

In accordance with the National canons (Title I, 7.1 (f)) and audit guidelines issued by the national church and the Diocese of Eastern Michigan audit guidelines (as formulated and revised from time to time by the Diocesan Treasurer); an audit in compliance with those guidelines shall comply with this Canon.

## Diocese of Eastern Michigan Audit / Financial Review Guidelines

Audit/Financial Review reports are to be filed with the Diocesan Office not later than September 1 of the year following the year covered by the audit/financial review report. All accounts must be reviewed. The audit/financial review requirement covers not only the operating accounts of the congregation but all restricted accounts such as memorials, endowments, discretionary, etc. All subsidiary organizations of the congregation are to be audited/ reviewed such as youth groups, ECW, men's groups, etc.

If the annual Congregational Audit/ Financial Review Report is completed by an independent certified or licensed public accountant, a certification must be issued. An example is attached as **Attachment A**.

If the annual Congregational Audit Report is completed by an Authorized Diocesan Financial Reviewer the Reviewer must complete the Financial Review Checklist. **Attachment B**.

### **ATTACHMENT A**

#### **Auditor Certification**

"I have reviewed the Financial Position of [Church Name] as of [12/31/20xx] and the related Statement of Financial Activity for the years then ended. The review was made in accordance with the audit guidelines of *The Episcopal Diocese of Eastern Michigan Audit Certificate & Checklist* which are not the same as the standards established by the American Institute of Certified Public Accountants. Therefore, this statement is not to be construed as either an audit or review made in accordance with the standards of The American Institute of Certified Public Accountants. The Financial Statements have been prepared on a [cash, modified cash, or accrual – *accrual being preferred method*] in accordance with principles adopted by the Episcopal Church and approved by its General convention. [*Common exceptions include not recording Fixed Assets and Depreciation and not recording Donated Services. While not in accordance with the principles approved by the General Convention nor with generally accepted accounting principles, this practice is almost universal.*] My review included procedures and test samples which I deemed necessary to ensure that with the exception noted above, the attached financial statements present fairly, in all material respects, the financial positions of the Congregation as of December 31 of the aforementioned years and its financial activity for the years ended and are in accordance with the principles authorized by the General Convention of the Episcopal church on a basis consistent with the preceding years."

## ATTACHMENT B

### FINANCIAL REVIEW CERTIFICATE & CHECKLIST

Financial Review for the period of **January 1**, \_\_\_\_\_ to **December 31**, \_\_\_\_\_

1. Congregation	
2. City	
3. Rector/Vicar	
4. Senior Warden	
5. Junior Warden	
6. Treasurer	

7. Financial Review Date:	
8. Date Presented to the Vestry	
9. Records reviewed e.g. Church, ECW and Discretionary	
10. Financial Reviewer:	

## **Financial Review Certificate**

To the Rector or Priest-in-Charge, Wardens and Vestry:

The Diocesan Approved Financial Reviewer has completed the attached report and we believe that the accompanying financial statements fairly present all church accounts. The work done and this certificate are not to be construed as either an audit or review made in accordance with the standards of The American Institute of Certified Public Accountants.

Included in the report are recommendations, of which the following need to be addressed as soon as possible:

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Diocesan Financial Reviewer

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Date

## Financial Review Checklist & Recommendations

A. Review of the Accounting Systems		Yes	No
1. Is the Manual of Business Methods in Church Affairs available? <b>National website - <a href="http://www.episcopalchurch.org/page/manual-business-methods">http://www.episcopalchurch.org/page/manual-business-methods</a></b>			
2. Is the Manual of Business Methods in Church Affairs utilized?			
3. Does the financial review cover <b>all</b> funds of the church?			
4. Is a year-end financial report for <b>each</b> fund (e.g. church; ECW and Discretionary) attached to this report?			
5. Is there a separate backup of the Treasurers' files? <b>It is preferable to have backups offsite</b>			
6. Is there a separate backup of the payroll? Record retention schedule in Manual of Business Methods in Church Affairs. Chapter IX			
7. Is there a separate backup of the computer files?			
8. Are two signatures required for checks? What is policy? Is it being followed? <b>One signature for checks is acceptable as long as it follows the policy, if there is one.</b>			
9. Is a chart of accounts in use that includes <b>all</b> church funds?			
<b>Accounting Systems – Recommendations</b>			

## Section A Recommendations: QuickBooks; Carbonite for backups

B. Review of the Financial Reports		Yes	No
1. Are financial records maintained at the church, as required?			
2. Have Financial Reports been issued monthly?			
3. Are any bank accounts in excess of FDIC? <b>The standard insurance amount is \$250,000 per depositor, per insured bank. All deposits that an account holder has at the same bank are added together and insured up to the standard insurance amount. For more information go to <a href="http://www.fdic.gov/deposit/deposits/dis/">www.fdic.gov/deposit/deposits/dis/</a></b>			
4. Are the authorized signatory names and Federal Tax ID number on all bank and brokerage accounts of the church up-to-date?			
<b>Financial Reports – Recommendations</b>			

**Section B Examples: Monthly reported instead of quarterly reporting. Funds at Hometown Bank are close to FDIC limits, recommend utilizing other banks to limit concentration risk. Signatory names on bank accounts need to be updated.**

C. Review of Documents:	Yes	No	N/A
1. Do Vestry minutes confirm approval of annual budget before the annual meeting?			
2. Do Vestry minutes confirm acceptance of the monthly Treasurer's Report?			
3. Do the Vestry Minutes reflect approval of the annual housing allowance prior to December 31?			
4. Have receipts and disbursements in the discretionary fund been reported to the Vestry?			
5. Are financial reports for all church funds provided to membership at the church's annual parish meeting?			
6. Was the Annual Parochial Report submitted on or before March 1? <b>Due March 1</b>			
7. Has last year's financial review and internal control letter recommendations been implemented?			
8. Has the year-end bank statement and bank reconciliation for each fund been reviewed? <b>Overall reasonableness; old outstanding items that need to be addressed (Michigan requirements for unclaimed property)</b>			
9. Has the Michigan Nonprofit Corp Annual Report been filed along with the \$20 fee by October 1st? <b>The state mails a blank form to each church. This form can be filed by paper or on-line at <a href="http://www.michigan.gov/fileonline">www.michigan.gov/fileonline</a> Failure to file this report for two years results in the dissolution of the corporation.</b>			
10. Have Form 1099 and payroll records been reviewed?			
11. Have year-end Savings Account statements been reviewed?			
<b>Documents – Recommendations</b>			

**Section C Recommendations: may include: Proper submission and approval of Treasurer's reports should be reviewed and followed. Check signers must be updated.**

D. Review of Cash Receipts, Checks & Disbursements:	Yes	No	N/A
1. Are checking accounts reconciled monthly? <b>This should be done by someone who does not write checks or make deposits. Should also be done in a timely manner each month.</b>			
2. Have sample deposit slips and images of cancelled checks for each fund been reviewed? The samples reviewed total _____ <b>Images of cancelled checks should be included with the bank statement. If not, the bank can provide images of cancelled checks. It is recommended that statements with check images be received regularly.</b>			
3. Have the checks been signed by an authorized signatory? <b>Review a sample of image of cancelled checks to verify.</b>			
4. Do the payees & amounts match the disbursements register?			
5. Have voided checks been retained and examined? <b>Review all voided checks</b>			
6. Are cash and checks counted by at least two unrelated persons and are the counters rotated on a regular basis?			
7. Are receipts records compared with bank deposits? For physical deposit slips, does the amount match the bank statement? For electronic deposits (ie: Venmo, PayPal, ACH, etc.), does the amount of each electronic transfer match the bank statement? <b>Review a sample.</b>			
8. Are all transfers between accounts traced?			
9. If a clergy-controlled discretionary fund exists outside of the primary church accounts, is it reviewed?			
10. Are disbursements supported by vouchers or invoices approved by someone other than check signer?			
11. Is the responsibility for the petty cash fund assigned to one person?			
12. Are all petty cash funds maintained on an imprest basis (ie: the total amount of vouchers paid or disbursed, plus cash, always equaling the amount of the fund?)			
13. Is adequate review made of documentation before the petty cash fund is reimbursed?			

14. Is the petty cash fund reimbursed at least monthly?			
15. Are check cashing and making loans to employees from the petty cash fund prohibited?			
16. Is the actual petty cash protected from theft of misplacement?			
17. Does the church have a business credit card?			
18. If so, is there a credit card policy in place setting out who may have a card, what the rules are for purchases and submission of receipts and who is authorized to approve purchases?			
19. If there is a credit card and credit card policy, is the policy being followed?			
20. Is there sufficient backup to support periodic charges for services incurred by the church (ie: monthly charge to Zoom or PayPal or payment of monthly utility bills). <b>These sites should send receipts for the periodic or monthly charges, and these should be kept with the credit card statement like any other receipt.</b>			

#### **Cash Receipts, Checks & Disbursements – Recommendations**

**Section D Recommendations: Separation of Duties, which isn't always possible for small churches.**

<b>E. Review of Pledges/Support:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
1. Have acknowledgements of contributions in excess of \$250 been given, including a statement that any goods or services provided consist solely of intangible religious benefits over \$75.			
2. Are future bequest and gift files, such as proceeds from life insurance policies or sale of property willed to a parish, maintained on a current basis?			



3. Are files kept on life income, endowment, and annuity gifts, including information on the nature of the principal, investment of the principal, or use of the principal income, as well as correspondence with donors or beneficiaries?			
<b>Pledges/Support – Recommendations</b>			

**Section E Recommendations: It is imperative that churches maintain these records. It is much harder to go back and re-create these than to keep them from the beginning when bequests, etc are made. Safety deposit box on option for holding documents.**

<b>F. Review of Investments:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
1. Has the Vestry reviewed or created an investment policy in last three years? Compare year end securities statement to this policy; is it being followed? <b>Example: Trustees of Diocese</b>			
2. Were security purchases or sales authorized by appropriate vestry (or committee) action and recorded in the minutes?			
3. Are all investment instruments held in the name of the church only?			
4. Are all investment instruments adequately protected from fire, theft, or misplacement?			
5. Are the income/dividends/interest recorded? And, have receipts and records of dividends and interest been compared with records of securities held? <b>Compare year end securities statements to dividend and interest income reported in financials.</b>			
6. Are all investment accounts included in financial reports to the Vestry?			
<b>Investments – Recommendations</b>			

**Section F Recommendations: The Vestry may need to update an investment policy. Is that policy being followed?**

<b>G. Review of Trust and Endowment Funds:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
1. Do you have an active planned giving program in use at your church?			
2. Has a list of trust and endowment funds been obtained, including their terms and locations of the investments?			
3. Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund?			
4. Have the “agency” accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed?			

**Trust & Endowments – Recommendations**

**Section G Recommendations: It is imperative that churches maintain these records. It is much harder to go back and re-create these than to keep them from the beginning when bequests, etc are made. Safety deposit box on option for holding documents.**

<b>H. Review of Property and Equipment:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
1. Is there a list of fixed assets, showing date of purchase and cost?			
2. Has a physical examination of property and assets been made to the extent possible?			
3. Are land and buildings carried on the financial statements? <i>Should be on financial statements at insured value.</i>			
4. Are any liens outstanding against any property and equipment? <i>If so, is it reflected on the balance sheet?</i>			

**Property & Equipment – Recommendations**

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**Section H Recommendations: Insurance adjustment. Example: Church Insurance**

<b>I. Review of Payroll Taxes and Other Liabilities:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
1. Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3? <b>Review payroll summaries and quarterly/annual payroll tax forms. Did they include value of life insurance?</b>			
2. Have total withholding taxes been reconciled with Form 941?			
3. Have Federal & State withholding taxes been remitted on a timely basis?			
4. a.) Are pension payments for clergy up-to-date? b.) Are pension payments up to date for lay employees working 1,000 or more hours per year?			
5. Is a properly completed and signed Form W-4 and I-9 on hand for all employees?			
6. Are W-9 forms obtained for service providers?			
7. Has all required indebtedness been properly authorized by the Vestry and the Diocese of Eastern Michigan? <b>See Canons</b>			
8. Have all Liabilities been confirmed by creditors?			
9. Is a detailed schedule of all loans prepared, including name of creditor, date of origin, original amount of debt, interest rate payment schedule, monthly payment, unpaid balance, loan purpose, and authorizing body?			

**Payroll Taxes & Other Liabilities – Recommendations**

**Section I Recommendations: Payroll provider: ex Paychex; proper documents on hand for employees**

<b>J. Review of Insurance and Risk Control:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
1. Have all Insurance Policies been reviewed?			
2. Has the church held an annual policy review with their insurance agency representative?			
3. Are all church activities covered by its insurance policies?			
4. Are the limits of coverage adequate?			
5. Are the deductibles appropriate?			
6. Is there a current space use agreement and/or insurance certificate on file for all organizations regularly using the church property/facility?			
<b>Insurance &amp; Risk Control – Recommendations</b>			

**Section J Recommendation: When has the church last consulted their insurance agent to review their policies?**

**Attachments:**

1. Status of last year's Financial Review Recommendations.
2. Year-end financial reports for all funds

Mar 2023