

**EPISCOPAL DIOCESE OF EAST CAROLINA**  
**Contract Audit Workpapers (updated 6/1/23)**

Church \_\_\_\_\_ City \_\_\_\_\_  
Audit Year: \_\_\_\_\_ Dates of Audit: \_\_\_\_\_

**General Review**

**1. Review of Last Audit**

Obtain copy of the most recent audit report completed. Year \_\_\_\_\_

Source of audit:  In-house Audit by Parish       Audit by Diocesan Contract Auditor  
 CPA Audit       No Audit for Last Fiscal Year

**Yes No Unknown**

Copy of Auditor's report on any deficiencies and Vestry's response to deficiencies was sent to Diocesan office.

**2. Vestry Minutes Review**

Review vestry minutes for the year being audited and November and December of the prior year. Vestry minutes were found to include the following:

**Yes No**

- Approval of budget
- Approval of monthly or quarterly financial reports
- Clergy salary and housing allowance resolution is correctly worded and approved as required in minutes (if applicable) [see background information in Appendix]
- Material expenditures approved
- Comments on extraordinary gifts or bequests

*Any comments should be noted on Findings and Recommendation page*

**3. Insurance Records Review**

We understand our contract auditors are not insurance experts, but we use this information to assist in establishing Diocesan policies for insurance coverage.

*See Appendix A for review guidelines*

Name of Insurance Carrier \_\_\_\_\_ Policy Period Dates \_\_\_\_\_

Building and Contents Limits: \_\_\_\_\_ Liability Limits \_\_\_\_\_

- Insurance coverage includes all areas listed in Appendix A
- Does Insurance limit cover replacement costs?  
How often is insurance coverage reviewed and by whom. \_\_\_\_\_
- Does the Parish maintain a video inventory of property?
- The Parish adheres to the Diocesan policies and procedures requiring Sexual Ethics training and background checks for all employees and anyone working with children

*Any comments should be noted on Findings and Recommendation page*

**4. Use of Church Property by Other Organizations**

- Other organizations regularly use church property; (If no, skip to #5)
- Parish has current rental agreements between church and organizations on file
- Does the church require Certificates of Insurance and Hold Harmless agreements when outside groups use the church property?
- For groups who work with children, do they supply proof of Sexual Ethics training and required background checks on all employees/volunteers?

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**5. Church Sponsored Schools**

- Is there a church sponsored school or preschool on site (If no, skip to #6)
- Is there a separate Board of Directors and is list of Board on file
- Is there a separate tax ID number \_\_\_\_\_
- If the school is licensed by the state of North Carolina is a copy of license on file
- If the school is accredited is a copy of Accreditation Certificate is on file
- Are there background screening procedures for teachers and is a copy on file
- Property and liability insurance coverage of school is current  
Date of last periodic fire department inspection \_\_\_\_\_
- Last annual audit of school \_\_\_\_\_  
Last audit completed by \_\_\_\_\_

*Any comments should be noted on Findings and Recommendation page*

**6. Parochial Report**

- Parochial Report for year being audited has been filed
- Operating income on the parochial report agrees (within reason) to operating income on the income and expense statement.

*List major discrepancies, if any, on Findings and Recommendations page*

**7. Property Report**

- Annual Property Report has been filed

*Any comments should be noted on Findings and Recommendation page*

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**Assets**

1. List all checking, savings, investment, discretionary, guild and other church-related organization accounts in the table below. Review bank and investment statements for full year, plus December of prior year and January of succeeding year.

Account Name	Type: Checking Savings Investmnt Discretion Guild, etc.	Church Address		Statements Provided		Cancelled Checks Or Copies of Checks		Bank Reconciliations Complete		12/31 bank reconciliation agrees with year-end balance sheet	
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
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		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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**Yes No**

- Bank reconciliations have been done on monthly basis on all accounts
- Bank reconciliation for December of prior year is accurate and agrees with January 1 beginning balance of current year.

*Any comments should be noted on Findings and Recommendation page*

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**Yes No**

2.   Does the church use petty cash accounts? If so, what is the petty cash amount \_\_\_\_\_.
- Does the Church have a process in place to reconcile petty cash account on a routine basis and does the process appear to be implemented.
3. What method is used to report Fixed (Capital) Assets on balance sheet
- Cost (actual value when purchased)  
For year being audited, trace purchases to appropriate documentation
- Fair market value (when donated) if applicable
- No fixed assets on balance sheet; expensed through budget
- Other: Explain \_\_\_\_\_
4.  There are material receivables on the balance sheet? If so, list the material receivables and trace to subsequent deposits in the current year.
5.  There are material prepaid expenses on the balance sheet? If yes, list the prepaid expenses and confirm the balance by tracing to proper invoice. Determine if the expense should be designated as prepaid for the year being audited.

*Any comments should be noted on Findings and Recommendation page*

**Liabilities**

**Yes No**

- Mortgage statements indicate that mortgage payments are up to date.
- Last mortgage statement for year being audited traces accurately to balance sheet
- All mortgage payments for the year being audited trace to proper expense accounts.
- Pledge to Diocese for year being audited was paid in full
- Pledge statement from Diocesan House agrees with parish's records
- There are other significant payables at end of year being audited, excluding payroll taxes and pension payments (tested in other areas). List below:
- \_\_\_\_\_ Balance verifies with supporting documentation
- \_\_\_\_\_ Balance verifies with supporting documentation
- \_\_\_\_\_ Balance verifies with supporting documentation

*Any comments should be noted on Findings and Recommendation page*

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**Fund Balances**

1. Review schedule of permanently and temporarily restricted funds.
2. Select at least 5 disbursements from restricted funds and verify that the uses of principal and income have been honored, including proper documentation of expenses.

Restricted Fund Disbursements				Work paper FB-1 Audit Year	
Fund	Date	Amount	Purpose of Withdrawal	Proper Authorization	Proper Use
				<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
				<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
				<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
				<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
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**EPISCOPAL DIOCESE OF EAST CAROLINA**  
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**Cash Receipts**

1. Are there proper safe guards and controls in place for plate collections and deposits:

**Yes No**

- Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis (e.g., at least weekly)?
- Are there at least two unrelated persons responsible for counting and depositing the collections?
- Are the persons responsible for counting receipts rotated on a periodic basis?
- Do the counters have a standardized form for recording the deposit information?
- Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?
- Is there a control prohibiting the cashing of checks from the currency received?
- Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?
- Are all other cash receipts recorded and deposited on a timely basis?
- Are all checks received restrictively endorsed—for deposit only immediately upon receipt?
- Are all cash receipts deposited into the general operating checking account?
- Are periodic statements provided to donors of record, at least quarterly?
- Contributions in excess of \$250 are required to be acknowledged in writing and include the following "any goods or services provided consist solely of intangible religious benefits." Has the Church complied with this?

2. For **pledge receipts and plate offerings**, determine if deposits are made once a week, more than once a week or daily as checks are received in the mail.

- a. If pledge deposits are made once a week, choose 6 random deposits to test in the table below. Verify that supporting deposit documentation agrees to bank deposit.
- b. If pledge deposits are made more than once a week or daily, choose 12 random deposits to test in the table below.
- c. If the church accepts online payments, use your judgement in selecting a small sample to verify that the supporting documentation agrees to the bank deposit.  
Use table CR-1 on the following page to test these deposits.

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**Deposits-General Checking**

Work paper CR-1  
Year:

Deposit Date	Deposit amount In Journal	Deposit amount Per deposit slip	Adequate Supporting Documentation
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**Cash Disbursements:**

1. Are there proper safe guards and controls in place for payments and disbursements:

- Are all disbursements made by check, credit card or electronic payment/bank draft, except for small expenditures made from petty cash?
- Are all checks pre-numbered and used in sequence?
- Is there a clearly defined approval process for all disbursements?
- Are all voided checks properly cancelled and retained?
- Are all checks made payable to specified payees and not to cash or to bearer?
- Are all disbursements including electronic payments/bank drafts supported by original documentation?
- Are credit card receipts retained and reconciled to the monthly credit card statement?
- Are all disbursements supported by original documentation?
- Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment?

2. Check signing:

- Is signing blank checks prohibited?
- Is using a signature stamp or pre-printed signatures prohibited?
- Does all supporting documentation accompany checks presented for signature?
- Are all account signers authorized by the Vestry?
- Is more than one signature required for any check?
- If not, do checks for more than \$500 require more than one signature?
- Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee minutes?
- Are there adequate controls and segregation of duties regarding electronic funds transfers?

2. Examine 10% of non-payroll cash disbursements, electronic payments/bank draft of \$500 or more and 1% of non payroll cash disbursements and electronic payments under \$500. You should plan your sample to examine a minimum of 25 disbursements to include at least one credit card payment, and at least one reimbursement check to staff and parishioners. You may use **Random Testing Calculations in Appendix B** to decide which disbursements are to be tested. Test the sample of cash disbursements for proper signature, correct amount per invoice, correct expense account per budget, and proper approval and record findings in Table CD-1 below

*Any comments should be noted on Findings and Recommendation page*



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Cash Disbursements			Work paper CD-1 Year:			
Check # or other Reference	Date	Payee	Proper Signatures/ Authorization	Amount Agrees with Supporting Document	Correct Expense Account	Proper Approval
			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Print extra copies of form as needed.

**EPISCOPAL DIOCESE OF EAST CAROLINA  
Contract Audit Workpapers (updated 6/1/23)**

**Payroll and Retirement:**

1. Obtain list of all employees and contract laborers for year under audit and select a sample for testing:

Name	W-2 or 1099	Form W-4	Form NC-4	Form I-9	Salary Amount Agrees with Budget	Payroll Register Agrees With Check Register
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Employees who should receive a W-2 normally include:

Clergy (full time and part time), Supply clergy if contracted for an extended period (3 or more months), Musicians that routinely play at services, Youth Directors, Administrative staff, Paid nursery attendants that routinely work a standard schedule (even if only once a month), Janitor or Sexton

**Yes No**

3.   Based on examples in #2 above, any worker receiving a 1099 in lieu of a W-2 is correctly classified as a contract employee.
- Quarterly reports were filed by due dates
- Total amounts from the quarterly returns match the amounts on the annual Forms W-3 and NC-3
- Amounts on Forms W-3 equal general ledger compensation expense accounts adjusted for:
- a. Pretax deductions such as medical insurance premiums paid by employees and employee retirement contributions
  - b. Group Life Insurance Premiums
  - c. Clergy housing and utilities allowances
  - d. Taxable allowances such as travel
  - e. Taxable moving expenses
  - f. Personal use of auto owned by parish
4. Review of W-2 forms shows:
- Clergy Housing and Utility Allowances are reported in Box 14
- a. Box 12 includes proper items such as
- i. Employee contributions to retirement plan
  - ii. Group Life Insurance Premiums-annual letter sent to parishes from Diocesan House with information
  - iii. Pre-tax medical insurance premiums
- Clergy does not have information in boxes for Social Security and Medicare Wages
- Lay employees do have information in boxes for Social Security and Medicare Wages and Federal and State Taxes as applicable
- Moving expenses paid for or reimbursed to Clergy are included in Clergy W2

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5. If payroll taxes were due at end of year,  
  They were properly reported on Balance Sheet as a liability  
  They were paid on time
6. Determine that employees are properly classified as exempt or non-exempt (for overtime purposes)  
  Non-exempt employees document hours worked via time sheets  
  Overtime is being compensated correctly (Any hours worked over 40 per work week must be paid at time and ½ rate)
7. Test Clergy Pension Payments for the following:  
  Clergy Pension payments equal 18% of salary, SECA/FICA allowance, other taxable allowances, and actual utilities and housing allowances (or 30% of salary and SECA/FICA and other allowances if parsonage is provided)  
  Clergy Pension payments are up to date
8. Verify that the retirement plan for lay employees:  
  Includes all lay employees who work at least 1000 hours/year  
  Pension payments are calculated correctly  
  Pension payments are up to date

*Any comments should be noted on Findings and Recommendation page*

**Discretionary Funds**

1. List all discretionary funds and clergy positions holding those funds:

	Name on 1 <sup>st</sup> Account	Name on 2 <sup>nd</sup> Account	Name on 3 <sup>rd</sup> Account
Clergy Person holding funds			
Fund in name of Parish	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Established by resolution of Vestry	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Church Tax ID # on account	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Did donors specify for Discretionary fund	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Were funds used for operating expenditures	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Were funds used for personal expenses subject to tax	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Were funds used for the purposes for which they were intended	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Were checks written to vendors and not individuals	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Were contributions deposited into the general fund, then transferred to the Discretionary Fund.	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>

It is important that the information reviewed for the discretionary funds remains confidential.

*Any comments should be noted on Findings and Recommendation page*

**EPISCOPAL DIOCESE OF EAST CAROLINA  
Contract Audit Workpapers (updated 6/1/23)**

**Findings and Recommendations**

Auditor may choose to use a separate blank sheet of paper to list Findings and Recommendations if preferred.  
(Cells will expand as needed when filled in electronically)

Area of Comment	Item #	Comment/Recommendation
<i>ex. General Review</i>	2	<i>No Clergy Housing resolution in place – Vestry should adopted resolution for 2015 and every year thereafter</i>