

Audit Procedure

1. *Bank Accounts:*

- a. The committee should ascertain the number of bank accounts maintained and the purpose for which each is maintained.
- b. The committee should examine the canceled checks for:
 - i. Authorized signature(s)
 - ii. Proper Endorsement
 - iii. Comparison with the cash disbursements journal for proper recording of payee and amount. If fewer than ten checks are written each month, then all times should be examined. If more than ten per month, a random sampling of two to three months would suffice if a good system of accounting is evident.
- c. The auditor should account for all voided checks.
- d. Outstanding checks from the previous period should be examined to determine proper bank clearing and amount. Any check outstanding for a period longer than three months from the balance sheet date should be questioned for satisfactory explanation.
- e. The auditor should verify bank balances at the end of the period being audited and should check that the closing cash amount is correctly stated on the balance sheet.
- f. Examine the January bank statement following the close of the audit year for items impacting the audit year.
- g. Determine whether transfer of funds occurred between bank accounts near the date of the Balance Sheet. Determine that the transfers were recorded in the books in the same accounting period and that any transfers not recorded by the bank in the same accounting period appear in the appropriate bank reconciliation.

2. *Investments:*

- a. Obtain or prepare a list of securities owned showing:
 - i. The description of each security
 - ii. The serial number of bonds or securities
 - iii. The denomination of each security or its par value
 - iv. The interest rate of each bond
 - v. The cost of each security and the amount recorded on the books

- vi. The interest and dividends received during the year
 - vii. The market value of each bond or security as of December 31 of the year being audited.
- b. Review the investment summary for reasonableness, consistency of amounts between years, and obvious omissions.
 - c. Compare the securities listed with ledger accounts and/or with the statement.
Whenever practicable, serial numbers should be compared with records of security purchases or gifts in order to obtain positive identification and to avoid the possibility of substitution.
 - d. Examine securities listed or obtain confirmation from the holders if any are held by depositories. It is preferable for this examination to occur as close to the examination date as possible. Insure that the securities are registered in the name of the congregation or are endorsed appropriately to be transferable to the congregation. Examine the coupons on bonds to ascertain that unmatured coupons are intact.
 - e. Examine all transactions for verification of acquisitions and disposition.
 - f. Trace acquisitions to disbursements records and sales (dispositions) to receipts records.
 - g. Examine broker statements and compare with investment ledger where applicable.
 - h. The auditor should be satisfied that the securities are being adequately safeguarded.
 - i. Verify any income that has not yet been distributed.
 - j. Determine whether income earned and accrued income receivable have been appropriately recorded.

3. Receipts:

- a. Plate offerings: Cash receipts journal entries should be trace to weekly cash receipts records on a test basis.
- b. Pledge receipts:
 - i. Pledge receipts should be verified by tracing cash receipt entries to individual pledge records on a test basis. A minimum of 10% of posting should be traced. Results will indicate if a broader sampling is necessary.
 - ii. Adding machine tapes should be made of the individual pledge records with the total agreeing with the total pledge payments reported.

- iii. Random selection of individual pledge records should be tested for accurate total and balance. A minimum of 10% should include the same individuals above.
- iv. If the auditor is engaged before year end, and if the church sends statements to the pledgers, the auditor can save time and effort by supervising the mailing of the year-end statements. The auditor can then use this mailing to obtain direct confirmation.
- v. The auditors should always review the pledge receipts of the congregation personnel involved in money transactions.
- vi. The decision regarding the size of the representative sample of postings and pledge records for examination depends on the dollars involved and the sophistication of the parish records.
- vii. Contributions from congregation organizations: Receipts must be listed separately for each organization and amounts entered in the cash receipts journal, traced to the weekly cash receipts records. These listed amounts shall be confirmed with their sources.
- viii. Contributions from the Diocese: Receipts must be listed and amounts entered in the cash receipts journal, traced to weekly cash receipts records.
- ix. Investment and endowment income: Income from securities should be verified by an examination of the brokerage house statement. Income from investment accounts should be verified by an examination of the statements provided or confirmed by the trustee or agency. Income from savings bank deposits should be confirmed by the bank.
- x. Restricted income: Income received for special purposes should be noted by the auditor who should trace the cash receipts journal entries to the weekly cash receipts records. The auditor should also be satisfied that the income was used for the purpose for which the gift was made.
- xi. Non-income receipts: Verify all cash receipts journal entries by tracing them and ascertaining that the proper authorization has been given for any transfer or inter-fund borrowing, or for the sale or redemption of any investments or property.

- xii. All cash receipts records should be traced to duplicate deposit slips or bank statements to ascertain that these receipts are deposited intact.
- xiii. Petty cash: The auditor should be satisfied that a proper imprest system is being maintained. Petty cash is not to be used to cash personal checks. Cash flow and size of fund over audit period should be checked for possible misuse.
- xiv. All receipts should be compared to budgeted amounts and material variances should be explained.
- xv. Verify the totals in the cash receipts records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.

4. Disbursements:

- a. Tests are to be made to satisfy that disbursements have been accurately classified, and that invoices supporting the disbursements have been properly approved and canceled or marked "PAID".
- b. The committee must be familiar with the financial statement expenditure categories listed on the congregation's chart of accounts.
- c. All disbursements should be compared to budgeted amounts and material variances should be explained.
- d. Testing of disbursements: Select a sample of disbursements. A minimum of 10% of postings should be traced. Results will indicate if a broader sampling is necessary. Test the disbursements to invoices as follows:
 - i. Compare invoices with the recordings in the cash disbursements journal for a sufficient number of items to assure the committee that they are fairly recorded and classified. Comparison should include vendor's name, date and amount billed.
 - ii. Examine invoices for verification signature that the items were received or services were acknowledged by a person authorized to do so.
 - iii. Travel and business expense reimbursements should be checked to see that they are in accordance with the qualified reimbursement policy of the congregation.

- iv. Verify the totals of the cash disbursements records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.

5. *Restricted Funds:*

- a. Obtain or prepare a list of restricted funds showing:
 - i. The source and date
 - ii. Terms governing the use of principal and income
 - iii. To whom and how often reports of condition are to be made
 - iv. How the funds are to be invested.
- b. Examine the donor letter, or trust or agency agreement, for each new gift and contribution received during the fiscal year.

6. *Loans:*

- a. Obtain or prepare a schedule of all loans to include:
 - i. The name of the lending institution
 - ii. The date or origin
 - iii. The original amount of the loan
 - iv. The interest rate and payment schedule
 - v. The monthly payment
 - vi. The unpaid balance
 - vii. The purpose of the loan
 - viii. The authorizing body
 - ix. The collateral for the loan
 - x. The restrictions placed by the lender.
- b. Review balances for reasonableness, consistency of amounts between years and obvious omissions.
- c. Determine that any loans from the year being examined had the proper authorization and were recorded in the minutes of the Vestry or mission council.
- d. Verify, by direct communication with any lender, the outstanding indebtedness at the year-end, as well as the terms of the indebtedness.

- e. Reconcile the unpaid balance of all loans as reported by the congregation records to the figure reported by the lending institutions.

7. Property and Equipment:

- a. Obtain a list of fixed assets of significant amounts showing the cost and date of purchase, if known.
- b. Review balances for reasonableness, consistency of amounts between years, and obvious omissions.
- c. Examine all the deeds and title of ownership related to the properties owned by the congregations. Review them for the proper recording of the name of the owner and to determine if any encumbrances or liens exist. Prepare copies of the deed for the diocesan office to keep on file, if not done previously.
- d. Determine if any inventory identification procedure is in effect.
- e. The congregation must have a physical inventory of capital assets. A sampling test of this inventory is to be made by the committee.
- f. Ensure that all property and equipment is adequately insured.
- g. If depreciation of property is recognized, review entries for accuracy.

8. Payroll Records:

- a. Examine the individual earnings records for name, address, social security number, number of exemptions, rate of pay, and effective date.
- b. Ensure that the salary paid is authorized and proper by comparing with the amount budgeted.
- c. Trace the individual earnings record postings to the check register.
- d. Reconcile total wages paid and total withholding taxes with the quarterly Form 941 and end-of-year Form W-3, checking that they were remitted on time.
- e. Determine if a correct signed Federal Form W-4 and a Form I-9 is on file for each employee hired after November 6, 1986.
- f. Determine if a Form W-2 has been given to each employee, including clergy, and that the Forms W-2 are correct and properly filed.
- g. Determine if a State of South Carolina Terms of Employment Notice is on file for each employee.

- h.** Determine if Forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid \$600 or more annually.
- i.** Test the payroll to be sure that a real employee exists for every payroll check written.

9. *Receivables and Payables:*

- a.** Prepare a schedule of accounts receivable as of the date of the statement of Financial Position (balance sheet). These may include pledge payments which were made after the end of the year in which the money was pledged or authenticate obligations owed to the congregation at year-end.
- b.** Prepare a schedule of accounts payable as of the date of the Statement of Financial Position. These may include monies owed by the congregation to vendors at year-end for goods and services received during the year being audited. Discuss with the treasurer any old or disputed payables.

10. *Insurance:*

- a.** A schedule should be prepared listing the name of carrier, description of coverage, period of insurance, premium amount, and date of premium payment for the following policies which the committee is to review:
 - i.** Fire insurance on buildings and equipment
 - ii.** General Liability (Public Liability and Property Damage)
 - iii.** Burglary
 - iv.** Fine Arts
 - v.** Malpractice
 - vi.** Worker's Compensation
 - vii.** Fidelity Bond
 - viii.** Automobile coverage on church-owned vehicles
 - ix.** Non-ownership liability insurance for vehicles owned by others when used for congregation business
 - x.** Directors and Officers liability
 - xi.** Umbrella Liability
 - xii.** Sexual Misconduct Liability
 - xiii.** Other special policies held by the church

11. **Discretionary Fund:**

- a. Check that the discretionary fund is in the congregation's name, that the congregation's Federal Identification Number is the number used to identify the account at the bank, and that the fund has not been used for operating expenses of the church or personal expense of the clergy. If a separate checking account has been authorized, all monies for the discretionary fund must pass through the congregation's general bank account and subsequently a check should be written to transfer the monies to the separate discretionary fund checking account.

12. **Work Papers:** The committee should retain a file of the work papers that were prepared during the audit. When the next year's audit is performed, these papers could be an invaluable guide. The next auditor should be provided with a copy of the work papers. These work papers should include such things as: the complete audit and internal control check lists; lists of bank accounts, restricted funds, investments, insurance accounts and loans, the scheduled prepared; the procedures followed in performing the audit, and memoranda describing significant issues raised during the audit.

13. **Audit Committee Certificate:** The Audit Committee Certificate states that steps have been taken to ensure that the financial statements are presented fairly in all material respects. The Audit Committee Certificate should identify exceptions when the audit committee questions any aspect of the financial statement. When this occurs, the audit committee should carefully describe the condition raising the question. Such a statement does not nullify the accuracy or the importance of the audit, but it does alert the reader that the financial statements may be affected in some way because of the noted variance.

14. **Audit Committee Findings on Policies and Procedures:** The Audit Committee should comment in a separate letter to the Vestry regarding the internal control procedures in effect at the congregation. This letter should be made a part of the vestry minutes.

Exceptions to adequate procedures should also be noted in these comments. Repeat items from previous years should be noted. Good business practices and policies, as well as safeguards, should be recommended. A copy of this letter should accompany the audit report and be submitted to the diocese along with the Audit Committee Certificate and the Balance Sheet and Income Statement at year end.