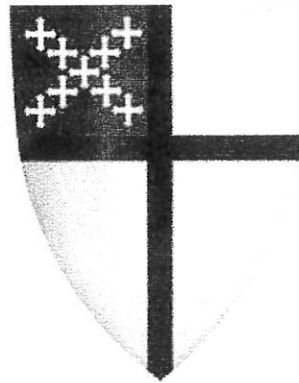


# Audit Program for Internal Auditors of All Saints Church



**All Saints Church**

**3 Chevy Chase Circle**

**Chevy Chase, Maryland 20815**

**October 2012**

Dear Congregation and Fellow Auditors:

The task of auditing a Church is not a simple task. However, it is an act of stewardship that should be commended by all of those involved in the Church. Likewise, the task of compiling this manual was not an easy task. As such, we are thankful to the authors of the audit manuals that came before this one, particularly the ones listed in the sources section of this guide. These sources include *The Manual of Business Methods in Church Affairs*, which is published by the Episcopal Church (In accordance with Title I, Canon 7, "Of Business Methods in Church Affairs", and Resolution D-147 (1979 GC): "Accounting Principles and Practices for Dioceses, Parishes, and Other Congregations": COPYRIGHT 2007, 2009, 2012 The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the USA). {Of Note: The opening letter of the subject Manual states, "The Canons of the Episcopal Church set forth the general responsibility and accountability for the stewardship of the Church's money and property. Title I, Canon 7 (pages i2 – i3 in this Manual) specifically addresses the business methods prescribed for every diocese, parish, mission, and institution subject to the authority of the Episcopal Church. This Manual identifies requirements and seeks to provide helpful advice on sound, practical internal controls, accounting guidelines and business practices. We believe that it can be a tool that will support your efforts to perform the duties and responsibilities of your office."}

This program has been designed to help you in conducting the internal audit of our Church. However, due to the difficulty of the task ahead, and because this is the first time that All Saints Church has initiated a formal audit program, we realize that you may have questions. We would also appreciate any comments you have to improve this program. For questions, comments, or technical assistance, you should call The Reverend Edward T. Kelaher at the All Saints offices at (301)395-8839.

Audit Committee of All Saints Church

October, 2012

## **Purpose of this guide:**

This program is intended to be used by an internal auditor and/or members of an internal audit committee within All Saints Episcopal Church, Chevy Chase, MD. This internal audit program is not intended to be and should not be used as a substitute for an external audit conducted by a certified public accountant. This program is intended to supplement an external audit. It should be used by the internal auditor(s) to help them prepare for an audit conducted by a certified public accountant. By following the instructions contained in this guide, you may be able to reduce the cost, better plan for, know what to expect from, and improve the effectiveness of your external audit.

This audit program has been compiled by the audit committee of All Saints Church. Also, it should be noted that All Saints Church, its Rectors, clergy, staff, agents and congregation is not providing legal or financial advice through this publication, nor can it be responsible for the conduct of external audits. It must be emphasized that this guide is not a substitute for regular audit programs developed by a certified public accountant and should not be used as such. Internal auditors should always seek assistance and advice on specific issues from professional accountants and auditors.

## **Reasons for an audit**

The Church recommends that an external audit be conducted at a minimum on an annual basis. This is because an audit is the best way for the church to protect the clergy, those persons it elects to offices of financial responsibility and members of the congregation from unwarranted charges of carelessness, accident or improper handling of funds. **It is not a symbol of distrust.** In addition, since church committees, treasurers, finance committees, clergy/chaplains, and other persons in positions of responsibility "are liable for any losses which would have been discovered by an ordinary audit but were not discovered because they failed to have the audit conducted" (Manual of Business Methods in Church Affairs, Episcopal Church, p. 8), the costs of dishonesty or mismanagement, intentional or accidental, on the part of those entrusted with church funds are likely to be far higher without an internal audit [than the cost of having an external audit performed]. To the point, just as we allocate money in our church budgets to pay the costs of insurance, it makes sense to allocate money for periodic audits (Manual of Business Methods in Church Affairs, Episcopal Church p. 4).

There are two basic forms of audit:

(1) Internal Audit (described in more detail below and the true subject of this manual) involves the consistent ongoing monitoring of sound, practical internal controls, accounting guidelines and business practices. We believe that it can be a tool that will support the efforts of clergy and congregation alike to perform the duties and responsibilities of benefit to the Church and the world outside of our Church walls. A well designed Internal Audit and reporting system should assist you in fulfilling the responsibilities for the financial oversight of All Saints Church. Practical internal controls are the cornerstone of the best financial management. Management of financial resources is an important element of stewardship. The Church has entrusted us with

An external audit includes examination of all of the funds of the Church, not only the operating accounts. Thus, all operating accounts, capital and other special funds, endowment and trust funds, assets of Church organizations, investment funds, discretionary funds, and any other assets, liabilities, revenues, and expenses of the Church must be audited. No account should be exempted from examination.

An external audit is conducted in three parts –pre-audit planning, tests of internal controls, and substantive tests of transactions and account balances. The culmination of these tests is the formulation of an opinion on the financial statements (which should consist of at least a statement of the assets and liabilities of the church and a statement of the revenues, expenses, and net asset or fund balances of the church). The opinion is expressed in a report, which is issued to the congregation.

Please note that internal controls and the internal audit of those internal controls are only as good as those overseeing the controls and internal audit. It is for this reason All Saints Church has established an Audit Committee.

### **Audit Committee of All Saints Church**

A definition has been developed by the government auditors in the INTOSAI's Internal Control Standards for an Audit Committee:

*"A committee of the (Vestry and congregation) whose role typically focuses on aspects of financial reporting and on the entity's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements. The Audit Committee typically assists the (Vestry) with the oversight of (a) the integrity of the entity's financial statements, (b) the entity's compliance with legal and regulatory requirements, (c) the independent auditors' qualifications and independence, (d) the performance of the entity's internal audit function and that of the independent auditors and (e) compensation of company executives (in absence of a remuneration committee)." (Standard INTOSAI GOV #9100, "Internal Control Standards for the Public Sector", annex 2)*

The Institute of Internal Auditors denotes best practice for an Audit Committee as: *"The audit committee will consist of at least three and no more than six members of the (congregation and Vestry)... Each committee member will be both independent and financially literate. At least one member shall be designated as the "financial expert," as defined by applicable legislation and regulation".*

To ensure independence of the Audit Committee and mitigate even the appearance of undue influence or favoritism, it is recommended that the Audit Committee be appointed by and report directly to the Vestry (rather than have any reporting obligations to the Rector, any other clergy, any financial or non-financial employee of the Church or to any committee or organization within the Church).

### **Responsibilities**

The Vestry and Rector and their committees rely on clergy and committee chairs, along with Church employees, to run the normal operations of the Church. The Vestry's main role is better described as oversight or monitoring, rather than execution.

Responsibilities of the audit committee typically include:

- Overseeing the financial reporting and disclosure process.
- Monitoring choice of accounting policies and principles.
- Overseeing hiring, performance and independence of the external auditors.
- Oversight of regulatory compliance, ethics, and whistleblower hotlines.
- Monitoring the internal control process.
- Overseeing the performance of the internal audit function.

## Particular Note

Please note that a detailed informational guideline for Episcopal Church internal and external audit is provided and (generally) updated monthly by "*The Manual of Business Methods in Church Affairs*", which is published by the Episcopal Church (In accordance with Title I, Canon 7, "Of Business Methods in Church Affairs", and Resolution D-147 (1979 GC): "Accounting Principles and Practices for Dioceses, Parishes, and Other Congregations": COPYRIGHT 2007, 2009, 2012 The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the USA. Reference to this manual and its updates can be accessed at:

[http://www.episcopalchurch.org/sites/default/files/downloads/full\\_manual\\_spring\\_2012.pdf](http://www.episcopalchurch.org/sites/default/files/downloads/full_manual_spring_2012.pdf)

It is suggested that the Audit Committee of All Saints Episcopal Church, the Vestry, and all finance employees of All Saints Church refer to this manual frequently – and especially when amending the accounting system and when preparing for the annual external audit.

The Audit Committee should produce an "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. (A suggested sample copy of the Audit Committee Certificate is included in the Appendices of this manual.)

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 minutes and be titled, "Audit Committee Findings on Policies and Procedures." (A suggested copy of the Audit Committee letter of Findings and Procedures is included in the Appendices of this manual.)

Suggested worksheets and forms for the All Saints Church Audit Committee (primary credit to the Episcopal Church, *The Manual of Business Methods in Church Affairs*):

Yes No

2. Are all changes to the budget authorized by the Vestry and recorded in the minutes of the meetings?

Yes No

3. Is there a periodic review of the budget by the Vestry?

Yes No

**Reporting:** The best accounting system is of little value, unless it communicates the information it contains to those responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1. Is a Treasurer's report submitted to the Vestry or accounting committee each month?

Yes No

2. Is the Treasurer's report presented in sufficient detail to inform the reader about the nature of the various income and disbursement items?

Yes No

3. Does the report present the current actual financial data compared with the approved budget?

Yes No

4. Is there periodic reporting, at least quarterly, of all other funds and activities, including designated or restricted funds?

Yes No

**Cash Receipts:** Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?

Yes No

2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis (e.g., at least weekly)?

Yes No

3. Are there at least two unrelated persons responsible for counting and depositing the collections?

Yes No

15. Are all discrepancies investigated?

Yes No

**Cash Disbursements:** The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1. Are all disbursements made by check, except for small expenditures made from petty cash?

Yes No

2. Are all checks pre-numbered and used in sequence?

Yes No

3. Is there a clearly defined approval process for all disbursements?

Yes No

4. Are all voided checks properly cancelled and retained?

Yes No

5. Are all checks made payable to specified payees and not to cash or to bearer?

Yes No

6. Are all disbursements supported by original documentation?

Yes No

7. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment?

Yes No

8. Check signing:

a. Is signing blank checks prohibited?

Yes No

b. Is using a signature stamp or pre-printed signatures prohibited?

Yes No

c. Does all supporting documentation accompany checks presented for signature?

Yes No

d. Are all account signers authorized by the Vestry?



Yes No

3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash?

Yes No

4. Do the reconciliation procedures provide for:

a. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits?

Yes No

b. Investigation of bank transfers to determine that both sides of the transactions have been recorded?

Yes No

c. Investigation of all bank debit and credit memos?

Yes No

d. Review of all checks outstanding more than 90 days?

Yes No

e. Are checks more than 180 days outstanding voided during the year-end reconciliation?

Yes No

f. Is the bank immediately notified of all changes of authorized check-signers?

Yes No

5. Are all journal entries for bank charges and bank account interest recorded routinely?

Yes No

6. Are all bank accounts included on financial reports to the Vestry?

Yes No

**Petty Cash:** The following controls are intended to provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person?

Yes No

2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund?

2. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:

a. Date acquired?

Yes No

b. Detailed description?

Yes No

c. Cost or fair market value at time of donation?

Yes No

d. Any funding source restrictions? Yes No

3. Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing?

Yes No

3. Is there a safe deposit box?

Yes No

a. Who is authorized to enter it?

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b. Is there an inventory of its contents?

Yes No

4. Are permanent records such as articles of incorporation, if applicable, bylaws and real estate deeds kept in a safe place?

Yes No

5. Are they up to date?

Yes No

**Insurance:** Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1. Is a periodic review conducted to ensure the adequacy of the insurance coverage for:

a. Property?

Yes No

**Restricted Gifts and Income:** Gifts restricted by donors are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions are observed.

1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:

a. Date, amount and donor of gift?

Yes No

b. Any restrictions or limitations?

Yes No

2. Does the Vestry or other authoritative body approve all restricted gifts and grants?

Yes No

3. Are the income and other transactions periodically reported to the Vestry?

Yes No

4. Are written acknowledgments issued for whom they are required?

Yes No

**Payroll:** The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities.

1. Are personnel files maintained to include:

a. Employment application and/or letter of employment

Yes No

b. Authorizations of pay rates and effective dates?

Yes No

c. Internal Revenue Service Form W-4?

Yes No

d. Department of Justice Form I-9?

Yes No

e. State Withholding Forms?

Yes No

**Computer Systems:** The use of computers creates the need for additional procedures to safeguard the system and data.

1. Are current or duplicate copies of the operating system and programs maintained off premises?

Yes No

2. Are the files backed up daily and the backups maintained off premises?

Yes No

3. Is access to the computer and computer programs limited to authorized persons?

Yes No

4. Is there adequate documentation, including user manuals, available on-site for all computer programs?

Yes No

5. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?

Yes No

6. Is there a plan for recovery of data and continuation of operations in the event of a disaster

Yes No

## **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 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. The Audit Committee should look for opportunities to educate the Treasurer, Vestry and bookkeeper by teaching the accrual method of accounting.

### **Sample: Audit Committee Findings on Policies and Procedures**

Date \_\_\_\_\_

To the Rector, Wardens and Vestry of (Church Name)

Subject: (Audit Year) Audit of (Church Name)

During the course of the above inspection, the following items pertaining to internal control and other operation matters were noted. The first group includes areas of management control where prior year auditor recommendations have been implemented; the second group includes comments and recommendations of current year auditors.

Areas where prior year auditors recommendations have been implemented:

Comments and recommendations of current year auditors:

Sincerely, Members of the Audit Committee (List names and phone numbers of Audit Committee Members and have each member sign the Audit Committee Findings on Policies and Procedures Letter.)

position the individuals with responsibility for financial operations and decisions and verify with them that all the funds of the congregation are included in the statements.

f. Identify all bank accounts and authorized check and withdrawal signers, including those under separate treasurers.

g. Request that all accounting records of all funds be presented together including:

- 1) Chart of Accounts and Organization Chart
- 2) General Ledger
- 3) Cash Receipts Journals
- 4) Cash Disbursements Journals
- 5) Bank Statements including canceled checks
- 6) Paid Invoices
- 7) Individual payroll records including Forms W-4 and I-9
- 8) Passbooks and evidence of other investments
- 9) Pledge Records by individual and total

h. Meet with members of the Finance Committee to discuss the annual financial statements.

Inquire about the occurrence during the year of any significant matters of which the auditor should be informed. Also, inquire into significant variances noted on the financial statements.

i. Request a location in which to perform the audit. The audit can be more thoroughly and efficiently performed if it is conducted where the records are located.

### 3. Receipts:

a. Plate offerings: Cash receipts journal entries should be traced to weekly cash receipts records on a test basis.

b. Pledge receipts:

Pledge receipts should be verified by tracing cash receipt entries to individual pledge records on a test basis. A minimum of 10% of postings should be traced. Results will indicate if a broader sampling is necessary.

borrowing, or for the sale or redemption of any investments or property.

h. All cash receipts records should be traced to duplicate deposit slips or bank statements to ascertain that these receipts are deposited intact.

i. 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.

j. All receipts should be compared to budgeted amounts and material variances should be explained.

k. Contributions of tangible assets or services. Refer to Chapter III (Bookkeeping) for discussion and proper treatment of these contributions.

l. 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 percent of postings should be traced. Results will indicate if a broader sampling is necessary. Test the disbursements to invoices as follows:

1) 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.

2) Examine invoices for verification signature that the items were received or services

impacting the audit year.

f. Determine whether transfer of funds occurred between bank accounts near the date of the Statement of Financial Position. 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.

6. Investments:

a. Obtain or prepare a list of securities owned showing:

1) The description of each security

2) The serial number of bonds or securities

3) The denomination of each security or its par value

4) The interest rate of each bond

5) The cost of each security and the amount recorded on the books

6) The interest and dividends received during the year

7) 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 disbursement records and sales (dispositions) to receipts records.



10) 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 committee.
- 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.

9. 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 titles of ownership related to the properties owned by the congregation. Review them for the proper recording of the name of the owner and to determine if any encumbrances or liens exist.
- 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.

10. 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.

goods and services received during the year being audited. Discuss with the treasurer any old or disputed payables

12. Insurance: 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:

- a. Fire insurance on buildings and equipment
- b. General Liability (Public Liability and Property Damage)
- c. Burglary
- d. Fine Arts
- e. Malpractice
- f. Worker's Compensation
- g. Fidelity Bond
- h. Automobile coverage on cars owned by the congregation
- i. Non-ownership liability insurance for cars owned by others when used for congregation business
- j. Directors' and Officers' Liability
- k. Umbrella Liability
- l. Other special policies held by the church

13. Discretionary Fund: Check that the discretionary fund is in the congregation's name, that the congregation's Federal Employer's Identification Number is the number used to identify the account at the bank, and that the fund has not been used for operating fund expenses or for the personal expenses 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. Reference Chapter V (Clergy Discretionary Funds) before proceeding.

14. Work Papers: The committee should retain a file of the work papers that were prepared