



# Diocese of Oregon

The Episcopal Church in Western Oregon

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**Audit Program**

for

Parishes and Missions

February 26th, 2011

## **HOW TO USE THIS MANUAL**

This booklet has been prepared for use as a manual. Please do not use this booklet to complete your audit. If you are using this format, please make copies of these pages, and keep this booklet for future reference.

## THE DIOCESE OF OREGON

### AUDIT PROGRAM

#### WHY BOTHER WITH AN AUDIT?

An audit is a formal examination and verification of records. All institutions of the Episcopal Church are supposed to have their financial records audited on an annual basis. The Dioceses and the larger parishes usually have their books audited by a Certified Public Accountant from an auditing firm. The smaller parishes and missions usually use a volunteer committee appointed from their membership. The essential aspect of the audit is that it is performed by someone other than those who were in charge or those who kept the records. A rationale justifying the effort of an audit is presented in the following paragraphs:

##### **An audit is required by canon**

The canons of the church are quite clear and specific with regards to audits. The basic requirement comes from the Canons of the Episcopal Church. The Diocesan Canons reiterate the national canons and establish the structure of the audit committees. The requirements apply to all parishes and missions, regardless of size. Those organizations that do not perform audits are deliberately disobeying the rules of their own church.

##### **An audit reduces legal liability**

Under civil law, the vestry of a parish are the directors of the corporation and, as such, are legally liable for the actions of the corporation. If these actions involve financial matters, the existence of an audit may be considered. The **absence of an audit could increase the liability of the individual vestry members by showing a lack of responsibility**. There are people who, as a matter of prudence, would refuse to serve on a vestry that does not require annual audits.

##### **An audit reduces the chance of embezzlement**

A common misconception is that the only function of an audit is to detect a current, on-going embezzlement. The corollary to this misconception is that an audit is unnecessary if you don't believe that such embezzlement is taking place. Actually, the primary reliance for the prevention and detection of fraud is based on an adequate accounting system and good internal control. The function of the audit is to ensure that the components of the accounting system and the internal control are in place and in good working order. At a more basic level, an ongoing audit program establishes an atmosphere in which the temptation for embezzlement does not arise.

### **An audit produces good management**

The usual vestry meetings are concerned with short-term problems and crisis situations. Accounting procedures may only be discussed in the context of a conflict with allegations of irregularities. By contrast, a well-established audit program allows concerns about accounting procedures to be considered without a confrontation. Problems can then be addressed before they escalate out of control. The most useful output of an audit program may well be the conflicts that do not arise.

When consistently and periodically performed, an effective audit results in better management of the institution. Not only can the Vestry or BAC have a sense of their better knowledge of the adequacy of the financial proceedings of the institution, but they should have a clearer understanding of the financial status of the institution. The members of the congregation, in turn, have the sense that the Vestry or BAC has a handle on the finances of the church and that in this important area, “things are under control”. If an audit produces a management letter pointing out areas that could benefit from better control procedures, the Vestry or BAC should thoroughly discuss the issues raised. New policies and procedures should be adopted if, in their judgment, they would result in better control, improved accuracy and/or better management, to mention only a few reasons.

Note: BAC refers to the Bishop’s Advisory Committee, the mission’s equivalent body to the vestry in a parish.

## THE DIOCESE OF OREGON

### AUDIT GUIDELINES FOR PARISHES, MISSIONS AND DIOCESAN ORGANIZATIONS

**Canon 6.11 of the Diocese of Oregon requires that all accounts of Parishes, Missions or other institutions shall be audited annually by an independent Certified Public Accountant, or independent Licensed Public Accountant, or such audit committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority.**

**All reports of such audits, including any memorandum issued by the auditors or audit committee regarding internal controls or other accounting matters, together with a summary of action taken or proposed to be taken to correct deficiencies or implement recommendations contained in any such memorandum, shall be filed with the Bishop or Ecclesiastical Authority not later than 30 days following the date of such report, and in no event, not later than September 1 of each year, covering the financial reports of the previous calendar year.**

The end product of an audit is a set of financial statements (Balance Sheet and Income and Expenditures Statement) that give a picture of what happened, financially, in the parish during a given year, and indicate the financial position of the parish on the last day of the year. Accompanying the financial statement is the auditor's expression of opinion about the financial statements—that to the best of his or her knowledge, they present fairly the result of the financial activities for that year. (Appendix A)

A second end result of an audit is an internal control letter (Appendix B). In such a letter, the auditor reports to the parish his or her opinion about the control systems in the parish—the systems that ensure that all income received is properly recorded and deposited in the bank, that expenditures are taking place only when appropriate and properly authorized, and that adequate care is being taken of assets—including cash, investments, and fixed assets. The letter should include an opinion on the adequacy of the internal controls, and also may include suggestions of where internal controls could be improved.

Included in this guide are sample financial statements and opinions for use in an internal audit. Also included is a sample audit program.

## THE DIOCESE OF OREGON

### AUDIT PROCEDURES

AUDITOR – the word Auditor used herein shall mean Certified Public Accountant, Public Accountant or any approved Committee of the Parish or Mission.

#### BASIC RECORDS NEEDED FOR AUDIT:

- a.) Check register(s) for all bank accounts
- b.) Printouts of cash activity and bank statements
- c.) File of paid invoices
- d.) Weekly record of Cash Receipts (Sunday Counter sheets)
- e.) Duplicate Deposit slips and deposit receipts
- f.) Record of Endowment and Investment fund transactions, if any
- g.) Statements from Savings and Investment accounts
- h.) Copy of Treasurer's Report to the Annual Parish Meeting
- i.) Record of Pledges and Payments
- j.) Copy of Annual Report
- k.) Minutes of all vestry/BAC meetings during the year
- l.) Parochial Report for the year being audited

#### INTERNAL CONTROL

Before the examination, the Auditor should review the internal control procedures as follows:

	Yes – No – N/A	Performed By
Cash Receipts		
1. Does more than one person count the weekly offering?	_____	_____
2. Are the counters rotated regularly (at least every three months)?	_____	_____
3. Are all receipts deposited as soon as possible?	_____	_____
4. If time elapses before the deposit, is the deposit kept in a secure place?	_____	_____

Yes—No—N/A Performed  
By

5. On a test basis (one week per month), are the amounts recorded on the counter's sheets and in the cash receipts book in agreement with the amounts deposited in the bank? \_\_\_\_\_
6. Is a separate accounting made of gifts for designated purposes? Are they acknowledged to the donor? \_\_\_\_\_

Cash Disbursements

1. Are two signatures required for checks over a certain amount \_\_\_\_\_
2. Are there procedures in place to ensure that disbursements are properly authorized? Are disbursements made against an approved budget? \_\_\_\_\_
3. Were the procedures referred to in #2 above, followed? If not, why? \_\_\_\_\_
4. On a test basis, ensure that amounts entered in the check register or report of activity are supported by receipts and agree to the bank statement. \_\_\_\_\_
5. Review procedures for withholding state and federal payroll taxes and insure that funds withheld are being properly and timely deposited, and that required state and federal reports are being filed. \_\_\_\_\_

Bank Balances

1. Are bank accounts reconciled at regular intervals by someone not otherwise involved in the cash receipts/disbursements process? \_\_\_\_\_

INTERNAL CONTROL QUESTIONNAIRE\*

GENERAL:

Yes—No—N/A

1. Are prior internal control questionnaires available? \_\_\_\_\_
2. Have recommendations of prior reports on internal controls been implemented? \_\_\_\_\_
3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available? \_\_\_\_\_
4. Is a current edition of the Manual of Business Methods in Church Affairs available? \_\_\_\_\_  
[http://www.episcopalchurch.org/finance\\_58218\\_ENG\\_HTM.htm?menupage=877](http://www.episcopalchurch.org/finance_58218_ENG_HTM.htm?menupage=877)

BUDGET:

1. Is the budget approved by the Vestry/BAC? \_\_\_\_\_
2. Are all changes to the budget authorized by the Vestry/BAC and recorded in the minutes of the meeting? \_\_\_\_\_
3. Is there a periodic review of the budget by the Vestry/BAC? \_\_\_\_\_

REPORTING:

1. Is a Treasurer's report submitted to the Vestry/BAC or finance committee each month? \_\_\_\_\_
2. Is the Treasurer's report presented in sufficient detail to inform the reader as to the nature of the various items of income and disbursements? \_\_\_\_\_
3. Does the report present the current factual financial data compared with the approved budget? \_\_\_\_\_
4. Is there periodic reporting, at least quarterly, of all other funds and activities, including designated or restricted funds? \_\_\_\_\_

CASH RECEIPTS:

- |   | Yes—No—N/A |
|---|------------|
| 1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?                                | _____      |
| 2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e., at least weekly?                                   | _____      |
| 3. Are there at least two unrelated persons responsible for the counting and depositing of the collections?   | _____      |
| 4. Are the persons responsible for counting receipts rotated on a periodic basis?   | _____      |
| 5. Do the counters have a standardized form for recording the deposit information?  | _____      |
| 6. Are the counter's sheets retained and reconciled with actual deposits, and are all discrepancies investigated?   | _____      |
| 7. Is the cashing of checks out of the currency received prohibited?  | _____      |
| 8. Are third party checks returned to donors?   | _____      |
| 9. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?  | _____      |
| 10. Are all other cash receipts recorded and deposited on a timely basis?   | _____      |
| 11. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt?   | _____      |
| 12. Are periodic statements provided to donors of record, i.e., at least quarterly?   | _____      |
| 13. Do acknowledgments of contributions in excess of \$250 state that funds received do not represent any goods or services provided and consist solely of intangible religious benefits? | _____      |
| 14. Are all discrepancies investigated?   | _____      |

Yes—No—N/A

CASH DISBURSEMENTS:

1. Are all disbursements made by check, except for small expenditures made by petty cash? \_\_\_\_\_
2. Are all checks pre-numbered and used in sequence? \_\_\_\_\_
3. Is there a clearly defined approval process for all disbursements? \_\_\_\_\_
4. Are all voided checks properly cancelled and retained? \_\_\_\_\_
5. Are all checks made payable to specified payees and not to cash or to bearer? \_\_\_\_\_
6. Are all disbursements supported by original documentation? \_\_\_\_\_
7. Is the original vendor's invoice or other documentation canceled at the time of signature to prevent duplicate payment? \_\_\_\_\_
8. Check signing:
  - a. Is the signing of blank checks prohibited? \_\_\_\_\_
  - b. Is the use of a signature stamp or pre-printed signatures prohibited?  
If signature imprint machines are used, are the keys kept under lock and key except when in use? \_\_\_\_\_
  - c. Does all supporting documentation accompany checks presented for signature? \_\_\_\_\_
  - d. Are all account signers authorized by the Vestry/BAC? \_\_\_\_\_
  - e. Is more than one signature required for any check? \_\_\_\_\_
  - f. If not, do checks for more than \$500 require more than one signature? \_\_\_\_\_
9. Are all disbursements requiring special approval of funding Sources, i.e. restricted funds, or of the Vestry/BAC properly documented in the Vestry/BAC or Finance Committee minutes? \_\_\_\_\_

JOURNAL ENTRIES:

Yes—No—N/A

1. Is there an appropriate explanation accompanying each journal entry? \_\_\_\_\_
2. Are all journal entries approved by a knowledgeable person of authority other than the person initiating the entry? \_\_\_\_\_
3. Is adequate documentation maintained to support each journal entry? \_\_\_\_\_

BANK ACCOUNT RECONCILIATION:

1. Are all bank accounts reconciled within 10 days of receipt? \_\_\_\_\_
2. Are the tasks of opening and reconciling the bank statement performed by two different people? \_\_\_\_\_
3. Are the bank account reconciliations completed by someone other than the person who participates in the receipt or disbursement of cash? \_\_\_\_\_
4. Do the reconciliation procedures provide for:
  - a. Comparison of dates and amounts of deposits as shown on the bank statement with the cash receipts journal? \_\_\_\_\_
  - b. Investigation of bank transfers to determine that both sides of the transactions have been recorded? \_\_\_\_\_
  - c. Investigation of all bank debit and credit memos? \_\_\_\_\_
  - d. Review of all checks outstanding over 90 days? \_\_\_\_\_
  - e. Is the bank immediately notified of all changes of authorized check signers? \_\_\_\_\_
5. Are all journal entries for bank charges and bank account interest recorded routinely? \_\_\_\_\_

PETTY CASH:

Yes—No—N/A

1. Is the responsibility for the petty cash fund assigned to only one person? \_\_\_\_\_
2. Are all petty cash funds reconciled, i.e., the total amount of vouchers paid or disbursed, plus cash, will always equal the amount of the fund? \_\_\_\_\_
3. Is there adequate review of documentation before the fund is reimbursed? \_\_\_\_\_
4. Is the petty cash fund reimbursed at least monthly? \_\_\_\_\_
5. Is the cashing of checks and loans to employees prohibited? \_\_\_\_\_
6. Is the actual petty cash protected from theft or misplacement? \_\_\_\_\_

INVESTMENTS:

1. Are all investment instruments held in the name of the church only? \_\_\_\_\_
2. Is authorization for the sale and/or purchase of investments provided for by the vestry or authorized investment committee? \_\_\_\_\_
3. Are all investment instruments adequately protected from fire, theft, or misplacement? \_\_\_\_\_
4. Is the income/dividends/interest recorded? \_\_\_\_\_

PROPERTY AND EQUIPMENT:

1. Is there a fixed asset policy with a specific minimum dollar amount? \_\_\_\_\_
2. Is formal approval of the Vestry/BAC required for all property and equipment additions and dispositions? \_\_\_\_\_
3. 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? \_\_\_\_\_

PROPERTY AND EQUIPMENT, continued:

Yes—No—N/A

- 4.. Is a periodic review conducted to:
  - a. Compare the actual property, furniture and fixtures, and equipment to the recorded inventory listing? \_\_\_\_\_
  - b. Ensure the adequacy of the insurance coverage? \_\_\_\_\_

LIABILITIES AND OTHER DEBT:

- 1. Is all borrowing or indebtedness authorized by the Vestry/BAC or the appropriate diocesan board or committee? \_\_\_\_\_
- 2. Are all loan agreements and/or lease agreements in writing and properly safeguarded? \_\_\_\_\_
- 3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? \_\_\_\_\_
- 4. Are all liabilities noted on Financial Statements/Reports to the Vestry/BAC? \_\_\_\_\_

RESTRICTED GIFTS AND INCOME:

- 1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:
  - a. Date, amount and donor of gift? \_\_\_\_\_
  - b. Any restrictions or limitations? \_\_\_\_\_
- 2. Are all restricted gifts and grants approved by the Vestry/BAC or other authoritative body? \_\_\_\_\_
- 3. Are the income and other transactions periodically reported to the Vestry/BAC? \_\_\_\_\_
- 4. Are written acknowledgments issued for all contributions other than pledges? \_\_\_\_\_

PAYROLL:

Yes—No—N/A

1. 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. State Withholding Forms? \_\_\_\_\_
2. Is there a written record of hours worked and approved by a supervisor when applicable? \_\_\_\_\_
3. 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 Forms W-2? \_\_\_\_\_
4. Are payroll tax returns filed on a timely basis? \_\_\_\_\_
5. Are payroll tax deposits made on a timely basis? \_\_\_\_\_
6. Are all employees, clergy and lay, receiving a Form W-2? \_\_\_\_\_
7. Are Forms 1099 being provided for all individuals who are not employees, and for all unincorporated entities paid \$600 or more annually? \_\_\_\_\_
8. Are Form W-2 wages reconciled to the general ledger Accounts, and all four quarterly payroll tax returns? \_\_\_\_\_
9. Are clergy housing allowances recorded in the minutes Of the Vestry/BAC no later than the first meeting of the year? \_\_\_\_\_

COMPUTER SYSTEMS:

	Yes—No—N/A
1. Are current or duplicate copies of the operating system and programs maintained off premises?	_____
2. Are the files backed up at least weekly and the backups maintained off premises?	_____
3. Is access to the computer and computer programs limited to authorized persons?	_____
4. Is there adequate documentation, including user manuals available on-site for all computer programs?	_____
5. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?	_____

\*Questionnaire obtained from Manual of Business Methods in Church Affairs.

[http://www.episcopalchurch.org/finance\\_58218\\_ENG\\_HTM.htm?menupage=877](http://www.episcopalchurch.org/finance_58218_ENG_HTM.htm?menupage=877)

THE DIOCESE OF OREGON

Parish/Mission/Diocesan Organization \_\_\_\_\_

Location \_\_\_\_\_

BALANCE SHEET  
For the year ended December 31, 201\_\_

ASSETS

Petty Cash	\$	
Checking Account		
Savings Account		
Short-Term Investments (1)		
Long-Term Investments (2)		
Building Equipment (3)		_____
<b>TOTAL ASSETS</b>		<b>\$ _____</b>

LIABILITIES

Prepaid Pledges	\$	
Unpaid Invoices		
Withheld Payroll Taxes		
Loans Payable—Diocese		
Loans—Other		_____
<b>TOTAL LIABILITIES</b>		<b>\$ _____</b>

FUND BALANCES

Current Operating Fund	\$	
Endowment Fund		
Building Fund		
Memorial Funds		_____
<b>TOTAL FUND BALANCES</b>		<b>\$ _____</b>
<b>TOTAL LIABILITIES AND FUNDS</b>		<b>\$ _____</b>

- (1) Examples of short-term investments: CD's, money market accounts
- (2) Funds held for investment purposes for terms over one year
- (3) List at value used for insurance purposes or at historical cost. Specify which basis is being Used for valuation.

DIOCESE OF OREGON

Parish/Mission/Diocesan Organization \_\_\_\_\_  
 Location \_\_\_\_\_

Statement of Cash Receipts and Disbursements and Transfers  
 For the Year Ended December 31, 201\_\_

CASH RECEIPTS	ACTUAL	BUDGET
1) Plate Offerings	\$	\$
2) Pledges		
3) Contributions from Parish/Missions		
4) Diocesan Grant		
5) Special Offerings		
6) Investment Income/Unrestricted Funds		
7) Restricted Gifts		
8) Restricted Investment Income		
9) Receipts for Capital Improvements		
10) Use of facilities		
11) Other (should be itemized, as appropriate to The particular church.) Include as many additional lines as appropriate.	_____	_____
TOTAL RECEIPTS	_____	_____

CASH DISBURSEMENTS

Outreach		
Diocesan Program Assessment	\$	\$
Special Offerings		
Other Purposes Outside Parish		
Operating Expenses		
Salaries		
Pensions		
Payroll Taxes/Fica		
Travel		
Health/Life Insurance		
Altar Supplies		
Music/Choir		
Utilities		
Property Insurance		
Telephone		
Bookkeeping/Auditing		
Office Expense/Printing		
Other (should be itemized as appropriate to the particular church.) Include as many additional lines as needed.		
Capital Expense		
Repairs and Other Property Expense		
Loan Repayments		
Furniture and Equipment		
TOTAL DISBURSEMENTS	\$ _____	\$ _____

Excess of receipts over expenses before transfers	\$ _____	\$ _____
Transfers (to) from Other Funds	\$ _____	\$ _____
Excess of receipts over expenses after transfers	\$ _____	\$ _____
Cash Balances, Beginning of Year	\$ _____	\$ _____
Cash Balances, End of Year	\$ _____	\$ _____

\*\*This format is only one of many that may be used appropriately. The format most useful to the Vestry/BAC should be used.

APPENDIX A

SAMPLE AUDITORS' OPINION

THE DIOCESE OF OREGON

TO: The Rector/Vicar, Wardens and Vestry/BAC of \_\_\_\_\_ (church)  
\_\_\_\_\_  
(City)

AUDIT COMMITTEE REPORT

We have audited the Parochial Report and Financial Statements of the \_\_\_\_\_  
\_\_\_\_\_  
(Name and Location of Church)

\_\_\_\_\_  
(last day of year under review)

Our audit was made in accordance with the Audit Program as authorized by the Department of Finance of the Diocese of Oregon and accordingly includes the audit procedures as prescribed in said program. In our opinion, the Parochial Report and Internal Financial Statements present fairly the financial position of the \_\_\_\_\_  
(Name of Church)

\_\_\_\_\_ and the results of its operation of all funds of the church at

December 31, \_\_\_\_\_.

DATE: \_\_\_\_\_

Signed \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

All reports of such audits, including any memorandum issued by the auditors or audit committee regarding internal controls or other accounting matters, together with a summary of action taken or proposed to be taken to correct deficiencies or implement recommendations contained in any such memorandum, shall be filed with the Bishop or Ecclesiastical Authority not later than 30 days following the date of such report, and in no event, not later than September 1 of each year, covering the financial reports of the previous calendar year.

FOR AUDIT COMMITTEE USE ONLY. MUST BE SIGNED BY ALL MEMBERS OF AUDIT COMMITTEE.

APPENDIX B

SAMPLE INTERNAL CONTROL LETTER

Our study and evaluation of the Church's system of internal accounting control for the year ended \_\_\_\_\_ was made for the purpose of expressing an opinion on the church's annual financial statements based on Diocesan guidelines. Such study and evaluation disclosed certain weaknesses for which corrective action by management may be practical in the circumstances. We have summarized on the following pages these weaknesses along with recommended corrective action to be taken.

COMMENTS AND RECOMMENDATIONS

<u>Internal Control Weaknesses</u>	<u>Recommendations</u>
1. In reviewing the cash receipts we found that Sunday collection/ income sheets often have only one signature.	The Church should set up a system which will ensure that two individuals are available to count the collection after each service. This will provide additional control over cash receipts.
2. The Church does not document its reconciliation of monthly bank statements to the supporting documentation.	Every bank statement should be reconciled and reviewed by a person who is independent of the disbursement process. This procedure should be documented as it is performed. The documentation should be retained so it is available if needed. This provides control over cash balances.
3. The Church does not have a procedure which is used to retain supporting documents for paid invoices.	Files should be set up and the invoices filed alphabetically by vendor. This will ensure the payment support documentation is available if needed.

AUDIT COMMITTEE MEMBERS

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

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

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



