

# **PROCEDURES FOR AUDIT COMMITTEES WITHIN THE DIOCESE OF TEXAS**

In implementing Canon 4, Section 4.5, the Executive Board has adopted a procedure whereby an audit committee of lay persons (as contrasted with professional practicing Certified Public Accountants or Public Accountants) is authorized to perform the annual review of the financial records of any parish, mission, or other church institution or organization with annual gross receipts of less than \$750,000. The term review is used because only persons licensed by the State Board of Public Accountancy may legally audit (i.e. express an opinion on financial statements), and because the procedures prescribed herein are not necessarily the same nor as inclusive as those that would be employed by a CPA or a PA in conducting an audit.

The goals of the audit committee's review should be to insure, insofar as is feasible, that all financial transactions have been both recorded in the financial records and appropriately included in the financial reports for the year. In addition, this review should be viewed as a self-examination of the functioning of the congregation's own internal control systems.

The procedures set out herein should be considered as the minimum to be carried out by the committee. Additional procedures frequently may be helpful and appropriate in light of specific circumstances, and committees should feel free to extend the scope of their reviews if considered desirable. Furthermore, the authorization of these review procedures by the Executive Board is a permissive matter, and any parish, mission or other institution or organization will be at liberty to engage more formal CPA or PA audits if it so desires. *Additionally, please refer to Chapter VI: Audit Guidelines for Congregations in the "Manual of Business Methods in Church Affairs", (revised May 2012).*

## **COMPOSITION OF COMMITTEES**

Audit Committees should consist of not less than three persons appointed by the governing body of the organization either from its own membership or from other talent available to it. No person shall be a member of the committee who has been involved with the handling of financial or accounting transactions during the period that is to be reviewed.

## **PRELIMINARY CONSIDERATIONS**

At the onset of its work, the committee should request the following records from the treasurer or other appropriate officials and should keep these records under the committee's control during the course of the review. As this will necessarily bring the financial operations of the parish to a halt it is desirable that this review be conducted in less than a week. This necessity should guide the Vestry in appointing an appropriate number of members to the Audit Committee.

- a. All bank records for the year under audit, including banks statements, cancelled checks, deposit slip copies, savings account statement and documentation related to savings certificates, certificates of deposit or other financial investments of the organization. These records must be obtained for all accounts of the church or organization concerned.
- b. The parish cash book forms or other books and records reflecting cash receipts, cash disbursements, reports of Sunday receipts, statements of contributions and bank reconciliations.
- c. Copies of financial reports to the vestry (Bishop's committee) or Board and Annual parish (mission congregation) or Board meeting. These reports will typically include the budget, monthly financial reports, and annual financial report and possible other special reports.
- d. The annual parochial report to the diocese, if completed.
- e. Any other financial books and records regularly maintained. In some situations, a business style general ledger may be in use. If the committee includes persons with an accounting background, the general ledger will be highly useful. Otherwise, it may be difficult for the committee to use. It is beyond the scope of this material to explain the use of general ledgers.

## **REVIEW PROCEDURES**

### ***RECEIPTS***

#### **Plate Offerings**

- a. Compare the reported total for the year under audit with the budget and the previous year (or years) and obtain explanation of any significant difference.
- b. Trace amounts from reports of Sunday receipts to monthly cash receipts to monthly cash receipts forms on a test basis. *(Note: A test basis involves selecting, on a random basis, parts of a total population; in the case above this could be several Sundays during the year or all Sundays in two or three randomly selected months. This testing technique (called sampling) substantially reduces the quantity of work and time required for a review).*

#### **Pledge Payments**

- a. Compare the year under audit's reported pledge payments with the budget and previous year and obtain explanation of any significant difference.
- b. Determine how payments received other than in the Sunday offerings are handled.
- c. On a test basis, trace amounts from the reports of Sunday receipts and any other form of recording non-Sunday receipts (Possibly only a duplicate deposit slip) to monthly cash receipt forms.
- d. Total all the individual statements of contributions (pledge reports) for the audit year and reconcile to the total pledge payments from the monthly cash receipt forms and financial reports. Investigate any significant differences.

#### **Other Contributions**

- a. On a test basis, trace amounts from the reports of Sunday receipts and any other form recording non-Sunday receipts to monthly cash receipt forms.
- b. On a test basis, trace amounts to monthly or other reports to determine inclusion and appropriateness of classification.
- c. Review Vestry or Bishop's Committee minutes and compare any special offerings or gifts mentioned to the actual amounts recorded in the cash book. Reconcile any significant differences.
- d. Tie income such as rentals, interest, dividends, etc., to other sources (minutes, financial reporting services, newspapers, contracts, leases, etc.). Reconcile any significant differences.
- e. Trace non-income receipts to the savings or other accounts from which the funds came. Test reimbursements and expense refunds received to determine that the related expense has been properly reduced.

## ***DISBURSEMENTS***

- a. Determine what procedures are followed for the approval of expenses. Normally, some type of invoice or document approval system will be in effect, supported by explicit or implicit action by the Vestry or Bishop's Committee. On a test basis, review items from the paid bills file to evaluate compliance with the approval procedure.
- b. Compare major (large) account totals with the budget and the previous year (or years) and obtain explanations of any significant differences.
- c. For at least one other month during the audit year selected at random, **and** for the month of December, perform a four- column bank reconciliation as illustrated in Exhibit A. (*An Excel spreadsheet has been prepared to assist in this procedure.*) This procedure provides assurance about the appropriateness of bank reconciliation and receipts for the months tested, but it's most important purpose is to insure that all checks written are recorded in the records.
- d. For accounts such as repairs, other property expenses, office expenses and possibly other operation expenses, review large items charged to the account to determine that expenses have been properly classified.
- e. On a test basis, review endorsements on cancelled checks for agreement with payee. Investigate any discrepancies.
- f. On a test basis, select expenses, most of material amounts, from accounts other than salaries, salary related expenses and diocesan payments, and locate support for each item in the paid bills file(s). Review the supporting documents for general adequacy and/or existence of approval for payment. Any unsupported or unapproved disbursements, if more than a few of small and insignificant amounts, should be investigated further.
- g. Review disbursements of special offerings to determine that such funds were used or paid out as designated. An unused special funds remaining at the year- end should be appropriately identified in the treasurer's report.
- h. If employee earnings subject to Social Security were paid during the year under audit, review the quarterly IRS reports (Form 941). Determine that the earnings shown in these payroll reports:
  - 1) agree with the salaries in the financial statements
  - 2) that the employer's share of Social Security remittances per the reports agree with the payroll tax expense in the financial statements,
  - 3) on a test basis, examine checks remitting payroll taxes to the IRS to compare dates, and amounts to those reported on the Form 941.Investigate any discrepancies.
- i. If salaries have been paid during the audit year, year-end reporting to the employee(s) and the IRS is generally required on the Form W-2. Contract labor and other non-salary payments for personal services generally require reporting it for more than \$600. Review documentation to insure that reporting requirements have been met, and compare amounts reported with related expense totals in the financial statements.

## **OTHER**

- a. Handling of any financial assets not reflected in the bank accounts (for example, stock, bonds, notes, etc.) should be reviewed. Their existence should be confirmed by physical examination. The currency of any income due from them should be verified; and consideration should be given to the security of their custody and safekeeping.
- b. The committee may review insurance expenses and insurance coverage, although responsibility for determining the adequacy of insurance coverage is that of the Vestry, Bishop's Committee or Board.
- c. If any property is owned which is subject to ad valorem taxes, utility district taxes or assessments, etc., review files of renditions, assessments, tax bills and paid receipts. Verify that any such payments are correctly reported in the financial statements and that there are not delinquent obligations which could lead to loss of the property at auction.
- d. Any year-end statements or other documentation related to indebtedness should be reviewed to determine that interest and principal paid during the period and debt balances at the end of the period agrees with the same items in the financial reports. Any interest expenses not identifiable as related to indebtedness reflected in the financial statements should be investigated. If a year-end statement or other documentation is not available from the creditor, mortgage or bond indebtedness may be confirmed by direct communication with the lender. (*A sample letter requesting this information is illustrated in Exhibit B.*)

## **REPORTING**

- a. Upon completing its review, the committee should report, in duplicate signed copies, to the Vestry, Bishop's Committee or Board.
- b. Should the review reveal serious problems with the records and possible theft of assets the Vestry must keep the findings confidential and should advise the Diocesan Treasurer immediately.
- c. After considering the committee's report, the Vestry, Bishop's Committee or Board will forward a copy of the report to the Diocesan Treasurer with appropriate comments as to any action which has not been taken with respect to irregularities reported or recommendations made by the committee in its report.
- d. The following form of report is suggested:

**SEE ATTACHED**

\_\_\_\_\_  
(Date)

To: \_\_\_\_\_  
(Vestry (Bishop's Committee) or Board)

We have completed our review of the financial records of \_\_\_\_\_  
\_\_\_\_\_, Texas for 20\_\_ following the  
(Parish, Mission or Organization) (City)

“Procedures for Audit Committees within the Diocese of Texas”.

No irregularities of significance came to our attention (or, the following irregularities came to our attention: ).

We have no recommendations for changes in financial record keeping and reporting (or, to improve the financial record keeping (or reporting) we suggest: ).

Audit Committee

	Chairperson

**(Note:** *Should irregularities or recommendations to extensive, the report may refer to an attached exhibit in which they are detailed.*

*Serious irregularities or material errors of deficiencies in reporting may indicate to the committee that a professional CPA or PA should be engaged. In such case the audit committee should feel free to make such a recommendation to the Vestry (Bishop's Committee) or Board.)*

**EXHIBIT A**

**Church Name**  
**Summary of Bank Reconciliations**  
**December 31, 2022**

GL Account	Bank Account #	Bank Balance	Reconciling Items			GL Balance	Difference
			DITs	O/S Checks	Other		
Bank Name	####						
General Ledger Account Number		-	-	-	-	-	0
Bank Name	####						
General Ledger Account Number		-	-	-	-	-	0
Bank Name	####						
General Ledger Account Number		-	-	-	-	-	0
		-	-	-	-	-	-

Sample bank reconciliation form  
 This is setup for 3 different bank accounts  
 Add or remove to match the number of bank accounts the parish had during the audit year

Exhibit B

PROCEDURES FOR AUDIT COMMITTEES WITHIN  
THE DIOCESE OF TEXAS

*Sample Confirmation Request*

*(Church Letterhead)*

Date

Church Name  
Street Address  
City, Texas Zip Code

To Whom It May Concern:

In connection with the annual review by our audit committee, please provide the following information concerning our indebtedness to you:

Principal Balance at 12/31/20 \_\_\_\_\_ \$ \_\_\_\_\_

At 12/31/20\_\_\_\_, interest paid through: \_\_\_\_\_

(Add any other specifics needed, such as interest rate or due date of next payment, if not available from other records).

Please return this directly to the chairperson of our audit committee in the enclosed, stamped envelope. The copy may be retained for your files.

Thank you for your assistance.

Sincerely,

\_\_\_\_\_  
Treasurer (or other official)