

# Episcopal Diocese of Western Massachusetts

## MODEL AUDIT PROGRAM

### GUIDELINES FOR AUDITORS:

The following worksheets are provided for use by your audit committee. This model program can be followed step by step and should be the basis of your audit. You may also wish to review the chapter on Parish Audits (Chapter VI) in the *Manual of Business Methods in Church Affairs*. The actual worksheets that are contained herein need not be submitted to Diocesan House with the Certificate of Audit but should be retained as a reference for next year's audit committee.

Three copies of the Certificate of Audit are provided. One should be submitted to the Vestry/Executive Committee when you make your report and should be filed with the vestry minutes. One copy is to be filed with the Bishop, and one copy should be retained with your worksheets for next year's Audit Committee.

All recommendations you make as a result of your audit should be recorded in writing on the Certificate of Audit in the place provided. In addition, your recommendations should be given to the parish treasurer.

Before beginning your audit, review the audit guidelines found in Chapter VI in the *Manual of Business Methods in Church Affairs*. Once you are ready to begin, secure from the Treasurer the following records:

1. General Ledger Printout
2. Receipts and Disbursements Records
3. Check Book Register
4. Files of Paid Vouchers
5. Records of Cash Receipts from Sunday offerings (count sheets)
6. Record of pledges and payments
7. Duplicate deposit slips, bank account statements, and/or passbooks.
8. Record of endowment and investment fund transactions
9. Copy of Treasurer's Report to the Annual Meeting for both the year being audited and the prior year.
10. Vestry Minutes
11. Copy of Annual Parochial Report
12. Rector's Discretionary Fund records as well as the records of all other parish subsidiary accounts
13. If your parish is part of the Diocesan Insurance Program, the Renewal Information the parish provided to Willis, the diocesan insurance broker. If your parish is not part of the Diocesan Insurance Program, a schedule of all insurance coverage and policies and the most recent renewal.

Request from all banks a confirmation of balances on deposit as of December 31. A sample form is enclosed. Request from lending institutions (banks, the Episcopal Church Building Fund, others) to which the congregation is indebted, a confirmation of balances due on any outstanding loans as of December 31 unless the lender has rendered a year-end statement. Again, a sample form is enclosed.

You are now ready to begin the audit. A good place to begin is to review the internal controls. To do this, use the Internal Controls Questionnaire (contained in your Audit Packet) to review with parish leaders the internal controls that are in place. Then, the following audit program is designed to be a thorough audit. Follow the instructions and answer the questions. If additional space is required, attach additional sheets. A place is provided on the right side of the model program for the initials or signature of the person performing each step in the audit.

Finally, an audit requires you to review the Vestry Minutes to ensure that certain decisions, especially financial decisions, have been carried out as directed. In other instances, you might wish to make sure certain matters have been approved by the Vestry as required. For example, if the parish pays a Housing Allowance to ordained staff, you should satisfy yourself that the Vestry has adopted a resolution approving the amount of the allowance. The IRS requires such a vestry resolution if the parish is paying a Housing Allowance.

## I. PRELIMINARY

A. Were any financial records you requested missing or refused?

B. If so, what reason or reasons were given for the omission?

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## II. REVIEW INTERNAL CONTROL

To review parish internal controls, as noted earlier, use the enclosed questionnaire (found in this audit packet) which is taken from the Internal Controls section of the *Manual of Business Methods in Church Affairs*, Chapter III. While you should review internal controls with the parish treasurer, it would be a good idea to review the Internal Controls Questionnaire with the Vestry or Finance Committee once every other year. All the questions contained in the Internal Controls Questionnaire are designed to allow you, the members of the Audit Committee, to determine if good internal controls are in place.

## III. CASH ON HAND IN BANKS

A. Review bank reconciliations. Initials and date. \_\_\_\_\_

1. See that the year-end reconciliation agrees with the actual bank statement, to the annual report provided to the Parish at the Annual Meeting, and is consistent with the Parochial Report submitted to the Diocese.
2. Test to see if all bank accounts have been reconciled monthly. \*
3. See that all checking accounts and savings accounts are included in financial reports to the Vestry or Executive Committee and to the Diocese. \*
4. Review reconciling items on the year-end reconciliations carefully and trace to the succeeding month's bank statement any significant or unusual items.

B. If a cash fund (petty cash) is maintained, count on a surprise basis and verify the balance with appropriate records.

C. See that the amount shown on the annual financial statement as beginning cash (January 1 cash balance) agrees with the prior year's annual statement ending cash balance.

D. Year end bank reconciliations should be checked for mathematical accuracy. Outstanding items should be checked to the subsequent month's bank statement.

\* For all items noted with an asterisk, you may wish to test two (or more) month's records, rather than performing the work for all twelve months. If discrepancies are found in your test months, additional months should be audited.

#### IV. CASH RECEIPTS

- A. Entries in the cash journal should be traced to validated deposit slips.\* Initials and date: \_\_\_\_\_
- B. Cash receipts entries in the cash journal should be traced to individual pledge records.\* Initials and date: \_\_\_\_\_
- C. Run a total of the year end pledge statements and compare the total to the total pledges reported in the annual report. Initials and date: \_\_\_\_\_
- D. Compare the total of special offerings (Easter, Thanksgiving, Christmas, etc.) received and reported and compare the total to prior years for reasonableness. Initials and date: \_\_\_\_\_
- E. Prepare a schedule of investment income by source and review for reasonableness. Initials and date: \_\_\_\_\_
- F. Compare all revenues to budgeted amounts and examine all variances.\* Initials and date: \_\_\_\_\_
- G. Select a random sample of weekly deposits (perhaps one per month) and review the reasonableness of loose cash offerings. Initials and date: \_\_\_\_\_

#### V. CASH DISBURSEMENTS

- A. Compare expenses to budget and ask for an explanation of significant variances.\* Initials and date: \_\_\_\_\_
- B. Select a random sample of checks and examine paid bills, canceled checks, and entries in the cash disbursements journal. \* Initials and date: \_\_\_\_\_
- C. Examine canceled checks for authorized signatures, proper endorsements, and expense classification.
- D. Examine payroll checks and determine if tax, insurance, and other withholdings are properly handled.\* Initials and date: \_\_\_\_\_
- E. Review payroll tax records and see that all payroll taxes are being paid.\* Initials and date: \_\_\_\_\_
- F. Trace cash transfers (e.g., savings account withdrawals to deposit in checking accounts). Initials and date: \_\_\_\_\_

#### VI. SAVINGS ACCOUNTS

- A. Review all savings statements and passbooks carefully. Trace withdrawals to deposits in other church accounts. (Expenses and other disbursements should be made from checking accounts, not savings accounts).\* \_\_\_\_\_
- B. Determine that interest earned is properly accounted for. \* Initials and date: \_\_\_\_\_
- C. Confirm savings account balances (use the sample form enclosed) if statements or passbooks are not available. \_\_\_\_\_

\* For all items noted with an asterisk, you may wish to test two (or more) months records, rather than performing the work for all twelve months. If discrepancies are found in your test months, additional months should be audited.

VII. LOANS AND OTHER OBLIGATIONS

- A. Confirm the balance of all outstanding debts if statements are not available. (use the sample form enclosed). Initials and date: \_\_\_\_\_
- B. Review payments to be sure they are made on time and that interest and principal are properly recorded. Initials and date: \_\_\_\_\_

VIII. DESIGNATED RECEIPTS AND DISBURSEMENTS (examples of designated receipts are special offerings such as those for the Episcopal Relief and Development (ERD), the United Thank Offering (UTO) the Bishop's Discretionary Fund, etc.).

- A. Determine that receipts are properly recorded and reported to the Vestry or Executive Committee. Initials and date: \_\_\_\_\_
- B. Determine that disbursements are properly reported and in accordance with the receipt designation. Initials and date: \_\_\_\_\_
- C. Determine the accuracy of carried over designated receipt balances. Initials and date: \_\_\_\_\_

IX. INVESTMENTS

- A. Review investment reports. Verify income with financial reports and review the recording of income.  
Initials and date: \_\_\_\_\_
- B. Review documentation for all invested funds. Determine if there are restrictions as to the use of principal or interest. If there are restrictions, are those restricted being followed? If documentation does not exist, instruct that the Vestry research its funds and prepare documentation.  
Initials and date: \_\_\_\_\_
- C. Review the Vestry minutes for proper authorization for withdrawals from these investments.  
Initials and date: \_\_\_\_\_

X. INSURANCE

- A. If your parish is part of the Diocesan Insurance Program, ask to see the Renewal Information the parish provided to Willis, the insurance broker, in the fall of the preceding year. Review the form to ensure that the parish disclosed all aspects of the parish mission and ministry to the insurance broker. By adequately advising our broker of the scope of ministry, the broker can ensure that the parish is fully insured for every risk.  
Initials and date: \_\_\_\_\_
- B. If your parish is **not** part of the Diocesan Insurance Program, we believe you should thoroughly review your insurance coverage as part of the audit. Your review should determine if you have the following coverage and if the limits of coverage are adequate:

1. Fire Insurance on plant and equipment

2. General Liability (Public liability & property damage)
3. Boiler Insurance
4. Umbrella Liability
5. Burglary
6. Fine Arts
7. Malpractice
8. Sexual Misconduct
9. Workers' Compensation
10. Disability Benefits
11. Fidelity Bond/Treasurer's Bond
12. Non-ownership liability insurance for cars owned by others when used for church business
13. Other special policies held by the church

Initials and date: \_\_\_\_\_

- C. If your parish is not part of the Diocesan Insurance Program, how often is the insurance coverage reviewed at the parish and by whom?

\_\_\_\_\_

- D. If your parish is not part of the Diocesan Insurance Program, determine that all policies are in force and all premiums are paid.

Initials and date: \_\_\_\_\_

#### XI. DESIGNATED FUNDS

- A. For any designated funds, use a copy of these work papers and fill in the sections that would apply to the various designated funds that the parish might have. This pertains to all special parish funds. Any and all funds are funds of the parish and should be part of the audit. Example of special parish designated funds are Altar Guild funds, ECW funds, Men's Club funds, Youth Group funds, the Rector's Discretionary Fund, etc.

#### XII. MINUTES

Review the minutes of the Vestry or Executive Committee for authorization for the annual budget, for financial transactions and for an indication that monthly reports are being prepared and reviewed. Initials and date: \_\_\_\_\_

If the parish pays its ordained staff a housing allowance in lieu of providing a rectory, review the minutes of the Vestry or Executive Committee to ensure that the amount of the housing allowance has been adopted by the Vestry in the form of a resolution. Initials and date: \_\_\_\_\_

#### XIII. GENERAL

- A. Check the mathematical accuracy of the cash receipts and disbursements journal.\* Initials and date: \_\_\_\_\_

- B. Determine that monthly totals are used in preparing monthly and annual financial statements.\* Initials and date: \_\_\_\_\_
- C. Determine the mathematical accuracy of monthly financial statements.\*  
Initials and date: \_\_\_\_\_
- D. Determine that the budget was properly approved by the Vestry or Executive Committee. Initials and date: \_\_\_\_\_
- E. Check the accuracy of the financial information on the Parochial Report.  
Initials and date: \_\_\_\_\_

XIV. REPORT TO THE PARISH/MISSION AND TO THE DIOCESE

- A. Prepare the Certificate of Audit, signed by all members of the Audit Committee, attach it to the annual financial statement, and submit it to the Vestry or Executive Committee. Discuss your list of observations, discrepancies, and comments, with the Vestry or Executive Committee.
- B. Submit a copy of your report with the Certificate of Audit to the diocese.
- C. All members of the Audit Committee should sign these work papers in the place provided. It is not necessary to submit these work papers to the diocese. We believe you should retain them for review by next year's Audit Committee.

Signatures of Audit Committee Members:

\_\_\_\_\_  
\_\_\_\_\_

Date: \_\_\_\_\_

\* For all items noted with an asterisk, you may wish to test two (or more) months records, rather than performing the work for all twelve months. If discrepancies are found in your test months, additional months should be audited.