The pages that follow have comments, guidelines and suggestions for the questions of the Alternative Audit Procedure that has been authorized for use in this Diocese by congregations with less than $300,000 in annual Plate & Pledge Income. This annotated workbook is intended to help non-accountants who are conducting the audit. The workbook may also alert an accountant who is not familiar with the Episcopal Church to certain matters pertaining specifically to Episcopal congregations. Auditors should use the Manual of Business Methods in Church Affairs to gain further guidance in particular areas as needed:

https://www.episcopalchurch.org/page/manual-business-methods

Committee Audits are preferred but a single person can complete these procedures. In the following year of a single person audit, the previous auditor may NOT perform a consecutive single person audit for the same congregation.

Unlike an audit according to generally accepted accounting principles, this procedure does not require independent confirmation of cash and investment balances.

1) **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.

2) **We want to be sure that there is compliance with the Canons of the Episcopal Church and of the Diocese of Central Florida.** For example, was the parochial report filed in a timely fashion, and was it completed in accordance with the instructions? Can you tie the Annual Report, financial statements and registries to the parochial report? Are all organizations’ accounts included in the audit in accordance with the Canon?

3) **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 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?

4) **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 on?

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

Following are the questions from the Audit Procedures. 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 on the last page. In most instances when you cannot answer “yes,” you will probably want to recommend to the parish leadership that changes be made so the answer next year can be affirmative.
Audit Year: 2___  Auditors’ names *(print clearly)* _______________________________

________________________________
_____________________________________________________________________________
Church  ________________________________ City  _________________________________

*If you are unable to answer yes to any question below, please explain why in the comments section.*

**GENERAL REVIEW**

1. Is audit report for previous year available? Yes___ See notes___

2. Have previous years’ audit recommendations been implemented? Yes___ See notes___
   
   Please note on the Comments page or in a separate letter whether the congregation has taken steps to implement previous recommendations from auditors.

3. Are Vestry minutes for the year complete? Yes___ See notes___

4. If a Finance or Investment Committee is authorized to expend or invest funds, are the minutes of such committee meetings complete? Yes___ See notes___
   
   You should ask to see 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 clergyperson’s parsonage 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 budget approved by the Vestry? Yes___ See notes___
   b) Was the parsonage/housing allowance voted prior to being paid? Yes___ See notes___
   c) Were large or unbudgeted expenditures approved? Yes___ See notes___
   d) Were large or unusual receipts noted? Could you trace to recorded receipts?

6. Are monthly financial reports to the Vestry complete? Yes___ See notes___

7. 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, amounts the parish is owed, and the value of land, buildings and equipment if such items are capitalized. Liabilities include the outstanding principal of all loans, mortgages and indebtedness and all accounts payable and payroll and sales taxes payable. The Vestry must receive a full report of all the parish finances at least annually.*

8. Did you inspect a copy of the 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.*

9. Was the Parochial Report filed by March 1? Yes___ See notes___

10. Are property records complete? Yes___ See notes___
11. Are insurance coverages adequate?  Yes___ See notes___

In general church buildings should be covered with replacement value insurance. There should be periodic reviews of the provisions of the coverage, and the insurance company should be notified if the use of the facilities has changed. The congregation should have Directors’ & Officers’ insurance.

12. Have you seen the Articles of Incorporation and the By-laws?  Yes___ See notes___

13. Is there a space use agreement and insurance certificate for each outside organization using church facilities?  Yes___ See notes___

14. Have staff & volunteers received Safeguarding training as required?  Yes___ See notes___

Congregations need to follow the Diocesan policies on Sexual Misconduct. http://www.cfdioce.org/abuse-prevention/

CASH BALANCES, INVESTMENTS & INCOME

15. Have you checked to see that all operating cash accounts (including all savings accounts) have been reconciled regularly throughout the year? Yes___ See notes___

If the congregation uses a general ledger program like ACS or Quickbooks, look at the reconciliation reports that should be attached to each bank statement. If not, the statements should be manually reconciled. You need to stress that all accounts in the name of the church must be examined.

16. Review all organization cash accounts (ECW, Guilds, etc.)
   a) Have they been reconciled regularly? Yes___ See notes___
   b) Organization accounts may not be used for general parish purposes (e.g., flower donations or altar expenses). Are organization accounts free of activity that should have been in the operating fund? If there was operating fund activity in these accounts, was it included in the parochial report? Yes___ See notes___
   c) List any accounts that exist that you were unable to examine:

17. Examine year-end statements of any invested funds. Are all investments properly recorded on the books? Yes___ See notes___

18. Were any restricted gifts received during the year?  Yes___ See notes___

19. Has the congregation honored donor restrictions on all current and past gifts?  Yes___ See notes___

20. 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.

21. Are contribution statements sent out at least quarterly? Do the statements show the pledge balance? Yes___ See notes___

22. Are all sources of “plate, pledge and regular support” properly reported on Page 3, Line 3 of the Parochial Report? Yes___ See notes___
CASH DISBURSEMENTS
23. Did you receive a list of authorized signatories for each account? Yes___ See notes___
24. Examine a selection of disbursements.
   a) Are there invoices (not statements) for disbursements? Yes___ See notes___
   b) Are there authorizations for disbursements? Yes___ See notes___
   b) Do checks have the specified number of authorized signatures? Yes___ See notes___

Examine the documentation supporting at least 5-10 checks drawn in each of at least two 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’s a bill for office or maintenance supplies, for example, there should be some indication on the invoice that the items were actually received. An extraordinary item should have 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 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.

25. Is the accounting system used adequate and properly maintained? Yes___ See notes___

Many kinds of systems are in use. Take the opportunity to see if a computerized system is possible. All financial records should be kept at the church with off-site backup of electronic records if at all possible.

26. Are payroll and payroll taxes properly handled for lay and clergy employees? Yes___ See notes___

LIABILITIES
27. Are clergy and lay pension payments calculated correctly and up to date? Yes___ See notes___
28. Are diocesan assessment and any diocesan loans current? Yes___ See notes___
29. Are utility and insurance payments current? Yes___ See notes___
30. Are any mortgage or other loan payments current? Yes___ See notes___

DISCRETIONARY FUNDS
31. Is the account in the name of the church? Was it set up by Vestry resolution? Yes___ See notes___
   Is the church’s tax ID number used for the 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 clergyperson’s W-2? Yes___ See notes___
PAYROLL
34. Are workers properly classified as either employees or independent contractors? Yes___ See notes___

For guidance see https://www.irs.gov/newsroom/understanding-employee-vs-contractor-designation

35. Are 1099s issued to independent contractors who made more than $600? Yes___ See notes___

36. Do payroll records indicate that filing requirements were met and that withheld taxes & all employer taxes were properly calculated and remitted? Yes___ See notes___

Congregations are encouraged to use payroll processing companies since the potential penalties for errors can be severe and corrections expensive. However, even major payroll processing companies have been known to mishandle clergy payroll. Clergy have a dual tax status in that they are employees for federal income tax purposes but they are self-employed for Social Security & Medicare purposes. This means that clergy are not subject to Social Security and Medicare taxes, even though they report their income taxes as employees and receive a W-2 from their church. Rather, they pay the self-employment tax. Clergy may utilize, and we encourage, voluntary withholding. If you have questions or concerns, please contact the Diocesan Administrator.

37. Is the clergy’s housing allowance properly approved in the Vestry minutes? Yes___ See notes___

38. 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___

PAROCHIAL REPORT
If needed, refer to the instructions for the financial section of the Parochial Report. https://www.episcopalchurch.org/posts/research/parochial-report The definitions of operating and non-operating income and expenses in the Parochial Report instructions are very clear. There should be no great difficulty in tying the report received by the Vestry and the Annual Meeting to the Parochial Report.

39. Did you inspect parish registries of members and services to verify that services have been properly recorded along with baptisms, marriages, confirmations, transfers and funerals? Yes___ See notes___

40. Compare the annual report and financial statements to the parochial report. Are all amounts entered on the parochial report in accordance with the parochial report instructions? Are all membership and attendance figures correct per parish registries? Yes___ See notes___

41. If not, has a revised parochial report been prepared and submitted? Yes___ See notes___

A revised financial page of the parochial report should be filed 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 (line A).

LITIGATION
42. 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?
COMMENTS
Note in a separate letter, comments about any question above that you could not answer in the affirmative. Please number your comments to correspond to the question you are commenting on.

RECOMMENDATIONS
Note 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 discretionary 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).

AUDIT REPORT PACKET
- Audit Committee Certificate (see last page of this procedure manual)
- Balance Sheet as of the end of the year audited
- Income Statement as of the end of the year audited
- Completed Audit Program Checklist
- Comments Letter
- Recommendations Letter
- A corrected parochial report as a result of audit adjustments

FILING OF THE AUDIT
- Upon completion, the Auditor/Audit Committee shall present the Audit Report Packet to the Treasurer, Rector/Interim Rector/Vicar/Priest-in-Charge, and Wardens.
- The Vestry receives the Audit Report Packet. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Ecclesiastical Authority.
- A copy of the Audit Report Packet should be filed with the Ecclesiastical Authority of the Diocese no later than 30 days following its completion and never later than September 1 of each year, covering the financial reports of the previous calendar year.
- If, at any time during the audit, the records suggest that something is seriously wrong, the matter should be brought immediately to the attention of someone of superior authority, as well as the appropriate diocesan authority (i.e. Canon to the Ordinary).
AUDITOR’S CERTIFICATION
We/I certify: (1) that we/I have performed the procedures outlined above; (2) that we/I have noted all exceptions in an attached letter; (3) that we/I have included all recommendations in an attached letter; (4) that we/I am not an officer of the congregation being audited; and (5) that we/I have no conflict of interest in performing the Alternative Audit Procedure for this congregation.

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Copy this page if you need more than 6 audit committee members to sign
**Treasurer, Rector/Interim Rector/Vicar/Priest-in-Charge, Wardens Certification**

We certify: (1) that the Audit Report Packet was presented to the Treasurer, Rector/Interim Rector/Vicar/Priest-in-Charge, Wardens and the vestry.

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