

Notes for Diocese of Montana Audit form
Episcopal Church (TEC) Canons (I.7.1(g)) require that the annual congregational audit must be received in the Diocesan Office by September 1st. Revised: January 2021

Many of these recommendations are from the Manual of Business Methods in Church Affairs. Some are canonical, state or federal requirements. Others are recommended by the Diocesan Finance Department or Diocesan Council as ways to help protect the treasurer and the assets belonging to the church.

[Questions? Contact Barb Hagen, Canon for Finance & Administration 800-247-1391, ext. 101.](#)

1-Pre-Audit Discussion

A – The committee and priest and treasurer should discuss the objectives and scope of the audit together before beginning.

B – E – The engagement - The engagement letter helps clarify the responsibility of the audit committee and vestry regarding the schedule, reimbursement of expenses, workspace and availability of records.

F – The Manual of Business Methods in Church affairs is on the website and should be available at the church.

G –if there is a bookkeeper in addition to the treasurer, that person should also be available for questions and to provide copies of information as requested. Anyone who works with the money needs to be available on audit day for questions.

H – Engagement letter should address all of these items above.

2 – Pre-audit documents required for review

A – Original, signed vestry minutes need to be available for the audit committee to read. It is important to read all Vestry Minutes before beginning the audit. This helps the audit committee to understand what the vestry has done in terms of approving financial transactions, debt or any other decisions they've made.

The committee should note whether or not the various items listed are included in the minutes or not. Review to see that all minutes are available. If there are minutes missing, ask where they are, and note in the audit recommendations which minutes you did not get to see. Also note if the minutes are not signed.

- The vestry needs to see the auditor's findings each year. The minutes should record the fact that the vestry has received the audit.
- Vestry is responsible to approve the budget. This should be noted in their minutes.

- The vestry should receive a report at each meeting that compares budget to actual income and expense (Income Statement) as well as a Balance Sheet. The treasurer should explain any differences and they should be noted in the minutes.
- If the budget needs to change throughout the year, the vestry should approve and note the change(s) in their minutes.
- The vestry should look at the budget at least quarterly. This might be done in the context of looking at the financial statements. They may determine during the course of that discussion that they need to make a change to the budget.
- If there is purchase or disposal of any equipment, the vestry must approve it and it should be noted in the minutes.

B –If there are groups who spend money outside the vestry (sometimes Episcopal Church Women - ECW) will do so, their minutes need to be available for the audit committee’s review. The vestry should also be reviewing the information since the vestry has the fiduciary responsibility. No groups other than the vestry should hold bank accounts. The vestry has responsibility for all accounts and must have access to all information. Sometimes, it is a huge battle to get the funds turned over. If the groups refuse to do so, they must at least provide minutes and bank statements to the vestry for their review. The vestry should note in their minutes they have reviewed the activities for these groups. The audit committee should recommend all funds be turned over to the vestry.

C – The annual financial report to the church should be available for review. The committee will use the year end balances to compare with the payroll records, the investment balances, assessment payments, parochial report, and bank statements.

Items to review on the financial statements:

- Each treasurer should prepare an Income Statement and a Balance Sheet.
- If they do not have these two reports, it needs to be a recommendation for the next year.
- Look at the assessment report from the diocese. Does the amount on the report match the amount listed under assessment expense on the Income Statement? The assessment information is available on the diocesan website or you may obtain it from the Canon for Finance & Administration. If the amounts do not match, the church might have approval for an adjusted amount from Diocesan Council so if you notice it does not match, ask about it and the treasurer should provide you with a letter from the Council. If not, you can contact the Canon for Finance and Administration or note it on the comments as an exception.

- Look at the income and expenses for the parochial report. Do they match income and expenses on the year end Income Statements? There might be issues with this due to some of the software used by churches. If there is a difference, find out why and note it in the audit certificate.
- Look at the Balance Sheet to see if land and buildings are shown.

D – The audit committee should look at the interim reports from the treasurer – i.e. the monthly reports provided to the vestry.

E – Annual parochial report – this report should be available for the committee’s review and if the income, expenses, and investment information on the report do not match what is on the financial statements, ask about it and note it.

F – The committee should see the list of names of those who can sign for checks, investment draws, transferring funds on all accounts for the church. When reviewing the copies of checks on the bank statement, check to see who has signed the checks.

G – The committee should see a list of all securities held. This may be shown in the investment statement (i.e. DA Davidson, RBC Wealth Management etc.)

H – If someone from the committee can have a chance to look at unopened bank statements, it is ideal but since the committee will most likely be working on the audit well into the next year, we have provided a bank confirmation letter they can use to get the bank statements directly from the bank if this is need is determined. If there are questions about specific deposits, checks written or electronic payment transfers, the committee should request a confirmation directly from the bank or credit union. A committee member could also look at online banking if they are given the access..

I - The committee needs to see the prior year’s internal controls questionnaire and audit form and findings letter. By reading these reports, they will know what the issues were and can note if they were corrected or not in this year’s findings letter.

J – The church should have an organizational chart for committee review.

K – The committee should see the church’s listing of their chart of accounts.

L – The budget for the year being audited should be available for review.

M – The general ledger contains the accounts for the church’s transactions and in the past would have been in a bound or loose leaf book with a page for each account. Typically now, since most churches take care of their bookkeeping on the computer, the committee can ask for printouts of the information for the accounts and the treasurer should be able to run a general ledger report on their computer software for your review.

N – Cash Receipts Journal – Since most churches use the computer they may not have a separate journal for this but should be able to create a report using their software. Or they can show copies of their check book registers.

O – Cash Disbursements Journal – Typically would not have a separate bound journal for this but again, the treasurer can run this report using the computer accounting software or the audit team can look at the checkbook registers

P – Bank statements for the audited year should be reviewed.

Q – The paid checks and deposit slips should be available for review. The committee will use this information for testing information under the cash section.

R – Payroll records. The committee will use this information when verifying the W2s, 1099s etc. are complete. See section 8 for testing payroll documents.

S – If the church has a savings account passbook, they need to show it to the committee. Otherwise you will look at the savings statements.

T – If the church has investments or endowment funds, they need to provide the statements and documents for the committee’s review and testing.

3 - Cash, Wires, EFTs

A - If there is no petty cash, circle none. If there is a petty cash account, complete the items below:

- Count the cash in the petty cash box. List cash amount on the audit form.
- Add up receipts. List total on the audit form.
- The cash on hand plus the receipts should equal the amount listed as petty cash on the balance sheet. If it doesn’t, this discrepancy needs to be noted in the audit findings. If there is no balance sheet, recommend they create one.

B – Look to see if the bank statements have been reconciled. Look at a sample from every account, including discretionary fund accounts. Have they been reconciled? Are all of the checks in the register either cleared or showing as outstanding on the bank statement? Are all of the deposits in the register entered in the checkbook or showing as a Deposit in transit on the bank statement? What about the ECW or other accounts? Have they been reconciled?

- Look at a sample of discretionary fund checks. Discretionary funds are to be used for “pious and charitable uses as determined by the rector or priest in charge.” (Canon III.9.5 (6)). If there are a lot of checks for items that seem to be more operating expenses (altar linens, books, flowers), ask about these expenses. There should be an explanation with them. Discretionary fund checks should not be written by the priest to the priest for reimbursement.

C - Look at a sample of the checks (a few from each month – especially large amounts or unusual payees). Are they signed by the authorized signers? You'll most likely have to look at the copies on the bank statement since most banks don't return checks. Compare signatures with those listed in the Vestry Minutes as signers or with information from the bank.

D - Since most banks don't return checks, look at the stamp for endorsing checks to make sure it says, "For Deposit only." You should also be able to look at the endorsements if you can go to the online banking site.

E - All invoices should be marked "Paid" with the date and check number. Look at the registers or disbursement journal and a sample of the checks from the bank statement to see that the amounts and payees match.

F - If checks are voided, they should have VOID written across them and should be kept with the check register or bank statement, or on file. The audit committee needs to be able to see them. Look at the register for voided checks. Look for the original voided check.

G- Select one or two random checks and look at a bank statement 90 days later to see if they are outstanding 3 months after being written. For instance, choose one or two checks in January. Look in the March statement to see if they are still outstanding etc.

- Select random checks and see if they are outstanding six months after date written.
- If there are checks outstanding more than 180 days they should have been voided and reissued before the end of the year.
- Look at the January statement for the year after the year being audited. Check to see that December checks have cleared.
- Look at December statement from the year prior to audit year to see if the December checks cleared in January of the audit year.
- If there are checks outstanding more than 180 days, note it and ask about their policy for handling outstanding checks.

H - Is there an expense approval form or initials on the bill (of someone other than the treasurer) stating that it is OK to pay? What is their policy? Some churches allow for regular, recurring bills to just be paid each month. Find out how they handle it and look to see if they are following their policy. Look at unusual checks (large amounts or unfamiliar payees). Compare the original invoices with the register or disbursement journal. Also look at checks made to the treasurer. They should be signed by someone other than the treasurer.

I - Look to see if there are two signatures on checks. Checks over \$500 should have two signatures. If they don't, recommend the church change their policy (or adopt a policy if they don't have one).

J – Look at the vestry minutes to see if there have been changes in the signers.

K – Review the cash journal or registers. Compare to the bank statements.

L - Look at deposit slips to see if all cash that came in was deposited weekly. Review at least one week per month. Look at the cash counting sheets and compare them to the deposit slip for the week. Compare a sample, at least one from each month. If there are discrepancies, ask about them.

Look at the cash counting sheets. Select a few from each month to see if the cash is being counted by people who are not related to each other. Cash should be counted by two unrelated people each week.

Look at the cash counting sheets to see if the people counting are different each week. It should not be the same people counting together every week.

M – If there are transfers, check both sides – bank account to investment or from investment to bank account. Check all transfers.

N - Journal entries are used to bring investments to market value, correct errors, or enter service charges and interest income. If there are journal entries, they should be approved by someone other than the treasurer. If you see journal entries, look to see if there is information to back it up. For instance, look at the investment statement or bank statements to see if the amount on the journal entry matches the interest or dividends reported. Journal entries should be approved by someone other than the treasurer. This can be done through the Vestry Minutes or using the expense approval form or initialing back up information showing it is approved. As long as it is approved by someone else, that is the main issue. Find out what their policy is, and check to see if they are following it.

O – Look at a sample of the bank statements and see that they are in the name of the church and using the church’s Federal Employer Identification Number.

- If there are other accounts, ECW, guilds, etc. Look at their bank statements and read their minutes. Those bank statements also must be in the name of the church, using the church’s tax ID number. The committee should recommend all accounts be maintained by the vestry.

P – Look to see checks are used in order. This makes it easier to keep track of them.

Q- Checks should not be written to cash other than to replenish petty cash. They should be written to a specific person or company. Look at the register to see if there are checks written to “Cash.” If there are any checks written to cash, look at the backup information. Perhaps they needed to replenish petty cash or get change for a garage sale etc. Look to see if the cash was deposited back into the account.

R - If the church uses a debit card, there should be receipts to accompany the debit card transaction receipt

S -. Look at the registers for each month. Are checks for assessment payments to the Diocese written before the 10th of each month? The 10th is the due date and the checks should be mailed in time to arrive at the diocesan office by that date. Also, look at the assessment report from the diocese that shows when checks are deposited. That will also demonstrate if the payments were sent on time.

T - If the church does not have a credit card you can ignore the next few questions. Otherwise, list the names of the cardholders and the limits on the cards.

U - Look at the credit card statements and registers and see if they are paid on time. Are there late fees or interest payments?

V - Are receipts attached for each transaction on the credit card statement? Look at statements for each month. Is it noted on the receipts which line item the expense belongs to? The expense item should be noted on the receipt. If there are missing receipts note the missing receipts and the cardholder's name on the audit form. If receipts are not received within 60 days of the charge, it becomes a taxable benefit to the employee (since it becomes a non-accountable plan). The missing receipts should be noted on the employees W2 as a taxable fringe benefit. See the debt policy on the website for further information. Note any discrepancies in the audit findings letter.

W -. Look at the cash counting sheets and compare with the deposit slips to see if they match.

X - Look at the cash counting sheets to see if they are signed by two unrelated and different people each week.

Y –Look at the discretionary funds. Are there checks written to vendors that could be for operating expenses?

4 - Pledges and Other Gifts

A -Look at the pledge cards (or donor records). Test at least 10% of the pledges. Note the number of pledges tested on this line. To preserve confidentiality, the church may assign a number to each person who pledges and then you can check all of the pledges for a certain number rather than individual names. How this is tested depends on how the church handles the pledges.

- a. Look at the pledge cards and see what has been recorded on it in terms of donations.

- b. If the treasurer keeps a weekly tally of funds that come in on the pledge card or electronically, you can compare it with the deposit slips (if they list the names on the deposit slip and not the check number).
- c. If the treasurer just has a total pledge for the year it is harder to pull out the information. Look at the deposit slips and see if you can pull the names out and total that way to check the pledges.
- d. If the treasurer does not keep track of this in a way that you can review it, note it in the audit findings letter.

B- Compare a sample of pledge cards (or donor records) with donor giving records or deposit slips. This provides a double check that what was reported to the donor was deposited into the church accounts.

C – List the total number sampled. A good rule of thumb is to test at least 10% of the pledges.

D - If there are records from another gift system, check to see if they are reconciled to the general ledger. If there is only one system for recording gifts, ignore this question.

E -Compare the budget amount with the actual amount of pledges received. If there is a large discrepancy find out why. If the pledge amount is significantly less, the vestry should discuss the fact that pledges are down and what they might do to encourage people to fulfill their pledges. They may need to adjust the budget as well, depending on the circumstances.

F- Read the Vestry Minutes to see if the pledges are compared and any differences discussed and investigated.

G – Look at files with bequests and gifts contingent on future events.

H - Look at information about wills or life insurance policies and endowments, annuities etc. Find out what the restrictions are, if any.

I – Look at files with endowments, annuities, nature of principal, use of income, correspondence with donors or beneficiaries or other pertinent documents.

J – Ask who is responsible for assuring compliance with terms and conditions of grants, contributions etc. Are there documents showing who is responsible?

K - Ask to see a sample of the thank you letters to donors from the audit year. Donations of over \$250 should have the IRS language ““the contemporaneous acknowledgement required by the Internal Revenue Code and that in accordance with Section 170(F) (8) (B) any goods or services provided consist solely of intangible religious benefits””?

5- Securities/Investments

A – List the name of the investment company here if applicable.

B- Look at the investment reports to see that they are in the name of the church.

C- Check to see that investment income and dividends are recorded. This would be done through a journal entry.

D - Look at the value listed on the investment report for January. Look at the balance sheet to see that is the beginning balance. The amounts should match.

E - Look at the market value on the December investment statement. Look at the balance sheet for the end of the year. The amounts should match.

F - Check to see if they match. If they don't match, ask some questions and find out why they don't match. And, note in the recommendations the investments need to be shown on the financial statements at market value.

G- Look for withdrawals or transfers on the investment statements to see if there are transfers between the investments and the checking or savings accounts.

H- Check the bank statements to see that the money was deposited into a church account. Look to see if you can see where the funds were transferred from one church account to another church account.

I- Look at the investment reports and compare to the quarterly statements. All accounts should be listed on the financial statements at market value.

J –Look at the Investment Policy statement.

K – Look at the date on the policy and note it.

L– Are they following their policy?

M – Look at the vestry minutes to see how often they meet with the manager. It would be a good idea for the vestry and treasurer to meet with the investment broker at least annually. The vestry's involvement with the investments should be noted in the Vestry Minutes.

At least quarterly, the vestry should see reports for all investment funds at current market value and other restricted funds. That should be noted in the Vestry minutes too.

N – Look at the minutes to see if they approve security purchases and sales.

O—Look for the document that states who is authorized to withdraw funds. This may be listed in the Vestry Minutes. The audit team should also see a copy of the document the investment firm has on file regarding authorized signers to draw funds.

6 - Trusts and Endowment Funds

A - If there are endowments or restricted gifts, they should be also noted in the Vestry Minutes and discussed and reviewed by the vestry. The audit committee should review the information to find out about any restrictions.

B - . Review their information to see what the requirements are for drawing funds and check on whether or not they are following the requirements.

C – Look at signatures, deposits and vestry minutes as well as any other documents that are specified as part of their process. This will vary by church.

7 - Property and Equipment

A - Look at the property and equipment list. Does it show date of purchase and cost?

B – What is their process for an annual review of inventory?

C - Walk through the church and randomly check a few of the items on the list to make sure they are there.

D - Look at the deeds for land and buildings. The deeds for some churches are held by the diocese. If the church does not have their deed, check with Barb Hagen, Canon for Finance & Administration 800-247-1391, ext. 101 to see if it is held by the diocese.

E– Are land and buildings showing on the balance sheet? If so, are they showing as historic value or insured value? The historical value is in keeping with generally acceptable accounting practice but it may not be available. If it is not, the insured value may be used. The insured value gives a more accurate figure as well.

F – Does the church have outstanding liens against the property or equipment?

8 - Payroll and Employee Issues/Payroll Liabilities

A - Compare the totals on the W2s with the salary expenses on the Income Statement. They should match. Add the amounts on the quarterly 941 forms. The total salaries of the 941 forms should equal the total salaries on the W3 form.

B Add up the taxes on the quarterly 941 forms and see if they match the total taxes on the W3 form.

C - The IRS will let the church know when their reporting/payment schedule is. A copy of the notice should be on file at the church.

Look at the date on the tax deposit form. Churches may pay their taxes quarterly if their tax liability for the quarter is less than \$2500. A check would be included with the filing of Form 941.

Look at the dates on the reports. This form is due: April 30 (for period January-March), July 31 (for April-June), October 31 (for July-September) and January 31 for (October-December).

If the report has not been filed and taxes paid on time based on above dates and their filing notice, note that in the findings letter.

D - Each employee should have a signed W4 (including clergy) or form from Episcopal Payroll Services ADP or another professional payroll processing company. Each employee should also have a signed and verified I9 form (including clergy).

E – Look at the vestry minutes to see if the resolution was included prior to paying the cleric.

- The following housing resolution should be noted in the Vestry Minutes prior to paying the cleric:

Resolution:

The Vestry of CHURCH on DATE, after discussing the amount to be paid to the Rev. NAME as a parsonage allowance, on motion duly made and seconded, adopted the following resolution:

Whereas the Rev. NAME is employed as a minister of the Gospel of (CHURCH NAME AND CITY), Episcopal Diocese of Montana, which does not provide a residence for HER OR HIM, the vestry resolves that of the total compensation of (AMOUNT), to be paid to the Rev NAME in YEAR (OR BEGINNING DATE AND YEAR) that (AMOUNT) be designated as a parsonage allowance within the meaning of that term as used in Section 107 of the Internal Revenue Code of 1986.

F - Look at the personnel files to see if the W4, I 9 copy and MW 4 forms are on file.

G - Is there a letter of call or employment agreement on file? Is the church in compliance with the letter of call? For instance, if it states health insurance, pension, cell phone reimbursement, continuing education etc. will be provided, are those payments showing in the financial statements? If not, it needs to be noted in the audit findings.

H –In accordance with Diocesan Canon 16, the church must provide evidence to the bishop that guarantees insurance per Church Pension Group guidelines. If you do not see evidence of this coverage it must be noted in the audit findings.

I) The State of Montana requires all new hires (including clergy) be reported to the state within 20 days of hire. The treasurer should be able to show you copies of the forms or to tell you when they were sent in if he/she has kept copies of the report forms. If the new hire information is reported by calling it in, it should be noted somewhere on file. If this has not been done, someone from the church should contact the New Hire Reporting Program through the Department of Revenue by calling 444-9290 to obtain necessary information for reporting.

J– See if there is a W2 form for the clergy who are paid regularly and any lay employees. Clergy who serve the congregation as its' priest in charge or rector need to be issued a W2 and not a 1099.

KLook at the W2 forms. If the church provides life insurance for the priest or lay person, they will likely have imputed income because the Church Pension Fund also provides a policy. The IRS requires that anytime the employer pays for more than \$50,000 of life insurance the benefit must be added to the salary on the W2 and reported in box 12 with the letter C. The Canon for Finance & Administration sends this amount to treasurers and clergy in early December for their reporting on the W2. If the priest or lay person has funds sent to a 403(b) pre-tax, the amount that was withheld needs to be subtracted from the income amount in Box 1 and reported in Box 12 with the letter E. If the church contributes funds to a health savings account, the amount needs to go in box 12 letter W. It is not added to the salary, but is reported in Box 12 as information. Moving costs paid to the employee are now taxable income and need to be added to Box 1.

If there are a number of payroll errors, the audit committee might recommend the church have the payroll processed professionally. To order a packet from Episcopal Payroll services, contact Patricia Tucker at 800-223-6602 extension 6286 or email ptucker@cpg.org.

Or, contact Barb Hagen, 800-247-1391 ext. 101 or finance@diomontana.com . The diocesan office uses Paychex and have negotiated a rate for our churches.

L - Look at the state quarterly unemployment reports. If the church has no lay employees, they will not file these reports. If there are lay employees, review the reports to see if the salaries

totals match the 941 (excluding clergy). Clergy are excluded from unemployment insurance and it should not be paid for them. Both clergy and lay employees for the church are exempt from Federal Unemployment Tax (FUTA).

M - Clergy are included here – salary and housing should be reported. Year runs July 1- June 30 for worker's compensation insurance. Check to see that employees hired during that time are on the report, including supply clergy.

N If there are contractors or anyone who is paid for their service, they must provide proof of their own worker's compensation coverage or a copy of the Independent Contractor's certificate that states worker's compensation is waived. If they do not have these documents, they must be added to the church's report. If this is not done, and the person does not have insurance and is injured, the church may be liable for the medical expenses. It is recommended to not pay the contractor's bill until the church receives all of these documents.

O- Look at the worker's compensation report and the check registers or cash disbursements journal to see if there are contractors or others who have been paid for services. All contractors or anyone paid for services should provide a W9 form. The IRS requires that backup withholding of 31% be withheld if the W9 form is not provided.

P - Look at the pension expense on the Income Statements. For clergy, it should equal 18% of salary and housing. For lay people in a defined benefit plan, it should be 9% of salary. Add together the clergy salary and housing. Multiply by .18. If that amount does not equal the pension, find out why. Lay people working under 1000 hours per year are not eligible to be in the plan so that may be the case as well. But ask questions if things don't match, and note it.

For lay people, multiply the salary by .09 and that amount should equal the expense on the Income Statement. Again, if it doesn't match, check on it. It is very important to make sure pension is accurate, because the Church Pension Fund can only go back two years to make corrections without charging penalties and interest to the church. The pension expense for lay people may be less if they are in a defined contribution plan and the matching amount is less. If there are lay employees, check on the type of pension plan they are in.

Q- The treasurer should tell you if there are contractors, individuals, or unincorporated entities that were paid for services. When you are looking through the check registers, see if you can find the names from the treasurer and check to see if they have provided a W9 form and proof of worker's comp coverage. Look at the W9 form and see their status to see if they should have received 1099 (if they are not an S or C Corporation.)

If the treasurer has said there were none paid, when you are looking through the register, take note of checks written to a companies or individuals for something that might be maintenance related or others who were paid for services,. Double check to see if they should have received 1099s. If they have checked anything other than S corp or C Corp on the W9 form, the treasurer should have issued a 1099. If there is no W9 form, then note that as a recommendation for the future to obtain W9 forms and issue 1099s as needed. The treasurer should always ask for a

completed W9 form prior to paying anyone (and also asked for the proof of worker's comp coverage). There is no way of knowing the status and reporting it correctly without the W9.

9 – Other Indebtedness

A – If there is debt, check to see if the Bishop, Standing Committee and Diocesan Council have approved it. It would be helpful to have a copy of a letter on file from them authorizing debt. If there is no new debt in the year being audited, you do not need to address this but note that there is no new debt this year

- If there are loans or leases or any kind of debt, it should be noted in the Vestry minutes.
- The vestry should approve any type of debt and note it in their minutes. If they have debt but it was taken on in a prior year, it does not need to be in the minutes each year – just for the year the debt began.
- This also includes the Paycheck Protection Program (PPP) loans. Review their documents for the PPP as well.

B - Look at the balance sheet to see what it shows as the balance as a liability. Does it match the balances shown by the creditor for the end of the year?

C - If the church has loans, look at the detailed schedule about the loans. Review the name of the creditor, date, original amount, origin, collateral, interest rate, payment schedule monthly payments, loan purpose and authorizing body.

This review should include Faber fund loans from the diocese. They are an interest free loan with a five year repayment plan. The Faber Fund loans should also show as a liability on the church's balance sheet and the balance should match the diocesan balance. If you need the Faber fund loan balance information, contact Barb Hagen.

10 - Payables

Look to see if there are debts or any other unpaid bills. If there are, they should be listed on the balance sheet as a liability if the church uses accrual or modified accrual accounting.

A - Look at the January check register. Were there checks written in January that were for December bills?

B - If so, they should show as a liability at the end of the year.

C - Are there items paid in December that are for expenses for the next year? For instance, insurance is paid in July. Part of that expense is for the next year since the insurance year runs July 1 – June 30. So, only half of the insurance expense is for the current year and the other half

is a pre-paid expense. If the church uses accrual accounting, they would show the prepaid expenses under assets on the Balance Sheet.

D - Look at the pre-paid line item to see what was paid. Was it something that should have shown as an expense for the audit year instead?

11- Other

A - Look at the copies of the insurance information. It should be up to date for the year being audited.

B – Ask if there are any pending or potential lawsuits. The audit committee needs to know this because it may impact future financial health of the church. It would need to be included in the notes. Note – this is rare.

C – If the church has an accounting policy manual, it should cover writing off loans, receivables, and a provision for reserve funds. Look at the Balance Sheet to see if there are reserve funds set aside for building maintenance or major repairs. This is not a requirement, but is a good idea since many of our buildings are old and need extra maintenance.

D – Does the vestry review the budget on a regular basis? What is their process for doing so? This process should also be included in the church’s Accounting Manual.

E - The worker’s compensation coverage poster is sent to each congregation every July. It should be posted each year.

F- The unemployment poster (if there are lay employees) should be posted as well.

G- The OSHA poster that lists minimum wage and other employment issues should be posted. If the church does not have this poster, the treasurer can contact the job service in your area and ask for the employment poster. They will give you one free of charge. Don’t buy the one from the mail solicitation!

H- Look at the by-laws and articles of incorporation. The by-laws should be discussed periodically and updated as needed. If the dates are more than 5 years old and there is no mention in the Vestry Minutes of discussion about them, they should have a formal review.

I- Look at the annual incorporation report filed with the state to make sure it was filed at the beginning of the year. If the report was not filed, it needs to be filed immediately. If they have trouble, please be in touch with the Canon for Finance & Administration regarding filing the report.

J- The vestry letter is the final step in the audit process. It states that the vestry has provided the audit team with all of the necessary information and acknowledges their compliance with

requests for information. The auditors just need to remind them to write this letter (a sample is on the website under the audit button and is called “vestry letter.”)

K- The “Positive Practices to Continue” section of the report is very important. If the church is doing something really well with their finances or record keeping, it should be noted. Some churches have very detailed vestry minutes. Some churches are well prepared for the audit and have everything ready, etc. Celebrate whatever the church does well with their finances and record keeping. This section is designed to highlight the positive practices in terms of financial and vestry work, and while it is interesting to read about how great the coffee hour is, it isn’t what we are looking for in this section.

L – Look at the church’s accounting policy manual and note the date. If they do not have a manual, that would be a recommendation. Some churches think that the Manual of Business Methods in Church Affairs is what this is referring to. What it actually means is does a church have a manual that outlines how they specifically do things – expense approval, writing off stale checks, etc. The church’s manual needs to follow the rules in the Manual of Business Methods in Church Affairs but it is specific to their own procedures within their congregations.

M – List the names of those who work with children or at risk adults here. The diocesan office staff will follow up with the list to see if those mentioned are current on their background checks and required training.