



the
episcopal diocese
of san diego

fearless love

ANNUAL CONGREGATIONAL AUDIT WORKBOOK
FOR AUDIT YEAR 2014

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The Episcopal Diocese of San Diego
2083 Sunset Cliffs Blvd., San Diego, California 92107
January 31, 2015

Dear Rector/Vicar/Priest-in-Charge and Senior Warden,

Enclosed is the audit program to facilitate your Annual Congregational Audit for the year 2014. As you know, the audit is a requirement of The Episcopal Church Canons (Canon 7.1.f) and a best business practice. The diocesan audit guidelines are on the next page of this book. These guidelines state what type of audit your church should have for the 2014 calendar year.

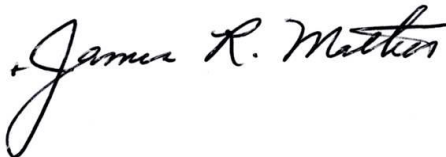
The notebook is sent to you so that it may be completed as instructed. For those congregations using independent public accountants to audit their accounts, you will find instructions as to what to submit in addition to the audited financial statements and auditor's reports. Where an audit committee of the congregation is used to conduct an internal audit or audit exchange, the notebook is intended to assist the committee with the church audit. When your audit is complete, we ask that you return the workbook with all the requested items to us.

We recognize that your audit sometimes becomes a tedious and burdensome task. The audit program was designed by the Diocesan Audit Standards Task Force to provide the church audit committees with a clear step by step process which is intended to clarify what is required of them. The information requested is important for diocesan oversight and for the effective management of your church.

Please let us know who the members of your audit committee are and what type of audit you are using by April 15, 2015 on the form provided on page 8. The final date for submission of the completed audit is September 1, 2015. If there are questions that we can help with, please contact Rosa Feeney at rfeeney@edsd.org or 619-481-5457. After you have completed the audit, we welcome your comments as to any changes in procedures that you would suggest. Your comments and suggestions will help us plan for next year.

In addition to the audit notebook, we ask that your 2015 budget and 2014 year end financials be submitted with your parochial report which is due on March 1, 2015.

Faithfully,



The Right Rev. James R. Mathes
Bishop

Audit Standards

**Approved by Executive Council of The Episcopal Diocese of San Diego
December 7, 2013**

All churches will conduct an annual audit. A committee audit is required **unless** a different type of audit is required by the guidelines stipulated below.

Requirements for external audits are based largely on annual revenue. *Revenue includes all revenue from church, school, thrift shop or any other parochial organization.*

- Churches with revenues greater than \$2 million: Every other year with audit review in intervening year
- Churches with revenue between \$1.5 and \$2 million: Every third year with audit reviews in intervening years
- Churches with revenue between \$1 and \$1.5 million: Every fourth year with an audit review in one of the intervening years
- Churches with revenue between \$500,000 and \$1,000,000: Audit or Audit review every fourth year with diocesan review in one of the intervening years
- Churches must have an external audit or external audit review combined with a diocesan review for the year in which a rector, vicar, or priest in charge leaves

Churches with any of the following are subject to a Diocesan audit team review:

- Every 4th year for churches with less than \$500,000 in revenue
- During administrative transition (part time clergy, treasurer, church bookkeeper/administrator unless an external audit was done within the last year.)
- Churches that did not submit any audit in the prior year

Churches must submit with their parochial report the financial statement covering the same year and a reconciliation of one to the other. The Reconciliation Form will be provided. They must also submit their current budget.

Terms Defined:

External Audit: A complete audit conducted by an outside Certified Public Accountant (CPA)

Audit Review: A review of the financial statements conducted by an outside Certified Public Accountant (CPA). Typically, an audit review does not offer the same depth as an outside audit nor does it usually conduct an internal controls questionnaire. As such, it does not meet the requirements set forth above for churches that are required to have an external audit but can be used in place of a committee audit. Audit reviews must use the agreed upon procedures checklist provided by the diocese (see Section B).

Committee Audit: Audits that are conducted by committee. There are two types of committee audits.

- Internal audit -- a committee audit that is done by its own church

- Audit exchange -- a committee audit done on another church in exchange for that church conducting a committee audit on yours. Please contact Rosa Feeney at rfeeney@edsd.org or 619-481-5457 for instructions.

Diocesan Review: This is an audit review conducted by the diocesan audit team. It is not as thorough as an external audit and does not take the place of one.

Compilation of financial statements: This term is used by accountants to denote their work in publishing year-end financial statements. **A compilation is not an audit or an audit review and is unacceptable in meeting the requirements of an annual audit.**

The diocesan audit standards task force originally implemented guidelines for annual audits for 2011. The revised standards allow an audit review in some cases when a complete external audit was required.

GENERAL INSTRUCTIONS

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 or her against suspicion of mishandling those assets.

This notebook is being sent to you for guidance in completing the annual audit. The workbook is divided into sections that correspond with the type of audit being conducted at your church.

Section A: External Audit

Section B: Audit Review

Section C: Committee Audit (Internal or Audit Exchange)

Section D: Diocesan Audit Review

Upon completion, this notebook, with enclosures, should be returned to the diocesan office. Per the canons, the audit is required to be completed and returned by **SEPTEMBER 1, 2015**.

Regardless of what type of audit you are conducting, it is necessary for you to appoint an audit committee. The appointment of an audit committee and the decision regarding the type of audit to conduct is the role of the vestry or bishop's committee subject to the guidelines found on page 4 and 5. If your congregation is having an external audit or audit review, the audit committee will be responsible for selecting the auditor and will oversee the audit. An audit committee should consist of at least three members (very small congregations may have two members).

If a committee audit (either internal or exchange) is chosen, then the audit committee will be responsible for conducting the audit. If an internal audit is conducted, the audit committee should not have a majority membership of finance committee or vestry members and should not include the clergy, bookkeeper, treasurer, finance committee chair or wardens holding position in the year being audited. Exceptions can be made if an audit exchange is conducted.

When an audit committee is formed, the diocesan office should be advised of the committee members and the type of audit to be conducted (See enclosed form on page 8).

This form is to be returned no later than April 15, 2015.

Complete financial statements of the congregation ***and affiliated organizations*** are required. Reference to guidelines and further instructions is made to the Manual of Business Methods in Church Affairs prepared and distributed by the National Episcopal Church. This is available for download at: www.episcopalchurch.org/finance

KEY DEADLINES

2014 Parochial Report, 2014 Financials, Reconciliation form (see appendix A), and 2015 Budget Due March 1, 2015

Advise diocesan office of members of audit committee and type of audit to be conducted (use form on page 8) April 15, 2015

Return audit notebook with completed audit and requested attachments September 1, 2015

SUBMIT AUDIT DATA TO:

Attn: Rosa Feeney Assistant Treasurer
Episcopal Diocese of San Diego
2083 Sunset Cliffs Blvd.,
San Diego, CA 92107

**NOTIFICATION OF AUDIT COMMITTEE MEMBERS AND TYPE OF AUDIT
Due April 15, 2015**

Church _____

City _____

Audit Year _____

Type of Audit to be Conducted (check the type that applies):

External Audit (Provide engagement letter)

(CPA) Audit Review (Provide engagement letter; see Section B for sample)

Committee Audit (Internal)

Committee Audit (Audit Exchange)

Other Church Participating in Exchange: _____

Diocesan Review

Members of Committee:

<u>Name</u>	<u>Position*</u>	<u>E-Mail</u>
1. _____	_____	_____
2. _____	_____	_____
3. _____	_____	_____

* If committee member holds a position in the church such as vestry member, warden, finance committee chair/member, etc., please indicate. Otherwise, leave blank.

Submitted By:

Name & Title

Date

Return by April 15 to:

Rosa Feeney, Assistant Treasurer
Episcopal Diocese of San Diego
2083 Sunset Cliffs Blvd.,
San Diego, CA 92107

ADVANCE PREPARATION FOR AUDIT

The treasurer, bookkeeper or audit committee should ensure that the following documentation is available and assembled for the public accountant or committee auditors.

- Copy of parochial report for year being audited
- Copy of approved budget for year being audited and current year
- Copy of approved housing allowance resolution(s)
- Copy of bylaws
- Copies of vestry/bishop's committee minutes for the year
- Copy of financial statements prepared for the year
- For the year being audited, cash receipt and disbursement records and general ledger of all accounts
- Bank statements, savings account statements and investment reports for all accounts being audited with applicable reconciliation, including the first month of the next year
- Check stubs and processed checks, including voided checks
- List of authorized signatures for all cash accounts
- Record of plate collections and other cash receipts, including record of corresponding deposits (include description of procedures and control of plate collections and other receipts)
- Paid invoices, vouchers or other backup for expenditures (include description of procedures and control of plate collections and other receipts)
- Details of any mortgages or other loans, including copy of loan statement showing balance at end of year
- Details of any significant receivables or payables as of end of year

- Copy of prior year's audit report
- Evidence of property and liability insurance coverage
- Data on building appraisals and inventory of contents
- Copy of biannual filing with the Secretary of State, if applicable (Parishes only)
- Copy of space use agreements and insurance certificates for regular users of the church property, if applicable
- Reports for payroll reporting to Internal Revenue Service and State of CA or Arizona (Including copies of W-2's and 1099's)
- Copy of year-end pension statement(s) for eligible lay employees (working more than 1000/hours per year) and all clergy
- Copy of year-end medical insurance statement(s) for eligible lay employees (working more than 1500/hours per year) and all clergy
- Copy of Manual of Business Methods in Church Affairs (available for download at: www.episcopalchurch.org/finance)
- Documentation of net assets (see Part 9)

SECTION A: External Audit

Any congregation may select to have an external audit. See 2014 guidelines on page 4 to determine if your congregation is required to have an external audit for 2014. ***Please note: if you are required to have an external audit for 2014, an audit review is not sufficient.***

Complete the following:

Audit performed by:

Firm: _____

Address: _____

The pockets in the back of the book are provided for you to insert the following documents:

Pocket 1: Independent Auditor Report with financials statements and management letter

Pocket 2: Approved budget for 2014 as well as approved housing resolution

Pocket 3: Current bylaws (if changed) and biannual Statement of Information to California Secretary of State.

Pocket 4: Documentation of Restricted Assets

Pocket 5: Most recent change in clergy compensation form or New Assignment Notice, W2's, 1099's, and year end pension and medical statements for lay employees

Pocket 6: Summary Description of Property and Liability Insurance (parishes only) plus contracts and leases.

Submit this completed notebook to the diocesan office, attention Rosa Feeney.

SECTION B: CPA Audit Review

If your church is required to have an external audit for 2014, an audit review is not sufficient. See 2014 guidelines on page 4 to determine if your congregation is required to have an external audit for 2014. Any other church may choose to have an audit review.

An audit review completed by a CPA is an agreed upon procedures contract. They are generally less expensive than an external audit. The sample engagement letter below is required to be used for CPA audit reviews to be sure the essential components are covered. Since the work scope does not call for the auditor to conduct an internal control analysis but only read the questionnaire conducted by the audit committee; it is necessary to complete the internal control questionnaire found in Chapter 2 of the Manual of Business Methods in Church Affairs.

Complete the following:

Audit Review performed by:

Firm: _____

Address: _____

The pockets in the back of the book are provided for you to insert the following documents:

Pocket 1: Independent Auditor Review with financials statements and management letter

Pocket 2: Approved budget for 2014 as well as approved housing resolution

Pocket 3: Current bylaws (if changed from last year) and biannual Statement of Information to California Secretary of State.

Pocket 4: Documentation of Restricted Assets

Pocket 5: Most recent change in clergy compensation form or New Assignment Notice. W2's, 1099's, and year end pension and medical statements for lay employees

Pocket 6: Summary Description of Property and Liability Insurance (parishes only) plus contracts and leases executed in 2014

Pocket 7: Cash Receipts and Cash Disbursement Procedures and completed internal controls questionnaire

Submit this completed notebook to the diocesan office, attention Rosa Feeney.

**SAMPLE
ENGAGEMENT LETTER**

Date

Sample Church
Main Street
Anytown, CA 92999

Dear Treasurer of _____:

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for _____ (“church”) located in _____.

We will apply the agreed-upon procedures which The Episcopal Diocese of San Diego (“Diocese”) has specified, listed in the attached Exhibit A, to the Financial Report (“report”) of the church as of December 31, 2014. This engagement is solely to assist the Diocese and you in monitoring the financial condition of the church. Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Consequently, we make no representation regarding the sufficiency of the procedures described in Exhibit A either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

Because the agreed-upon procedures listed in Exhibit A do not constitute an examination, we will not express an opinion on the Church Financial Report. In addition, we have no obligation to perform any procedures beyond those listed in Exhibit A.

We will submit a report listing the procedures performed and our findings. This report is intended solely for the use of the Diocese and the Church, and should not be used by anyone other than these specified parties. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

You are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, and/or experience to oversee any accounting or bookkeeping services we provide in connection with this engagement; and for evaluating the adequacy and results of those services and accepting responsibility for them.

_____ is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

We plan to begin our procedures on approximately _____ and, unless unforeseeable problems are encountered, the engagement should be completed by _____. At the conclusion of our engagement, we will require a representation letter from Church management.

We estimate that our fees for these services will be \$_____. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Half of our fee will be billed upon commencement of our work and the balance upon delivery of our report.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign below and return it to us. If the need for additional procedures arises, our agreement with you will need to be revised. It is customary for us to enumerate these revisions in an addendum to this letter. If additional specified parties of the report are added, we will require that they acknowledge in writing their responsibility for the sufficiency of procedures.

Sincerely,

Sample CPA Firm

This letter correctly sets forth the understanding of the church.

Signature

Date

Title

**SAMPLE
AGREED-UPON PROCEDURES TO BE PERFORMED**

We will perform the following procedures, as applicable:

- Cash – We will trace amounts reported to bank reconciliations.
- Marketable securities – We will trace the amounts reported to broker statements.
- Receivables – We will trace amounts reported to supporting documentation.
 - Mortgages receivable – We will trace amounts reported to the applicable amortization schedules or other supporting documentation.
- Property and equipment – We will trace the amounts reported to detailed lists or other supporting documentation. We will trace the amount reported to the detailed depreciation schedule.
- Other assets – We will trace the amounts reported to supporting documentation. We will trace the amount reported to determine whether it qualifies as an asset under accounting principles generally accepted in the United States of America.
- Accounts payable and accrued expenses – We will trace the amounts to statements of account received and the detailed list of accounts payable by vendor. We will examine the supporting documentation for all cash disbursements over \$500 made from January 1, 2014 through January 31, 2014 to ensure all such items pertaining to calendar 2014 have been included in the accounts payable list.
- Accrued payroll – We will trace the amount reported to the supporting calculation to determine whether it was calculated in accordance with accounting principles generally accepted in the United States of America.
- Payroll taxes payable/accrued – We will trace the amount reported to applicable payroll tax returns for the portion attributable to payroll periods ended on or before December 31, 2014. For accrued payroll taxes we will trace the amount accrued to the supporting calculation.
- Deferred contributions/revenue – We will trace the amount reported to supporting documentation.
- Notes payable – We will trace the amount reported to amortization schedules or other supporting documentation.
- Other liabilities – We will trace the amount reported to supporting documentation to determine whether it qualifies as a liability under accounting principles generally accepted in the United States of America.
- Church internal questionnaire – We will read the internal control questionnaire completed by the church and report any weaknesses in internal control procedures.

SECTION C: Committee Audit (Internal Audit or Audit Exchange)

These audit guidelines are prepared for use by the audit committee as a guide for their work.

Audit committee members should be independent of the decision making and financial record keeping functions of the congregation unless an audit exchange is being conducted. The members of the audit committee should have sufficient financial skills and experience to conduct a competent audit. See page 6 for more specific guidelines on audit committee composition.

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 the congregation.
- b. Verification (or preparation) of financial statements in the form approved for the Episcopal Church as set forth in Manual of Business Methods in Church Affairs. Available for download at: www.episcopalchurch.org/finance
- c. A review of management control practices

The following pages of this workbook will guide you through the work of the committee audit. They are to be completed and returned at the completion of the audit.

CHURCH AND AUDIT COMMITTEE

CHURCH AUDITED _____

ADDRESS _____

MAILING ADDRESS
(IF DIFFERENT) _____

YEAR AUDITED _____

If an audit exchange was conducted, identify the church that is doing the audit:

MEMBERS OF COMMITTEE:

	<u>Name</u>	<u>Position*</u>	<u>E-Mail</u>
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
8.	_____	_____	_____

* If committee member holds a position in the church such as vestry member, warden, finance committee chair/member, etc., please indicate. Otherwise, leave blank.

Part 1: General Responsibility/Oversight

1. Obtain and review the audit report covering the period immediately preceding this period being audited.

Have prior audit recommendations been implemented?

If some prior recommendations have not been implemented, explain what they are and reason for not being implemented.

2. Is there an Accounting Policy and Procedures manual for this church (not the *Manual of Business Methods in Church Affairs*?)

3. Obtain Vestry minutes, approved budget and annual year-end financial reports for the period being audited.

4. Review the Vestry minutes for:

- a. Budget approval. Date approved:

- b. Other matters that affect the financial reports:

5. Are monthly financial reports prepared and submitted to the Vestry? _____

- a. Are the monthly actual numbers compared to the approved budget numbers?

- b. What were significant variances to budget in the audit year?

6. Review all Journal Entries (entries unrelated to cash transactions):

a. Is there an appropriate explanation accompanying each journal entry?

b. Are all journal entries approved by a knowledgeable authority other than the person initiating the entry?

c. Is adequate documentation maintained to support each journal entry?

7. Are periodic reviews of insurance coverage made to determine adequacy of each type of insurance?

Date of last insurance review.

8. Are inventories of furnishings and equipment for insurance purposes current and complete? (listing or video inventory)

Date of last update.

9. Has the required bi-annual report been filed with the California Secretary of State? _____

10. Were the bylaws changed in 2014? Note changes made (if any)

11. Does the church have any affiliated entities that derive their status from the church? Please list those entities in the chart below: (examples include ECW, school, thrift shop) If organization not separately incorporated, committee audit should include audit of these entities.

Entity	Incorporated (yes/no)	Accounting by:	Audited by (if separately incorporated):

12. Is building space currently being provided to other organizations on a regular basis? Are written agreements concerning the use of the facilities and insurance certificates from the user on file? If so, list those organizations in the chart below: (examples include non-church operated school, AA, Boy Scouts...)

Organization	Written Agreement on file?	Lease? Starting Date and Term:	Revenue?	Insurance Certificate on file?

13. Are statements of contributions provided to parishioners?

How often are they provided (monthly, quarterly, annually)

14. Are financial reports and/or parishioner records computerized or manually maintained?

If maintained manually, what steps are being taken to become automated?

15. Briefly describe the computer system and accounting program being used.

16. For all computers used within the church:

a. Are current or duplicate copies of the operating system and programs maintained off premises?

b. Are the files backed up daily and the backups maintained off premises?

c. Is access to the computer and computer programs limited to authorized persons?

d. Is there adequate documentation, including user manuals, available on-site for all computer programs?

e. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?

f. Is there a plan for recovery of data and continuation of operations in the event of a disaster?

Part 2: Current Assets

List all checking, savings, investment, discretionary, and related organization bank and brokerage accounts. If an account is not included in this audit, explain here: _____

Institution	Type (checking, savings, investment)	Account #	Purpose	12/31/14 Balance

- a. Are the accounts in the name of, and addressed to, the church? _____
- b. Is the church's tax ID number used for all accounts? _____
- c. Are statements of each account available to show activity for the year?

Is the bank account reconciliation completed by someone other than the person who participates in the receipt or disbursement of cash?

If not, are the bank reconciliations reviewed and signed by someone other than the person who completed it? Who?

- d. Are bank accounts being reconciled with the books promptly after receipt?
Are reconciliations attached to statements?

- e. Do the reconciliation procedures provide for:
- i. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits?

 - ii. Investigation of bank transfers to determine that both sides of the transactions have been recorded?

 - iii. Investigation of all bank debit and credit memos?

 - iv. Review of all checks outstanding more than 90 days?

 - v. Are checks more than 180 days outstanding voided during the year-end reconciliation and either reissued to payee or sent to the state?

 - vi. Is the bank immediately notified of all changes of authorized check-signers?

 - vii. Are all journal entries for bank charges and bank account interest recorded routinely?

 - viii. Are all bank accounts included on financial reports to the Vestry?

**NOTE: You are asked to examine or test on a "Sample Basis."
The definition of "Sample Basis" is: 10% of all transactions or 25 transactions,
whichever is smaller.**

17. For operating accounts, examine on a sample basis of available backup documentation (i.e., paid bills, invoices, etc.) to support disbursement and accounting of cash funds. Indicate:

a. Number of items tested. _____

b. Number of irregularities. _____
(please identify specific cases, if any)

18. For savings and investment accounts, examine on sample basis, activity for the period being audited. Was activity in accordance with the investment plan and appear to be in the normal course of business? If not, please comment:

19. Review all petty cash accounts:

a. Is the responsibility for the petty cash fund assigned to one person?

b. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund?

c. Is adequate review made of documentation before the fund is reimbursed?

d. Is the petty cash fund reimbursed at least monthly?

e. Are check cashing and making loans to employees prohibited?

f. Is the actual petty cash protected from theft or misplacement?

20. Review any major receivables, deferred or prepaid expenses, or other assets. Investigate, or consider confirmation of, any significant amount. List significant items:

Part 3: Fixed Assets

21. Review methods and procedures used to report capital expenditures and equipment. Has land, buildings, property and equipment been appropriately reflected at cost on the balance sheet?

Has depreciation of property and equipment been recorded in the accounts?

22. Is formal approval of the Vestry required for all property and equipment additions and dispositions?

23. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:

a. Date acquired?

b. Detailed description?

c. Cost or fair market value at time of donation?

d. Any funding source restrictions?

24. Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing?

25. Is there a safe deposit box?

a. Who is authorized to enter it?

b. Is there an inventory of its contents?

26. Are permanent records such as articles of incorporation, bylaws, real estate deeds and titles kept in a safe place?

Have any deeds and titles required been examined as evidence of ownership?

Are they up to date?

27. Are any liens outstanding against property and equipment?

Part 4. Liabilities

28. Review the individual liabilities reported on the Balance Sheet. Are all liabilities noted on the Financial Reports to the Vestry?

29. Are operating costs (salaries, utilities, etc.) paid on time? _____

30. Is Accounts Payable being used? _____ If so, review "Accounts Payable Aging Report" and comment:

Are there any "held checks" (checks printed but not mailed)? _____
If so, please list and explain:

31. List debt sources and debt balances as of December 31st:

Institution	Description	Debt balance as of 12/31/14

- a. Are mortgage or loan payments being made on a current basis?

- b. Does the statement balance agree to the balance on the balance sheet?

- c. If a Diocesan loan, does the balance agree with the Diocesan reported balances as of December 31st?

- d. Is all borrowing or indebtedness authorized by the Vestry?

- e. Does all indebtedness involving real property have the consent of the Diocesan Standing Committee?

- f. Are all loan agreements and/or lease agreements in writing and properly safeguarded?

- g. Are there periodic reviews conducted to determine compliance with any debt/lease provisions?

Part 5. Cash Receipts

32. Review procedures and controls for cash receipts, including the collections from church services and the deposit of such monies.

33. Test (on a sample basis) counter sheets, deposit records, recordings of cash receipts and determine that revenues are properly recorded and appropriately classified in the financial reports. Test the procedure by following selected cash receipts from original receipt to final reporting in the financial reports. Comment on any unusual items.

- a. What are the safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?

- b. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis (e.g., at least weekly)?

- c. Are there at least two unrelated persons responsible for counting and depositing the collections?

- d. Are the persons responsible for counting receipts rotated on a periodic basis?

- e. Do the counters have a standardized form for recording the deposit information?

- f. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?

- g. Is there a control prohibiting the cashing of checks from the currency received?

- h. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?

- i. Are all other cash receipts recorded and deposited on a timely basis?

- j. Are all checks received restrictively endorsed —for deposit only “immediately upon receipt?”

- k. Are all cash receipts deposited into the general operating checking account?

If not, please explain:

l. 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?

m. Are all discrepancies investigated?

Part 6: Cash Disbursements

34. Review procedures and controls for the disbursement of funds from the operating account and any other accounts.

35. Determine who was authorized to sign checks during the period being audited and test (on a sample basis) cancelled checks to assure that checks were signed by authorized individuals. Note any discrepancies.

a. Are all disbursements made by check, except for small expenditures made from petty cash?

b. Are all checks pre-numbered and used in sequence?

c. Is there a clearly defined approval process for all disbursements?

d. Are all voided checks properly cancelled and retained?

e. Are all checks made payable to specified payees and not to cash or to bearer?

f. Check signing:

i. Is signing blank checks prohibited? _____

ii. Is using a signature stamp or pre-printed signatures prohibited?

iii. Does all supporting documentation accompany checks presented for signature?

- iv. Are all account signers authorized by the Vestry? _____
- v. Is more than one signature required for every check? _____
- vi. If not, do checks for more than a certain amount \$_____ require more than one signature?

- vii. If signature imprint machines are used, are the keys kept under lock and key except when in use?

36. Examine (on a sample basis) supporting documentation for disbursements, including receipt of goods and approval for payment. Comment on any unusual items.

- a. Are all disbursements supported by original documentation?

- b. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment?

- c. Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee minutes?

- d. Are there adequate controls and segregation of duties regarding electronic funds transfers?

37. Examine (on a sample basis) the records of cash disbursements and determine that expenditures are appropriately reflected and classified in the records and financial reports. Comment on any unusual items.

38. Review outstanding checks. Any check outstanding for a period longer than 3 months from the Balance Sheet date should be questioned for satisfactory explanation. Note any discrepancies.

39. Examine the January 31st bank statement following the close of the audit year for items impacting the audit year. Comment on any unusual items.

Part 7. Payroll

40. Examine payroll tax reports (Form 941), W-2 forms, 1099 forms, etc. to determine that filing requirements have been met and taxes properly remitted. Comment on any unusual items.

41. Are personnel files maintained to include:

a. Employment application and/or letter of employment?

b. Authorizations of pay rates and effective dates?

c. Internal Revenue Service Form W-4?

d. Department of Justice Form I-9?

e. New hire reporting?

42. Is there a written record of hours worked, approved by a supervisor when applicable?

43. Are there adequate records to:

a. Show computation of gross pay?

b. Account for all deductions from gross pay?

c. Support payroll tax returns and W-2 forms?

44. Was clergy compensation reported at end of year on form W-2? (Required except in the case of supply priest)

a. Was the value of life insurance premiums on coverage in excess of \$50,000, including the amount provided by Church Pension Group, included on form W-2? (Required)

b. Was vestry approved clergy housing allowance reported or not reported in Box 14 of form W-2? (Optional)

c. Was federal income tax withheld or not withheld from compensation of clergy? (Optional)

d. Assure that social security and Medicare taxes have **NOT** been withheld from compensation of clergy. If not, explain

e. Were travel expenses of clergy disbursed on the basis of a predetermined travel allowance or an actual accounting of mileage submitted by the individual?

f. If travel expenses of clergy were disbursed on the basis of a travel allowance, was that amount substantiated with actual date/mileage reporting or as required, reported on Form W-2 as taxable income to the individual?

45. Are pension payments up to date for all participants?

46. Are lay employees (excluding teachers) that work more than 1,000 hours a year covered by a CPG pension plan? (Canonical requirement effective 1/1/2013. (In 2014, teachers were required to be covered minimum of 1% & 2% in 2015)

47. Are lay employees (excluding school and thrift shop) that work more than 1,500 hours a year covered by a Medical Trust healthcare plan? (canonical requirement effective 1/1/2013)

48. Are payroll taxes being paid on a current basis and applicable payroll reports filed on time?

49. If the church has one or more employees (including clergy), has a workers compensation insurance policy been obtained? (Required)

50. Is payroll outsourced? _____
(It is strongly recommended that all churches outsource their payroll. Missions are required to use a payroll service. For more information, contact Episcopal Payroll Services at 1.800.223.6602.)

51. Compare salaries paid to approved budget. Comment on any differences.

52. Have those non-employee individuals or unincorporated companies, who received payments of \$600 or more during the year, been issued a form 1099-MISC to report their earnings?

Part 8. Discretionary Funds

53. Identify and list all discretionary funds and clergy positions holding these funds.

54. For each discretionary fund:

a. Is the account in the name of the church?

b. Is the church's tax ID number used to identify the account at the bank?

c. Examine disbursements from discretionary funds to ensure funds were used for discretionary purposes and not for operating fund expenditures. Comment on any variations.

d. List those individuals authorized to sign checks on the discretionary bank account.

Part 9: Net Assets

Net assets are all funds that are currently restricted either by the vestry or by the donor, either temporarily or permanently. They are recorded in the equity section of the balance sheet in the following categories:

Board Designated

- ***Board Designated Temporarily Restricted***
- ***Board Designated Permanently Restricted (this includes the original amount designated plus the earnings on the fund.)***

Permanent Restricted (Endowments)

- ***Amount of original gift that donor permanently restricted***
- ***In the case of trusts, the current total amount held in the trust is included in this category)***

Temporarily Restricted

- ***Gifts that have not been used that were temporarily restricted by the donor***
- ***The earnings on the permanent endowments that are not held in a trust***

55. List all restricted funds (net assets). Examine the donor letter or trust/agency agreement for each new gift and contributions received during the fiscal year. If a fund is not included in this audit, please explain.

Source	Date Received (write 'annual' for sum of recurring gifts)	Terms Governing Use	Amount originally restricted/amount earned by not spent	Which bank/investment account holds the funds for this category?

a. Does the Vestry or other authoritative body approve all restricted gifts and grants?

b. Are the income and other transactions periodically reported to the Vestry?

c. Are written acknowledgments issued for whom they are required?

d. Has the vestry created an investment policy statement? Please describe briefly.

Part 11. Reports

56. Obtain a copy of the adjusted year-end financial statements (Revenue and Expense Report, Balance Sheet and Summary of Restricted Accounts, if applicable.) Review the financial statements and satisfy yourself that the statements appropriately account for the financial activity of the church for the year.
57. Prepare an Audit Report as a result of your review of the financial records of the church. (See page 38)
58. Prepare an Audit Committee Findings on Policies and Procedures as a result of your review of the financial records and the review of the internal control procedures of the church.(page 39)

FINAL CHECK LIST COMMITTEE AUDIT

Assure that a copy of the following requested documents are inserted in the applicable pockets:

Pocket 1: Committee audit report and findings with financial statements

Pocket 2: Approved budgets for 2014 as well as approved housing resolution

Pocket 3: Current bylaws (if changed) and biannual Statement of Information to California Secretary of State.

Pocket 4: Documentation of Restricted Net Assets

Pocket 5: Most recent Change in Clergy Compensation or New Assignment Notice, W2's, 1099's, and year end pension and medical statements for lay employees

Pocket 6: Summary Description of Property and Liability Insurance (parishes only) and all contracts (including loans) and leases

Pocket 7: Cash Receipts and Cash Disbursement Procedures

Pocket 8: Year-end bank statements and reconciliations for all accounts

Upon completion of this Section, submit this completed notebook to the diocesan office, attention Rosa Feeney.

AUDIT COMMITTEE REPORT

Date _____

To: The Rector (or Vicar or Priest in Charge), Wardens and Vestry (or Bishop's Committee) of

Church _____

Address _____

Subject: _____ Financial Audit
(Year)

We have reviewed the financial statements resulting from financial transactions of

(Name of Church)

As of December 31, _____. Our review was made in accordance with audit guidelines issued by the Episcopal Diocese of San Diego and other procedures deemed appropriate by the audit committee.

Our objective was to assure that the accompanying financial statements present fairly, in all material respects, except as noted below, the financial position and results of its operations of the Church at December 31, _____, in accordance with accounting principles promulgated by the National Episcopal Church, on a consistent basis.

(Note exceptions and comments here, if any).

Our examination and report is not and is not meant to be construed as an audit and opinion rendered by an Independent Public Accountant.

Members of the Audit Committee:

(Signatures)

SAMPLE AUDIT COMMITTEE FINDINGS ON POLICIES AND
PROCEDURES

Date _____

To the Rector, Wardens and Vestry of

Church: _____

Address: _____

Subject: _____ Financial Audit
(Year)

During the course of the examination referred to above, the following items pertaining to internal control and other operational matters, which we believe to be of a significant nature, were noted. The first category of comments includes those areas of control where recommendations of the previous auditors have been implemented. The second category of comments restates those recommendations of the prior year's auditors that have not been acted upon but believed to still be worthy of consideration. The third category of comments includes comments and recommendations pertaining to areas that we believe improvements in control and/or procedures should be initiated. This letter should be made a part of the minutes of a Vestry meeting.

Areas where prior year auditors recommendations have been implemented:

- 1.
- 2.

Prior year's auditor's recommendations which still exists:

- 1.
- 2.

Comments and recommendations of current year auditors:

- 1.
- 2.

Members of the Audit Committee:

(Signatures)

SECTION D: Diocesan Audit Review

Diocesan reviews are offered on a limited basis. Some churches will be required to have a review as part of the guidelines. (See page 4) These congregations will be informed of this at the beginning of the year. Other churches can apply for a review; please submit request and explain the reasons for your request by March 20, 2015.

When the request for a diocesan review has been approved, Rosa Feeney will contact the church to schedule the field work. She will provide a list of items to be sent ahead of time. The field work cannot take place until the materials are received. Materials to provide include (but are not limited to) the following:

Pocket 1: Financial Statements

Pocket 2: Approved budgets for 2014 as well as approved housing resolution

Pocket 3: Current bylaws (if changed) and biannual Statement of Information to California Secretary of State.

Pocket 4: Documentation of Restricted Net Assets

Pocket 5: Most recent Change in Clergy Compensation or New Assignment Notice, W2's, 1099's, and year end pension and medical statements for lay employees

Pocket 6: Summary Description of Property and Liability Insurance (parishes only) and all contracts (including loans) and leases

Pocket 7: Cash Receipts and Cash Disbursement Procedures

Pocket 8: Year-end bank statements and reconciliations for all accounts

On the day of the field work, it is critical that the priest (unless there is only supply), treasurer, accountant/bookkeeper, and a member of the audit team be available.

Appendix A: Parochial Report Reconciliation

Parochial Report Reconciliation

1	Line B of Parochial Report		
2	Operating Expenses from Dec 31 Profit and Loss		
3	Less any outreach funds raised by special appeal for special purpose outside included in p&l		Include on line 11 and 18
4	Less any special appeal for a program your congregation runs for the community		Include on line 10
5	Less Operating Loans from the diocese		
6	Adjusted Operating Expenses	0	
7	Difference between Line B of Parochial Report and Adjusted Operating Expenses	0	

If Line 7 is not zero, explain differences below.