



**The Diocese of the West  
Orthodox Church in America**

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# Parish Financial Audit Guidelines

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Diocese of the West, Orthodox Church in America

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## Forward

Dear Parish Auditors,

Congratulations on being selected for this important task. Auditing the Church's books is a mark of great responsibility, one that should be taken with the greatest seriousness and the highest level of confidentiality. Auditing demonstrates good stewardship for all to see. It is a message to local church donors that you care about their gifts.

At no time should conducting an audit be the symbol of distrust. The Parish Treasurer should be grateful for the opportunity to have their work and procedures validated.

Reasons for auditing are:

- to protect the persons in the church responsible for handling funds
- to build the trust and confidence of the financial supporters of the church in the method of accounting for their gifts
- to set habits of fiscal responsibility to assure that there will be continuity in accountability when the terms of those who handle funds expire
- to assure that gifts made to the church with special conditions attached (restricted donations) are consistently administered in accordance with the donors' instructions
- to provide checks and balances for sums received and expended.

In addition to tracking the cash through the system, auditors typically evaluate:

- Accounting controls(systems that reduce the possibility of loss or errors)
- Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances)
- Reasonableness of systems and procedures in the light of all factors
- Systems for retaining and accessing meeting minutes that have financial implications

This handbook has been put together to make your task easier. It is based on the document, Parish Financial Audit Guidelines, 27 September 2007, published for the Diocese of the Midwest. Please read it carefully and feel free to add whatever you may find helpful for future auditors. You should also consult the IRS publication: *Tax Guide for Churches and Religious Organizations*.

Mary L Caetta, Treasurer

Diocese of the West

## Introduction

Parish auditors conducting the audit may have access to confidential information and must treat that information accordingly. The audit performed must be documented and that documentation shall be used by the auditors performing the work the following year. This documentation is called the Internal Audit Report and must be retained for at least seven years in a secure, limited access, fireproof storage area.

These guidelines were prepared to help smaller parishes improve the oversight of their financial controls and reporting. **These guidelines do not constitute an audit or review as defined by professional standards** in the United States. Rather, use of the term “audit” in these guidelines allows for an evaluation of the financial reports and records and the internal controls of the local church by a qualified person or persons for the purpose of reasonably verifying the reliability of financial reporting and determining indicators as to whether assets are being safeguarded. Inherent in such work is the concept of using limited sampling for auditing and so all transactions are not being verified.

Parishes are encouraged to consider engaging an independent accounting firm or CPA to perform a full audit or review in accordance with professional standards. The size of the parish and the amount of revenue derived from sources other than pledges are a few of the situational variables to be considered when making the decision as to the necessity, extent, and frequency of external audits.

The parish auditor(s) will be probably be selected from among the parishioners. Who, then, should be considered to act as a “qualified auditor”?

- A parishioner with some auditing, banking or business experience.
- If more than one auditor is selected, they must not be related
- No auditor can be related to anyone on Parish Council who handles any funds.

Although the work outlined here can be performed at any time, it is suggested that it be performed shortly after the end of the parish’s fiscal year. The minimal scope of the internal audit should be for a period of one month of the fiscal year being audited.

## Guidelines

The following are suggested steps to be performed during an internal audit of the parish records. The term Monthly Report means the set of monthly financial reports given to the Parish Council or other oversight group. If you chose not to perform a step, document your rationale. When you have completed the step, check the box.

## Getting Started

- Obtain a listing of all bank and investment accounts.
- Review the list of authorized signatures on accounts and verify signatures.
- Verify the church is the owner of the account.
- Select (1 or more) months during the year and for all funds, fill in Audit Schedule #1 from the information indicated in the books or bookkeeping software.
- Verify that all receipts and disbursements are in agreement with those the monthly report
- Using the ending balances from Audit Schedule #1, compare the opening and closing balances of all bank account statements and verify that they are in agreement with the monthly report
- Examine supporting documents for items included in the monthly report (both deposits and disbursements), e.g. revenue sheets, deposit receipts, invoices and submitted receipts
- Examine supporting documents for items included in the monthly report and reconciliation statements (for example, are outstanding checks not more than 30 days old, what is the nature of disbursement and payee, did outstanding checks from the previous month clear the bank the next month).
- Review all Treasurer's records to determine that monthly bank account reconciliations of other months are in agreement.
- Summarize and include any exceptions in the final internal audit report.

## Verifying Income

Gain an understanding of how weekly collections are counted, deposited and recorded into the books.

Circle Y or N in the table below.

Y	N	Do two unrelated/independent people count the weekly collection?
Y	N	Are check numbers, donor name, donation amount, and any restriction indicated on a revenue sheet associated with the collection?  (See next page for examples of “restricted” donations.
Y	N	Does the second person initial the deposit slip?
Y	N	Are checks and cash being deposited in a timely manner?
Y	N	Select several weeks of collections.  Does the deposit amount appearing on the bank statement equal the total amount listed on the revenue sheet and the amount deposited per the books?
Y	N	Select several parishioners and send them a confirmation letter (attached in Appendix C).  Do they confirm that the amount contributed per the books is accurate? <sup>1</sup>
Y	N	Select several contribution pledge forms.  Have contributions during the pledge year been accurately credited to the pledge?
Y	N	Review the Monthly Reports for other income sources, i.e. not part of weekly collection.  Are there proper controls in place for the handling of cash and/or checks received outside of a regular collection?
Y	N	Select several restricted <sup>2</sup> donations from one or more revenue sheets  Were the donations recorded to the appropriate temporarily or permanently restricted fund?
Y	N	Have the exceptions (an N circled) been summarized in the final audit report.

<sup>1</sup> This can be a time-consuming step since any confirmation not returned should be pursued through phone calls or other dialogue. In addition, this activity may require explanation as to why it is occurring. This step is to verify that the contribution made was in fact properly received, recorded and deposited.

<sup>2</sup> See following page for examples of restricted gifts.

An example of a **restricted gift** would be:

Suppose Jane Doe gives \$10,000 and simultaneously delivers a letter that her gift is to be used to help buy a new furnace. If the gift is accepted, the \$10,000 would be a restricted gift to be accounted for in the church's records as a restricted asset. Jane's letter should be kept in the church's financial records and the money spent only to buy a new furnace.

A second example would be to suppose member Jack Roe gives \$5,000 and writes to say that his gift is to be invested and the income from it used to buy music for the choir. The \$5,000 is a restricted asset.

While both are restricted assets, the money for the furnace is called "temporarily restricted." That means that the donor-imposed stipulation can be fulfilled by the action of the church in deciding to buy that new furnace, then doing it. Assets that are "**temporarily restricted**" can ultimately be spent, though they must be spent for the specified purpose.

The money given by Jack to be invested is "**permanently restricted**," meaning that the full \$5,000 was stipulated by the donor to be held permanently. Note that the income from the gift is to be used only for a specific purpose. To make a fine point, the income is temporarily restricted in that it can be spent by action of the church in deciding to buy music, but the gift itself is permanently restricted.

These two types of assets should be reported separately. The church cannot change any restriction without the specific consent of the donor, which should be in writing.

**Board Designated Assets** are those assets that have been voted by the local church's governing board, such as its parish council or equivalent body, to be used for a particular purpose. For example, suppose the board decides this fall to set aside from money on hand in the amount of \$5,000 to send parishioners next year to an appropriate Assembly meeting. Following the vote, the \$5,000 should be reported as a "designated" asset.

Because the stipulation for its particular use was made by the church itself, that stipulation (or designation), can be changed by the action of the body that put it in place. There is no other party involved as in the case of the receipt of restricted gifts. Next year, if the board decides, the \$5,000 can be better used for some other purpose, it can vote to apply the money for that purpose.

## Verifying Disbursements

Circle Y or N in the table below:

Y	N	Obtain the minutes from all parish council meetings during the year. Review for any new restricted and/or Board Designated Assets. Were all disbursements from restricted funds appropriate to the intent of the fund?
Y	N	Review the minutes for authorizations of disbursements for items or activities for which there was no approved budget. Select several non-budgeted disbursements. Were all non-budgeted disbursements authorized according to the meeting minutes?
Y	N	Select several disbursements (routine and non-budgeted) from the cancelled checks. Was each disbursement accompanied by a signed receipt or invoice?
Y	N	Does each disbursement payee and amount agree with the invoice being paid or the receipt amount?
Y	N	Was each disbursement recorded in the books correctly?
Y	N	Were invoices marked paid or was payment information attached to invoices to prevent double payment?
Y	N	Have the exceptions (an N circled) been summarized in the final audit report.

## Compensation and Taxes

In general, the parish priest should be paid as an employee, i.e. issued a W-2 Form. However, if the priest wishes to assume the risk of being audited by the IRS, he may opt to be classified as an independent contractor, i.e. issued a Form 1099.

"The wages of non-minister church employees are subject to withholding. This obligation cannot be avoided by labeling a church employee an independent contractor or self-employed, unless the person clearly fails the IRS common law employee test (explained in Chapter 2)."

"Church secretaries, teachers, choir directors, preschool workers, and business managers almost always will satisfy the common law employee test and therefore will be employees of the church (unless they represent temporary help secured from a local temporary help service). Church custodians who work full-time similarly will almost always be employees subject to withholding. However, a custodian who is paid by the job rather than by the hour, who decides when to work and how to perform his or her services, who works substantially less than full-time, and who is not subject to the control of the church with respect to the performance of his or her services, often may properly be characterized as self-employed. The effect of this is that no income taxes or Social Security taxes are withheld from the



worker's compensation. Rather, he or she uses the quarterly estimated tax procedure to prepay and report taxes." <sup>3</sup>

Circle Y or N in the table below:

Y	N	Are appropriate tax returns (Form 941, W-2 and 1099) are being filed in a timely manner?
Y	N	Are current W-4's and I-9's on file for all employees
Y	N	Determine if the clergy have elected to have Federal Income Taxes withheld. If the taxes are to be withheld, are the withholdings occurring and being remitted.
Y	N	Are the amounts actually paid in total to employees agree with the compensation per the Monthly Reports and the authorized amount to pay.
Y	N	Have housing allowances been approved and have the allowances properly reduced the clergy's taxable income.
Y	N	Have the exceptions (an N circled) been summarized in the final audit report.

## Overview of Controls

The internal control structure for receipts and disbursements procedures should be reviewed regardless of the size of the church. The internal control structure is the process that assures the local church's operational efficiency and effectiveness, that its financial reporting is reliable, and that its assets are safeguarded. Hold discussions and look for improvement ideas to include in the Audit Report.

Areas to consider include:

### Segregation of duties:

- Important duties should be segregated among two or more persons, if possible. In small churches this may be difficult, but not impossible. Here are some examples. The financial secretary and the church treasurer(s) should not be related. These should be separate offices occupied by different individuals, who are not related by blood, marriage or employment relationships.
- The person(s) performing the audit should not be related to either the financial secretary or church treasurer.
- At least two persons should count the Sunday morning collections and they should not be related to each other nor should either one be the financial secretary or church treasurer.
- Receipt and disbursement functions should be performed by different people.

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<sup>3</sup> See 2009 Church and Clergy Tax Guide, Chapter 2, Section C, Non-Minister Staff, also Chapter 11.

**Authorization for Disbursements:**

- Are there actions in the minutes of the board that address authorizations?
- The check signer should not be the authorizer of expenditures. The check signer may perform bank reconciliations performed within a software program such as QuickBooks, but that reconciliation should be checked by a different person.

**Other:**

Y	N	Does the church have fidelity bond coverage for people handling funds (i.e., counters, financial secretary, treasurer, etc)?
Y	N	Are decisions with financial implications being documented in minutes in sufficient detail?
Y	N	Are checks and cash stored in the church safe, deposited or placed in a bank night depository, and not taken to private homes or elsewhere until deposited?
Y	N	Are computer software and data files backed up on a regular basis, and are back-ups kept off the premises?
Y	N	Do all appropriate persons have a clear understanding of and is there documentation on church ownership of software and data files?
Y	N	Is a current list of the contents of all safety deposit boxes maintained, and is a list of persons with authorized access likewise kept?
Y	N	Are loan documents being read and complied with?
Y	N	Is there a policy on records retention, and if so, is it complied with (generally 7 years)?
Y	N	Does the church have procedures in place to review its insurance policies for adequate coverage?
Y	N	Have the exceptions (an N circled) been summarized in the final audit report.

**Resolution of Issues Raised by Previous Audit**

Y	N	Have all the issues raised by the previous audit been resolved?
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**Appendix A: Audit Schedule #1**

**Monthly Audit Report**

For the Period Beginning: \_\_\_\_\_, and Ending: \_\_\_\_\_

<b>LOCAL CHURCH FUNDS</b> (Use those applicable to your Church).	<b>Balance at Beginning of Period</b>	<b>Cash Received and Recorded</b>	<b>Total Disbursements for Period</b>	<b>Transfers + (-)</b>	<b>Balance End of Period</b>
General Fund					
Benevolence Fund					
Building or Improvement Fund					
Board of Trustees' Fund					
Women's Group					
Youth Group					
Men's Group					
Church School					
Other Organizations or Funds:					
Name:					
Name:					
Name:					
Name:					
Name:					
Name:					
<b>Total Amount of cash in all treasuries of the church</b>					

**Appendix B: Internal Audit Report (to be issued by Auditors)**

**Fiscal Year** \_\_\_\_\_

All planned audit steps were performed except for:

Exceptions found in the testing were:

Recommendations for improvements are:

**Respectfully submitted:**

Signed: \_\_\_\_\_

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

## Appendix C: Donation Confirmation Letter

(Parish Letterhead)

Date

Parishioner's Name

Parishioner's Address

City, State Zip

Dear \_\_\_\_\_:

In connection with an examination of our parish accounts, please confirm your donation to [insert parish name] as of December 31, \_\_\_\_.

Donation in the Amount of \$\_\_\_\_\_ intended for use in [insert appropriate fiscal year] not restricted [or restricted, if appropriate, as to use].

If the above information is consistent with your records, please sign the confirmation below and return it directly to me. If your records do not confirm the above information, please note your exceptions below. A business reply envelope is enclosed for your convenience in replying.

Thank you.

Parish Auditor