

THE EPISCOPAL DIOCESE OF FLORIDA

AUDIT REQUIREMENTS AND PROCEDURES FOR CONGREGATIONS

Title I, Canon 7, Sec. 1(f) and (g) of the Church Canons state:

All accounts of Parishes, Missions or other institutions to be audited annually by an independent Certified Public Accountant, or such audit committee as shall be authorized by the 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.

Definition of Types of Audits:

- Full Audit with an opinion by an independent Certified Public Accountant.

This is a complete audit performed by a CPA who performs various tests of the supporting detailed accounting records and the internal financial controls used to prepare the approved financial statements, and issue an opinion as to the fair presentation of same financial statements.

- Review with an opinion by an independent Certified Public Accountant.

A review is also performed by a CPA. This is not as detailed or as costly as an audit. The opinion issued is not at the same level of assurance as an audit.

Current Audit Requirements & Procedures

- Internal Audit.

An audit made adhering to the Diocesan Audit guidelines and performed by such committee as may be permitted by the Vestry or Mission Board and approved by the Diocesan Audit Committee. For the purpose of an internal audit, a committee of two or three qualified members of the congregation shall be appointed by the Rector/Vicar, none of whom shall have acted as Treasurer, Bookkeeper or the individual keeping the records of entry during the period being audited.

The Bishop and the Diocesan Council, aware of the financial hardship that the expense of retaining an independent Certified Public Accountant could be on some congregations, have developed guidelines for determining which of the various audit categories are appropriate for individual congregations.

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Independent audits may be costly. Therefore, the particular type of audit to be adhered to is based on the Net Budgeted Income of the Congregation. All congregations regardless of income are encouraged to have an *independent* audit at a minimum of every three years.

Audit requirements:

- **CONGREGATIONS HAVING TOTAL OPERATING REVENUES (Line B, Part II of the parochial report) OF \$350,000 OR MORE:**

Congregations having total operating revenues of \$350,000 or more shall have annually a full audit performed by an independent Certified Public Accountant.

- **CONGREGATIONS HAVING TOTAL OPERATING REVENUES (Line B, Part II of the parochial report) OF LESS THAN \$350,000 BUT MORE THAN \$200,000:**

Congregations having total operating revenues of less than \$350,000, but more than \$200,000 shall have annually a full audit or a review. A full audit shall be performed at a minimum of every three (3) years.

- **CONGREGATIONS HAVING TOTAL OPERATING REVENUES (Line B, Part II of the parochial report) OF \$200,000 OR LESS:**

Congregations having total operating revenues of \$200,000 or less shall have annually a full audit, a review, or an internal audit performed by an approved internal audit committee. The Diocese financial staff under the supervision of the Diocese Audit Committee annually will review such internal audits and will verify such reports by reperformance, recalculation and interviewing parish personnel, on such a basis that each parish submitting such a report will be verified in a three (3) year period.

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AUDIT PROGRAM/PROCEDURES

I. REVIEW INTERNAL CONTROL

A. Prepare a written memo documenting:

1. Cash receipts and collection procedures

- a. Who is responsible for counting weekly collections?
- b. Who is responsible for making up deposits?
- c. Are all receipts deposited intact?
- d. Who maintains pledge records?
- e. Are pledge statements sent periodically?
- f. How is incoming mail handled? Is mail opened by person independent of cash receipt procedures and cash disbursement procedures?
- g. Are controls sufficient over loose plate and other offerings?

2. Cash Disbursements

- a. Who signs checks and how many signatures are required?
Are checks secured physically when not in use?
- b. Are bills and invoices approved for payment and properly maintained on file?
- c. Who prepares checks and maintains invoice files?

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3. Is there a cash receipts and disbursements journal which is posted at least monthly?
4. Are all bank accounts reconciled monthly independently of those who write checks or receive and deposit cash receipts?
5. Are satisfactory payroll records maintained?
6. Who receives and opens mail?
7. Are all special funds properly accounted for?
8. Are monthly reports (financial statements) presented to the Vestry or Mission Board for approval and made a part of the minutes?

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- B. Write up conclusions concerning the adequacy of internal controls and make recommendations for improvement to the Vestry or Mission Board. Submit copy of recommendations with audit report and submit Vestry or Mission Board written response to recommendations no later than September 1 following the previous year's financial statements.

II. CASH ON HAND AND IN BANK

- A. Review bank reconciliations. Bank reconciliations should be signed or initialed by the person preparing them, and signed or initialed by the person reviewing.
 - 1. See that the year end reconciliation ties to actual bank statement and to annual report included in Vestry or Mission Board minutes and submitted to Diocese on the Parochial Report.
 - 2. Verify that all bank accounts have been reconciled monthly.
 - 3. Verify that all checking accounts and savings accounts are included in financial reports to Vestry or Mission Board and the Diocese.
 - 4. Review reconciling items on year end reconciliations carefully, and trace to succeeding month's bank statement any significant or unusual items. Validate that all reconciling items have been identified and disposed or accounted for properly.
- B. Count petty cash funds on a surprise basis.
- C. Verify that the amount shown on the annual financial statement as beginning cash (January 1st cash balance) agrees with the prior year's annual statement

ending cash balance (December 31st cash balance).

- D. Year end bank reconciliation should be checked for mathematical accuracy.

III. CASH RECEIPTS

- A. Cash receipts should be traced to validated deposit slips on a test basis (some for each month).
- B. Cash receipts should be traced to individual pledge records on a test basis.
- C. Pledge collections should be verified by tracing one month's collections to the individual pledge records.
- D. Special offerings should be scheduled and examined for reasonableness and compared to prior years (Christmas, Easter, etc.)
- E. Investment income should be scheduled by source and reviewed for reasonableness.
- F. All revenues should be compared to budgeted amounts and variance should be explained.
- G. A sample of weekly deposits should be selected at random and reviewed for reasonableness of loose cash offerings.
- H. Based upon internal audit committee's knowledge of parish/mission, note and examine any other journal of cash receipts that may be unique to church.

IV. CASH DISBURSEMENTS

- A. Compare expenses to budget and explain variances.
- B. Select a sample of several checks for each month and examine paid invoice, canceled check, and entry for cash disbursements.
- C. For sample selected in item B, check for authorized signatures, proper endorsements, and expense classification.
- D. Select sample of payroll checks and determine if tax, insurance, and other withholdings are properly handled.
- E. Review payroll tax records and verify that all payroll taxes are being paid by examining copies of checks, Form 941's, and state withholding forms.
- F. Review payments on debt and verify that interest and principal amounts are properly recorded.
- G. Trace sample of cash transfers (e.g., savings account withdrawals to deposit in checking account).
- H. Have bookkeeper prepare a "proof of cash" summary for the year under audit. Agree total receipts to total deposits in bank statements. Agree total disbursements to total debits on bank statements. Noting reconciling items such as cash disbursements for fixed assets and other non-expense or non-income items, agree total cash receipts to income per financial report and total cash disbursements to total expenses per financial report.

V. SAVINGS ACCOUNTS/INVESTMENT ACCOUNTS.

- A. Review passbook or investment account summary statement carefully.
- B. All withdrawals should be traced to deposit in other church accounts (expenses and other disbursements should be made from checking accounts, not savings accounts).
- C. Determine that interest earned is properly accounted for.
- D. Confirm with bank or investment custodian the existence of the investment and the amount at year end.

VI. DEBT

- A. Confirm balance of all debt outstanding.
- B. Determine that interest and principal payments have been properly recorded.

VII. DESIGNATED RECEIPTS AND DISBURSEMENTS

- A. Determine that receipts are properly recorded and reported to the Vestry or Mission Board.
- B. Determine that disbursements are properly reported and in accordance with the receipt designation.
- C. Determine accuracy of carried over designated receipt balances.

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- D. Verify that cash investments representing unspent proceeds of gifts exist on books.

VIII. INSURANCE

- A. Review insurance coverage for adequacy:
 - 1. Liability
 - 2. Worker's Compensation
 - 3. Fire, theft, boiler, etc.
 - 4. Auto
 - 5. Group Life and Medical
 - 6. Other as appropriate
- B. Have congregation insurance committee, church insurance agent or qualified parishioner annually review adequacy of insurance coverage.
- C. Determine that policies are in force and all premiums paid.

IX. PENSION

- A. Verify that Church Pension Fund has been notified of any salary increases which affect pension premiums. (Stipend, Social Security supplement, Housing, Utilities).

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- B. Verify that the correct premiums have been submitted to Church Pension Fund.
- C. Ascertain that all eligible lay employees are receiving pension benefits and that premiums are being paid on the correct basis.

X. MINUTES

- A. Review Vestry or Mission Board minutes for authorization of financial transactions, e.g., allocation of housing, etc. for clergy.
- B. Review Vestry or Mission Board minutes for indication that monthly reports were reviewed.

XI. GENERAL

- A. Check mathematical accuracy of the cash receipts and disbursements journals for at least two (2) months.
- B. Determine that monthly totals are used in preparing monthly and annual financial statements.
- C. Determine mathematical accuracy of at least two monthly financial statements. Trace the totals on the financial statements to the General Ledger.
- D. Determine that budget was approved by Vestry or Mission Board.
- E. Prepare a list of observations, discrepancies, and comments. Discuss with Vestry or Mission Board. Have Vestry or Mission Board respond in writing to

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- each. File both recommendations and responses with diocese by September 1.
- F. Prepare a report, signed by all members of the Audit Committee, and attach to annual financial statement. Submit to Vestry or Mission Board and to the Diocese. (Sample attached.)

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Audit Requirements and procedures for Congregations

Summary of required documents to submit with internal review of financial statements, by September 1 of year following audit year.

1. Report of Findings, (see sample) with signatures of all audit committee members.
2. Copy of Financial Statements for the year in question, including Balance Sheet and Income Statement, and any other statement reviewed.
3. Conclusions concerning the adequacy of internal controls and any recommendations made to Vestry or Mission Board. Also, written response of the Vestry or Mission Board.
4. Proof of cash and reconciliation to financial statements.
5. The list of observations, discrepancies and comments and any Vestry or Mission Board responses to report.

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(LETTERHEAD OF CONGREGATION)

The Audit Committee
The Episcopal Church in the Diocese of Florida
325 Market Street
Jacksonville, FL 32202

We have examined the financial statements of _____ in _____
(Name of Church)
_____ Florida, for the year _____. Our examination was made in

accordance
(City)

with the guidelines prescribed by the Diocesan Council of The Episcopal Church in the Diocese of Florida, Inc., and accordingly include the audit procedures prescribed and such other procedures as we considered necessary.

In our opinion, the accompanying financial statements are fairly stated.

Date: _____

AUDIT COMMITTEE

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(NOTE: Any significant unresolved differences should be described in a separate paragraph.)

02/2012