

EPISCOPAL DIOCESE OF CALIFORNIA INTERNAL AUDIT PROGRAM

Episcopal Church Canon 1.7 and Diocesan Canon 19.06 require that all accounts of all parishes, missions and institutions be audited annually for compliance with The Episcopal Church's Manual of Business Methods in Church Affairs.

The audit program of the Episcopal Diocese of California is under the direction of its chief financial and operations officer, Tom Ferguson. The internal auditor of the Diocese is Steve Zimmerman.

Audit fees will be included with the regular monthly billing from the Diocese for assessment and payroll & benefits.

To schedule an audit, please contact Steve Zimmerman at 925.322.1894 or auditor@diocal.org

When preparing for an audit, please provide the following items for all accounts and parish organizations, including but not limited to all operating, restricted, designated, property, endowment, scrip and discretionary funds, as well as for preschools, ECW, guilds, gift shops, and any other church-related organizations:

ITEMS NEEDED AT THE AUDIT FOR EXAMINATION ONLY

- The monthly Vestry/Bishop's Committee and Finance Committee meeting minutes for the year of examination, including supporting reports and financial reports presented at the meetings. Examination needs to be of the actual permanent records filed in a secure binder.
- Insurance policies for property, liability, and workers compensation.
- Any building appraisals or contents inventory prepared in the last five years.
- Evidence that the Articles of Incorporation have been filed.
- Evidence of filing the Bi-Annual Statement of Information SI-100 with the Secretary of State for corporate entities.
- Copy of annual Welfare/Religious/Church Exemption report filed with the County Property Tax Assessor's Office.
- Space Use Agreements, Certificates of Insurance, and verification of non-profit status for regular users of church property.
- Evidence an Employee Safety Program has been implemented in accordance with Cal-OSHA requirements.
- Employee Handbook and all Letters of Agreement.
- if payroll is not managed by the Diocese, payroll reporting records for the IRS and State of California - Quarterly, W-2's, etc., Copies of all 1099's and 1096's issued separately by the church.
- Statements for all bank accounts, investment accounts, CDs, etc., including reconciliations and copies of cancelled checks, for December of the prior year, ALL of the year of audit and January of the subsequent year.
- Verification that all signature cards are current and have at least 2 signers on all accounts
- The count sheets, deposit records and all supporting documentation for the year of examination.
- Description of collection and control procedures for Sunday collection and pledge receipts.
- Access to files for paid Invoices with supporting documentation including check requests, invoices, expense diaries, etc.

PHOTOCOPIES FOR THE AUDITOR TO TAKE

- Balance sheet and income statement compared to prior year and income statement compared to budget.
- Bank statements, including reconciliations and copies of cancelled checks, for ALL accounts, for *December* of the *prior year*, *January and December* of the year of the audit and *January* of the subsequent year.
- Copies of the three most recent Parochial Reports.
- General Ledger report for ALL accounts including beginning and ending balances or an explanation of report preparation if there is no general ledger
- Copy of Annual Report published and issued to the congregation showing the year-end Income/Expense Report and the Balance Sheet.
- Details of any new mortgages or other loans, including original loan documents, and a copy of bank or loan statement showing the principal due December 31 of the year of audit.
- Cash flow report and/or explanations of sources and uses of monies of funds other than the operating fund.

FUNDS OF PARISH ORGANIZATIONS

The financial relationship of parish organizations, such as Episcopal Church Women, altar guilds, men's & youth groups, preschools, and gift shops, to the parish or mission is a frequent source of questions during audits. If such an organization is holding itself forth as part of the congregation and is raising or spending money as part of the congregation, then such organizations are extensions, or, if incorporated, subsidiaries of the congregation and are financially responsible to the vestry or bishop's committee.

The vestry is the body elected by the parish to be responsible for the finances of the parish, including all of its subordinate organizations. While parish organizations may elect their own officers, including their own treasurers, and may make their own spending decisions, they always remain subject to vestry or bishop's committee oversight.

Here are some examples to help clarify what it means for an organization to be responsible to the vestry or bishop's committee:

1. Bank accounts must be authorized by the vestry, which has the ultimate legal responsibility for these organizations.
2. Bank accounts must be established in the name of the church and with the church's taxpayer identification number.
3. The organization must report periodically to the congregation and to the vestry regarding its finances as a report of stewardship of congregational resources.
4. Funds of parish organizations must be audited in the same manner and to the same degree that the general parish funds are audited.
5. Please be prepared to explain the sources and uses of monies in funds other than the operating fund.

In short, the vestry or bishop's committee is responsible for all congregational finances, including those of its organizations. The vestry or bishop's committee may delegate a great deal of autonomy to these organizations, but this delegation does not remove from the vestry or bishop's committee the responsibility for ensuring that all funds are properly used and accounted for.