

The background features a blue-tinted image of documents with some text and numbers visible, such as '20', '25', and '247'. Overlaid on this are several abstract white shapes: a large, irregular blob in the center, a smaller circle in the upper left, and a cluster of three circles (one large, two smaller) on the right side. The text is centered within the large white blob.

Preparing for an Episcopal Audit

with Lesley Williams

Agenda

- Timeline Step by Step (What to Expect and When to Expect it).
- Categories to be Reviewed
 - Internal Controls
 - Bookkeeping System
 - Business Practices
- Things you may need to obtain from other people, committees or groups
- Some Dos and Don'ts
- Resources
- Q&A session

Timeline Step by Step

1. Treasurer or Bookkeeper contacts the auditor
 - a. Determine whether it will be a full audit or an alternative audit procedure (budget <\$250,000).
 - b. Schedule a pre-audit meeting with Treasurer, Bookkeeper, Rector, Snr. Warden, Finance Committee members.
 - c. Be prepared to answer some general questions about your software, fund accounting, parties involved in finance activities etc.
2. Pre-audit meeting
 - a. "Get to know you" round table.
 - b. Auditor explains procedure, timeline, answers any questions.
 - c. Schedule fieldwork - the date and time the auditor will begin work at your location.
3. Engagement Letter and Pre-Audit items
 - a. Auditor sends engagement letter laying out the scope, timeline, fees, expectations, limitations.
 - b. Attaches list of pre-audit reports and documents.
 - c. Treasurer signs letter to indicate agreement with the terms, scans and returns to auditor.
 - d. Bookkeeper provides pre-audit items at least one week before start of fieldwork.
4. Fieldwork
 - a. Auditor will probably spend between 1 and 5 days at your location depending on size of budget, number of transactions, level of organization of records.
5. Post-audit meeting
 - a. Same attendees as for pre-audit meeting
 - b. Auditor presents final report. Management letter, financial reports (revised if necessary), optional items such as copies of engagement letter, Parochial Report if revised, other items as appropriate.

Categories to be Reviewed

- Internal Controls
 - Policies
 - Procedures
 - Manuals

- Bookkeeping System
 - Data entry
 - Budgeting
 - Reconciliations
 - Reporting

- Business Practices (mostly legal requirements)
 - Employees and Payroll
 - Record retention, Reports, tax returns, donor statements

Internal Controls

- Policies – reviewed and approved by Vestry, rarely updated
 - Segregation of Duties, Cash Handling, Reimbursements, Sexual Misconduct, Safeguarding God’s Children, Record Retention, Employment, Gift Acceptance, Conflict of Interest etc.
- Procedures – step by step instructions, usually written by bookkeeper and/or Treasurer, likely to be updated more frequently. May be combined in an Accounting Manual.
 - Income, Disbursements, Payroll etc.
- Manuals
 - Internal e.g. Accounting Manual, Employee Handbook.
 - External e.g. Manual of Business Methods in Church Affairs.
- Perform an annual review of all finance-related policies, ensuring that all mandatory policies are in place, current, and have been approved by the vestry.

Bookkeeping System

- Budgeting - approved by vestry, presented to congregation, periodic review variances explained?
- You should review the General Ledger every month. Look for incorrect account coding, inconsistencies in descriptions, missing detail, income with and without restrictions etc.
- Print all general journals, attach supporting documentation.
- Reconcile all bank, loan and payroll liability accounts monthly, adhering to seg. of duties policy.
- Reconcile bank statement income to total on donor statements. (If you don't do it, the auditor will, and it could take some time and increase the cost significantly.)
- Keep an electronic copy of the Statement of Financial Position and Statement of Activities for each month. Make sure the vestry clerk has a copy of reports as provided to the vestry and that they are filed with the minutes of the meeting at which they are accepted.
- Reporting - to Treasurer, Vestry, Congregation; Parochial Report

Business Practices

- Employees and Payroll
 - Employee record - W-4, I-9, proof of New Hire reporting, Notices of pay increases, a signed Agreement/Contract, emergency contact, approved timesheets (if not with payroll records).
 - Employee Handbook with paid time off (vacation, sick, holidays), pension benefits etc.
 - Copies of W-2s and W-3 with a reconciliation to payroll records (including W-2 to clergy).
 - Proof of remittance of payroll taxes, filing of 941s and annual state return.
 - Payroll reports for every pay period and year-end summary.
- Employees vs. Contractors. 1099-NEC filings.
- Donations with and without restrictions.
- Donor tax statements. Quarterly advices, annual official statements. Keep copies of originals, do not just plan to pull a report for the audit. It may have changed.

Things you may need to obtain from others

- From all clergy with a Discretionary Fund - list of disbursements and their purpose (not names of beneficiaries) and bank statements for the year under audit, December of the previous year and January of the following year. (Anonymous entries in accounting system.)
- Exempt Property Tax Reports if not filed by the bookkeeper.
- From the Property Committee or other group assigned to maintain asset records - list of assets, acquisition date and cost, location. May substitute a notated or voiceover video.
- From the Clerk of the Vestry - Vestry Minutes for every meeting from the beginning of the year under audit through the latest meeting, with any handouts provided at the meetings.
- Management's response to prior audit's recommendations.

Some Dos and Don'ts

- **DO** - Print a copy of the Internal Control Questionnaire and refer to it throughout the year to ensure you can answer most questions positively. Some answers may be "not applicable".
- **DO** - Schedule the audit as early as possible each year. Nothing will get you off on the wrong foot with an auditor like being called in the middle of August and asked to complete an audit by the due date of September 1st.
- **DO** - Provide everything on the Pre-Audit list in a timely manner.
- **DO** - Prepare a comfortable space for the auditor to work. Have all requested items on or near the desk. Prepare a list of all items that you are unable to provide, along with an explanation for why they are unavailable.
- **DON'T** - Try to hide anything. If you made a mistake, or something wasn't done, own up. In my experience most church audit reports mention some areas for improvement but being caught in a lie is a much more serious issue.

Resources

<https://episcopalcolorado.org/congregational-resources/administration-finance-resources/>

- [Administration and Finance Handbook](#)
 - The intention is to update it every December for the following year. Latest one is 2022.
 - See page 17 for information on audits, including common “improvement opportunities”.
- [Manual of Business Methods in Church Affairs](#)
 - Chapter VI covers audits in depth.
- [Internal Control Questionnaire](#) (Chapter II, Section D of the Manual of Business Methods in Church Affairs)
- [Alternate Audit Procedure](#)
 - Auditor is required to complete a questionnaire.
 - Only available to churches with operating income less than \$250,000
 - Ideally the auditor should be able to answer all questions in the affirmative
 - https://episcopalcolorado.org/wp-content/uploads/2016/04/alternative_audit.pdf

? Questions ?