

AUDIT OF BOOKS OF ACCOUNT

There are three financial statements that need to be reviewed:

- Income and Expense Report
- Assets and Liabilities Report
- Page -3- of the annual Parochial Report

Receipts

Note: Items are to be examined or tested on a “Sample Basis”.
The definition of “Sample Basis” is 10% of all transactions or a total of 25 transactions, whichever is smaller.

1. *Plate Offerings:* Cash receipts journal entries should be traced to weekly cash receipt records.
Suggested procedure: From the selected counters record sheets, add up the plate cash for the month, and check that amount against the journal entries and against the monthly finance report.
2. *Pledge Receipts:*
 - a) From the selected counters record sheets, add up the total pledge income for the month and check against amounts in the corresponding receipts journal and monthly finance report.
 - b) Check the counters record sheets by adding up the amounts on the pledge envelopes and memoranda.
 - c) From selected pledge and giving records, check addition of pledge income received.
3. *Grants from the Diocese:* Receipts are to be listed and the amounts entered in the cash receipt journal and traced to deposit records.
4. *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 of re-invested income such as interest or dividends, should be posted in the corresponding savings or money market account and reported on the financial statements.
5. *Restricted/Designated Income:* Income received for a specific operating expense such as altar flowers or Sunday school expenses, should be traced by the auditor to the corresponding operating expense. Assure this restricted/designated income is properly classified as *operating income* on the financial statements. Refer to the Workbook for Page -3- (*See Tab Section in this binder*) for the definition of operating vs. non-operating expense.
6. *Other Income Accounts:* Receipts from sources such as parish hall rental, Sunday School offerings, the net from fund raising events, and undesignated gifts should be reviewed by the auditor for restrictions and proper recording on the books.
7. *Non-Operational Income:* Receipts for special categories such as capital building funds, the United Thank Offering, the Episcopal Relief and Development Fund, gifts for diocesan institutions, and the church’s discretionary fund should be checked to make sure that they have been properly recorded and reported in the finance reports. Verify outreach gifts have been transmitted in a timely fashion.
8. *Transfers:* 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.

9. *Budgeted Income:* Revenue should be checked against the budgeted estimates and material differences explained.

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Disbursements

1. Review procedure and controls for the disbursement of funds from the operating account and any other accounts. (*See Internal Control Checklist Pocket -3-*)
2. From the selected sampling, examine the records of checks written and determine that expenditures are appropriately reflected and classified in the records and financial reports. Selected disbursements should be compared to budgeted amounts and material variances should be explained.

Suggested procedure:

- a) From selected transactions, compare invoices with recordings in the cash disbursements journal. Check for vendors name, date and amount billed.
- b) Examine supporting documentation and approval for payment.
- c) Check the math on invoices or monthly statements.
- d) For travel and business expense reimbursements, verify they were in accordance with the qualified reimbursement policy of the parish.
- e) Add up the disbursement checks and verify that this amount is the same as reported on the corresponding finance statement.

Bank Accounts

1. Identify all bank accounts and the purpose for which each is maintained.
2. From the selected sampling, examine cancelled checks for authorized signatures. Compare with the cash disbursements journal for proper recording of payee and amount.
3. Account for all voided and outstanding checks.
4. Review bank balances for the selected months, and verify the closing cash amount is correctly stated on the assets and liabilities finance reports or the balance sheet.

Investments

- 1 Obtain or prepare a list of securities

2. Verify the interest and dividends received during the year.
3. Verify the market value of each bond or security as of December 31st of the year.
4. Make sure that securities are registered in the name of the Church or are endorsed as to be transferred to the church.
5. 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

Loans

1. Is there a Butterfield or other loan?
2. Review balance(s) 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 the loan payments are current.
5. Obtain confirmation from the diocese or other lender of the outstanding loan balance at year end.
6. Check the unpaid balance of all loans as reported by the church records against the financial asset and liabilities report.

Payroll Reports

1. Examine payroll tax reports, W-2 forms, 1099 forms, etc., to determine that filing requirements have been met and taxes properly remitted.

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. Determine form W-2 has been given to each employee including the clergy.
5. Determine if forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid \$600.00 or more. Verify these people are not misclassified. (*See IRS 20 Question list in Tab Section of this binder*)
6. Test the payroll to be sure that a real employee exists for every payroll check written.
7. 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.
8. Assure that Social Security and Medicare tax have NOT been withheld from clergy compensation
9. Verify a form W-4 and an I-9 are on file for ALL employees.

Receivables and Payables

1. Prepare a schedule of any accounts receivable at year end. These should include authentic obligations owed to the congregation.
2. Prepare a schedule of any accounts payable at year end. These should include unpaid obligations to vendors for goods and services received during the year and unremitted tax and pension obligations. Discuss with the treasurer any old or disputed payables.

Insurance

All church's in the Diocese of Vermont are covered under the Diocesan insurance policy with Church Insurance, but are billed separately. Verify the church's insurance payments are current.

If there is a clergy person and/or lay employees, the church is required to have separate Worker's Compensation coverage. Verify this coverage is in place and that premiums are current.

The Discretionary Fund

Review Chapter V of the Manual for Business Method's in Church Affairs and verify the discretionary fund is being kept per these guidelines. (*See Tab Section of this binder*)

If there is a separate bank account, verify it is in the name of the church and is included in the audited financial statements.

Investigate the source of the deposits. Examine disbursements from the account for appropriateness.

Work Papers

The audit committee should retain a file of the work papers that were prepared to assist with the formation of their report. These work papers may 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.

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. The Audit Certificate, sent to the diocesan office, indicates to the Bishop 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.