

# **Diocese of Southern Virginia**

## **Committee Audit (Internal Audit or Audit Exchange)**

These audit guidelines are prepared for use by the audit committee as a guide for their work.

Audit committee members should be independent of the decision making and financial record keeping functions of the congregation unless an audit exchange is being conducted. The members of the audit committee should have sufficient financial skills and experience to conduct a competent audit.

The scope of the audit shall include:

- a. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of the congregation.
- b. Verification (or preparation) of financial statements including income and expense report, balance sheet, and restricted funds.
- c. A review of management control practices.

The following pages will guide you through the work of the committee audit. After completion, a copy should be sent to the Diocesan office.

CHURCH AND AUDIT COMMITTEE

CHURCH AUDITED \_\_\_\_\_

ADDRESS \_\_\_\_\_

\_\_\_\_\_

MAILING ADDRESS  
(IF DIFFERENT) \_\_\_\_\_

\_\_\_\_\_

YEAR AUDITED \_\_\_\_\_

If an audit exchange was conducted, identify the church that is doing the audit:

\_\_\_\_\_

MEMBERS OF COMMITTEE:

	<u>Name</u>	<u>Position*</u>	<u>E-Mail</u>
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____

\* If committee member holds a position in the church such as vestry member, warden, finance committee chair/member, etc., please indicate. Otherwise, leave blank.

**Part 1: General Responsibility/Oversight**

1. Obtain and review the audit report covering the period immediately preceding this period being audited.

Have prior audit recommendations been implemented? \_\_\_\_\_

If some prior recommendations have not been implemented, explain what they are and reason for not being implemented.

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

2. Is there an Accounting Policy and Procedures manual for this church (not the *Manual of Business Methods in Church Affairs*)? \_\_\_\_\_

3. Obtain Vestry minutes, approved budget and annual year-end financial reports for the period being audited.

4. Review the Vestry minutes for:

- a. Budget approval. Date approved: \_\_\_\_\_

- b. Other matters that affect the financial reports:

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

5. Are monthly financial reports prepared and submitted to the Vestry? \_\_\_\_\_

- a. Are the monthly actual numbers compared to the approved budget numbers?

\_\_\_\_\_

- b. What were significant variances to budget in the audit year?

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

6. Review all Journal Entries (entries unrelated to cash transactions):

- a. Is there an appropriate explanation accompanying each journal entry?

\_\_\_\_\_

b. Are all journal entries approved by a knowledgeable authority other than the person initiating the entry?

\_\_\_\_\_

c. Is adequate documentation maintained to support each journal entry?

\_\_\_\_\_

7. Are periodic reviews of insurance coverage made to determine adequacy of each type of insurance? \_\_\_\_\_

Date of last insurance review \_\_\_\_\_

8. Are inventories of furnishings and equipment for insurance purposes current and complete? (listing or video inventory) \_\_\_\_\_

Date of last update \_\_\_\_\_

9. Does the church have bylaws?

\_\_\_\_\_

10. Does the church have any affiliated entities that derive their status from the church? Please list those entities in the chart below: (examples include ECW, school, book store) If organization not separately incorporated, committee audit should include audit of these entities.

Entity	Incorporated (yes/no)	Accounting by:	Audited by (if separately incorporated):

11. Is building space currently being provided to other organizations on a regular basis? Are written agreements concerning the use of the facilities and insurance certificates from the user on file? If so, list those organizations in the chart below: (examples include non-church operated school, AA, Boy Scouts...)

Organization	Written Agreement on file?	Lease? Starting Date and Term:	Revenue?	Insurance Certificate on file?

12. Are statements of contributions provided to parishioners? \_\_\_\_\_

How often are they provided (monthly, quarterly, annually)? \_\_\_\_\_

13. Are financial reports and/or parishioner records computerized or manually maintained?

\_\_\_\_\_

If maintained manually, what steps are being taken to become automated?

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

14. Briefly describe the computer system and accounting program being used.

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

15. For all computers used within the church:

a. Are current or duplicate copies of the operating system and programs maintained off premises? \_\_\_\_\_

b. Are the files backed up daily and the backups maintained off premises?

\_\_\_\_\_

c. Is access to computers (including server) and computer programs limited to authorized persons?

\_\_\_\_\_

d. Is there adequate documentation, including user manuals, available on-site for all computer programs?

\_\_\_\_\_

e. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?

\_\_\_\_\_

f. Is there a plan for recovery of data and continuation of operations in the event of a disaster?

\_\_\_\_\_

g. If there is wireless internet service, is it password protected?

\_\_\_\_\_

**Part 2: Current Assets**

List all checking, savings, investment, discretionary, and related organization bank and brokerage accounts. If an account is not included in this audit, explain here:

\_\_\_\_\_

\_\_\_\_\_

<b>Institution</b>	<b>Type (checking, savings, investment)</b>	<b>Account #</b>	<b>Purpose</b>	<b>12/31/20 Balance</b>

a. Are the accounts in the name of, and addressed to, the church? \_\_\_\_\_

- b. Is the church's tax ID number used for all accounts? \_\_\_\_\_
- c. Are statements of each account available to show activity for the year?  
\_\_\_\_\_
- d. Is the bank account reconciliation completed by someone other than the person who participates in the receipt or disbursement of cash?  
\_\_\_\_\_
- e. If not, are the bank reconciliations reviewed and signed by someone other than the person who completed it? Who?  
\_\_\_\_\_
- f. Are bank accounts being reconciled with the books promptly after receipt? Are reconciliations attached to statements?  
\_\_\_\_\_
- g. Do the reconciliation procedures provide for:
- i. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits?  
\_\_\_\_\_
  - ii. Investigation of bank transfers to determine that both sides of the transactions have been recorded?  
\_\_\_\_\_
  - iii. Investigation of all bank debit and credit memos?  
\_\_\_\_\_
  - iv. Review of all checks outstanding more than 90 days?  
\_\_\_\_\_
  - v. Are checks more than 180 days outstanding voided during the year-end reconciliation and either reissued to payee or sent to the state?  
\_\_\_\_\_
  - vi. Is the bank immediately notified of all changes of authorized check-signers? \_\_\_\_\_
  - vii. Are all journal entries for bank charges and bank account interest recorded routinely?  
\_\_\_\_\_
  - viii. Are all bank accounts included on financial reports to the Vestry?  
\_\_\_\_\_

**NOTE: You are asked to examine or test on a "Sample Basis."**

**The definition of "Sample Basis" is: 10% of all transactions or 25 transactions, whichever is smaller.**

16. For operating accounts, examine on a sample basis of available backup documentation (i.e., paid bills, invoices, etc.) to support disbursement and accounting of cash funds. Indicate:

a. Number of items tested \_\_\_\_\_

b. Number of irregularities \_\_\_\_\_  
(please identify specific cases, if any)

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

17. For savings and investment accounts, examine on sample basis, activity for the period being audited. Was activity in accordance with the investment plan and appear to be in the normal course of business? If not, please comment:

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

18. Review all petty cash accounts:

a. Is the responsibility for the petty cash fund assigned to one person?

\_\_\_\_\_

b. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund?

\_\_\_\_\_

c. Is adequate review made of documentation before the fund is reimbursed?

\_\_\_\_\_

d. Is the petty cash fund reimbursed at least monthly? \_\_\_\_\_

e. Are check cashing and making loans to employees prohibited?

\_\_\_\_\_

f. Is the actual petty cash protected from theft or misplacement?

\_\_\_\_\_



19. Review any major receivables, deferred or prepaid expenses, or other assets. Investigate, or consider confirmation of, any significant amount. List significant items:

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**Part 3: Fixed Assets**

20. Review methods and procedures used to report capital expenditures and equipment. Has land, buildings, property and equipment been appropriately reflected at cost on the balance sheet? \_\_\_\_\_

Has depreciation of property and equipment been recorded in the accounts?  
\_\_\_\_\_

21. Is formal approval of the Vestry required for all property and equipment additions and dispositions? \_\_\_\_\_

22. 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? \_\_\_\_\_

23. Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing? \_\_\_\_\_

24. Is there a safe deposit box? \_\_\_\_\_

a. Who is authorized to enter it? \_\_\_\_\_

b. Is there an inventory of its contents? \_\_\_\_\_

25. Are permanent records such as articles of incorporation, bylaws, real estate deeds and titles kept in a safe place? \_\_\_\_\_

Have any deeds and titles required been examined as evidence of ownership?

\_\_\_\_\_

Are they up to date? \_\_\_\_\_

26. Are any liens outstanding against property and equipment? \_\_\_\_\_

**Part 4. Liabilities**

27. Review the individual liabilities reported on the Balance Sheet. Are all liabilities noted on the Financial Reports to the Vestry?

\_\_\_\_\_

28. Are operating costs (salaries, utilities, etc.) paid on time? \_\_\_\_\_

29. Is Accounts Payable being used? \_\_\_\_\_ If so, review “Accounts Payable Aging Report” and comment:

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

Are there any “held checks” (checks printed but not mailed)? \_\_\_\_\_  
If so, please list and explain:

\_\_\_\_\_

30. List debt sources and debt balances as of December 31<sup>st</sup>:

<b>Institution</b>	<b>Description</b>	<b>Debt balance as of 12/31/13</b>

a. Are mortgage or loan payments being made on a current basis? \_\_\_\_\_

b. Does the statement balance agree to the balance on the balance sheet?

\_\_\_\_\_

Is all borrowing or indebtedness authorized by the Vestry?

\_\_\_\_\_

c. Does all indebtedness involving real property have the consent of the Diocesan Standing Committee?

\_\_\_\_\_

d. Are all loan agreements and/or lease agreements in writing and properly safeguarded? \_\_\_\_\_

e. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? \_\_\_\_\_

**Part 5. Cash Receipts**

31. Review procedures and controls for cash receipts, including the collections from church services and the deposit of such monies.

32. Test (on a sample basis) counter sheets, deposit records, recordings of cash receipts and determine that revenues are properly recorded and appropriately classified in the financial reports. Test the procedure by following selected cash receipts from original receipt to final reporting in the financial reports. Comment on any unusual items.

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

a. What are the safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?

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

b. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis (e.g., at least weekly)?

\_\_\_\_\_

c. Are there at least two unrelated persons responsible for counting and depositing the collections?

\_\_\_\_\_

d. Are the persons responsible for counting receipts rotated on a periodic basis?

\_\_\_\_\_

- e. Do the counters have a standardized form for recording the deposit information?  
\_\_\_\_\_
  - f. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?  
\_\_\_\_\_
  - g. Is there a control prohibiting the cashing of checks from the currency received?  
\_\_\_\_\_
  - h. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? \_\_\_\_\_
  - i. Are all other cash receipts recorded and deposited on a timely basis?  
\_\_\_\_\_
  - j. Are all checks received restrictively endorsed —for deposit only “immediately upon receipt?” \_
  - k. Are all cash receipts deposited into the general operating checking account?  
\_\_\_\_\_
- If not, please explain:  
\_\_\_\_\_  
\_\_\_\_\_
- l. Are there procedures that will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded?  
\_\_\_\_\_
  - m. Are all discrepancies investigated? \_\_\_\_\_

**Part 6: Cash Disbursements**

- 33. Review procedures and controls for the disbursement of funds from the operating account and any other accounts.
- 34. Determine who was authorized to sign checks during the period being audited and test (on a sample basis) cancelled checks to assure that checks were signed by authorized individuals. Note any discrepancies.

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

- a. Are all disbursements made by check, except for small expenditures made from petty cash? \_\_\_\_\_
- b. Are all checks pre-numbered and used in sequence? \_\_\_\_\_
- c. Is there a clearly defined approval process for all disbursements?  
\_\_\_\_\_
- d. Are all voided checks properly cancelled and retained? \_\_\_\_\_
- e. Are all checks made payable to specified payees and not to cash or to bearer?  
\_\_\_\_\_
- f. Check signing:
  - i. Is signing blank checks prohibited? \_\_\_\_\_
  - ii. Is using a signature stamp or pre-printed signatures prohibited?  
\_\_\_\_\_
  - iii. Does all supporting documentation accompany checks presented for signature? \_\_\_\_\_
  - iv. Are all account signers authorized by the Vestry? \_\_\_\_\_
  - v. Is more than one signature required for every check? \_\_\_\_\_
  - vi. If not, do checks for more than a certain amount \$\_\_\_\_\_ require more than one signature?  
\_\_\_\_\_
  - vii. If signature imprint machines are used, are the keys kept under lock and key except when in use? \_\_\_\_\_

35. Examine (on a sample basis) supporting documentation for disbursements, including receipt of goods and approval for payment. Comment on any unusual items.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- a. Are all disbursements supported by original documentation? \_\_\_\_\_

- b. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment? \_\_\_\_\_
- c. Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee minutes?  
\_\_\_\_\_
- d. Are there adequate controls and segregation of duties regarding electronic funds transfers? \_\_\_\_\_
- e. Has the vestry adopted an "accountable reimbursement plan" for payments to employees? \_\_\_\_\_

36. Examine (on a sample basis) the records of cash disbursements and determine that expenditures are appropriately reflected and classified in the records and financial reports. Comment on any unusual items.

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

37. Review outstanding checks. Any check outstanding for a period longer than 3 months from the Balance Sheet date should be questioned for satisfactory explanation. Note any discrepancies.

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

38. Examine the January 31<sup>st</sup> bank statement following the close of the audit year for items impacting the audit year. Comment on any unusual items.

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

**Part 7. Payroll**

39. Examine payroll tax reports (Form 941), W-2 forms, 1099 forms, etc. to determine that filing requirements have been met and taxes properly remitted. Comment on any unusual items. \_\_\_\_\_

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

40. 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. Virginia Form VA-4? \_\_\_\_\_
- e. Department of Justice Form I-9? \_\_\_\_\_
- f. New hire reporting? \_\_\_\_\_

41. Is there a written record of hours worked, approved by a supervisor when applicable?

\_\_\_\_\_

42. 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 W-2 forms? \_\_\_\_\_

43. Was clergy compensation reported at end of year on form W-2? (Required except in the case of supply priest) \_\_\_\_\_

- a. Was the value of life insurance premiums on coverage in excess of \$50,000, including the amount provided by Church Pension Group, included on form W-2? (Required) \_\_\_\_\_
- b. Was vestry approved clergy housing allowance reported or not reported in Box 14 of form W-2? (Optional) \_\_\_\_\_
- c. Was federal income tax withheld or not withheld from compensation of clergy? (Optional) \_\_\_\_\_
- d. Assure that social security and Medicare taxes have **NOT** been withheld from compensation of clergy. If not, explain.  
\_\_\_\_\_  
\_\_\_\_\_

- e. Were travel expenses of clergy disbursed on the basis of a predetermined travel allowance or an actual accounting of mileage submitted by the individual?  
\_\_\_\_\_

- f. If travel expenses of clergy were disbursed on the basis of a travel allowance, was that amount substantiated with actual date/mileage reporting or as required, reported on Form W-2 as taxable income to the individual?  
\_\_\_\_\_
- g. Has a loan been made to the clergy or clergy's family at an interest rate below market? If so, is this reported as income on the clergy's W-2? \_\_\_\_\_
- h. If a loan has been made, is it properly documented? \_\_\_\_\_
44. Are pension payments up to date for all participants? \_\_\_\_\_
45. Are lay employees (excluding teachers) that work more than 1,000 hours a year covered by a CPG pension plan?  
\_\_\_\_\_
46. Are lay employees that work more than 1,500 hours a year covered by a Medical Trust healthcare plan? (canonical requirement effective 1/1/2013)  
\_\_\_\_\_
47. Are payroll taxes being paid on a current basis and applicable payroll reports filed on time? \_\_\_\_\_
48. If the church has one or more employees (including clergy), has a workers compensation insurance policy been obtained? (Required) \_\_\_\_\_
49. Is payroll outsourced? \_\_\_\_\_ If yes, list company \_\_\_\_\_
50. Compare salaries paid to approved budget. Comment on any differences.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
51. Have those non-employee individuals or unincorporated companies, who received payments of \$600 or more during the year, been issued a form 1099-MISC to report their earnings? \_\_\_\_\_



**Part 8. Discretionary Funds**

52. Identify and list all discretionary funds and clergy positions holding these funds.

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53. For each discretionary fund:

a. Is the account in the name of the church? \_\_\_\_\_

b. Is the church's tax ID number used to identify the account at the bank?

\_\_\_\_\_

c. Examine disbursements from discretionary funds to ensure funds were used for discretionary purposes and not for operating fund expenditures. Comment on any variations.

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d. List those individuals authorized to sign checks on the discretionary bank account.

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**Part 9: Net Assets**

Net assets is the amount of total assets minus total liabilities. Another way of looking at Net Assets would be how much the church would have to spend if the church could pay all its expenses and liquidated all its assets. Net Assets is divided into two major classifications:

- Net assets without donor restrictions, includes board designated funds
- Net assets with donor restrictions, includes endowment funds

54. List all restricted funds (net assets). Examine the donor letter or trust/agency agreement for each new gift and contributions received during the fiscal year. If a fund is not included in this audit, please explain.

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Source	Date Received (write 'annual' for sum of recurring gifts)	Terms Governing Use	Amount originally restricted/amount earned by not spent	Which bank/investment account holds the funds for this category?

a. Does the Vestry or other authoritative body approve all restricted gifts and grants?

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b. Are the income and other transactions periodically reported to the Vestry?

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c. Are written acknowledgments issued for whom they are required?

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- d. Has the vestry created an investment policy statement?

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**Part 11. Reports**

55. Obtain a copy of the adjusted year-end financial statements (Revenue and Expense Report, Balance Sheet and Summary of Restricted Accounts, if applicable.) Review the financial statements and satisfy yourself that the statements appropriately account for the financial activity of the church for the year.
56. Prepare an Audit Committee Report as a result of your review of the financial records of the church. (See page 20)
57. Prepare an Audit Committee Findings on Policies and Procedures as a result of your review of the financial records and the review of the internal control procedures of the church.(page 21)

**AUDIT COMMITTEE REPORT**

Date \_\_\_\_\_

To: The Rector (or Vicar or Priest in Charge), Wardens and Vestry (or Bishop’s Committee) of

Church \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Subject: \_\_\_\_\_ Financial Audit  
(Year)

We have reviewed the financial statements resulting from financial transactions of \_  
(Name of Church)

As of December 31, \_\_\_\_\_. Our review was made in accordance with audit guidelines issued by the Episcopal Diocese of Southern Virginia and other procedures deemed appropriate by the audit committee.

Our objective was to assure that the accompanying financial statements present fairly, in all material respects, except as noted below, the financial position and results of its operations of the Church at December 31, \_\_\_\_\_, in accordance with accounting principles promulgated by the National Episcopal Church, on a consistent basis.

(Note exceptions and comments here, if any).

Our examination and report is not and is not meant to be construed as an audit and opinion rendered by an Independent Public Accountant.

Members of the Audit Committee:

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

(Signatures)

AUDIT COMMITTEE FINDINGS ON POLICIES AND PROCEDURES

Date \_\_\_\_\_

To the Rector, Wardens and Vestry of

Church: \_\_\_\_\_

Address: \_\_\_\_\_

Subject: \_\_\_\_\_ Financial Audit  
(Year)

During the course of the examination referred to above, the following items pertaining to internal control and other operational matters, which we believe to be of a significant nature, were noted. The first category of comments includes those areas of control where recommendations of the previous auditors have been implemented. The second category of comments restates those recommendations of the prior year's auditors that have not been acted upon but believed to still be worthy of consideration. The third category of comments includes comments and recommendations pertaining to areas that we believe improvements in control and/or procedures should be initiated. This letter should be made a part of the minutes of a Vestry meeting.

Areas where prior year auditors recommendations have been implemented:

- 1.
- 2.

Prior year's auditor's recommendations which still exists:

- 1.
- 2.

Comments and recommendations of current year auditors:

- 1.
- 2.

Members of the Audit Committee:

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

(Signatures)