

# THE MANUAL FOR AUDIT COMMITTEES OF THE DIOCESE OF VERMONT

## [THE ANNUAL FINANCIAL AUDIT]

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### SECTION I - OVERVIEW

1. *Introduction:* Annual audits are required for all parishes, missions and other institutions by the Canons of the Episcopal Church and the Diocese of Vermont. The Oversight and Audit Committee of the Diocese of Vermont has prepared these guidelines to assist audit committees in congregations in their conduct of the annual audit of the financial statements and the assessment of the internal controls for financial and property management. These audits are required by the Canons of the Episcopal Church [Title I Canon 7 Section 5] and the Canons of the Diocese [Title III Canons 10A and 10B]. This set of diocesan guidelines is written in accordance with the Manual of Business Methods in Church Affairs as authorized by the General Convention of the Episcopal Church. While these guidelines are written primarily for parish and mission audit committees, they should be made available to any independent certified or licensed public accountant who has been engaged to do the annual audit. NOTE: Use of the words *church* and *vestry* in this manual imply all parish and inter-parish relationships regarding their congregations and their body of elected representatives.

2. *Reason for an Audit:* Any person handling any monies or investments of the church needs an audit to protect the church assets and him or herself against the suspicion of mishandling such assets. Similarly, **rectors, vestries, vicars, bishop's committees, treasurers and other persons of responsibility are 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.**

3. *Approved Auditors:* Congregations have several choices for conducting an audit. They may engage an independent certified or licensed public accountant, or they may appoint a committee of at least three persons from within the congregation, or arrange to have their audit performed by an audit committee from another congregation. Any other arrangements will need the specific approval of the diocesan Oversight and Audit Committee.

4. *Audit Committee:* All congregations should appoint a parish audit committee of at least three persons even in the event that they decide to engage an outside independent licensed or certified public accountant. Audit committee members should be independent of the decision making and financial record keeping functions of the congregation. In a congregation that has chosen to engage an independent certified or licensed public accountant, the audit committee should meet with the auditor prior to the audit to go over the details of the audit.

5. *Timing of the Audit:* The Canons call for a church fiscal year to end on December 31. The engagement of an independent licensed or certified public accountant or the appointment of a parish audit committee should be done prior to the end of the period being examined in order to allow sufficient time for completion, review, and vestry acceptance of the audit report, and for transmittal of the results to the diocese prior to September 1 following the year being audited.

6. *Scope and Objectives of the Committee Audit:*

a. The audit shall include the verification of the financial statements submitted to the annual meeting which should include the statement of income and expenditures, the report of the assets and liabilities of the congregation, and the financial reports from all parish organizations. It should also include the parochial report financial reports. The financial statements shall generally be in the form approved for the Episcopal Church as set forth in the Manual for Business Methods in Church Affairs. The objectives for this verification are to ascertain:

1) that the various transactions during the year are proper, documented appropriately, and recorded in the proper amounts and in the proper accounts, and

2) that the financial statements for the year were prepared from the financial records and present fairly the financial position of the congregation. (A list of documents to be made available for the audit is found in Section IV-1 and sample financial statements are found in the Manual for Treasurers of Vermont Churches.

b. The audit shall also include a review of financial management control practices using the Internal Control Checklist found in Section II. The questions in this checklist are a modified version of the Internal Control Questionnaire found in The Manual on Business Methods in Church Affairs. This portion of the audit is accomplished through interviews with the treasurer and all persons in the congregation who have financial responsibilities, including the rector. The objective is to ascertain that adequate internal control procedures were, and continue to be, in effect.

7. *Accounts to be Audited:* All accounts must be audited. This requirement covers not only the operating accounts of the congregation but also all of its restricted, endowment, property, and cemetery funds and the accounts, if any, of all parish organizations. No church money, including the parish discretionary fund, if there is one, is exempt from the requirements.

8. *Content of the Audit Report:* The audit committee is responsible for submitting the audit report to the vestry or mission committee of the church. The audit report shall consist of:

a. An audit committee certificate that states that the financial reports fairly present the financial position of the congregation and that a review of the policies, procedures, and practices for the internal control of the business affairs has been conducted (See sample audit report form in Section IV-2).

b. The identification of any problems as a result of reviewing the internal controls. These findings are to be attached to the audit certificate. The auditor or audit committee must complete this phase of their work in sufficient time to allow the vestry to review and take appropriate actions where needed.

c. A consolidated statement of cash revenues and expenses.

d. A statement of assets and liabilities resulting from cash transactions (or the balance sheet in the case of organizations using the accrual method of accounting).

9. *Filing of the Audit:*

a. Prior to actual delivery of the audit report to the vestry, the vestry should issue a letter to the auditor or audit committee stating that all records have been available for audit and there are no church funds omitted.

b. Upon completion, a review of the audit report shall be made by the auditor or audit committee with the church treasurer and then submitted to the rector and vestry for review and acceptance.

c. The vestry is responsible for sending a copy of the audit together with all attachments (plus a statement from the vestry concerning the correction of any problems), to the bishop, with a copy to the Oversight and Audit Committee, prior to September 1st. The minutes of the vestry or mission committee will officially record the receipt, acceptance, and subsequent filing of the audit report with the bishop and the Oversight and Audit Committee.

d. If at any time during the audit the records reveal a situation which suggests that something is seriously wrong, the matter should be brought immediately to the attention of the rector, the wardens, and vestry. If deemed necessary the vestry shall notify the bishop.

## SECTION II - REVIEW OF INTERNAL CONTROLS

*Introduction:* This portion of the audit is best done in an interview process with the treasurer, assistant treasurer, the rector, and other members of the finance committee. If the auditor or audit committee understands that the question is not applicable to the local situation, the question should be marked NA without further discussion. If the answer is NO, a short narrative should be written about the situation. These negative comments will form the basis of the findings reported to the vestry.

### Internal Control Checklist

1. Does the church have an active audit committee consistent with diocesan policy?	Yes	No	NA
2. Are prior audits and completed internal control checklists available?	Yes	No	NA
3. Is there a current chart of accounts with respective account numbers?	Yes	No	NA
4. Has the vestry elected an assistant treasurer who is familiar with the church accounting and bookkeeping system?	Yes	No	NA
5. Is the budget approved by the vestry and recorded in the minutes?	Yes	No	NA
6. Are budget changes authorized and recorded by the vestry?	Yes	No	NA
7. Is the treasurer's report submitted to the vestry every month?	Yes	No	NA
8. Is the report of sufficient detail for necessary financial analysis?	Yes	No	NA
9. Does the report compare current values with the approved budget?	Yes	No	NA
10. Does the report cover designated and restricted funds?	Yes	No	NA
11. Are collections safeguarded from time received until counted and deposited?	Yes	No	NA
12. Are there at least two unrelated persons responsible for the counting rotated on a periodic basis?	Yes	No	NA
13. Do the counters have a standardized form for recording the contribution information?	Yes	No	NA
14. Are the counters' sheets and pledge envelopes retained and reconciled with the actual deposits?	Yes	No	NA-
15. Are checks received in the mail immediately endorsed "for deposit only" and put in a safe place?	Yes	No	NA

16. Are all pledge payments received in the mail counted and deposited with the Sunday Collection?	Yes	No	NA
17. Are the collection monies counted and deposited on a weekly basis?	Yes	No	NA
18. Are all funds recorded and deposited on a timely basis?	Yes	No	NA
19. Are personal giving statements provided to donors of record at least semi-annually and is it clear that these statements are part of the audit process?	Yes	No	NA
20. Do acknowledgments of single contributions of \$250.00 and greater include a receipt to the effect: "In accordance with the Internal Revenue Code we certify that we did not provide any tangible goods or services in consideration of your contribution"?	Yes	No	NA
21. Is there a clear policy that the pledge recorder shall not handle, count or deposit funds?	Yes	No	NA
22. Is there a clear policy that the treasurer shall not handle or count funds unless teamed with another counter or have vestry approval to do so?	Yes	No	NA
23. Are all cash receipts from all sources deposited first into the regular checking account?	Yes	No	NA
24. Are all checks pre-numbered and used in sequence?	Yes	No	NA
25. Is there a clearly defined approval process for all disbursements?	Yes	No	NA
26. Check signing:			
a. Are checks signed only with supporting documentation?	Yes	No	NA
b. Is the signing of blank checks prohibited?	Yes	No	NA
c. Is the use of a signature stamp prohibited?	Yes	No	NA
d. Are all account signers authorized by the vestry?	Yes	No	NA
e. Are two signatures required for checks in excess of \$500.00 unless authorized by the vestry or unless they are for budget items such as salaries, insurance, diocesan assessments, etc?	Yes	No	NA
27. Are voided checks properly cancelled and retained?	Yes	No	NA
28. Are checks made payable to specified payees and not to cash?	Yes	No	NA
29. Are all but small petty cash disbursements made by check?	Yes	No	NA

30. Are all disbursements requiring special approval of the vestry properly documented in the vestry minutes?	Yes	No	NA
31. Are all bank accounts reconciled within 10 days of receipt?	Yes	No	NA
32. Are bank account reconciliations completed or verified by other than the Treasurer?	Yes	No	NA
33. Does the reconciliation provide for:			
a. Investigation of all bank debit and credit memos?	Yes	No	NA
b. Review of all checks outstanding for more than 90 days?	Yes	No	NA
c. The monthly recording of all bank charges and interest?	Yes	No	NA
34. Is the discretionary fund:			
a. In the name of the church and not the rector?	Yes	No	NA
b. Identified by the church's federal tax ID number?	Yes	No	NA
c. Used only for non-operating expenses of the church?	Yes	No	NA
35. Is the responsibility for the petty cash fund assigned to only one person?	Yes	No	NA
36. Are petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid (since the fund was restored to its full value), plus cash on hand, always equals the established value of the fund (e.g., \$100)?	Yes	No	NA
37. Is the petty cash fund reimbursed or checked at least monthly?	Yes	No	NA
38. Is the actual petty cash protected from theft or misplacement?	Yes	No	NA
39. Are all investment instruments held in the name of the church only?	Yes	No	NA
40. Are investment incomes, dividends, and interest recorded as received?	Yes	No	NA
41. Is there a written record for each investment showing date of receipt, name of donor, and purpose of the gift, if any?	Yes	No	NA
42. Is vestry approval required for all property and equipment additions and dispositions?	Yes	No	NA
43. Is a detailed description maintained for all property, furniture, fixtures and equipment?	Yes	No	NA
44. Are copies of this inventory kept in a safe place apart from the inventoried property?	Yes	No	NA

45. Is the inventory current?	Yes	No	NA
46. Is the church insured under the diocesan insurance program?	Yes	No	NA
47. If independently insured, have you sent a certificate to the Oversight and Audit Committee verifying that your insurance meets the diocesan insurance standards for all coverages listed under the heading Insurance in Section III?	Yes	No	NA
48. Are real estate deeds and other legal documents kept in a safe place?	Yes	No	NA
49. If there is a safe deposit box, is there an inventory of contents?	Yes	No	NA
50. Are all loan agreements in writing and properly safeguarded?	Yes	No	NA
51. Is all borrowing authorized by the vestry and diocese?	Yes	No	NA
52. Are there periodic reviews to determine compliance with any debt/lease provisions?	Yes	No	NA
53. Are all liabilities noted in financial statements/reports to the vestry?	Yes	No	NA
54. Are records maintained of all bequests, memorials, endowments and any other restricted gift, to include:			
a. Date, amount, and donor of the gift?	Yes	No	NA
b. Any restrictions or limitations?	Yes	No	NA
55. Is the use/investment of all restricted gifts and grants approved by the vestry?	Yes	No	NA
56. Are written acknowledgments issued for all contributions other than pledges?	Yes	No	NA
57. Are personnel files maintained to include the following:			
a. Employment applications and/or letter of employment?	Yes	No	NA
b. Authorizations of pay rates and effective dates?	Yes	No	NA
c. Internal Revenue Service Form W-4?	Yes	No	NA
d. Department of Justice Form I-9?	Yes	No	NA
e. Vermont State Withholding Form?	Yes	No	NA
f. Vermont New Hire Reporting Form?	Yes	No	NA
58. Are there adequate records to:			
a. Show actual hours worked by hourly wage employees?	Yes	No	NA
b. Show computation of gross pay?	Yes	No	NA
c. Account for all deductions from gross pay?	Yes	No	NA
d. Support payroll withholding tax returns and deposits?	Yes	No	NA

59. Are federal and state payroll tax forms filed on a timely basis?	Yes	No	NA
60. Are federal and state payroll withholding tax deposits made on a timely basis?	Yes	No	NA
61. Are employees (clergy and lay) receiving form W-2?	Yes	No	NA
62. Are forms 1099-MISC provided for all individuals who are not employees and for all unincorporated entities paid \$600.00 or more annually?	Yes	No	NA
63. Are Form W-2 wages reconciled to the general ledger accounts and quarterly payroll tax returns?	Yes	No	NA
64. Are clergy housing allowances recorded in the vestry minutes prior to the effective year?	Yes	No	NA
65. Are current or duplicate copies of the computer operating systems and programs maintained off premises?	Yes	No	NA
66. Are the files backed up regularly and the backups maintained off premises?	Yes	No	NA
67. Is access to the computer and computer financial programs limited to authorized persons?	Yes	No	NA
68. Does the church own and provide for the accounting program used by the treasurer?	Yes	No	NA
69. Are printed copies of all current financial records maintained?	Yes	No	NA

## SECTION III - AUDIT OF BOOKS OF ACCOUNT

*Introduction:* The second task of the audit committee is to either verify or prepare financial statements that present fairly the total financial activity of the congregation for the year being audited. It may be that the financial statements presented at the annual meeting will be sufficient, but if it turns out that upon testing and checking the amounts and categories of the annual finance report that there are serious omissions it will be necessary to create a new annual finance report.

There are two basic financial statements that need to be reviewed. They are: (1) the financial statements given out at the annual meeting which shall include the income and expenditure report and the assets and liabilities statement and (2) the annual parochial report financial information page.

When an audit report is submitted it is necessary only to attach the financial statements for the annual meeting, provided that they present fairly the total financial activity of the congregation.

The following information is presented to assist in verifying financial statements. If a check of samples indicates no discrepancies it may be assumed that the numbers for that item are in good order.

### **Receipts**

1. *Plate Offerings:* Cash receipts journal entries should be traced to weekly cash receipt records on a trial basis. For example: take the counters record sheets for any two months, add up the plate cash for each month and check that amount against the journal entries and against the monthly finance report. See instructions on the parochial report for the definition of plate offerings.
2. *Pledge Receipts:*
  - a) Take the counters record sheets for any two months. Add up the total pledge income for the month and check against amounts in the receipts journal and monthly finance report.
  - b) The offering envelopes and memoranda for each Sunday should be available. Check the counters record sheets by adding up the amounts on the pledge envelopes and memoranda.
  - c) Take a random sample of pledge and giving records and check addition of pledge income received.
  - d) If pledges are tracked on a computer system you should be able to check the total amount of pledges received against the end-of-the-year financial statement.
3. *Contributions from Parish Organizations:* Receipts must be listed for each organization, entered into the receipt journal, and checked against monthly finance reports. Also, go back to check the sources by looking at the organization's records.
4. *Contributions from the Diocese:* Receipts are to be listed and the amounts entered in the cash receipt journal traced to weekly cash receipt records.

5. *Investment and Endowment Income:* The total cash income from securities and endowments should be checked against statements and against the amounts deposited and reported on the monthly finance statements. The total non-cash income such as interest posted in a savings or money market account must be reported on the monthly and annual finance statements.
6. *Restricted Income:* Income received for specific purposes, both operating and non-operating, should be traced by the auditor to make sure that the income was used for the purpose for which the gift was made. For example, income from an endowment to cover Sunday School expenses, while restricted, is considered operating income.

The difficulty for both treasurers and auditors is to make sure that operating income is reported in its proper place on the statements and that non-operating income is reported in its proper place. See finance report statement forms in the Manual of Business Methods in Church Affairs, in the instructions for parochial reports, and in Section IV-3 of this manual.

7. *Other Income Accounts:* Receipts from sources such as parish hall rental, Sunday School offerings, the net from fund raising events, sale of tracts, and unexpected undesignated gifts should be reviewed by the auditor.
8. *Non-Operational Income:* Receipts for special categories such as capital building funds, the United Thank Offering, the Episcopal Development and Relief Fund (formerly PBFWF), gifts for diocesan institutions, and the church's discretionary fund should be checked to make sure that they have been reported in the monthly finance reports as well as in the annual and parochial reports. Auditors will need to verify that receipts for these non-operational categories have been transmitted in a timely manner to their proper destinations.
9. *Non-income Receipts (transfers from other parish funds):* Verify all cash receipt entries and ascertain that the proper authorization has been given for any transfer, inter-fund borrowing, or for the sale or redemption of investments and property.
10. *Budgeted Income:* All receipts should be checked against the budgeted estimates and material differences explained.

### **Disbursements**

1. Tests should be made to see that disbursements have been accurately classified, and that invoices in support of the disbursements have been properly approved and marked PAID with check number and date.
2. The audit committee must be familiar with the financial statement expenditure categories listed on the church's chart of accounts.
3. All disbursements should be compared to budgeted amounts and material variances should be explained.

4. Test disbursements by tracing a minimum of 10% of disbursement postings. Results will indicate if a broader sampling is necessary. Test the disbursements to invoices as follows:
  - a) Compare invoices with recordings in the cash disbursements journal. Check for vendors name, date and amount billed.
  - b) Examine invoices to see if they were properly authorized so that the committee may be satisfied that the goods and services were acknowledged by the person authorized to do so.
  - c) Check the arithmetic on invoices or monthly statements.
  - d) Check the travel and business expense reimbursements to see if they are in accordance with the qualified reimbursement policy of the parish.
  - e) Add up the disbursement checks for 2 or 3 months. Check to see if this amount is the same as reported on the monthly finance statement.

#### **Bank Accounts**

1. The auditor should identify all bank accounts and the purpose for which each is maintained.
2. The auditor should examine cancelled checks for authorized signatures and to make a comparison with the cash disbursements journal for proper recording of payee and amount. If less than 10 checks are written each month, all items should be examined.
3. The auditor should account for all voided and outstanding checks.
4. The auditor should verify bank balances as of the end of the periods being audited and should see that the closing cash amount is correctly stated on the assets and liabilities finance reports or the balance sheet.
5. The auditor should determine whether transfers of funds that occurred between bank accounts were recorded in the same accounting period.

#### **Investments**

1. Obtain or prepare a list of securities including number etc.
2. Verify the cost of each security and the amount recorded on the books.
3. Verify the interest and dividends received during the year.
4. Verify the market value of each bond or security as of December 31<sup>st</sup> of the year.
5. Make sure that securities are registered in the name of the Church or are endorsed as to be transferred to the church.
6. Examine broker statements and compare with investment income ledger or income receipts and verify that any income earned and accrued has been appropriately recorded.

### **Trust and Endowment Funds**

1. Obtain or prepare a list of trust and endowment funds showing:
  - a) The source and date;
  - b) terms governing the use of principal and income;
  - c) to whom and how often reports of condition are to be made; and
  - d) how the funds are to be invested.
2. Examine the trust or agency agreement for each new trust and endowment fund received during the fiscal year.

### **Loans**

1. Obtain or prepare a schedule of all loans to include:
  - a) The name of the loaning institution;
  - b) the state and origin;
  - c) the original date of loan;
  - d) the interest and payment schedule;
  - e) the monthly payment;
  - f) the unpaid balance;
  - g) the purpose of the loan;
  - h) the authorizing body;
  - i) the collateral for the loan;
  - j) the restrictions placed by the lender.
2. Review balances for reasonableness and consistency.
3. Determine that any loans from the year being examined had the proper authorization and were recorded in the minutes of the Vestry.
4. Verify by direct communication with the lender what the outstanding indebtedness was at the year-end, as well as the terms of indebtedness.
5. Check the unpaid balances of all loans as reported by the church records against the financial assets and liabilities reports of the annual and parochial reports.

### **Property and Equipment**

1. Obtain a list of fixed assets of significant amounts showing date of purchase if known.
2. Examine all the deeds and titles of ownership related to the properties owned by the congregation, reviewing for proper recording of the name of the owner and any liens that might exist.
3. Ensure that all property and equipment is adequately insured.

## **Payroll Records**

1. Examine the individual earning records for name, address, social security number, rate of pay, effective date, and current signed form W-4.
2. Ensure that the salary paid is authorized and proper by comparing with the amount budgeted.
3. Trace the individual earning record posting to the check register.
4. Reconcile total wages paid and total withholding taxes with the quarter form 941 and the end-of-the-year form W-3 and check to see that they are remitted on time.
5. Determine if form W-2 has been given to each employee (including the clergy) and that the forms W-2 and W-3 are correct and properly filed.
6. Determine if forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid \$600.00 or more.
7. Test the payroll to be sure that a real employee exists for every payroll check written.
8. Determine that the amounts used for premiums sent to the Church Pension Fund are consistent with the actual amounts of compensation received by the clergy or lay members of the parish.

## **Receivables and Payables**

1. Prepare a schedule of accounts receivable as of the balance sheet date. These should include authentic obligations owed to the congregation.
2. Prepare a schedule of accounts payable as of the balance sheet date. These should include unpaid obligations to vendors for goods and services received during the year being audited. Discuss with the treasurer any old or disputed payables.

## **Insurance**

All buildings and their contents must be insured at their replacement value and on an all risk basis, except as approved by the Oversight and Audit Committee. In addition, the insurance coverage shall include comprehensive general liability coverage plus professional liability, directors' and officers' liability, sexual misconduct liability, automobile liability and umbrella coverages with an annual limit of liability of at least \$1,000,000.00 for each liability coverage. In addition, the parish's insurance should include worker's compensation and crime and dishonesty coverage. If the parish's insurance coverage is part of the diocesan insurance program, the coverage will be considered adequate in all respects.

If independently insured, a certificate must be sent to the Oversight and Audit Committee verifying that the parish's insurance meets the diocesan standards for the following 15 coverages:

1. Property insurance on buildings and contents
2. General liability and property damage
3. Burglary

4. Fine Arts
5. Malpractice
6. Worker's Compensation
7. Fidelity Bond, Crime and Dishonesty Coverage
8. Automobile coverage on cars owned by the church
9. Non Ownership liability insurance for cars owned by others when used for church business
10. Directors and Officers Liability
11. Professional Liability
12. Umbrella Policy
13. Sexual Misconduct Liability
14. Employment Practices Liability
15. Other special policies held by the church

### **Discretionary Fund**

Check to see if the discretionary fund is in the name of the church, that the church's federal tax identification is the number used to identify the accounts 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 should pass through the church's general bank account and subsequently a check should be written to transfer monies to the separate discretionary fund checking account.

### **Work Papers**

The audit committee should retain a file of the work papers which were prepared to assist with the formation of the opinion. These work papers should include such things as the marked-up audit and internal control check lists, lists of bank accounts, restricted funds, investments, insurance accounts and loans, and the schedules and procedures used in making the audit.

### **Audit Committee Certificate**

The audit committee certificate states that those tests considered most important for verifying the accuracy of the financial statements have been done. If essential tests have not been performed, the certificate should so state. Readers of the certificate will then have been told such tests were not made and that the results of the financial statements must be read with that understanding. The audit committee certificate may be qualified when and audit committee takes exception to some aspect of the financial statement. When conditions are present prohibiting the issuance of an unqualified certificate then the audit committee should carefully describe the condition raising the issue.

**Note:** The total audit report including the certificates, statement of findings, report of corrective actions taken if done, and the verified or recreated financial statements is a report to the vestry. It is the vestry that is responsible for the financial management and care of the congregation. A copy is sent to the Bishop and Oversight and Audit Committee of the diocese to indicate that the vestry knows what they need to know and that they are taking steps to see that any necessary corrective action is being taken.

#### SECTION IV-1 PRE-AUDIT DOCUMENTS FOR REVIEW

Vestry or mission committee minutes

Minutes of any group authorized to disburse monies

Annual finance reports to the parish, including those from all parish organizations

Treasurer's monthly reports to the vestry

Annual parochial report

Names of all persons authorized to sign checks and withdraw funds

List of securities held

Records of investment and endowment income

Record of active loans and related payments

Copy of previous year's audit report and attachments

Copy of previous year's completed Internal Control Checklist

Budget as approved and amended

General ledger or equivalent computer printout

Cash receipts journal or equivalent computer printout

Cash disbursement journal or equivalent computer printout

Counters' dated record sheets and corresponding offering envelopes

Invoices and statements received for disbursements

Bank statements for audited year, plus last statement of previous year and first for next year

Paid checks and deposit slips arranged in chronological order

Payroll records including forms W-2, W-3, W-4, and state and federal withholding and payment records

Savings and checking account record books and bank statements for all accounts

SECTION IV-2 SAMPLE AUDIT CERTIFICATION FORM

The following form, or one of similar content, should be used as the audit committee report to the vestry regarding the audit of church finances and internal controls. Once the vestry has received and accepted the report and determined what corrections should be made, if any, a copy of this certificate, necessary financial statements, and a summary of any vestry actions should be sent to the Bishop, with a copy to the Oversight and Audit Committee.

**Audit Committee Certificate**

Date:

To: The Rector, Wardens and Vestry of \_\_\_\_\_ Episcopal Church  
(Church Name and Town)

Re: Financial Audit for the Year \_\_\_\_\_

We have inspected the statements of assets and liabilities resulting from the cash transactions of \_\_\_\_\_ Episcopal Church as of December 31st of the above audit year, including the related statements of cash receipts and expenditures, and changes in operating fund balances for the same year. We have taken steps to see that the accompanying financial statements and report of the treasurer’s funds present fairly the assets and liabilities of the church on December 31st of this audit year and that the receipts and expenditures and changes in operating fund balances for the year then ended, arising from cash transactions, including funds from other than the regular check book, are in accordance with the principles authorized by the General Convention of the Episcopal Church.

We have also reviewed the policies, procedures, and practices for internal control of the business affairs of \_\_\_\_\_ Episcopal Church. Our inspection, made in accordance with the audit guidelines of the Diocese of Vermont, has found the internal control procedures to be in accordance with the principles adopted by the General Convention of the Episcopal Church, except as noted.

This inspection and certification is not intended to be construed as an audit opinion as rendered by a certified public accountant.

Members of the Audit Committee:

Name: \_\_\_\_\_ Signature: \_\_\_\_\_ date \_\_\_\_\_

Name: \_\_\_\_\_ Signature: \_\_\_\_\_ date \_\_\_\_\_

Name: \_\_\_\_\_ Signature: \_\_\_\_\_ date \_\_\_\_\_

Accepted by the Vestry: \_\_\_\_\_ date \_\_\_\_\_

*Clerk or Presiding Officer*

Enclosures: Memoranda of Findings  
Consolidated Financial Statements

**Section IV-3**

**Model form for the End of Year Income and Expenditure Financial Statements**

Based on the Annual Parochial Report and the Manual on Business Methods in Church Affairs

Name of the Church and Address  
Statement of Income and Expenditures For the Period ending \_\_\_\_\_

<b>OPERATING INCOME</b>	<b>Column A Year Amount</b>	<b>Column B Budget Amount</b>	<b>Column C Percent of Budget</b>
Plate Cash and Seasonal Offerings		Loose cash, Christmas and Easter envelope giving	
Pledge and envelope giving		Envelope giving and checks in plate from members	
Parish Organizations		Funds provided by organizations for operating expenses	
Interest and Dividends		<u>Includes both cash receipts and statement credits</u>	
Unrestricted			
Restricted		Restricted for any normal operation	
Other income			
Use of Facilities		Rent and donations. Include rental of rectory if rented	
Net Fund Raising			
Undesignated gifts		Unexpected, unplanned, "pennies from heaven"	
Donor Designated Gifts for operations		Memorial Flowers, Candles, Parish Programs.	
Unrestricted Bequests		Used for operating expenses	
<b>Normal Operating Income Subtotal</b>		This is also Box A on the Parochial Report	
<b>SPECIAL INCOME</b>			
Assistance from Diocese		Loans and grants	
<b>Sub Total</b>			
<b>NON OPERATING INCOME</b>			
Capital Building Fund Contributions		Must be donor-designated gifts	
Special Offerings		Donor-designated UTO, PBFund, Rock Point, etc. Gifts	
Interest and Dividends		For Non operating purposes only	
Donor designated gifts		Must be for non operating purposes only	
Gifts and Bequests for Endowment and Trust Funds		Must be donor designated	
Sale of Property or assets			
Gifts for Discretionary Fund		All income gifts for the discretionary account must first be deposited in the regular checking account.	
<b>Sub Total</b>			
<b>NON INOME RECIEPTS</b>			
Transfers In		From Reserves, Restricted Fund Accounts, etc.	
Exchanges		Laundered funds      see note # 2	
<b>Sub Total</b>			
<b>Total All Income</b>			

Note # 1 All cash income is first deposited into the regular checking account no matter the purpose. If necessary it is then transferred by check to a sub account i.e. Building Fund, Discretionary Fund, Reserves, Endowment, etc.

Note # 2 Exchange Income could occur if the Rector paid a portion of the Rectory phone bill and church paid a portion. Not an advisable practice. Exchanges In must equal Exchanges Out at the end of the FY.

Note # 3 For more complete explanations see the Parochial Report Instructions.

## EXPENDITURES

### OPERATING EXPENSES

	Year Amount	Budget Amount	Percent of Budget
Clergy salaries, housing		Lump basic stipend and housing together	
Clergy SECA			
Travel Reimbursement		This is IRS taxable income if a straight allowance	
Other employees		List each by position	
Employees FICA		Employers share of Social Security Tax	
Pension Fund Premiums			
Insurance		Subdivide as necessary	
Energy		Subdivide as necessary electric, gas, oil, coal	
Office and Administration		Subdivide for phone, computer, postage if needed	
Parish Program		Subdivide for adult, youth, hospitality as necessary	
Liturgy and Worship		Subdivide as necessary. Put altar expenses here	
Organ and Music		Cost of organ maintenance and music	
Repairs and maintenance		Subdivide for church and rectory or parish hall if a separate building	
Maintenance Supplies		Light bulbs, toilet paper, salt, cleaning supplies, etc.	
Services		Payments to subcontractors	
New Equipment purchases		Coffee Maker, etc.	
Clergy Business Reimbursements		Placed here so as not to be confused with clergy stipend	
<b>Sub Total</b>			
Diocesan Assessment Payments			
<b>Total Operations</b>		(Compare this member with Operations Income)	

### WORK OUTSIDE THE CONGREGATION

Outreach expenditures	Gifts to Meals on Wheels, Community needs, etc.
Transmittal of Special Offerings	UTO, PBFund, Rock Point
Theological Education	Gifts to seminaries
<b>Sub Total</b>	

### NON OPERATING DISBURSEMENTS

Repayment of Loans	Payments to the Diocese for Butterfield Loans, etc.
Capital Improvements	New Organ, new roof, handicap ramps, etc.
Purchase of Major equipment	New Furnace, Super-duper Photocopier/Printer
Additions to Endowment and Trust Fund	
Payroll taxes withheld	This amount should be 00.00 at the end of the year
Purchase of Property	
Transmittal of money to the Discretionary Account	Both designated and budgeted funds
<b>Sub Total</b>	

### NON EXPENSE TRANSFERS FROM GENERAL CHECKING

Transfers Out	To Unrestricted and Restricted Reserve Funds
Exchanges Out	
<b>Sub Total</b>	
<b>Total all disbursements</b>	

Operating expenditures may be in any order the Vestry finds useful and helpful and may be lumped into sub headings. i.e. Administration, Physical Plant, Salaries, ect. but do not mix operational and non operational accounts together.

**Section IV - 4**

**Sample Asset and Liabilities Report**

Name of church,						
Date of Report						
	Operating	Organizations	Other Funds	Non Operating	Trust & Endowment	Property
ASSETS	Unrestricted	Restricted	Restricted	Restricted	Restricted	
Petty Cash	\$50.00					
Checking						
Parish Checking	\$1,250.00					
Flower Fund			\$250.00			
Women's Guild		\$1,230.00				
Memorial Fund			\$4,500.00			
<b>Short term Investments</b>						
Savings Account	\$6,000.00		\$3,500.00	\$200.00		
Merril Lynch			\$22,000.00			
<b>Long Term Investments</b>						
Diocesan Unit Fund					\$350,000.00	
<b>Property and Equipment</b>						
Land						\$100,000.00
Buildings						\$2,000,000.00
Furniture and Equipment						\$450,000.00
Depreciation						
<b>Total</b>	<b>\$7,300.00</b>	<b>\$1,230.00</b>	<b>\$30,250.00</b>		<b>\$350,000.00</b>	<b>\$2,550,000.00</b>
<b>LIABILITIES</b>						
Accounts Payable	\$1,475.65			\$200.00		
Payroll Taxes	\$223.00					
Long term Debt	\$5,000.00					
<b>Total</b>	<b>\$6,698.65</b>	<b>\$0.00</b>	<b>\$0.00</b>		<b>\$0.00</b>	<b>\$0.00</b>
Fund Balances	\$601.35	\$1,230.00	\$30,250.00		\$350,000.00	\$2,550,000.00