Diocese of Newark
Diocesan Policy on Financial Audits
Alternative Audit Procedures – Audit Checklist

The pages that follow have comments, guidelines and suggestions to assist auditors in using the Audit Checklist that has been authorized for use in this Diocese. This Audit Checklist is intended to help a non-accountant who is participating in the conduct of the audit. The Audit Checklist and comments may also alert an accountant who is not familiar with the Episcopal Church to certain matters pertaining only to Episcopal congregations.

Unlike an audit according to generally accepted auditing principles, this procedure provides for an independent overview of the financial and business procedures and policies of a local congregation and includes the following objectives.

1) 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.

2) We want to be sure that there is compliance with the Canons of the Episcopal Church and of the Diocese of Newark. For example, was the parochial report filed in a timely fashion, and was it completed in accordance with the instructions? Can you tie the Annual Report to the parochial report? Are all organizations' accounts included in the audit in accordance with the Canon?

3) 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? If an endowment or other special fund is relied on to fund operating deficits, is this being made clear in the regular reporting?

4) 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 is the Audit Checklist. 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 probably want to recommend to the parish leadership that changes be made so the answer next year can be affirmative.

Name of Church: ☐ **City:** ☐

Year: ☐ **Basis:** ☐ **Cash** ☐ **Modified Cash** ☐ **GAAP/Accrual**

NOTE: If you are unable to answer yes to any question below, please check "See notes" and explain why elsewhere or in an attachment to this Audit Checklist.

GENERAL REVIEW

1. Is audit report (whether Independent or Alternative) for prior year available? Yes ☐ See notes ☐

2. Have recommendations included in previous years' audits/alternative audit procedure checklists been implemented? Yes ☐ N/A ☐ 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. a) Are Vestry minutes for the year complete? Yes ☐ See notes ☐
   b) If a Finance or Investment Committee is authorized to expend or invest funds, are the minutes of such committee meetings complete? Yes ☐ N/A ☐ See notes ☐

   Applies to questions 3 and 4: 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 clergyperson's parsonage allowance resolution should have been adopted before the beginning of the year in which it was paid.

4. 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 parsonage allowance voted prior to being paid? Yes ☐ N/A ☐ See notes ☐

   c) Were large or unbudgeted expenditures approved? Yes ☐ N/A ☐ See notes ☐

5. Are monthly financial reports to the Vestry complete? Yes ☐ See notes ☐

6. Is balance sheet and income & expense 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. Most small churches will not have capitalized the value of their land, buildings, and equipment, and that is acceptable; if a value is shown it can be the amount of the most recent insurance appraisal. Liabilities include the outstanding principal of all loans, mortgages and indebtedness and all accounts payable and payroll and sales taxes payable. A copy of the Balance Sheet (or a listing of assets and liabilities) and the Income & Expense Statement must be attached to the completed audit package.

7. 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.

8. The Diocese has determined that the coverages and limits provided to those churches insured by the Church Insurance Company meet the minimum standards of appropriate coverage.

   a) Is insurance provided by Church Insurance Group? Yes ☐ No ☐ If not, by whom?

   b) Has coverage been reviewed in the last three years? *Yes* ☐ *See notes* ☐

   c) Does the policy include Directors' & Officers' insurance? *Yes* ☐ *See notes* ☐

9. Have you seen the Articles of Incorporation and the By-laws? Yes ☐ See notes ☐

   If unincorporated, suggest the Vestry review the pros and cons.

10. a) Is there a space use agreement and insurance certificate for each outside organization using church facilities? N/A ☐ Yes ☐ See notes ☐

    b) If the rectory is leased to an outside party, or any other church property is leased for a period exceeding one year, did the Standing Committee approve the lease?
    N/A ☐ Yes ☐ See notes ☐

CASH BALANCES, INVESTMENTS & INCOME

11. 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 Quicken or another 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.*

12. Review all organization cash accounts (ECW, Guilds, Rector's Discretionary Fund, etc.)

    a) Have they been reconciled regularly? Yes ☐ See notes ☐

    All cash accounts are to be audited, and all bank accounts are to be reconciled each month. You should ensure that bank reconciliations are performed timely and that any reconciling items are addressed and corrected.

    b) Organization accounts may not be used for general parish purposes (e.g., to receive flower donations or pay altar expenses). Are all organization accounts included in the operating fund? Yes ☐ See notes ☐

    c) If there was operating fund activity in these accounts, was it included in the parochial report?
    Yes ☐ N/A ☐ See notes ☐

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

    Obtain an explanation as to why any accounts were unable to be examined.

13. Examine year-end statements of any invested funds. Are all investments properly recorded on the books? If any significant transfers in or out of invested funds have occurred during the year, have they been reviewed for proper treatment? Yes ☐ See notes ☐

14. Were any restricted gifts received during the year? Yes ☐ No ☐ See notes ☐

    The balance sheet or listing of assets should indicate the assets that are restricted.

15. Does the congregation have a process to ensure that it respects donor restrictions on all current and past gifts? Yes ☐ See notes ☐

16. Review procedures and control of plate collections, other cash receipts and deposits? Do these systems provide adequate controls? Test six weekly count sheets to be sure that they have been correctly posted to the financial records. Yes ☐ See notes ☐

You should make your selections from several different months in the year. More than one person should be present when the Sunday offering is counted and deposited. If at all possible, 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.

17. a) Are contribution statements sent out at least quarterly? Yes ☐ See notes ☐

    b) Do the statements show the pledge balance? Yes ☐ See notes ☐

We strongly recommend that contribution statements with pledge balances be sent quarterly both as a way to encourage your parishioners to stay current with their pledge and as a timely way to identify pledge payments that have been lost, misapplied or misappropriated.

DISBURSEMENTS

18. Did you receive a list of authorized signatories for each account? Yes ☐ See notes ☐

19. Examine a selection of disbursements (as specified below).

    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 ☐

At a minimum, you must examine the documentation supporting the two largest non-routine disbursements each month as well as one other payment each month chosen at random. There should be an invoice (not a statement of account) that describes what was purchased. If it's a bill for office or maintenance supplies, for example, there should be some indication on the invoice that the items were 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****.*

20. 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. For small parishes, especially if contribution records are maintained manually (preferable if there is no paid office staff), Quicken Basic may suffice. You may also recommend to the church that they talk with neighboring churches about their accounting system.

21. What accounting system (e.g. ACS, Quickbooks) is used?

22. While bookkeeping duties do not need to take place at the church, all financial records must be stored at or electronically accessible from the church. Are they? Yes ☐ See notes ☐

LIABILITIES

23. Are clergy and lay pension payments calculated correctly and up to date? Yes ☐ See notes ☐

    Minimum requirements can be found on the diocesan website.

24. Are pledge payments to the diocese and any diocesan loans current? Yes ☐ See notes ☐
25. Are utility and insurance payments current? Yes ☐ See notes ☐
26. Are all mortgages and/or other loan payments current? N/A ☐ Yes ☐ See notes ☐

    Verify that the diocesan pledge and any Diocesan loans due at year end reconcile to either the year end Diocesan pledge statement and loan statements or Diocesan records at year end.

RECTORS' DISCRETIONARY FUND

27. Does the rector have a discretionary fund? If not, skip to question 30. Yes ☐ No ☐
28. Is the account in the name of the church? Yes ☐ See notes ☐
29. Was it set up by Vestry resolution? Yes ☐ See notes ☐
30. Is the church's tax ID number used for the account? 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? N/A ☐ Yes ☐ See notes ☐

    If necessary, see the guidelines available in MANUAL OF BUSINESS METHODS IN CHURCH AFFAIRS, Chapter V. As with all cash accounts, it is a requirement that all discretionary funds be audited.

PAYROLL

32. Were 1099s issued to contractors who made more than $600? N/A ☐ Yes ☐ See notes ☐
33. Do payroll records indicate that filing requirements were met and that withheld taxes & all employer taxes were properly calculated and remitted? Yes ☐ See notes ☐
34. Payroll services not only process the payroll, but also remit all payroll taxes to federal and state taxing authorities, file all monthly, quarterly and annual filings and issue W-2s. The Diocese strongly suggests that all churches, regardless of size and number of employees, use an outside payroll service. Does the church use an outside service? Yes ☐ See notes ☐
35. If so, what payroll service is used?
36. 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 ☐
37. If a clergy member lives in a rectory, were the mandated Housing Equity Account contributions made to a CPG/Fidelity 403(b) account for that clergyperson? N/A ☐ Yes ☐ See notes ☐

PAROCHIAL REPORT

38. 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. Pay particular attention to how rental income is reported (gross rentals are to be reduced only by ***incremental*** *expenses incurred as a direct result of the rental income), as well as transfers of money from endowment and investment accounts (all amounts used to cover operating expenses are to be*

included in operating income on the parochial report). The definitions of operating and non-operating income and expenses in the Parochial Report instructions are clear, but questions may be referred to the Chief Financial Officer of the Diocese. There should be no great difficulty in tying the report received by the Vestry and the Annual Meeting to the Parochial Report.

39. If the figures don't reconcile, has a revised parochial report been prepared and submitted as a recommendation for action by the Vestry? As a minimum, have suggestions been made for the Vestry to consider in future submissions? N/A ☐ Yes ☐ See notes ☐

It is recommended that a revised financial page of the parochial report 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) and Subtotal Operating Expenses (line E).

LITIGATION

40. Is there any current or threatened litigation involving the congregation? No ☐ See notes ☐

COMMENTS (NOTES)

Note here or 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.

Question Comment

RECOMMENDATIONS

Note in the Audit Report and Findings any recommendations about needed improvements in systems or controls. All findings and recommendations should be reviewed with the Rector, Wardens, Treasurer and vestry.

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).*

Checklist completed by: _____ _____

Printed name Signature