which should be in the financial records, are so shown in the proper amounts and in the proper accounts;
- d. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and
- e. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.

7. TIMING OF THE AUDIT:

The Canons call for a church fiscal (i.e., financial) year ending on December 31 of any given year.

8. CONTENTS OF THE AUDIT:

The auditor is responsible for submitting an audit report to the Vestry of the church. The Audit Report shall consist of:

- a. The Audit Committee Certificate;
- b. A complete set of financials for the year ending December 31.
- c. Completed Audit Program Checklist; and

- d. The Audit Committee Findings on Policies and Procedures.

9. FILING OF THE AUDIT:

- a. Prior to actual delivery of the audit report, the Vestry should issue a letter to the auditor stating that all records have been available for audit and there are no funds omitted.
- b. Upon completion, the Audit Committee shall present the audit report to the Treasurer, Rector, and Wardens.
- c. Any findings and recommendations should be presented in the Audit Committee Findings on Policies and Procedures, not in the Audit Committee Certificate. These items will be discussed with the Treasurer or other responsible persons and within 30 days their written response, attached to the audit report, is presented to the Vestry.
- d. The Vestry receives the audit report upon completion.
- e. A copy of the audit report should be filed with the Bishop, not later than 30 days following its completion and never later than September 1 of each year, covering the financial reports of the previous calendar year. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Bishop.
- f. If, at any time during the audit, the records suggest that something is seriously wrong, the matter should be brought immediately to the attention of someone of superior authority, as well as the appropriate diocesan authority.

Audit Committee Certificate

(This is available as a WORD document for editing
visit <http://www.fwepiscopal.org/resources/churchoffice.html>)

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 Episcopal Diocese of Fort Worth.

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 the net assets and its cash flows for the year then ended are in accordance with the principles authorized by the Episcopal Diocese of Fort Worth.

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)*

Audit Committee Findings on Policies and Procedures

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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)*

Audit Program Checklist

1. *General:* The following suggested procedures are merely acts that can be used to determine the appropriateness of the financial statements presented. An audit is a series of procedures to test, on a predetermined selective basis, the various transactions occurring in the year under examination. It is unrealistic to examine every transaction for the year. Therefore, certain tests are necessary to verify the reasonableness of all transactions.

2. *Pre-Audit Needs:*
 - a. Obtain a preliminary understanding of the accounting systems (both manual and computer) that generate significant financial statement items and of related principal internal accounting controls.

 - b. Obtain copies of the minutes of the Vestry meetings for the period under examination. This should include the minutes of any committee authorized to receive and disburse monies. Read the minutes regarding the election of officers, compensation of personnel, bonding of the treasurer, budget approvals, contracts entered into, items purchased, monies borrowed, purchase and sale of securities, resolution confirming clergy housing allowance for tax purposes, etc. This should be done before the actual examination of any accounting records. You may need to see the minutes of the previous year if they contain authorizations for expenditures in the year being audited.

 - c. Obtain a copy of the previous audit complete with the Committee Audit Findings on Policies and Procedures. This provides a firm set of starting balances which may differ from the Treasurer's reports. It will also offer the chance to check on the progress of corrections of management control deficiencies, an important part of the teaching process.

 - d. Obtain a copy of the annual financial statements as prepared and presented by the treasurer.

 - e. Review the procedures being used to account for church monies. Identify by name and position the individuals with responsibility for financial operations and decisions and verify with them that all the funds of the congregation are included in the statements.

 - f. Identify all bank accounts and authorized check and withdrawal signers, including those under separate treasurers.

 - g. Request that all accounting records of all funds be presented together including:
 - 1.) Chart of Accounts and Organization Chart
 - 2.) General Ledger
 - 3.) Cash Receipts Journals
 - 4.) Cash Disbursements Journals

- 5.) Bank Statements including canceled checks
 - 6.) Paid Invoices
 - 7.) Individual payroll records including Forms W-4 and I-9
 - 8.) Federal and State payroll withholding reports
 - 9.) Passbooks and evidence of other investments
 - 10.) Pledge Records by individual and total
- h. Meet with members of the Finance Committee to discuss the annual financial statements. Inquire about the occurrence during the year of any significant matters of which the auditor should be informed. Also, inquire into significant variances noted on the financial statements.
 - i. Request a location in which to perform the audit. The audit can be more thoroughly and efficiently performed if it is conducted where the records are located.

3. **Receipts:**

- a. Plate offerings: Cash receipts journal entries should be traced to weekly cash receipts records on a test basis.
- b. Pledge receipts: Pledge receipts should be verified by tracing cash receipt entries to individual pledge records on a test basis.

A minimum of 10% of postings should be traced. Results will indicate if a broader sampling is necessary.

Adding machine tapes should be made of the individual pledge records with the total agreeing with the total pledge payments reported.

If the auditor is engaged before year end and if the church sends statements to the pledgers, the auditor can save time and effort by supervising the mailing of the year end statements. The auditor can then use this mailing to obtain direct confirmation.

The auditors should always review the pledge receipts of the congregation personnel involved in money transactions.

The decision regarding the size of the representative sample of postings and pledge records for examination depends on the dollars involved and the sophistication of the parish records.

- c. Contributions from congregation organizations: Receipts must be listed separately for each organization and amounts entered in the cash receipts journal, traced to the weekly cash receipts records. These listed amounts shall be confirmed with their sources.
- d. Contributions from the Diocese: Receipts must be listed and amounts entered in the cash receipts journal, traced to weekly cash receipts records.

- e. Investment and endowment income: Income from securities should be verified by an examination of the brokerage house statement. Income from investment accounts should be verified by an examination of the statements provided or confirmed by the trustee or agency. Income from savings bank deposits should be confirmed by the bank.
- f. Restricted income: Income received for special purposes should be noted by the auditor who should trace the cash receipts journal entries to the weekly cash receipts records. The auditor should also be satisfied that the income was used for the purpose for which the gift was made.
- g. Non-income receipts: Verify all cash receipts journal entries by tracing them and ascertaining that the proper authorization has been given for any transfer or inter-fund borrowing, or for the sale or redemption of any investments or property.
- h. All cash receipts records should be traced to duplicate deposit slips or bank statements to ascertain that these receipts are deposited intact.
- i. Petty cash: The auditor should be satisfied that a proper system is being maintained. Petty cash is not to be used to cash personal checks. Cash flow and size of fund over audit period should be checked for possible misuse.
- j. All receipts should be compared to budgeted amounts and material variances should be explained.
- k. Verify the totals in the cash receipts records for two to three months. Check posting of monthly totals to the general ledger or to the monthly financial statements.

4. *Disbursements:*

- a. Tests are to be made to satisfy that disbursements have been accurately classified, and that invoices supporting the disbursements have been properly approved and canceled or marked "PAID".
- b. The committee must be familiar with the financial statement expenditure categories listed on the congregation's chart of accounts.
- c. All disbursements should be compared to budgeted amounts and material variances should be explained.
- d. Testing of Disbursements: Select a sample of disbursements. A minimum of 10 percent of postings should be traced. Results will indicate if a broader sampling is necessary. Test the disbursements to invoices as follows:
 - 1) Compare invoices with the recordings in the cash disbursements journal for a sufficient number of items to assure the committee that they are

fairly recorded and classified. Comparison should include vendor's name, date and amount billed.

- 2) Examine invoices for verification signature that the items were received or services performed for a sufficient number of items so the committee may be satisfied that goods and services were acknowledged by a person authorized to do so.
 - 3) Check the arithmetic on invoices and vendors' monthly statements for a sufficient number of items to assure the committee that invoiced amounts were properly recorded on the statements.
 - 4) Travel and business expense reimbursement should be checked to see that they are in accordance with the qualified reimbursement policy of the congregation.
- e. Verify the totals of the cash disbursements records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.

5. ***Bank Accounts:***

- a. The committee should ascertain the number of bank accounts maintained and the purpose for which each is maintained.
- b. The committee should examine the canceled checks for:
 - 1) Authorized signature(s)
 - 2) Proper endorsement
 - 3) Comparison with the cash disbursements journal for proper recording of payee and amount. If fewer than ten checks are written each month then all items should be examined. If more than ten per month, a random sampling of two to three months would suffice if a good system of accounting were evident.
- c. The auditor should account for all voided checks.
- d. Outstanding checks from the previous period should be examined to determine proper bank clearing and amount. Any check outstanding for a period longer than three months from the balance sheet date should be questioned for satisfactory explanation.
- e. The auditor should verify bank balances at the end of the period being audited and should check that the closing cash amount is correctly stated.

Examine the January bank statement following the close of the audit year for items impacting the audit year.

- f. Determine whether transfer of funds occurred between bank accounts near the date of the Statement of Financial Position. Determine that the transfers were recorded in the books in the same accounting period and that any transfers not recorded by the bank in the same accounting period appear in the appropriate bank reconciliation.

6. *Investments:*

- a. Obtain or prepare a list of securities owned showing:
 - 1) The description of each security
 - 2) The serial number of bonds or securities
 - 3) The denomination of each security or its par value
 - 4) The interest rate of each bond
 - 5) The cost of each security and the amount recorded on the books
 - 6) The interest and dividends received during the year
 - 7) The market value of each bond or security as of December 31 of the year being audited.
- b. Review the investment summary for reasonableness, consistency of amounts between years and obvious omissions.
- c. Compare the securities listed with ledger accounts and/or with the statement. Whenever practicable, serial numbers should be compared with records of security purchases or gifts in order to obtain positive identification and to avoid the possibility of substitution.
- d. Examine securities listed or obtain confirmation from the holders if any are held by depositories. It is preferable for this examination to occur as close to the examination date as possible. Insure that the securities are registered in the name of the congregation or are endorsed appropriately to be transferable to the congregation. Examine the coupons on bonds to ascertain that unmaturred coupons are intact.
- e. Examine all transactions for verification of acquisitions and disposition.
- f. Trace acquisitions to disbursement records and sales (dispositions) to receipts records.
- g. Examine broker statements and compare with investment ledger where applicable.
- h. The auditor should be satisfied that the securities are being adequately safeguarded.
- i. Examine securities for ownership, certificate number, dates, endorsements, assignments, etc.
- j. Verify any income that has not yet been distributed.
- k. Determine, by reference to dates of purchase and disposal of investment, interest rates and published dividend records, whether income earned and accrued income receivable have been appropriately recorded.

7. *Restricted Funds:*

- a. Obtain or prepare a list of restricted funds showing:
 - 1) The 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, and
 - 4) How the funds are to be invested.
- b. Examine the donor letter, or trust or agency agreement, for each new gift and contribution received during the fiscal year.

8. *Loans:*

- a. Obtain or prepare a schedule of all loans to include:
 - 1) The name of the lending institution
 - 2) The date or origin
 - 3) The original amount of loan
 - 4) The interest rate and payment schedule
 - 5) The monthly payment
 - 6) The unpaid balance
 - 7) The purpose of loan
 - 8) The authorizing body
 - 9) The collateral for the loan
 - 10) The restrictions placed by the lender
- b. Review balances for reasonableness, consistency of amounts between years and obvious omissions.
- c. Determine that any loans from the year being examined had the proper authorization and were recorded in the minutes of the Vestry or mission committee.
- d. Verify, by direct communication with any lender, the outstanding indebtedness at the year-end as well as the terms of the indebtedness.
- e. Reconcile the unpaid balance of all loans as reported by the congregation records to the figure reported by the lending institutions.

9. *Property and Equipment:*

- a. Obtain a list of fixed assets of significant amounts showing the cost and date of purchase, if known.
- b. Review balances for reasonableness, consistency of amounts between years, and obvious omissions.
- c. Examine all the deeds and titles of ownership related to the properties owned by the congregation. Review them for the proper recording of the name of the owner and to determine if any encumbrances or liens exist.

- d. Determine if any inventory identification procedure is in effect.
- e. The congregation must have a physical inventory of capital assets. A sampling test of this inventory is to be made by the committee.
- f. Ensure that all property and equipment is adequately insured.
- g. If depreciation of property is recognized, review entries for accuracy.

10. Payroll Records:

- a. Examine the individual earnings records for name, address, social security number, number of exemptions, rate of pay, and effective date.
- b. Ensure that the salary paid is authorized and proper by comparing with the amount budgeted.
- c. Trace the individual earnings record postings to the check register.
- d. Reconcile total wages paid and total withholding taxes with the quarterly Form 941 and end-of-year Form W-3, checking that they were remitted on time.
- e. Determine if a current signed Federal Form W-4 and a Form I-9 (Immigration and Naturalization Service) is on file for each employee hired after November 6, 1986.
- f. Determine if a Form W-2 has been given to each employee (including the clergy) and that the Forms W-2 are correct and properly filed.
- g. Determine if Forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid \$600 or more annually and all recipients of educational scholarship funds of \$600 or annually.
- h. Test the payroll to be sure that a real employee exists for every payroll check written.

11. Receivables and Payables:

- a. Prepare a schedule of accounts receivable as of the date of the Statement of Financial Position. These may include pledge payments which were made after the end of the year in which the money was pledged or authenticate obligations owed to the congregation at year end.
- b. Prepare a schedule of accounts payable as of the date of the Statement of Financial Position. These may include monies owed by the congregation to vendors at year-end for goods and services received during the year being audited. Discuss with the treasurer any old or disputed payables.

12. *Insurance:*

If not covered under the master policy of the Episcopal Diocese of Fort Worth, a schedule should be prepared listing the name of carrier, description of coverage, period of insurance, premium amount and date of premium payment for the following policies which the committee is to review and that coverage complies with the minimum standard required by Episcopal Diocese of Fort Worth.

- a. Fire insurance on buildings and equipment
- b. General Liability (Public Liability and Property Damage)
- c. Burglary
- d. Fine Arts
- e. Malpractice
- f. Worker's Compensation
- g. Fidelity Bond
- h. Automobile coverage on cars owned by the congregation
- i. Non-ownership liability insurance for cars owned by others when used for congregation business
- j. Directors' and Officers' Liability
- k. Umbrella Liability
- l. Other special policies held by the church

13. *Discretionary Fund:*

Check that the discretionary fund is in the congregation's name, that the congregation's Federal Employer's Identification Number is the number used to identify the account at the bank, and that the fund has not been used for operating fund expenses or for the personal expenses of the clergy. If a separate checking account has been authorized, all monies for the discretionary fund must pass through the congregation's general bank account and subsequently a check should be written to transfer the monies to the separate discretionary fund checking account.

14. *Work Papers:*

The committee should retain a file of the work papers that were prepared during the audit. When the next year's audit is performed, these papers could be an invaluable guide. The next auditor should be provided with a copy of the work papers. These work papers should include such things as: the complete audit and internal control check lists; lists of bank accounts, restricted funds, investments, insurance accounts and loans; the schedules prepared; the procedures followed in performing the audit and memoranda describing significant issues raised during the audit.

15. *Audit Committee Certificate:*

The Audit Committee Certificate states that steps have been taken to ensure that the financial statements are presented fairly in all material respects. The Audit

Committee Certificate should identify exceptions when the audit committee questions any aspect of the financial statement.

(This is available as a WORD document for editing visit <http://www.fwepiscopal.org/resources/churchoffice.html>)

16. *Audit Committee Findings on Policies and Procedures:*

The Audit Committee should comment in a separate letter to the Vestry regarding the internal control procedures in effect at the congregation. This letter should be made a part of the minutes. **(This is available as a WORD document for editing visit <http://www.fwepiscopal.org/resources/churchoffice.html>)**

Exceptions to adequate procedures should also be noted in these comments. Repeat items from previous years should be noted. Good business practices and policies, as well as safeguards, should be recommended. A copy of this letter should accompany the audit report