

## Procedure for Completion of the Annual Parish Audit

Please check off the items as you complete them. These activities form the core of the audit work.

**Before beginning the audit, the auditors should review the previous year audit:**

Documents Needed:

Findings and Recommendations from previous year audit

Audit response from the Financial Oversight and Audit Committee

- Review both the Findings and Recommendations of the parish Audit Committee to the Vestry as well as the comments about the audit submission from the Oversight and Audit Committee.

### Section I: Review of Internal Controls

Documents Needed:

The Checklist for Internal Controls

Introduction: Internal controls are the measures used to protect resources and ensure accuracy and reliability of the financial procedures and the accounting system. They are designed to prevent or identify inadvertent errors as much as they are to prevent the deliberate theft or misuse of funds. An effective control system ensures that procedures are in place to safeguard the cash and other assets, financial transactions are appropriately documented and approved, and financial reporting is accurate, timely, and complete.

This portion of the audit is best done in an interview process with the treasurer, assistant treasurer, rector, and other members of the finance committee.

- Task: Complete the Checklist for Internal Controls**

For any question with an answer of NO please write a short explanation. Any questions that are not applicable to the local situation should be answered N/A. If the reason for N/A is not immediately obvious, a short explanation may also be appropriate. You will want to address the questions answered NO in your Committee Findings and Recommendations Report to the vestry.

### Section II: Audit of the Receipts, Disbursements, Investment Income, Monthly Treasurer's Reports, and the Discretionary Fund

Documents Needed:

Record of pledges and payments

Record of plate collections and other cash receipts, including record of corresponding deposits

Check stubs and processed checks, including voided checks

Paid invoices and vouchers for expenditures

Bank account and Investment account statements

Treasurer's monthly reports

Discretionary Fund bank account records

Details of any loans or any significant receivables or payables as of end of year

**Task #1: Audit of the Monthly Income Receipts**

1. Compare the counters' breakdown sheets with the weekly deposits. Then add the plate income and pledge income for the month and compare it to the amounts reported on the monthly finance reports and journal entries.

You may choose to audit all months of the year OR January, December, and two other months selected at random.

2. Review the pledge records for the year. Take a random sample and check addition of pledge income received. If pledges are tracked on a computer system, check that the total amount of pledges received matches the pledge receipts on the end of year financial statement.

3. Other income accounts: The auditors should review income from sources such as the church hall rental, net receipts from fundraising events, and unexpected undesignated gifts, and check that the totals are correctly reported on the end of year financial statement.

**Task #2: Investment and Endowment Income**

1. Review the quarterly investment statements. Identify the amount of income paid for each quarter and where it went. Determine if it was reinvested in the same account or transferred to a checking or savings account.

2. Investment income used for operating revenues should be reported as operating income on the Treasurer's Report for the month it was transferred into a bill-paying account.

**Task #3: Audit of the Monthly Disbursements and Bank Accounts**

1. Compare the check book register against the bills paid for the month. Check to see that the bills paid are supported by invoices with the vendor's name, date, and amount billed or other supporting documentation. Check for required authorization for payment.

You may choose to audit all months of the year OR January, December, and two other months selected at random.

2. Account for all voided and outstanding checks.

3. For travel and business expense reimbursements, verify they were in accordance with the reimbursement policy of the parish.

**Task #4: Monthly Treasurer's Reports**

1. Review the monthly Treasurer's Reports for accuracy and completeness. Check to see that the line items on the reports agree with the accounting program line items.

You may choose to audit all months of the year OR January, December, and two other months selected at random.

2. Compare expenditures to budgeted amounts and any significant variances should be explained.

3. Verify that the December end of year balances agree with the accounting program balances.

**Task #5: Discretionary Fund Audit**

1. Check that the Discretionary Fund is in the name of the church and identified by the church's federal ID number.
2. Review the account records to see that the fund is being used for "alms" and has not been used for operating expenses or for personal expenses of the clergy.

(See the introduction and Section B in Chapter V: Clergy Discretionary Funds, from the Manual for Business Methods in Church Affairs, for more information.)

## **Section IV: Audit of the Payroll Records, Vestry Minutes, and Insurance Coverage**

Documents Needed:

Payroll records including tax forms

Vestry minutes

Insurance bill from Church Insurance Pension Group

Worker's Compensation Insurance records

**Task #1: Payroll**

1. Review the payroll records to ensure that the salary paid is authorized and proper by comparing with the amount budgeted.
2. Check that all employees receive W-2 forms, including the clergy, and they are correct and properly filed. Also, check that a W-4 form is on file for all employees.
3. Check that 1099 forms are provided for all individuals who are not employees and for all unincorporated entities paid \$600 or more. Also, check that a W-9 form is on file for all individuals and entities who receive non-employee compensation.
4. Verify that Social Security and Medicare Tax have NOT been withheld from clergy compensation.
5. Reconcile the Quarterly 941 forms with the Payroll Journal.
6. Test the payroll to be sure that a real employee exists for every payroll check written.

**Task #2: Vestry Minutes**

Review the Vestry minutes to ensure that Vestry decisions regarding the church finances were properly enacted and are reflected in the parish financial procedures, records, and reports.

**Task #3: Insurance Coverage**

1. All Diocese of Vermont churches are covered under the Diocesan insurance policy with Church Insurance but are billed separately. Verify that the church's insurance payments are current.
2. Worker's compensation coverage is required for all clergy persons and lay employees. Verify this coverage is in place and that premiums are current.

### **Section IV: Finishing the Audit**

**All Items to be Included, in this order, and sent to the Diocese by e-mail to [mschotto@diovermont.org](mailto:mschotto@diovermont.org) or US mail to Margaret Schotto at the diocesan office**

#### **1. Cover Page: Notification of Audit Committee Members and Church Leaders**

If not already completed, fill out the form with the names and contact information of the audit committee members, the rector or priest, the senior warden, and the treasurer.

#### **2. Audit Certification Form**

The Audit Certification Form is signed by the Audit Committee and accepted by the Vestry.

#### **3. Checklist for Internal Controls**

Attach the completed checklist (no need to attach the supporting documents)

#### **4. This Audit Completion Instructions and Task List**

Attach this Instruction and Task List indicating that all tasks were completed with any pertinent notes.

#### **5. Audit Committee Report of Findings and Recommendations to the Vestry**

The Audit Committee writes a report to the Vestry to accompany the Certification Form. This report summarizes their findings from the examination of the financial records and the completion of the Internal Control Checklist and offers any recommendations for improvement.

#### **6. Response from the Vestry to Findings and Recommendations Report**

The Vestry writes a response to the Audit Committee's report, stating that the report has been accepted by the Vestry and identifying any issues they plan to address.

We sincerely appreciate your efforts to conduct this audit. When it is complete, please scan it as one pdf document and email it to [mschotto@diovermont.org](mailto:mschotto@diovermont.org) or print and mail it if you are not able to scan it. Please keep a copy on file at the Parish.

**This Audit is due annually on September 1.**