



The Episcopal Diocese of Fort Worth

FINANCIAL GUIDE

**For use by Parishes, Missions,
and Diocesan Institutions**

January 2006

INTRODUCTION

1. PURPOSE:

These audit guidelines have been developed to assist auditors in performing the annual audit of the books of account of Parishes, Missions and Institutions of the Episcopal Diocese of Fort Worth.

2. REASONS FOR AN AUDIT:

Annual audits are required for all parishes, missions, and other institutions by the Canons of the Episcopal Church and those of the Diocese of Fort Worth. Any person handling any monies or investments of the church needs an audit to protect the church assets and him or her against suspicion of mishandling the monies and investments. Similarly, rectors, vestries, vicars, Bishop's Committees, treasurers, and other persons in position of responsibility are liable for any losses which would have been discovered by an ordinary audit, but were not discovered because they failed to have an audit conducted.

In addition, an announcement to the congregation that an audit has been completed and that all monies and investments are properly accounted for, will have a positive impact on stewardship.

3. APPROVED AUDITORS:

The Canons of the Diocese of Fort Worth permit the auditing of congregational accounts by "an independent Certified Public Accountant", by "an independent public accountant", or by such committee as shall be authorized by the Finance Committee of the Diocese. A resolution adopted by the Diocesan Finance Committee stipulates that those parishes, missions, and institutions of the Diocese whose annual incomes do not exceed \$500,000.00 may conduct the "Committee Audit".

- a. **The Committee Audit:** These Audit Guidelines have been specifically prepared for Audit Committees.
- b. **The Audit Committee:** A committee of three (3) qualified *(See note below) persons who are members of the parish, mission or institution appointed by the Rector/Vicar and Vestry/Bishop's Committee, none of whom shall have functioned as the treasurer, bookkeeper, or the person keeping the accounting records during the period of the audit, may conduct a committee audit.

NOTE:

***Qualified persons are ones who are willing to conduct the audit properly and in accordance with this audit guide. An accounting or bookkeeping background is desirable; however, others can be appointed, as long as they are independent and agree to take the time to do the audit properly. The purpose of this document is to simplify and de-mystify the audit process. The clergy should not be a part of the audit committee as they are part of management and management does not audit itself. Upon completing the audit, all members of the committee must sign a certificate in the approved form certifying to the congregation and the Bishop that the finances of the parish/mission are in order.**

4. SCOPE OF THE COMMITTEE AUDIT:

The scope of the audit shall include:

- a. The minimum tests and checks required by generally accepted auditing standards to assure compliance with these guidelines and adequate control of the assets of each congregation;**
- b. Verification of (or preparation of) financial statements in the form approved for the Episcopal Church as set forth in the “MANUAL OF BUSINESS METHODS IN CHURCH AFFAIRS”. Refer to Chapter IV (Bookkeeping).**
- c. A review of management control practices using the Internal Control Questionnaire enclosed herein.**

5. ACCOUNTS TO BE AUDITED:

All Accounts must be audited. **This requirement covers not only the operating accounts of the organization, but also all its restricted, endowment, and property funds, and the accounts, if any, of its organizations. No church money is exempt from the requirement of an audit.**

6. OBEJECTIVES OF THE AUDIT: The major objectives of an audit of a parish or mission are to ascertain the following:

- a. That the various transactions during the year are proper and are documented appropriately; i.e. authorized, complete and accurate;**
- b. That the various transactions during the year are recorded in the proper amounts and in the proper accounts;**
- c. That the assets, liabilities, income and expenses which should be in the financial records are so shown, in the proper amounts, and in the proper accounts;**

- d. That, to the extent possible, adequate internal control procedures were and continue to be in effect; and
- e. That the financial statements for the year were prepared from the financial records and present fairly the financial position of the congregation.

7. TIMING OF THE AUDIT:

Canon 29.1f of the Constitution and Canons of the Diocese of Fort Worth call for the church fiscal, i.e., financial, year ending on December 31 of any given year. The engagement of the Auditor or Audit Committee should be done prior to the end of the period being examined. This timing allows the auditor to include certain audit procedures which can only be performed at year end. The audit is required to be submitted to the Diocesan office no later than September 1 of the following year being audited.

8. CONTENTS OF THE AUDIT:

The Auditor or Audit Committee is responsible for submitting an audit report to the Vestry or Mission Committee of the church. The Audit Report shall consist of:

- a. The Audit Committee Certificate
- b. A Statement of Assets and Liabilities resulting from cash transactions
- c. A Statement of Cash Revenues and Expenses
- d. Completed Audit Procedures Checklist
- e. The Committee Audit Findings on Policies and Procedures.

9. FILING OF THE AUDIT:

- a. The audit report shall be submitted to the Vestry or Bishop's Committee upon completion.
- b. A copy of the Audit Report shall be forwarded no later than September 1 to the Ecclesiastical Authority. The Minutes of the Vestry or Bishop's Committee will officially record the receipt, acceptance, and subsequent filing of the Audit Report with the Ecclesiastical Authority.
- c. If, at any time during the audit, the records reveal a situation which suggests that something is seriously wrong, the matter should be brought immediately to the attention of the Rector/Vicar, the Wardens, and to the Director of Business and Finance.

INTERNAL CONTROL PROCEDURES

During the course of examination the Audit Committee should review internal procedures as follows:

- a. Have monthly reports to Vestry, Bishop's Committee or Board been prepared and submitted?**
- b. Are bank accounts reconciled at regular intervals?**
- c. Are two signatures required on checks and on withdrawals from savings accounts, transfers of stock and other securities:**
- d. Do two or more persons count the weekly collection?**
- e. Are the Treasurer and bookkeeper excluded from counting?**
- f. Are all receipts deposited intact?**
- g. Does someone other than the Treasurer maintain the pledge cards?**
- h. Are pledge statements sent periodically, i.e. at least quarterly?**
- i. Are recommended bookkeeping forms used, such as stock and security records, property, and insurance records?**
- j. Are payroll records maintained, proper taxes withheld and documents submitted to proper authority?**
- k. Is separate accounting made of gifts for designated purposes?**
- l. Does someone other than the Treasurer receive and open all mail?**
- m. Does someone other than the Treasurer record the checks received in the mail?**
- n. Are two persons required to access to the Safety Deposit Box?**
- o. Are permanent trust, endowment or capital funds properly recorded, and income disbursed for the purposes designated?**

IF YOU HAVE ANSWERED "NO" TO MORE THAN THREE (3) QUESTIONS, ASK FOR ASSISTANCE!

AUDIT PROCEDURES

1. CASH RECEIPTS

- a. Verify income for year as recorded on the annual budget to the pledge file.**
- b. Select three months at random and check deposits made to collection count as recorded by individuals making cash count each Sunday. Deposits should be made within forty-eight hours of receipt. Unusual delay in making deposits should be investigated.**
- c. Verify bank reconciliation at year end.**
- d. Total cash receipts for the year, as recorded, and verify total deposited for year. Reconcile any discrepancy.**
- e. Check total receipts as recorded for year to receipts reflected in financial statements furnished to Vestry or Bishop's Committee.**
- f. Verify investment and other income received, In case of endowments or special bequests, the original terms of the bequest should be reviewed. Care should be taken to determine that the expenditures were made in accordance with the terms of the bequest.**

2. CASH DISBURSEMENTS

- a. Verify total disbursements for the year as recorded in Cash Disbursements book or from appropriate computer print-outs.**
- b. Check total of disbursements as recorded, to financial statements furnished to Vestry or Bishop's Committee.**
- c. Verify totals of major disbursement items, i.e., salaries, utilities, maintenance, etc. to budget and account for major overspending.**
- d. Check mortgage or contract payments and verify year end balance due with the lending agency.**
- e. At random, select 10% of the disbursements for the year and substantiate by examination of invoices for such expenditures.**

- f. **Verify total of unpaid bills at year end by examination of invoices of disbursements made in the two months following the close of the year.**
- g. **Examine payroll records for possibility of fictitious employees being listed or wrong amounts being used.**

3. BANK ACCOUNTS

- a. **The Auditor or Audit Committee should ascertain the number of bank accounts maintained and the purpose of which each is maintained. Receipts and disbursements in all checking and savings accounts covering the disposition of church funds are to be incorporated into the statement of receipts and disbursements, either in the Report of “Treasurer’s Funds” or in the “Report of Other Parish Funds” in the Parochial Report.**

4. OTHER INFORMATION

- a. **The amount of endowment and invested funds should be ascertained and verified by the auditor or Audit Committee.**
- b. **Indebtedness of the Parish or Mission should be ascertained by the auditor or Audit Committee and all indebtedness items listed, including current bills payable.**

5. INSURANCE

The auditor or Audit Committee should review Fire Insurance on plant and equipment for adequacy of coverage (Title I, Canon 7, Section 1(6)), and other coverage including the following:

- *General Liability**
- *Workers Compensation**
- *Burglary**
- *Fine Arts**
- *Automobile coverage on cars owned by the church, plus Non-ownership Liability Insurance on account of cars owned by others and used for church business**
(Treasurer’s Bond in the amount of \$50,000.00 is covered by the Diocese of Fort Worth)

6. PAYROLL

- a. **FICA withholding and payment is required for any lay employee earning more than \$50.00 per quarter. In most cases, this includes organists, sextons, baby-sitters, etc.**

- b. All lay employees are subject to income tax withholding.
- c. Church employees are not subject to SUI or SDI unless election is made.
- d. Clergy are considered self-employed for social security purposes. Clergy are not required to have federal income taxes withheld.

7. PROPERTY TAX EXEMPTION

The Property Tax Exemption needs to be protected. Check the use of Church property by outside organizations to verify compliance with the law. Use must be limited to those agencies who are also tax exempt, and whose purposes is directly related to the purpose of the Church.

8. DISCRETIONARY/BENEVOLENCE FUNDS

- a. *Clergy Discretionary/Benevolence Funds always belong to the Church and all receipts, disbursements and the fund balance are recorded on the church accounting records as a separate designated fund. A Vestry/Bishop's Committee may approve use of a separate checking account for the discretionary fund. In that case, all receipts are first deposited and recorded on church books and then transferred to the separate checking account. Such checking accounts must be in the church's name, using the church's tax ID number, and be authorized by the Vestry/Bishop's Committee. The priest, of course, may have the sole signature authority.*
- b. Honoraria received by clergy may be designated by the clergy for the discretionary fund. If retained by the priest, honoraria are taxed as personal income.
- c. All Clergy Discretionary Funds are restricted funds of the church. As such, they are subject to audit even if a separate checking account is maintained. The member of the clergy may be permitted to maintain the confidentiality of direct assistance given individuals. The manner in which this is done must be determined and agreed to jointly by the priest and Vestry/Bishop's Committee.
- d. Contributions made to the fund for direct assistance of named individuals are not tax deductible contributions. Donors must be so informed.

e. Checklist for Discretionary/Benevolence Funds—

- 1. Discretionary/Benevolence Fund is in the name of the church.**
- 2. Church's tax ID number is used.**
- 3. Fund has not been used for church's operating expenses or personal expenses of the clergy.**
- 4. If a separate checking account is used, all funds are first deposited and recorded on church books and then transferred to separate account.**

THIS AUDIT GUIDE IS INTENDED AS A "MINIMUM GUIDE". Most of the information and instructions have been taken from the Manual of Business Methods in Church Affairs published by the Episcopal Church Center and issued on January 1, 1995, and the Manual of Accounting Principals and Reporting Practices for Parishes and Missions, dated January 1, 1987. A more detailed Audit Procedure may be found in the former Manuel listed above.

Should there be any questions regarding the Audit Procedure, please contact the Office of the Director of Business and Finance at 817-244-2885.

Attachments:

- 1. Auditor's Certificate**
- 2. Audit Committee Certificate**
- 3. Audit Committee's Findings on Policies and Procedures**

AUDITOR'S CERTIFICATE

The certificate accompanying the audit shall take either the form of a standard Auditing Certificate if the audit is conducted by a Certified Public Accountant or Independent Public Accountant, or as follows if audit is made by the Audit Committee as approved by the Finance Committee of the Diocese of For Worth.

AUDITOR'S CERTIFICATE

We have examined the Financial Statements of _____
As of December 31, 20____, and the related Report of the Treasurer's Funds for
the year then ended. Our examination was made in accordance with the Audit
Guide as promulgated by the Finance Committee of the Diocese of Fort Worth and
accordingly included the audit procedures as prescribed in this guide.

In our opinion, the accompanying Financial Statements and the Report of
Treasurer's Funds present fairly the financial position of the church of
_____, _____, Texas and the results of
its operations for the year ended on a basis consistent with that of the preceding
year except as noted below. (Note exceptions, if any.)

Signed _____

Printed/Typed _____

Signed _____

Printed/Typed _____

Signed _____

Printed/Typed _____

Date: _____

AUDIT COMMITTEE CERTIFICATE

Date: _____

To the Rector, Wardens, and Vestry of _____

Address of Church

Subject: 20____ Audit of _____

We have inspected the statement of assets and liabilities resulting from cash transactions of _____ as of December 31, 20____, and the related statement of cash receipts and expenditures, and changes in operating fund balance for the year then ended. Our inspection was made in accordance with the audit guidelines of the accounting manual, the *Manual of Business Methods in Church Affairs*, and the financial statements are prepared on a (cash, modified accrual, or accrual) basis in accordance with principles adopted by the Episcopal Church and approved by its General Convention except as noted.

(Note exception here, if any: Was depreciation recognized? Were donated services recorded?)

We have taken steps to see that the accompanying financial statements and report of Treasurer's Funds present fairly the assets and liabilities of the Church as of December 31, 20____; and that the receipts and expenditures and changes in operating fund balance for the year then ended, arising from cash transactions, are in accordance with the principles authorized by General Convention of the Episcopal Church on a basis consistent with that of the preceding year.

Our inspection and certificate are not meant to be construed as an audit and opinion rendered by a Certified Public Accountant.

Members of the Audit Committee

_____ Name	_____ Address	X _____ Signature
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_____ Name	_____ Address	X _____ Signature
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_____ Name	_____ Address	X _____ Signature
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Audit Committee Findings on Policies and Procedures

Date: _____

To the Rector, Wardens, and Vestry of _____

Address of Church

Subject: 20____ Audit of _____

During the course of the above inspection the following items pertaining to internal control were noted. The first group of items is areas of management control where poor practices have been corrected in accordance with the recommendation of the previous auditor; the second group is areas where we feel some improvement should be made. This letter should be made part of the minutes of your vestry meeting.

Areas where poor practices have been corrected (*list corrections*):

Areas in need of change (*list poor practices with the suggested change*):

Members of the Audit Committee

Name Address X
Signature

Name Address X
Signature

Name Address X
Signature