

**DIOCESE OF BETHLEHEM  
AUDIT PROCEDURE**

## **ANNOTATED WORKBOOK FOR AUDITORS**

The pages that follow have comments, guidelines, and suggestions for the questions of the Audit Procedure that has been authorized for use in this Diocese by congregations. This annotated workbook is intended to help a non-accountant who is conducting the audit. The workbook may also alert an accountant who is not familiar with The Episcopal Church to certain matters pertaining only to Episcopal congregations.

### **Why an Audit is Required and Beneficial**

1. **We want to be sure that there is financial transparency.** When the finances are accurate, transparent, and accessible, the congregation builds confidence and congregational giving increases.
2. **We want to be sure that there is compliance with the laws.** For example, you should make sure that all matters dealing with payroll taxes and filings are being properly done. You should make sure that all compensation paid to employees, including any bonuses or extra compensation for weddings, funerals, etc., are included in the W-2.
3. **We want to be sure that there is compliance with the Canons of the Episcopal Church and of the Diocese of Bethlehem.** For example, was the parochial report filed in a timely fashion, and was it completed in accordance with the instructions? Can you tie the year-end report of income and expenses to the parochial report? Are all the organization's accounts included in the audit in accordance with the Canons?
4. **We want to be sure that the Vestry is fulfilling its fiduciary responsibilities.** For example, does the Vestry receive full financial information? Are the buildings adequately insured? Is all debt accurately disclosed on the balance sheet? Is there a budget? Are Vestry and committee minutes preserved? Does the Vestry approve major expenses and note the receipt of major gifts? Is there a full report to the Annual Meeting?
5. **We want to be sure that basic bookkeeping is being kept up to date and that adequate internal controls are in place.** For example, are all the bank accounts reconciled regularly? Is there proper documentation for disbursements? Are the contributions records adequate? Is investment activity properly recorded and reported?

The auditor may certainly do more than is required by these procedures.

Following are the questions for the Audit. Notes have been added when the questions are not self-

explanatory. In every case in which you cannot answer a question with an unqualified “yes,” you should make an explanatory comment. In most instances when you cannot answer “yes,” you will want to recommend to the parish leadership that changes be made so the answer next year can be affirmative.

### Items Needed for Audit

The following items need to be available in order to complete the audit:

1. Vestry minutes from November of year prior to year of audit to February of current year
2. Approved budget for fiscal year being auditing
3. Balance Sheet as of 12/31 of fiscal year being audited
4. Financial Report as of 12/31 of fiscal year being audited as presented at the annual meeting
5. Parochial Report for fiscal year being audited
6. Insurance records including video or listing of insured assets
7. All Bank statements from December of year prior to year of audit to January of current year & passbook savings accounts, along with their monthly reconciliations
8. Investment statements from December of year prior to year of audit to January of current year
9. Any restricted gift documents
10. Copy of approved signers card or authorization form from the bank and investment firms for all accounts
11. All invoices paid/dated within fiscal year being audited
12. All mileage reimbursement documentation.
13. All payroll records along with the payroll tax records submitted to taxing authorities
14. Copies of pledge statements issued to contributors as requested by auditors
15. Rector's pension computation
16. All income records (ie. pledges, donations, etc.)
17. At least one copy of this workbook
18. Any additional documents needed to complete the audit such as mortgages, loans, lease agreements, trusts, service agreements, etc.

#### Notes:

- The term **Vestry** also refers to **Bishop's Committee** throughout this document.
- Any audit is unlikely to catch fraud unless it is especially blatant. If you have concerns of this nature, please contact the canon to the ordinary and the diocesan treasurer.
- link to Diocesan canons
  - <http://www.diobeth.org/wp-content/uploads/2015/08/Canon-Official-10.15.pdf>
- link to Manual of Business Methods in Church Affairs
  - [https://www.episcopalchurch.org/files/full\\_manual\\_updated\\_012815\\_0.pdf](https://www.episcopalchurch.org/files/full_manual_updated_012815_0.pdf)

### Administration

These questions relate primarily to the administration of the church and various procedures that should be in place. The senior warden, priest-in-charge, treasurer, or a member of the vestry should be able to answer these questions. The bookkeeper may not be able to answer these questions.

1. Are the audit reports for previous years available to the auditors? Yes \_\_\_ See notes \_\_\_

*Check with diocesan office for the report prior to doing audit*

2. Have recommendations from previous years' audits been implemented? Yes \_\_\_ See notes \_\_\_

*Please note on the Comments page whether the congregation has taken steps to implement previous recommendations from auditors.*

3. Are Vestry Minutes for the year being audited available and complete? Yes \_\_\_ See notes \_\_\_

4. If a Finance or Investment Committee is authorized to expend or invest funds, are there minutes of such committee meetings and are they complete? Yes \_\_\_ See notes \_\_\_

*You should see at least all minutes from November of the year before the year being audited through the first months of the year after the year being audited. For example, the budget may have been approved in December of the previous year. The cleric's housing allowance resolution should have been adopted before the beginning of the year in which it was paid.*

5. Review the minutes of the Vestry and such Finance/Investment Committees.

(a) Was the budget approved by the Vestry? Yes \_\_\_ See notes \_\_\_

(b) Was the housing allowance resolution voted on prior to being paid? Yes \_\_\_ See notes \_\_\_

6. Does the Vestry receive Financial reports at every meeting? Yes \_\_\_ See notes \_\_\_

*a. Diocesan Canon (II.3.1.C.1.d) requires a report of the assets of the congregation and an income and expense report of the operating fund at every meeting and, as directed, a report of the income and expenses of other funds.*

7. Was the Parochial Report for the audit year filed prior to the due date? (March 1) Yes \_\_\_ See notes \_\_\_

8. Insurance

a. Is a copy of the current policy with coverage in appropriate amounts available for:

i. Property & Liability Yes \_\_\_ See notes \_\_\_

ii. Workers' Compensation Yes \_\_\_ See notes \_\_\_

iii. Automobile (if applicable) Yes \_\_\_ See notes \_\_\_

b. Are premium payments up-to-date? Yes\_\_\_\_\_ See notes\_\_\_\_\_

9. Is there any current or threatened litigation involving the congregation? None\_\_\_\_\_ See notes\_\_\_\_\_

*Find out about any cases where papers have actually been served and any cases that are threatened. Does the parish have appropriate legal counsel? Have there been timely communications with the insurance carrier about cases covered by liability insurance?*

10. Is there a space use agreement and insurance certificate for each outside organization using church facilities? Yes\_\_\_\_\_ See notes\_\_\_\_\_

*Examples of these can be obtained from the diocesan office. In lieu of an insurance certificate, a letter of indemnification is acceptable for individuals and unorganized entities.*

11. Is the congregation in compliance with Title II, Canon 4 of the Diocese of Bethlehem? Yes\_\_\_\_\_ See notes\_\_\_\_\_

*This canon refers to compliance with the Manual of Business Methods in Church Affairs, including the maintenance requirements of official books, records and reports and the preservation of such documents in approved locations using proper retention methods.*

12. Have staff and volunteers completed SafeChurch training as required? Yes\_\_\_\_\_ See notes\_\_\_\_\_

*See the current editions of the Diocesan SafeChurch Policies. All clergy, lay employees, officers, members of the vestry, Sunday school teachers, and volunteers supervising youth activities need to have completed the training. Also Pennsylvania law requires that clearances are necessary for employees and volunteers who work with or come into contact with children. The law also requires that employees and volunteers are considered mandated reporters of suspected child abuse.*

<https://www.diobeth.org/congregational-resources/parish-management/safe-church/>

13. Review procedures and control of plate collections, other cash receipts and deposits.

Do these systems provide adequate controls? Yes\_\_\_\_\_ See notes\_\_\_\_\_

*More than one person should be present when the Sunday offering is counted and deposited. Normally the person who records the individual contribution records should not be the same person who reconciles the bank statement. No one should be cashing checks into the offering. The entire offering should be deposited. Cash from the offering should not be used to make reimbursements or replenish petty cash.*

14. Are contribution statements sent out at least twice a year? Do the statements show the pledge balance? Yes\_\_\_ See notes\_\_\_

### Bookkeeping

These questions relate primarily to the bookkeeping and fair reporting of the financial affairs of the congregation. An officer of the congregation may be able to provide the answers to these questions but the presence and knowledge of the bookkeeper will most likely be required.

15. Is balance sheet information prepared at least annually for the Vestry and congregation? Yes\_\_\_ See notes\_\_\_

*Especially if the bookkeeping system is manual, it is very possible that no full balance sheet is ever prepared. However, the information a balance sheet contains should be given to the Vestry and the Annual Meeting. Assets include the total in all checking and savings accounts, the total in all CD and investment accounts, and amounts the parish is owed. Liabilities include the outstanding principal of all loans, leases, mortgages and indebtedness and all accounts payable and payroll and sales taxes payable. Under the provisions of our Canons and the Laws of the state of Pennsylvania, the Vestry must receive a full report of all the parish finances at least annually.*

16. Did you examine the annual financial report to the Annual Meeting? Yes\_\_\_ See notes\_\_\_

*The report to the Annual Meeting should include a full report of all funds held in the name of the congregation. This includes funds held by all organizations, such as the Episcopal Church Women, etc.*

17. Compare the annual report to the Parochial Report. Are **all** amounts entered on the parochial report in accordance with the parochial report instructions? Yes\_\_\_ See notes\_\_\_

18. If needed, has a revised parochial report been prepared and submitted? Yes\_\_\_ See notes\_\_\_

*A revised financial page of the parochial report should be filed with the Diocesan office if you discover material discrepancies between what was reported and what should have been reported. A material discrepancy may be defined as one that amounts to 5% or more of the amount reported as Normal Operating Income.*

19. Are workers properly classified as either employees or independent contractors? Yes\_\_\_ See notes\_\_\_

*In general, employees are those who work set times at the employer's location using tools and materials supplied by the employer. Independent contractors are hired to do a job, for example to write a curriculum or put on a new roof. The employer does not set their daily work schedule,*

*and they do not use the employer's tools and materials. Independent contractors usually submit invoices for their work. Independent contractors are **never** compensated for times they do not work—an independent contractor does not receive vacation or sick pay. Check with the diocesan finance office if there are questions. It is important to classify people correctly; the Social Security Administration wants the employer's share of the payroll tax to be paid. The PA Department of Labor and Industry also wants to know that people are properly classified as employees. The rule is that an individual is to be considered an employee and receive a W-2 unless they meet the tests to be classified as a contractor.*

20. Are 1099s issued to independent contractors who made more than \$600? Yes \_\_\_ See notes \_\_\_

21. Do payroll records indicate that filing requirements were met and that withheld taxes & all employer taxes were properly calculated and remitted? Yes \_\_\_ See notes \_\_\_

*No congregation should be doing payroll in-house. The penalties are too severe if a filing deadline is missed. Encourage congregations to make the payroll and the responsibility for tax filings the responsibility of an outside commercial payroll service.*

*Is Housing properly treated for tax purposes? And is FICA properly captured in payroll? Yes \_\_\_ See notes \_\_\_*

*Do the salaries authorized in the budget match the amounts actually paid? Was all compensation, including any bonus, reported on the W-2? Yes \_\_\_ See notes \_\_\_*

22. Examination of **ALL** assets.

*For each and every asset of the congregation and all of its organizations, please use the Asset Worksheet to answer the following questions:*

*You need to stress that **all** checking, savings and investment accounts in the name of the church must be examined.*

- a. What is the name of this asset?
- b. Who controls this asset? (The Vestry, ECW, Youth Group, etc.)
- c. Were you able to review the bank statements, reconciliation reports, and accounting of this asset?
- d. Is the church's tax ID number used on this asset?
- e. Did you receive a copy of the bank signature card (signed list) for this asset??
- f. Was this asset regularly reconciled throughout the year?
- g. Is any part of this asset restricted in its use? What is the restriction?
- h. Is this restriction imposed by the donor or the controlling committee?

- i. Was this asset used correctly? (No organization account should be used for normal operating expenses. For example: a separate Altar Guild account should NOT be used for flowers, candles, bread and wine.)
- j. Have these restrictions been honored?
- k. Were there any unusual receipts? What were they?
- l. Were there any unusual expenses? What were they?
- m. Has all activity with this asset been properly shown in the accounting records?  
(see comment and discussion below)
- n. Has this asset been properly shown in the Parochial Report?
- o. Has this asset been properly shown in the report to the Annual Meeting?
- p. What was the year-end balance of this asset. *If the balance changed significantly from the previous year, comment on this change.*

*Examine the documentation supporting 10% of all checks written in a year from a sampling of two to four months of the year. Look at large one-time expenditures, checks made out to individuals, and some from regular vendors. There should be an invoice (not a statement of account) that describes what was purchased. If it is a bill for office or maintenance supplies, for example, there should be some indication on the invoice that the items were actually received. Make sure a tax exempt certificate is on file and used for purchases. Check for any sales tax payments An extraordinary item should refer to Vestry approval. If a copy of the check is not attached to the bill, the check number and date paid should be written on the bill. Payments to individuals need to be properly documented with receipts, mileage forms, etc. **Checks or ACH transactions should not under any circumstances be made out to Cash.** For example, checks to replenish the petty cash fund should be made out to the person who cashed it: **Mary Jones/Petty Cash..***

23. Have all mileage reimbursements followed IRS guidelines? Yes \_\_\_\_\_ See notes \_\_\_\_\_
- a. *Miles being reimbursed DO NOT include the regularly scheduled commute between work and home.*
  - b. *The correct IRS standard business rate is used to calculate the reimbursement amount.*
  - c. *Are any volunteers being reimbursed? Purpose of travel? Business rate or volunteer rate?*

24. Is the accounting system used adequate and properly maintained? Yes \_\_\_\_\_ See notes \_\_\_\_\_

*This is a wide-open question because all kinds of systems are in use. Take the opportunity to see if a computerized system is possible.*

*All financial records should be kept in accordance with The Manual of Business Methods in Church Affairs, Title II, Canon 4, of the Diocese of Bethlehem.*

*Please gather and list details of what type and version of computer equipment and software the organization is using or whether they outsource their financial services.*

- 25. Are clergy and lay salaries reported to Church Pension Group correctly and are they up to date? Yes\_\_\_ See notes\_\_\_
- 26. Are diocesan assessment and any diocesan loan payments current? Yes\_\_\_ See notes\_\_\_
- 27. Are any mortgages or other loan payments current? Yes\_\_\_ See notes\_\_\_

**Discretionary Fund**

28. These questions relate to the use and reporting of the congregation's Discretionary Fund. note: See The Manual of Business Methods in Church Affairs, Chapter V [link]

- 29. Is the discretionary account in the name of the church? Yes\_\_\_ See notes\_\_\_
- 30. Is the church's tax ID number used for the account? Yes\_\_\_ See notes\_\_\_
- 31. Did you receive a copy of the bank signature card (signed list) for each account? Yes\_\_\_ See notes\_\_\_
- 32. Is the discretionary account free of operating fund activity, or if there was operating fund activity in the account, was it included in the parochial report? Yes\_\_\_ See notes\_\_\_
- 33. If the account was used for personal expenses which the IRS would consider taxable, were these amounts included in the priest's W-2? Yes\_\_\_ See notes\_\_\_
- 34. Is the discretionary account reported to the Vestry and to the Annual Meeting of the congregation? Yes\_\_\_ See notes\_\_\_

**AUDITORS COMMENTS**

Note on Audit Report sheet comments about any question above that you could not answer in the affirmative.

Use additional sheets as necessary.

**AUDITORS RECOMMENDATIONS**

Note on the Audit Report sheet or in a separate letter any recommendations about needed improvements in systems or controls. Anything included here should be discussed with the congregation's leadership.

*If you note things that you think should be improved, discuss them with the clergy and financial leaders before including them in this report. The recommendations you make should not reflect just your preferences, but should be items where:*

- 1) laws are being violated (e.g., not issuing 1099s or W-2s as required by law; failing to include taxable items purchased with discretionary funds on a W-2); or*
- 2) Church Canons are being violated (e.g., not including organization accounts and alms funds in the audit, improperly filling out the parochial report).*
- 3) A congregation is failing in its fiduciary responsibility (e.g., not reporting regularly to the Vestry, not having a budget, being inadequately insured); or*
- 4) Basic bookkeeping matters are not attended to (e.g., bank accounts not reconciled, no documentation for checks, inadequate contributions records).*

Submit the completed audit report along with a copy of the **Balance Sheet** and the year-end **Report of Income and Expenses** for all accounts to:

The rector or priest-in-charge, senior warden and the vestry of the congregation

When possible, meet with the vestry to present this report

Remind rector or priest-in-charge and vestry to send audit report and vestry responses to recommendations within 60 days of receipt of final audit report to

Episcopal Diocese of Bethlehem  
333 Wyandotte Street  
Bethlehem, PA 18015

The auditor also reports the completion of the audit to the finance committee.

If you have questions or need information, please contact the head of the parish audit team, Joan McDonald ([joan.b.mcdonald@gmail.com](mailto:joan.b.mcdonald@gmail.com)) or the treasurer, Libby House ([ehhouse@yahoo.com](mailto:ehhouse@yahoo.com)).

Church Name & City \_\_\_\_\_

Audit Report for the Year \_\_\_\_\_

#	Yes	No	Notes
1			
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5a			
5b			
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8a			
8b			
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16			
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19			
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23			Use Separate Asset Worksheet
24a			Current Business Rate = xx per mile
24b			
24c			

Church Name & City \_\_\_\_\_

Audit Report for the Year \_\_\_\_\_

#	Yes	No	Notes
25			Accounting System Used:
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35			

**AUDITOR'S CERTIFICATION**

I certify: (1) that I have performed the procedures outlined above; (2) that I have noted all exceptions on this form or in an attached letter; (3) that I have included all recommendations on this form or in an attached letter; (4) that I am not an officer of the congregation being audited; and (5) that I have no conflict of interest in performing the Audit Procedure for this congregation.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Auditor's signature

\_\_\_\_\_  
Auditor's telephone number

\_\_\_\_\_  
Auditor's e-mail address

\_\_\_\_\_  
Date

\_\_\_\_\_  
Auditor's signature

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Auditor's telephone number

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Auditor's e-mail address