

# **Parish Audit by Committee Manual**

Revised January 31, 2024

Episcopal Diocese of Pittsburgh  
325 Oliver Ave. STE 300  
Pittsburgh, PA 15222-2467  
(412) 721-0853

## **Overview of Audit Process**

Diocesan Canon XVII, Section 5 states *“All accounts of Parishes, Mission Fellowships or other institutions shall be audited annually by an independent Certified Public Accountant (CPA), or independent Licensed Public Accountant, or such audit committee as shall be authorized by the Diocesan Finance Committee.”*

By-Laws of parishes may require audits by independent CPA firms on an annual basis; in other parishes external audits may be required every two or three years. Smaller parishes may not be able to afford to hire a CPA firm, and instead will assemble an Audit Committee to perform the audit. This manual is designed to assist Audit Committees in their task of auditing the parish books.

The primary purpose of an audit is to ensure that financial statements are fairly stated. An audit protects financial employees and volunteers from suspicion of mishandling parish assets. Rectors, Vestries, Treasurers, and others in positions of responsibility may be liable for losses which would have been discovered by an audit but were not discovered because they failed to have a legitimate audit conducted.

## **Selecting an Audit Committee**

An Audit Committee shall consist of a minimum of two or more individuals. The actual number of members should be determined by the size and number of transactions of the parish.

Audit Committee members should be independent of the decision making and financial record keeping functions of the parish, nor should they be related to anyone who has decision making and financial record keeping functions. They should not be the bookkeeper or treasurer, nor can they sign checks. At least one member of the Audit Committee should have sufficient financial skills and experience to conduct a competent audit. This person should direct the others in their duties. All members must acknowledge that the information they will have access to is confidential and that they must maintain that confidentiality.

## **Scope of Committee Audit**

- Verify accuracy of financial statements
- Test transactions
- Review internal control practices

## **Accounts to be Audited**

Diocesan Canon XVII, Section 5 states *“**All** accounts of Parishes . . . shall be audited annually”*. What makes up ALL accounts? Any checking, savings, or investment account held in the name of the parish or any entity thereof. **This includes all clergy discretionary funds**, youth or other savings accounts, Altar Guild accounts, ECW accounts, fish fry accounts, etc.

All organizations in the parish with finances under their control must submit financial information to the Audit Committee. Treasurers should be receiving a summary of the finances of the various organizations and including these finances in the financial reports of the parish. If this does not occur, the Audit Committee will have to create financial statements that include all the accounts.

## **Objectives of the Audit**

Audit objectives are to ascertain the following:

- The various transactions are proper and documented appropriately.
- Transactions are recorded in the proper amounts and accounts.
- All assets, liabilities, income, and expenses which should be in the financial records are recorded in the proper amounts and accounts.
- Internal control procedures are adequate and being followed.
- Financial statements fairly represent the financial position of the parish.

**Please note that if at any time during the audit, the records suggest that something is seriously wrong, the matter should immediately be brought to the attention of the Senior Warden, Clergy-In-Charge, and the diocesan Treasurer.**

## **Getting Started**

Once the Audit Committee has been approved by the Diocesan Finance Committee, the assigned chair of the Audit Committee should contact the treasurer, financial administrator, or bookkeeper of the parish and ask them to gather the following items:

- December 31 financial reports, including a statement of financial position (balance sheet) and a statement of activities (income/expense statement)
- Chart of accounts
- Check Register or Cash Disbursements Journal
- Cash Receipts Journal
- Bank account and investment statements with reconciliations and, if available, cancelled checks
- Budget
- General Ledger
- Paid invoice packets including vouchers, receipts, or other documentation\*
- Deposit slips with deposit packets\*
- Outstanding bills at year end
- All payroll records with Letters of Agreement, 941s, W-2s, W-3s, I-9s, state, local, and federal withholding records

- Pension invoices for clergy and lay employees for month of December
- Contribution records
- Copies of the Vestry minutes for the year. The Committee may choose to review the Vestry minutes prior to the audit.

\*For parishes with many transactions, the Audit Committee should select 10% of transactions per the Check Register and Cash Receipts Journal so that the selected documentation can be pulled from the files prior to the audit.

### **Audit Process**

On the following pages is the Audit Worksheet. Notes have been added when the questions are not self-explanatory. In every question in which you cannot answer with an unqualified “yes”, you should make an explanatory comment on page 12. In most instances when you cannot answer “yes”, you will probably want to recommend to the parish leadership that changes be made so the answer next year can be affirmative.

# AUDIT WORKSHEET

Name of Church: \_\_\_\_\_ City: \_\_\_\_\_

Fiscal Year: 2023 Basis:  Cash  Modified Accrual  Accrual

**NOTE: If you are unable to answer yes to any question below, please check "See notes" and explain why at the end of this Audit Worksheet.**

## General Review

- |                          |                          |                          |     |  |
|--------------------------|--------------------------|--------------------------|-----|--|
| Yes                      | See notes                | N/A                      | 1.  | Is the audit report for prior year available?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 2.  | Have recommendations included in previous years' audits been implemented?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 3a. | Are Vestry minutes for the year complete?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 3b. | If a Finance or Investment Committee is authorized to expend or invest funds, are the minutes of such committee meetings complete? |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |

*Applies to questions 3 & 4: You should ask to see all minutes from November of the year before the year being audited through the first months of the year after the year being audited. For example, the budget may have been approved in December of the previous year. The clergy person's housing allowance resolution should have been adopted before the beginning of the year in which it was paid.*

Review the minutes of the Vestry and such Finance/Investment Committee.

- |                          |                          |                          |     |   |
|--------------------------|--------------------------|--------------------------|-----|---|
| Yes                      | See notes                | N/A                      | 4a. | Was the budget approved by the Vestry?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | N/A                      | 4b. | Was the housing allowance voted prior to being paid?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | N/A                      | 4c. | Were large or unbudgeted expenditures approved?   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | N/A                      | 5.  | Are monthly financial reports to the Vestry complete?   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | N/A                      | 6a. | Are insurance and property records complete?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | N/A                      | 6b. | Is insurance provided by Church Insurance Group?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | No                       | 6c. | Are Safe Church trainings and clearances up-to-date as specified in our diocesan Safe Church policies?          |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | No                       | 6d. | Have all clergy and lay leaders participated at least once in our diocese's Anti-Racism training?               |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | N/A                      | 7.  | Is there a space use agreement and insurance certificate for each outside organization using church facilities? |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | N/A                      | 8a. | Are the financial records maintained at the church?   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |
| Yes                      | See notes                | N/A                      | 8b. | If the treasurer's files are electronic, is there a backup performed regularly?                                 |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |   |



## Disbursements

- |                                 |  |                                 |      |   |
|---------------------------------|--|---------------------------------|------|---|
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 17.  | Are the authorized signatory names and Federal Tax ID number on all bank and brokerage accounts of the church up to date? |
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 18.  | Have the checks been signed by an authorized signatory?   |
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 19.  | Have voided checks been retained and examined?  |
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 20a. | Did review of cash disbursements journal (or checkbook) detect any checks made payable to "Cash"?                         |
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 20b. | If so, was the distribution (or return) of the cash properly noted and documented?  |
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 20c. | Does parish lay staff or clergy have a business credit card?  |
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 20d. | If Yes to question 20c., do you have a Credit Card Usage policy in place?   |

Examine a selection of disbursements (as specified below).

- |                                 |  |                                 |      |   |
|---------------------------------|--|---------------------------------|------|---|
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 21a. | Are there invoices (not statements) for disbursements?        |
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 21b. | Are there authorizations for disbursements?                   |
| Yes<br><input type="checkbox"/> | See<br>notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 21c. | Do checks have the specified number of authorized signatures? |

*At a minimum, you should examine the documentation supporting the largest non-routine disbursements each month as well as one other payment each month chosen at random. There should be an invoice (not a statement of account) that describes what was purchased. If it's a bill for office or maintenance supplies, for example, there should be some indication on the invoice that the items were received. An extraordinary item should refer to Vestry approval. If a copy of the check is not attached to the bill, the check number and date paid should be written on the bill. Payments to individuals need to be properly documented with receipts, mileage forms, etc. The Disbursement Review Form on the following page can be used.*





## Liabilities

- |                                 |                                       |                                 |     |  |
|---------------------------------|---------------------------------------|---------------------------------|-----|--|
| Yes<br><input type="checkbox"/> | See notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 22. | Are clergy and lay pension payments calculated correctly and up to date?       |
| Yes<br><input type="checkbox"/> | See notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 23. | Are assessment payments to the diocese and any diocesan loan payments current? |
| Yes<br><input type="checkbox"/> | See notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 24. | Are insurance payments current?  |

### *Clergy Pension calculation*

Pension = (Cash Salary + Housing Allowance + SECA) \* 0.18

## Rectors' Discretionary Fund

- |                                 |                                       |                                 |     |  |
|---------------------------------|---------------------------------------|---------------------------------|-----|--|
| Yes<br><input type="checkbox"/> | See notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 25. | Does the rector (and/or priest-in-charge) have a discretionary fund? If no, skip to question 30. |
| Yes<br><input type="checkbox"/> | See notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 26. | Is the account in the name of the church?  |
| Yes<br><input type="checkbox"/> | See notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 27. | Was it set up by Vestry resolution?  |
| Yes<br><input type="checkbox"/> | See notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 28. | Is the fund reconciled monthly?  |
| Yes<br><input type="checkbox"/> | See notes<br><input type="checkbox"/> | N/A<br><input type="checkbox"/> | 29. | Were the funds used for the allowable purposes?  |

*If necessary, see the guidelines available in the Manual of Business Methods in Church Affairs, Chapter V. As with all cash accounts, it is a requirement that all discretionary funds be audited.*

## Payroll

- |                          |                          |                          |      |   |
|--------------------------|--------------------------|--------------------------|------|---|
| Yes                      |                          | No                       | 30a. | Does your parish process payroll? If Yes, answer question 30b or 30c as appropriate.      |
| <input type="checkbox"/> |                          | <input type="checkbox"/> |      |   |
| Yes                      |                          | No                       | 30b. | Do you use an outside service? If Yes, list which one here.                               |
| <input type="checkbox"/> |                          | <input type="checkbox"/> |      |   |
| Yes                      |                          | No                       | 30c. | Payroll is processed in-house   |
| <input type="checkbox"/> |                          | <input type="checkbox"/> |      |   |
| Yes                      | See notes                | N/A                      | 31.  | When examining payroll records, select "Yes" if FICA taxes from clergy were NOT deducted? |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |      |   |

*The IRS considers clergy to be employees of the church for federal income tax purposes and self-employed for SS and Medicare purposes. This means that clergy pay their own SS and Medicare taxes by filing Schedule SE (Form 1040) Self-Employment Tax.*

- |                          |                          |                                     |     |   |
|--------------------------|--------------------------|-------------------------------------|-----|---|
| Yes                      | See notes                | N/A                                 | 32. | Are clergy pension payments equal to 18% of salary + housing + SECA?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |     |   |
| Yes                      | See notes                | N/A                                 | 33. | Has an IRS Form 1099-NEC along with Form 1096 been filed for all Supply Clergy and independent contractors earning more than \$600? |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |     |   |

*For Supply Clergy for whom the Vestry approves that all payments be in the form of a housing allowance prior to payment being made, the 1099-NEC must be completed and mailed to Pennsylvania only).*

- |                          |                          |                          |     |  |
|--------------------------|--------------------------|--------------------------|-----|--|
| Yes                      | See notes                | N/A                      | 34. | Has a 941 been filed with the IRS for each quarter (or 944 annually)?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 35. | Has a W-3 been filed with the PA Dept of Revenue for each quarter?   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 36. | Has a Federal W-3 along with all W-2s been filed with the Social Security Administration by the end of February? |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 37. | Has Rev-1667 along with all W-2 information been filed with the PA Dept of Revenue by January 31?                |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 38. | Have all local taxes withheld been transmitted properly?   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 39. | Do you use a payroll service (or does the diocese process your payroll)?   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 40. | Do the salaries authorized in the budget match the amounts actually paid?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 41. | Was all compensation reported on the W2?   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 42. | Was the approved housing allowance reported in Box 14 of the W2?   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 43. | Are those working more than 1000 hours a year receiving pension benefits?  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 44. | Are those working more than 1560 hours a year (30 hours a week) receiving health insurance coverage?             |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |
| Yes                      | See notes                | N/A                      | 45. | Has a Form I9 Employment Eligibility Verification been completed properly for every employee?                    |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |     |  |





## **Final Steps**

After completing the preceding Audit Worksheet:

- Complete and sign the Audit Committee Certificate.
- Complete the Audit Committee Findings on Policies and Procedures form.
  - First, list the items listed on the prior year's Findings report that have been corrected.
  - Second, list the recommendations for the current year. These should be items that you consistently noted a negative answer on the completed audit forms.

The signed copies of the Audit Committee certificate, the audited financial statements, and the *Audit Worksheet* must be presented to the vestry of the parish.

After the vestry has reviewed the audit findings, the 2023 Parish Audit Checklist along with all forms listed on the Parish Audit Checklist should be mailed to the diocesan office at:

Episcopal Diocese of Pittsburgh  
Attention: Judge of Audits  
325 Oliver Ave. STE 300  
Pittsburgh, PA 15222-2467

If you have any questions concerning these instructions or the audit, please contact Elaine Zevkovich, Diocesan Treasurer, at 412-721-0853 ext. 255 or [ezevkovich@episcopalpgh.org](mailto:ezevkovich@episcopalpgh.org) or Betti Rottschaefer, Judge of Audits, at [erottschae@aol.com](mailto:erottschae@aol.com).