



The EPISCOPAL DIOCESE *of* **WESTERN MICHIGAN**

To: The Parishes, Missions, and other Institutions of the Diocese of Western Michigan
From: The Episcopal Diocese of Western Michigan
Re: Parish Audits

At our Diocesan convention in November we approved a resolution that includes the policy to manage the performance of audits, as required by our canons. A copy of the new policy and instructions for doing a committee audit are attached with this letter. Parish audits are due to the Diocesan office by September 1st.

If you plan to perform a committee audit, the resolution states that you perform it using the attached documents to guide you through the process of auditing your financial and operational records and practices. You will find that this policy is directly derived from the Manual of Business Methods in Church Affairs, and it is in a more simplified form that will be easier for congregations to use, especially those that have not recently completed an audit. It will also standardize the procedure in all of the parishes in the Diocese and make it easier to evaluate the information provided.

Depending on your income and/or assets, or if you are planning to call a new Rector, you may be required to have a formal audit by a CPA. You may also, at your option, have a CPA audit of any year.

Remember that the purpose of this system is to provide each of our congregations with the means to evaluate the accuracy of their financial statements, and the safety and efficiency of that information, by reviewing the parishes internal controls and management systems. The purpose of this guide and policy is to offer assistance in improving your systems, and to learn best practices so they may be shared with the rest of the Diocese

We have identified people in each region who can be a resource to assist you in performing your parish audit. If you have questions about the audit process, or if you would like the contact names of people in your region, please contact Tammy Mazure.

Tammy Mazure

Tammy Mazure
Bishop's Assistant for Finance and Benefits

Dave Croal

Dave Croal
Chair Diocesan Finance Committee

Cc: Rt. Rev. Wayne Hougland, Jr., Bishop
Rev. Canon William Spaid
Rev. Canon Valerie Ambrose
Rev. Canon Anne Hallmark

The 144th Convention of The Episcopal Diocese of Western Michigan

Subject of the Resolution: Regarding Audits, Amend Section 28.01 of Title II of the Canons of The Diocese of Western Michigan

Submitted By: Mr. Dave Croal

Be it resolved, that this 144th Convention of The Episcopal Diocese of Western Michigan amend section 28.01 Audits of Title II of the Canons of The Diocese of Western Michigan which currently reads: As soon as may be after the close of each fiscal year, the accounts of all officers handling funds, whether of the Diocese or its auxiliaries, or of congregations and their auxiliaries, shall be audited in accordance with *The Episcopal Church Manual of Business Methods in Church Affairs*.

Be amended to read: As soon as may be after the close of each fiscal year, the accounts of all officers handling funds, whether of the Diocese or its auxiliaries, or of congregations and their auxiliaries, shall be audited in accordance with *The Episcopal Church Manual of Business Methods in Church Affairs* and The Episcopal Diocese of Western Michigan Policy, "Annual Audit of Congregations". Copies of audit reports shall be submitted to the Diocesan Treasurer for review by September 1 following the close of the fiscal year.

(a) Congregations who fail to complete and submit the audit proscribed for them, by Diocesan Policy, by September 1, will be seated at diocesan convention without voice.

(b) Any congregation who fails for two consecutive years to complete and submit the audit proscribed for them, by Diocesan Policy, by September 1, will be seated at diocesan convention without voice or vote.

(c) Any congregation who fails for three consecutive years to complete and submit the audit proscribed for them, by Diocesan Policy, by September 1, shall specifically request of Convention, by motion, permission for seat, voice and or vote. Without the granting of such a motion the congregation shall not have seat, voice or vote at Convention.

Rationale: The Canons of the Episcopal Church and of the Diocese of Western Michigan require that all congregations and their auxiliaries submit an audit of the just finished fiscal year. This process is designed to review on an annual basis the financial records and the operational practices of congregations to ensure that we are good stewards. We as a Diocese have not consistently met these requirements. This canon change requires that these audits be accomplished and references the policies of *The Episcopal Church Manual of Business Methods in Church Affairs* and The Episcopal Diocese of Western Michigan Policy "Annual Audit of Congregations" and specifies sanctions for non-compliance.

Episcopal Diocese of Western Michigan

Policy

Annual Audit of Parishes

An Audit must be performed annually and filed with the Bishop or Ecclesiastical Authority not later than 30 days following the date of such report, and in no event, later than September 1 of each year. Audits or Committee Audits must be performed in compliance with: Chapter VI *Audit Guidelines for Congregations of The Manual of Business Methods in Church Affairs* and *The Episcopal Diocese of Western Michigan Guidance for Parish Audit Committees* on all assets* under the control of the Vestry, not including church building or equipment.

This policy sets forth the requirements for parishes, missions and other institutions within the Diocese. Parishes will be placed into one of five categories using the criteria listed in Table 1.

*Annual Income - "Total All Revenues" on the Parochial Report

*Asset – An asset for this policy is defined as funds held in investments, endowments, reserve accounts, designated accounts, savings accounts, clergy discretionary funds, checking accounts, restricted (temporary or permanent) funds etc. It does not include buildings and grounds or equipment

*Outside Committee Review – Requires a committee composed of persons from another parish in the Diocese

Notes:

Annual audits are required for all parishes, missions and other institutions by the Diocese of Western Michigan (Canon 28 section 28.01). These audits are also required by the Canons of the Episcopal Church [Title I Canon 7 Section 1].

The Episcopal Church Canons permit an audit by committee where authorized by an appropriate diocesan authority and this policy outlines the requirements for Audits or Committee Audits of parishes, missions, and other institutions within the Diocese of Western Mission.

Members of the Audit Committee will be appointed by the Vestry and will serve three year terms. In the first year of implementing this policy the members will be elected to a one or two or three year term. In each following year one member will be replaced. Members are limited to one three-year term and then must wait one year to be re nominated and elected.

Compliance

Parishes will be placed in one of these categories based on data provided in their Parochial Report. Parishes unable to complete their audit by September 1 will be seated at diocesan convention without voice or vote. Any parish not in compliance for a three year period will have to petition the Convention for seat, voice and vote.

Table 1

Annual Income Range*		Assets*	Audit Type	Frequency
Greater than 500,000	<u>OR</u>	Greater than \$1,500,000	CPA	Annual & prior to calling new rector
Greater than \$270,000 & Less than \$500,000	<u>OR</u>	Greater than \$1,000,000 & Less than \$1,500,000	Committee Review	Annual
			Outside Committee Review* OR CPA	Biannually
			CPA	Every 4 years & prior to calling a new rector
Greater than \$150,000 & Less than \$270,000	<u>OR</u>	Greater than \$650,000 & Less than \$1,000,000	Committee Review	Annual
			Outside Committee Review*	Every 5 years
			CPA (<i>May be waived by The Bishop or Ecclesiastical Authority</i>)	Every 10 years
			CPA	Prior to calling a new rector
Greater than \$100,000 & Less than \$150,000	<u>OR</u>	Greater than \$350,000 & Less than \$650,000	Committee Review	Annually
			Outside Committee Review*	Every 5 years
			CPA (<i>May be waived by The Bishop or Ecclesiastical Authority</i>)	Prior to calling a new rector
Less than \$100,000	<u>OR</u>	Less than \$350,000	Committee Review	Annually
			Outside Committee Review*	Every 7 years
			CPA (<i>May be waived by The Bishop or Ecclesiastical Authority</i>)	Prior to calling a new rector

* As defined in EDWM policy on previous page

The Episcopal Diocese of Western Michigan Guidance for Parish Audit Committees

Overview

Annual audits are required for all parishes, missions and other institutions by the Diocese of Western Michigan (Canon 28 section 28.01). These audits are required by the Canons of the Episcopal Church [Title I Canon 7 Section 1]. This set of diocesan guidelines is written in accordance with the *Manual of Business Methods in Church Affairs* as authorized by the General Convention of the Episcopal Church.

Audit Supervision Committee. Financial and Operational Audit Supervision Committee of the Diocese will monitor the process of submission and provide guidance to congregations when needed and will stand ready to assist in assuring that the audit is conducted properly.

Approved Auditors: Congregations have several choices for conducting an audit. They may engage an independent certified (CPA) or licensed public accountant, or they may appoint a committee typically of at least three persons from within the congregation (one person is acceptable under special circumstances), or arrange to have their audit performed by an audit committee from another congregation.

1. Audit committee members should be independent of the decision making and financial record keeping functions of the congregation. The members of the audit committee should include at least one financial expert.
2. An audit committee may consist of one or more individuals. A typical audit committee has three members. The actual number of members should be determined by the size and scope of the audit.
3. Neither a review nor compilation by a CPA is an acceptable substitute for an Audit.

Timing of the Audit: The Canons call for a church fiscal year to end on December 31. The Vestry and Audit (Review) Committee must allow sufficient time for completion, review, and vestry acceptance of the audit report for transmittal to the diocese prior to September 1 following the year being audited.

Scope of the Committee Examination: The scope of the audit shall include:

1. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.
2. Verification (or preparation) of financial statements in the form approved for the Episcopal Church.
3. A review of management control practices using
 - a. The Internal Control Evaluation Checklist
 - i. Note – If a CPA does the audit, a review of this checklist is required

Objectives of the Audit: The major objectives of an audit of the financial statements is for a Congregation to ascertain the following:

1. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.
2. That the various transactions during the year are proper and are documented appropriately (i.e., authorized, appropriate church purposes, complete and accurate);
3. That the various transactions during the year are recorded in the proper amounts and in the proper accounts and that there were no “off the books” accounts or activity
 - Transactions must be documented appropriately
 - Authorized, appropriate purpose and complete
4. That the assets, liabilities, income and expenses, which should be in the financial records, are so shown in the proper amounts and in the proper accounts;
5. That, to the extent feasible, adequate internal control procedures were and continue to be in effect.

Accounts to be Audited: **All accounts must be audited.** This requirement covers not only the operating accounts of the congregation but also all of its restricted, endowment, property, and cemetery funds and the accounts, if any, of all parish organizations. No church money, including the parish discretionary fund, if there is one, is exempt from the requirements.

Contents of the Audit Report: The Audit Committee is responsible for submitting an audit report to the Vestry of the church.

1. The Audit Report shall consist of:
 - a. The Audit Committee Certificate
 - i. Or report from an independent CPA
 - b. The Statement of Financial Position (Balance Sheet)
 - c. The Statement of Activities (Income Statement) - Including budget versus actual
 - d. The Statement of Cash Flows (if used)
 - e. Footnotes to the Financial Statements (if applicable)
 - f. Completed Internal Control Evaluation Checklist and Financial test checklist
 - g. The Audit Committee Findings on Policies and Procedures; and

Filing of the Audit:

1. Upon completion, the Audit Committee shall present a complete copy of the entire report to the Treasurer, Rector, Wardens. Any findings and recommendations should be presented in the Audit Committee Findings on Policies and Procedures, not in the Audit Committee Certificate.
2. These items will be discussed with the Treasurer or other responsible persons and a plan for resolution presented to the Vestry.

3. A copy of the audit report should be filed with the Bishop or Ecclesiastical Authority not later than 30 days following its completion and never later than September 1 of each year, covering the financial reports of the previous calendar year. (Submit by mail or email to tmazure@edwm.org)
 - a. The following is to be included in this report and sent to the Diocesan Finance Office:
 - b. The Audit Committee Certificate;
 - i. Or report from an independent CPA
 - c. The Statement of Financial Position; (Balance Sheet)
 - d. The Statement of Activities; (Income Statement), including budget versus actual
 - e. The Statement of Cash Flows (if used)
 - f. Footnotes to the Financial Statements (if applicable)
 - g. Completed Internal Control Evaluation Checklist and Financial Test Checklist
 - h. The Audit Committee Findings on Policies and Procedures
4. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Ecclesiastical Authority.
5. If at any time during the Audit the records suggest that something is seriously wrong, the matter should be immediately brought to the attention of the Rector, Vestry, and the Bishop or Ecclesiastical Authority

Financial Review Prep List

The following items should be available prior to scheduling a review. Unless otherwise specified the information/documents should be from the year being reviewed:

- Checkbooks
- All Bank and investment brokerage statements for the current year (to include the statement from December of the review year and for January of the current year)
- Bank reconciliations for 12/31 of the review year and 12/31 of the immediately previous year
- Savings Account books
- Financial Receipts and Disbursements
- Paid bills file
- Copy of final Treasurer's report for the year being reviewed
- 1099's, W-2's, and other tax forms filed
 - Federal and State payment records
- Vestry Minutes
- Parochial Report for the review year
- Inventory of Property
- List of assets purchased
- List of organizations that have separate checking and/or savings accounts and related bank statements
 - Copies of their minutes for the review year
- List of balances on notes and unpaid bills at the end of the previous year. List of balances on notes at beginning of review year
- Weekly counters tallies
- Budget for review year and the previous year
- Copy of Annual Report
- Discretionary Fund (reports, checkbook, paid bills, bank statements) and any other accounts that ANY organization in the church has.
- Proof of Vestry approval of Clergy Housing Allowance
- Record of pledges and payments (annual giving statements)
- List of persons authorized to handle financial accounts
 - List of authorized check signers
- Copy of most current prior Audit report
- Credit card statements
- Investment policy
- Endowment policy - Include Trust documents

Financial and Operational Audit Supervision Committee

The purpose of the Audit Oversight Committee is to assist the parishes of the Diocese in managing the process of completing canonically required yearly audits and provide the Council oversight of yearly progress.

The Committee shall:

- Maintain the *Guidance For Parish Audit Committees* of The Diocese Of Western Michigan
- Assure that the audits are conducted properly and in a timely manner.
 - Advise the Diocesan Council and Bishop if any Parishes are not in compliance with the *Policy for Annual Audit of Parishes*
- Provide support and assistance to parishes as needed
 - Each region shall have its own team to provide support
- Review, in co-operation with the Bishop's Assistant for Finance and Benefits, the submissions
 - Each region will have its own review team

Transition to Full Compliance with Canonical Requirement for Yearly Audits of Parishes in the Diocese

- All parishes will be required to meet this requirement.
- There will be a transition plan that will bring all 57 parishes into the system over a period of 3-4 years.
- The timing and sequencing of the audit training will be as follows:
 - 20 Parishes are currently doing a yearly audit.
 - Verify that they are doing so in compliance with policy
 - If not they will be required to comply with the policy in an audit of 2019 operations.
 - We will encourage these parishes to use the new policy but allow them to use their current method to audit 2018.
 - The ten largest not currently doing audits will be identified and trained (if needed) to do a committee audit.
 - They will be required to comply with the policy for the audit of 2018 operations./
 - If resources allow an additional 12-14 Parishes will be identified and trained by doing a committee audit for 2018.
 - The selection here will be based on size with the smallest parishes done last.
 - These parishes will be required to comply with the policy for the audit of 2019 operations.
 - A minimum of 15 of any remaining parishes will be trained to do a committee audit of their 2019 operations.
- The compliance requirements outlined in the policy will not be applied until a parish has been trained in the use of our manual.
 - This will require that each region have in place members with experience in doing a committee audit to serve as a resource.
 - We will have a manual with guidelines that will standardize to the extent possible the process.
 - The manual will be based on the *Manual of Business Methods in Church Affairs* which will remain the final arbiter of any questions.