



The
Episcopal Diocese
of New York

**ALTERNATIVE AUDIT PROCEDURE
ANNOTATED WORKBOOK FOR AUDITORS**

**Please Note that All Completed
Worksheets and Supporting
Documents Must be Uploaded
Using the Form at
dioceseny.org/2023audits/.**

For use in 2024 by all congregations with Net Operating Income ("NOI") of less than \$750,000, provided they have no other reason to prepare a certified audit.

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 Church congregations.

Required Documents

While not a full audit according to generally accepted accounting principles, this procedure nevertheless does require the provision of the following documentation *in addition to the completed Alternative Audit Worksheet*:

- 1. 12/31/2023 Bank Reconciliations for ALL bank accounts belonging to the congregation or its organizations.**
- 2. 12/31/2023 Profit and Loss statement.**
- 3. 12/31/2023 Balance Sheet**

In general, however, our objectives are narrower than those of a full audit.

- ❖ **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.
- ❖ **We want to be sure that there is compliance with the Canons of the Episcopal Church and of the Diocese of New York.** For example, was the Parochial Report filed in a timely fashion, and was it completed in accordance with the instructions? Can you reconcile the congregation's Annual Report with the Parochial Report? Are all organizations' accounts included in the audit in accordance with the Canon?
- ❖ **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?
- ❖ **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 Procedure. 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.

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?
2. Have recommendations included in previous years' audits been implemented?

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?
4. If a Finance or Investment Committee is authorized to expend or invest funds, are the minutes of such committee meetings complete?

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 clergy person'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.
6. Was the budget approved by the Vestry?
 - a. Was the parsonage allowance voted prior to being paid?
 - b. Were large or unbudgeted expenditures approved?
 - c. Were large or unusual receipts noted?
 - d. Could you trace to recorded receipts?

7. Are monthly financial reports to the Vestry complete?

8. Is balance sheet information prepared at least annually for the Vestry and congregation?

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. Under the provisions of the Not-for Profit Law of New York State, the Vestry must receive a full report of all the parish finances at least annually.

9. Did you examine a copy of the financial report to the Annual Meeting?

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.

10. Was the Parochial Report filed on time? (March 1 is the canonical due date.)
11. Are insurance records and property records complete?
12. Are coverages adequate?

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. If the congregation does not have Directors' & Officers' insurance, you may wish to suggest that they look into getting it.

13. Have you seen the Articles of Incorporation and the By-laws?

A few congregations are unincorporated. In such cases the Diocese usually owns the property.

14. Is there a space use agreement and insurance certificate for each outside organization using church facilities?

15. Have staff and volunteers attended Safe Church workshops as required?

See the revised edition of the Warranty that is part of Church Insurance's sexual misconduct rider.

Congregations covered by Church Insurance need to have adopted a sexual misconduct manual. Clergy and lay employees and volunteers supervising youth activities (excluding unpaid Sunday School teachers) need to have completed the training outlined in paragraphs 4.c. and 4.d.

CASH BALANCES, INVESTMENTS & INCOME

16. Have you checked to see that all operating cash accounts (including all passbook savings accounts) have been reconciled regularly through out the year?

If the congregation uses Quicken or another computer application, look at the reconciliation reports that should be attached to each bank statement. You need to stress that all accounts in the name of the church must be examined.

17. Review all organization cash accounts (ECW, Guilds, etc.)
 - a. Have they been reconciled regularly?
 - b. Organization accounts may not be used for general parish purposes (e.g., to receive flower donations or pay altar expenses). Are the organization accounts free of activity that should have been in the operating fund?
 - c. If there was operating fund activity in these accounts, was it included in the Parochial Report?
 - d. List any accounts that exist that you were **unable** to examine.
18. Examine year-end statements of any invested funds. Are all investments properly recorded on the books?
19. Were any restricted gifts received during the year?
20. Has the congregation respected donor restrictions on all current and past gifts?
21. Review procedures and control of plate collections, other cash receipts and deposits? Do these systems provide adequate controls?

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.

22. Are contribution statements sent out at least quarterly?
23. Do the statements show the pledge balance?

CASH DISBURSEMENTS

24. Did you receive a list of authorized signatories for each account?
25. Examine a selection of disbursements.
26. Are there invoices (not statements) for disbursements?

- a. Are there authorizations for disbursements?
- b. Do checks have the specified number of authorized signatures?

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 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 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*

c. Is the accounting system used adequate and properly maintained?

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. For small parishes, especially if contribution records are maintained manually (preferable if there is no paid office staff), Quicken Basic is probably sufficient.

All financial records should be kept at the church. (We have a very few congregations where this is physically impossible because there is no parish office.) In all other instances you should strongly recommend that all financial records (including organization accounts) be kept securely on church property.

LIABILITIES

Are clergy and lay pension payments calculated correctly and up to date?

27. Is payment of the diocesan Apportioned Share current?

28. Are any diocesan loans current?

29. Are utility and insurance payments current?

30. Are any mortgage or other loan payments current?

DISCRETIONARY FUNDS

31. Is the account in the name of the church?

32. Was it set up by Vestry resolution?

33. Is the church's tax ID number used for the account?

34. 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?

35. If the account was used for personal expenses which the IRS would consider taxable, were these amounts included in the priest's W-2?

If necessary, see the guidelines available in the diocesan office.

PAYROLL

Are workers properly classified as either employees or independent contractors?

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 don't 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 doesn't receive vacation or sick pay. Check with the diocesan Controller's 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 State Department of Labor 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.

36. Are 1099s issued to independent contractors who made more than \$600?

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

No congregation, certainly not a small one with a volunteer financial staff, 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 agency—either a commercial payroll service or the Diocesan Payroll Service.

38. Do the salaries authorized in the budget match the amounts that were paid?

39. Was all compensation, including any bonus, reported on the W-2?

PAROCHIAL REPORT

40. Compare the annual report to the Parochial Report. Are *all* amounts entered on the Parochial Report in accordance with the Parochial Report instructions?

If needed, refer to the instructions for the financial section of the Parochial Report and to our diocesan procedures for netting the cost of providing space from the gross amounts received for space use by outside organizations. 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.

41. If not, has a revised Parochial Report been prepared and submitted?

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?

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 here or 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 here 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:

- 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
- Church Canons are being violated (e.g., not including organization accounts and discretionary funds in the audit, improperly filling out the Parochial Report); or
- a congregation is failing in its fiduciary responsibility (e.g., not reporting regularly to the Vestry, not having a budget, being inadequately insured); or
- basic bookkeeping matters are not attended to (e.g., bank accounts not reconciled, no documentation for checks, inadequate contributions records).

REQUIRED ACCOMPANYING DOCUMENTS

The following documents must be submitted along with your Alternative Audit Worksheet:

1. 12/31/2023 Bank Reconciliations for ALL bank accounts belonging to the congregation or its organizations.
2. 12/31/2023 Profit and Loss statement.
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