



The Diocese of Southern Ohio

Episcopalians in Connection

How to Do an Audit

PRESENTED BY FINANCE COMMITTEE:

NADYA RICHARDSON, CHAIR

JEFF BALDRIGE

DOT YEAGER

APRIL 23, 2021

Introductions and how to ask questions

- Opening prayer – The Rev. David Getreu
- Carine de Lange, Operations Executive and CFO – Introductions
- The Rev. David Getreu, Associate for Financial Management and Oversight
- Finance Committee
 - Nadya Richardson (chair) – introducing self and Finance committee and audit sub committee
 - Jeff Baldrige
 - Dot Yeager
- Any questions?
 - Use the chat function and we will try and answer the questions as we move through the slides.
 - Time at end of presentation
 - Presentation will be recorded to be viewed again

Objectives

Compliance with fiduciary laws

Compliance with canons of the national Episcopal Church and the Diocese of Southern Ohio

Ensure Vestry is fulfilling its roles:

- Receives full financial information
- Approves major expenses

Ensure basic bookkeeping is up to date and adequate checks and balances are in place

- Are all the bank accounts reconciled regularly?

Top Level Review

Recognized that “one size doesn’t fit all”

Tailor procedures to parishes that are similar in size

Goal – good business practices, procedures and financial oversight

Three basic cohorts determined by size of total annual expenditures (operating and non-operating):

- \$600,000 and over
- \$150,000 to \$600,000
- Less than \$150,000

Parishes in transition

External audit by CPA firm

Special audit is required for parishes transitioning to a new, full-time priest

Provides a solid, working baseline for all parties

Options:

- Submit annual audit report, if ongoing practice
- Engage a CPA for an audit
- Engage a CPA to perform agreed-upon procedures
 - Agreed-upon procedures include:
 - Cash receipts, disbursements, bank reconciliations
 - Analytical review
 - Payroll analysis

External audit by CPA firm, continued

Annual total expenditures (operating and non-operating) over \$600,000

- Audit performed by external CPA preferred
 - Contact Carine de Lange if assistance is needed to recruit and engage an external CPA
- Possible to do a committee/team audit with the procedures published on our website



Questions on CPA audit

Procedures – less than \$150,000

General Review

- Prior year report
- Vestry minutes
 - Budget approval
 - Approval of clergy housing allowance in advance
 - Monthly Treasurer's report on operating budget
 - Quarterly reporting of all other funds/activities
 - Discretionary funds
- Gift acknowledgement and periodic statements
- Timely filing of Parochial Report
- Insurance coverage – are minimum guidelines followed (see page 12 of procedures)

Procedures – less than \$150,000

Financial review

- Cash balances, investments, income
 - Checks and balances for collections and cash receipts
 - Weekly deposit and recording of cash receipts
 - Regular reconciliations of operating cash accounts
- Cash disbursements
 - Checks and balances for expenditures
 - Original documentation
 - Bank account signers authorized by Vestry
 - Threshold of approval/signature

Procedures – less than \$150,000

Financial review

- Bank account reconciliation
- Petty cash
- Property and equipment
 - Vestry approval required for additions and disposals
 - Detailed inventory

Procedures – less than \$150,000

Financial review

- Liabilities
 - Loan and lease agreements approved by Vestry
 - Diocesan Standing Committee review obtained for loans and leases for one year or more
 - Obligations paid timely
 - Pension payments
 - Mission share
 - Utility and other insurance payments
 - Mortgage and loan payments

Procedures – less than \$150,000

Financial review

- Restricted gifts
 - Date, amount and donor recorded
 - Restriction on use
- Endowment gifts
 - Restriction on use of investment income or appreciation?

Procedures – less than \$150,000

Financial review

- Payroll
 - Taxes filed timely
 - Salaries are paid as authorized
 - Personnel files maintained
 - W2 forms issued timely and reconciled
- Non Payroll
 - Forms 1099 issued when over \$600 is paid to non-employees

Procedures – less than \$150,000

Financial review

- Discretionary Funds
 - Procedures to be performed by the Senior Warden
 - when Senior Warden is in charge of the account, Junior Warden performs procedures
 - Checks and balances
 - Account is in the name of the church
 - Contributions are deposited in church general account
 - Vestry resolution
 - establish the account and
 - require monthly reporting to Treasurer
 - signature authority
 - guidelines for use

Procedures – less than \$150,000

Financial review

- Discretionary Funds, continued
 - Should not be used for operating budget expenses
 - If checks written to rector, staff or their family members, report as income on W2
 - Emergency assistance to be paid to vendors, not individual
 - Bank account should be reconciled monthly

Procedures – less than \$150,000

Report

- Audit report
- Recommendations
- Discretionary Fund report
- Financial section
 - Statement of Financial Position (Balance Sheet of all funds)
 - Statement of Activities (Income Statement)
 - If applicable, revised Parochial Report and worksheet



Questions
on audit
for less
than
\$150,00

Procedures - \$150,000 - \$600,000

General Review

- Is there a Finance or Investment Committee?
- Is balance sheet information presented to Vestry monthly?
- Does annual report to parish include a full report of all funds in the name of the parish
- Was Parochial Report reconciled to annual financial statement?

Procedures - \$150,000 to \$600,000

General review

- Insurance coverage
 - Are church buildings covered at replacement value?
 - Is Directors and Officers coverage in place?
 - Are minimum guidelines met (see page 16 of the procedures)
 - Are policies on file for prior years?

Procedures - \$150,000 to \$600,000

General Review

- Is most recent edition (2020) of Manual of Business Methods in Church Affairs on hand?
 - <https://episcopaliansinconnection.org/audits/#AuditDocs>
- Articles of Incorporation/By-laws
- Current Certificate of Continued Existence from State of Ohio?
- Facilities use agreement and insurance certificate for each outside organization using church facilities?
- List of “mission critical” software and access instructions

Procedures - \$150,000 to \$600,000

Financial Review

- Cash balances, investments and income
 - Have all bank accounts (ECW, ECM, Youth Ministry, Guilds) been reconciled regularly and by whom?
 - Are the accounts free of operating budget activity?
 - Have investment balances been recorded at market value?

Procedures - \$150,000 to \$600,000

Financial review

- Donor restrictions
 - UPMIFA (Uniform Prudent Management of Institutional Funds Act)
 - Donor intent and its effect on principal and earnings
 - Financial statement presentation
 - With donor restrictions or without donor restrictions
 - Permanently restricted
 - Temporarily restricted
 - Unrestricted – vestry designated
 - Unrestricted – undesignated
 - Is income received from an irrevocable trust?

Procedures - \$150,000 to \$600,000

Financial review

- Checks and balances
 - Written procedures for handling plate collections
 - Does more than one person collect and count the offering?
 - Are counters rotated, especially for holidays?
 - Is the offering secured on premise until deposited?
 - Does a person record the deposit who is not a counter?
 - Are the counts compared to the deposit to ensure they match?

Procedures - \$150,000 to \$600,000

Financial review

- Cash Disbursements
 - Was an accountable plan approved by vestry and in place for reimbursements to employees?
 - Was reimbursement properly documented?

General Procedures

- Are data back-ups performed daily and stored offsite?

Procedures - \$150,000 to \$600,000

Financial review

- Credit cards
 - Are credit cards in the parish name issued for employee use?
 - Vestry should authorize specific users, credit limits and allowable use
 - Receipts for purchases should be submitted
- Liabilities
 - Is the lay pension plan applied consistently for all eligible lay employees?

Procedures - \$150,000 to \$600,000

Financial review

- Investments
 - Annual review by Finance Committee and report to Vestry
 - Is there an investment policy statement?
 - Withdrawal rate defined?
 - Purpose and use of withdrawals
 - Restrictions on type of investments
 - Process for authority for reviewing and revising investment mix

Procedures - \$150,000 to \$600,000

Financial review

- Payroll
 - Consult with Diocesan Finance Office for questions about classification of employee or independent contractor
 - Is payroll processed by a third party or by the parish?
 - Consider a third party if one is not in place
 - Diocese have an agreement with a vendor for reduced pricing – email David Getreu if interested
 - Are there any loans to clergy or staff?
 - Authorization?
 - If below market interest rate, report as W2 income
 - Other income that should be reported on W2
 - Personal purchases on parish credit cards not reimbursed to parish
 - Expenses for continuing education paid to clergy and not to provider

Procedures - \$150,000 to \$600,000

Financial review

- Litigation
 - Any current or threatened litigation?



Questions
for between
\$150,000 -
\$600,000

Best Practices

Timely deposit receipts

Multiple levels of review for unusual requests

- Emails/invoices can appear legitimate
- Independently verify requests for a new remittance bank

Vestry approval of signature and expenditure authority

- Establish thresholds where more than one approval is required
- All capital improvements should be approved by vestry

Are staff and volunteers qualified/equipped for their roles?

Resources

Audit Procedures

- <https://episcopaliansinconnection.org/audits/#AuditDocs>

Manual of Business Methods in Church Affairs

- <https://www.episcopalchurch.org/finance-office/manual-of-business-methods/>

- Financial Management for Episcopal Parishes, Church Publishing Inc
<https://www.churchpublishing.org/financialmanagementforepiscopalparishes>
\$36.95 plus shipping
- Finance Resource Guide, Episcopal Church Foundation
<https://www.episcopalchurchfoundation.org/programs/ecf-publications/frg>
Distributed by Forward Movement
<https://www.forwardmovement.org/Products/2484/finance-resource-guide.aspx>
\$15 plus shipping

Closing

Audit reports are due by Wednesday, September 1, 2021

- Get a game plan
 - Identify the team who will perform the procedures
 - Otherwise, select the third party CPA
- Ask for help – Finance Committee and Diocesan Finance Department are there to help you
- Timely submission is one of four elements for basic mission share incentive of 2%
 - Please submit electronically via email documents in PDF format to David Getreu (dgetreu@diosohio.org) and Angela Byrd (abyrd@diosohio.org)



General Questions



Recording and slides will be available on our website soon and a link will be included in e-connections.



Other webinars can be found - <https://episcopaliainsinconnection.org/resources-2/> Go to toolkit and Administrative webinars.



If there is a topic you want us to cover with webinars email Carine de Lange – cdelange@diosohio.org

Thank
you