



GREEK ORTHODOX METROPOLIS OF SAN FRANCISCO  
ΙΕΡΑ ΜΗΤΡΟΠΟΛΙΣ ΑΓΙΟΥ ΦΡΑΓΚΙΣΚΟΥ

# Metropolis Ministry & Parish Financial Audit Guidelines



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## Forward

*Dear Metropolis Ministry and Parish Internal Auditors,*

Congratulations on being selected and elected for this important task. Auditing the Church's financial records and related controls is a mark of great responsibility that should be taken with seriousness and the highest level of confidentiality. Auditing demonstrates good stewardship for all to see. It is a message to your donors, stewards, and parishioners that you care about their gifts and that you manage them, for the benefit of growing in Christ, in a fiscally responsible manner.

Reasons for auditing are:

- to protect the persons in the church or ministry responsible for handling funds
- to build the trust and confidence of the financial supporters of the church in the way their money is being accounted
- to set habits of fiscal responsibility to assure that when there is a turnover in those who handle funds there will be continuity in accountability
- to assure that gifts made to the church or ministry with special conditions attached are consistently administered in accordance with the donors' instructions and within the requirements of U.S. Generally Accepted Accounting Principles (U.S. GAAP) **[Note: this latter point is of particular importance if the parish has their financials independently reviewed or audited]**
- to provide checks and balances for sums received and expended.

In addition to tracking the cash through the system, internal auditors typically

evaluate:

Accounting controls (systems and procedures that reduce the possibility of loss

or errors)

- Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances)
- Reasonableness of systems and procedures in the light of all factors
- Systems for retaining and accessing meeting minutes that have financial implications

This handbook has been put together to make your task easier. Please read it carefully and feel free to add whatever you may find helpful for future auditors. You should also consult the IRS publication:

***Tax Guide for Churches and Religious Organizations to be found at <http://www.irs.gov/pub/irs-pdf/p1828.pdf> .***



## GREEK ORTHODOX METROPOLIS OF SAN FRANCISCO ΙΕΡΑ ΜΗΤΡΟΠΟΛΙΣ ΑΓΙΟΥ ΦΡΑΓΚΙΣΚΟΥ

Since this the initial version of this document we anticipate suggestions for improvement.

Please send suggestions for improvements to:

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**Our sincere thanks to those who assisted in preparing and reviewing these guidelines.**

*George Psefteas*

Note: Recognition is to be given to the Diocese of the Western Pennsylvania, Orthodox Church in America, on which these guidelines were based and customized.



## Introduction

Why were these guidelines prepared?

- To help build the trust and confidence of the financial supporters of our Metropolis and our parishes in the way their money is being accounted (transparency, trust, and confidence lead to improved patterns of financial support);
- To help protect persons the local church elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;
- To assure that when there is turnover in personnel there will be continuity in accountability;
- To help assure that gifts made to the ministry or church with special conditions attached are consistently administered in accordance with the donors' instructions, and thus let donors know their gifts are used as intended.

The person(s) conducting the audit obtain access to confidential information and must treat that information accordingly. The audit performed should be documented and these work papers will help the person performing the work the following year. These work papers should be retained for at least seven years in a secure, limited access, fireproof storage area.

These guidelines were prepared to help parishes improve the oversight of their financial controls and reporting. *These guidelines do not constitute an audit or review as defined by professional standards in the United States.* Rather, use of the term “audit” in these guidelines allows for an evaluation of the financial reports and records and the internal controls of the local church by a qualified person or persons for the purpose of reasonably verifying the reliability of financial reporting and determining indicators as to whether assets are being safeguarded. Inherent in such work is the concept of using limited sampling for auditing and so all transactions are not being verified.

Ideally parishes are encouraged to consider engaging an independent accounting firm to perform a full audit or review in accordance with professional standards. While this is considered a best practice, and is now a requirement of both the Greek Archdiocese of America and all the Metropolises within the Archdiocese<sup>1</sup>, it is the size of the parish and the amount of revenue derived from sources other than pledges are a few of the situational variables to be considered when making this decision.

As required under the Uniform Parish Regulations<sup>2</sup> and Uniform Metropolis Regulations<sup>3</sup>, the auditor(s) will be selected from the faithful at a Local (Metropolis) or Parish General Assembly, as applicable.

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<sup>1</sup> Greek Orthodox Archdiocese Audit Committee; Standards for Metropolis Financial Statements and Audit Committees; Uniform Metropolis Regulations – January 2019

<sup>2</sup> [Regulations of the Greek Orthodox Archdiocese of America \(January 2019\)](#); Article 33, Sections 1 – 5

<sup>3</sup> [Regulations of the Greek Orthodox Archdiocese of America \(January 2019\)](#); Article 12, Sections 6 - 8



What constitutes a “qualified auditor”? As outlined in the Uniform Metropolis and Uniform Parish Regulations, members of the Audit Committee should have the financial competency to execute properly the responsibilities of the committee. What are some examples of financial competency? (Note: these are not mutually exclusive; these are merely examples):

- Candidate is a CPA (whether registered/licensed or not);
- Candidate has some bookkeeping or accounting background;
- Candidate has worked/works in a financial accounting, internal controls, or auditing field;
- Candidate has previously served on parish or other Audit Committees;
- Candidate is now or was previously a Parish Council Treasurer for a time period sufficient to where a financial competency has been developed;
- If more than one auditor is selected they must not be related
- No auditor can be related to anyone on Parish Council who handles any funds.

Although the work outlined here can be performed at any time, it is suggested that it be performed shortly after the end of the fiscal year and for a defined period of time like a month not the whole year.

We hope you will find these guidelines helpful as you work to fulfill your fiduciary responsibility by building upon these suggestions.

# Guidelines

The following are suggested steps to be performed. The term Monthly Report means the set of financial reports given to the Metropolis Executive Committee, the entire Metropolis Council, the Parish Council or other oversight group. If you chose not to perform a step, document your rationale . When you have completed the step check the box.

## Getting Started

- ☐ Obtain a listing of all bank and investment accounts.
- ☐ Review the list of authorized check signers for propriety and verify against the signature card at the financial institution.
- ☐ Verify the church is the owner of the account.
- ☐ Select (1 or more) months during the year and for all accounts fill in Audit Schedule #1.
- ☐ Agree the beginning, ending, receipts total and disbursements amounts to the Monthly Report.
- ☐ Using the ending balances from Audit Schedule #1, examine the related bank account reconciliation noting that the “book” balances agree to Audit Schedule #1 and that the bank balances agree to the bank statement.
- ☐ Examine supporting documents for items included in the reconciliation (for example, are outstanding checks not more than 30 days old, are they to unusual parties, did they clear the bank the next month).
- ☐ Review the Treasurer’s records to determine monthly bank account reconciliations are being prepared for the other months of the year.
- ☐ Summarize any exceptions in the final audit report.
- ☐ Have all Metropolis Council or Parish Council official meeting minutes available to verify the approval of certain expenditures that may be outside of an approved budget or approved budget threshold (i.e., donation or gift to charity that exceeds 5% of the approved budget line item).

## Verifying Income

Gain an understanding of how weekly collections are counted, deposited and recorded into the books. For example:

- ☐ Do two unrelated/independent people count the money?
- ☐ Does the second person initial the deposit slip?
- ☐ Is the money being deposited timely?
- ☐ Select \_\_\_\_\_ weeks of collections and verify the deposit amount appearing on the bank statement equals the total deposit per the books.
- ☐ Select \_\_\_\_\_ parishioners and send a confirmation letter (attached in Appendix C ) to verify the amount contributed per the books for accuracy. <sup>4</sup>
- ☐ Select \_\_\_\_\_ contribution pledge forms and compare the pledge to the total actually contributed.
- ☐ Review the Monthly Reports for other income sources. If significant, test the recorded information and the related controls around the handling of any cash.
- ☐ Inquire as to whether there have been restricted gifts or designated assets and select \_\_\_\_\_ to verify the gifts were recorded appropriately.

An example of a **restricted gift** would be:

Suppose Jane Doe gives \$10,000 and simultaneously delivers a letter that her gift is to be used to help buy a new furnace. If the gift is accepted, the \$10,000 would be a restricted gift to be accounted for in the church's records as a restricted asset. Jane's letter should be kept in the church's financial records and the money spent only to buy a new furnace.

A second example would be to suppose parishioner John Q. Public gives \$5,000 and writes to say that his gift is to be invested and the income from it used to buy music for the choir. The \$5,000 is a restricted asset.

While both are restricted assets, the money for the furnace is called "temporarily restricted." That means that the donor-imposed stipulation can be fulfilled by the action of the church in deciding to buy that new furnace, then doing it. Assets that are "**temporarily restricted**" can ultimately be spent, though they must be spent for the specified purpose.

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<sup>4</sup> This can be a time-consuming step since any confirmation not returned should be pursued through phone calls or other dialogue. In addition, this activity may require explanation as to why it is occurring. This step is to verify that the contribution made was in fact properly received, recorded and deposited.

The money given by Jack to be invested is “**permanently restricted**,” meaning that the full \$5,000 was stipulated by the donor to be held permanently. Note that the income from the gift is to be used only for a specific purpose. To make a fine point, the income is temporarily restricted in that it can be spent by action of the church in deciding to buy music, but the gift itself is permanently restricted.

These two types of assets should be reported separately. The church cannot change any restriction without the specific consent of the donor, which should be in writing.

**Designated assets** are those assets that have been voted by the Metropolis or local church’s governing board, such as its parish council or equivalent body, to be used for a particular purpose. For example, suppose the board decides this fall to set aside from money on hand in the amount of \$5,000 to send parishioners next year to an appropriate Assembly meeting. Following the vote, the \$5,000 should be reported as a “designated” asset.

Because the stipulation for its particular use was made by the church itself, that stipulation (or designation), can be changed by the action of the body that put it in place. There is no other party involved as in the case of the receipt of restricted gifts. Next year, if the board decides, the \$5,000 can be better used for some other purpose, it can vote to apply the money for that purpose.

Exceptions should be summarized in the final audit report.

## Verifying Disbursements

- ☐ Obtain the minutes from all Metropolis Council or Parish Council meetings during the year. Review for restrictions and designations (for use in the steps above which tested income), as well as disbursement authorizations.
- ☐ Select \_\_\_\_\_ disbursements from the cancelled checks and verify the disbursement:
- ☐ Was recorded in the books correctly and timely
- ☐ Was authorized (from review of minutes or other correspondence)
- ☐ Agrees with the invoice being paid (amount and payee)
- ☐ Was consistent with an underlying restriction or designation if applicable
- ☐ Determine that invoices are being marked as paid to prevent double payment
- ☐ Summarize any exceptions in the final audit report.

## Compensation and Taxes

- ☐ Verify appropriate tax returns are being timely filed (Form 941, W-2 and 1099).
  - ☐ Any contract worker for the church for whom you do not take out any taxes from their fees must be given a 1099 at the end of the year. For example, if the person who cleans your church is a private individual and you pay them a set fee each week, they must be given a 1099 at the end of the year.
- ☐ Verify current W-4's and I-9's are on file for all employees.
- ☐ Determine if the clergy has elected to have social security taxes withheld or not. If the taxes are to be withheld, verify that withholdings are occurring and being remitted.
- ☐ Verify the amounts actually paid in total to employees agree with the compensation per the Monthly Report and with the authorized amount of pay.
- ☐ If there are any other pay related arrangements or bonuses, review for proper approval.
- ☐ Verify that housing allowances are approved and have properly reduced the clergy's taxable income.
- ☐ Summarize any exceptions in the final audit report.

## Overview of Controls

The internal control structure for receipts and disbursements procedures should be reviewed regardless of the size of the church. The internal control structure is the process that assures the local church's operational efficiency and effectiveness, that its financial reporting is reliable, and that its assets are safeguarded. Hold discussions and look for improvement ideas to include in the Audit Report.

Areas to consider include:

### **Segregation of duties:**

- ☐ Important duties should be segregated among two or more persons, if possible. In small churches this may be difficult, but not impossible. Here are some examples. The financial secretary and the church treasurer(s) should not be related. These should be separate offices occupied by different individuals, who are not related by blood, marriage or employment relationships.
- ☐ The person(s) performing the audit should not be related to either the financial secretary or church treasurer.
- ☐ At least two persons should count the Sunday morning collections and they should not be related to each other nor should either one be the financial secretary or church treasurer.
- ☐ Receipt and disbursement functions should be performed by different people.

### **Authorization for Disbursements:**

- ☐ Are there actions in the minutes of the board that address authorizations? In the local by-laws (if applicable)?
- ☐ The check signer should not be the authorizer of expenditures or the person who performs bank reconciliations.

### **Other:**

- ☐ Does the church have fidelity bond coverage for people handling funds (i.e., counters, financial secretary, treasurer, etc)?
- ☐ Are decisions with financial implications being documented in minutes in sufficient detail?
- ☐ Are checks and cash stored in the church safe, deposited or placed in a bank night depository, and not taken to private homes or elsewhere until deposited?
- ☐ Are computer software and data files backed up on a regular basis, and are back-ups kept off the premises?
- ☐ Do all appropriate persons have a clear understanding of and is there documentation on church ownership of software and data files?

- ☐ Is a current list of the contents of all safety deposit boxes maintained, and is a list of persons with authorized access likewise kept?
- ☐ Are reports to the finance committee and board accurate, timely and complete enough to provide necessary information for the committee to make prudent decisions? Is the oversight board asking questions? When they review the Monthly Report?
- ☐ If being utilized, is the finance committee providing to the board sufficient information to allow it to exercise its fiduciary duties; are members of the finance committee and the board free to express opinions and to question management when appropriate?
- ☐ Are loan documents being read and complied with?
- ☐ Is there a policy on records retention, and if so, is it complied with (generally 7 years)?
- ☐ Does the church have procedures in place to review its insurance policies for adequate coverage?
- ☐ Summarize any exceptions in the audit report

## Appendix A

### Audit Schedule #1

#### Monthly Audit Report

For the Period Beginning: \_\_\_\_\_, and Ending: \_\_\_\_\_

<b>LOCAL CHURCH FUNDS</b> (Use those applicable to your Church).	<b>(a)</b> Balance at Beginning of Period	<b>(b)</b> Cash Received and Recorded	<b>(c)</b> Total Disbursements for Period	<b>(d)</b> Transfers + (-)	<b>(e)</b> Balance End of Period
General Fund					
Benevolence Fund					
Building or Improvement Fund					
Board of Trustees' Fund					
Women's Group					
Youth Group					
Men's Group					
Church School					
Other Organizations or Funds:					
Name:					
Name:					
Name:					
Name:					
Name:					
Name:					
<b>Total amount of cash in all treasuries of the church.</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

## **Appendix B**

### **Audit Report (to be issued by Internal Auditors)**

**Fiscal Year** \_\_\_\_\_

All planned audit steps were performed except for:

Exceptions found in the testing were:

Recommendations for improvements are:

**Respectfully submitted:**

Signed: \_\_\_\_\_

\_\_\_\_\_

Date: \_\_\_\_\_

## **Appendix C**

### **Donation Confirmation Letter**

(Parish Letterhead)

MMMM DD, YYYY

Parishioner's Name

Parishioner's Address

City, State Zip

Dear \_\_\_\_\_:

In connection with an examination of our parish accounts, please confirm your donation to [insert parish name] as of December 31, \_\_\_\_.

Donation in the Amount of \$\_\_\_\_\_intended for use in [insert appropriate fiscal year] not restricted [or restricted, if appropriate, as to use].

If the above information is consistent with your records, please sign the confirmation below and return it directly to me. If your records do not confirm the above information, please not your exceptions below. A business reply envelope is enclosed for your convenience in replying.

Thank you.

\_\_\_\_\_

Parish Auditor

## Appendix D

### Sample Pre-Audit Questionnaire<sup>5</sup>

Prior to the current year Audit, the Internal Auditor(s) may choose to ask certain questions in advance to prepare for the sampling and review at a later date. The following are the questions and answers. Most of the questions were answered are typically answered by the Parish Treasurer or Ministry Lead.

Question	Answer
1. How are accounting records maintained?	Treasurer's procedure manual addresses this.
2. Are financials prepared and presented at least once per year to the membership at large? If so, how are the financials prepared and what is presented? Please provide a copy of the full year financials presented to the membership, if any, for each of the years xxxx through yyyy.	The treasurer presents the Profit & Loss (Income) Statement once a month during the monthly PC meeting. This is an agenda item for every meeting.
3. Who are the current signatories and those with online banking permission? Who makes changes to these when positions change?	The PC President, Vice-President, Treasurer and Secretary are current signatories. The current President makes the changes after annual elections.
4. Where are records maintained? Where is check stock maintained?	The treasurer maintains current records and check stock.
5. Does anyone on the Board, Council, or general membership audit check stock in terms of sequence or voided items?	Voided checks & check sequence were included during the last audit. Any member may request to review any financial transaction.
6. Please provide a list of all voided checks from xxxx through yyyy. A sample will be reviewed.	List will be provided at the audit meeting.
7. Does the parish provide an accounting to the Metropolis or the Archdiocese (i.e., for Total Commitment purposes)? If so, please provide copies from xxxx through yyyy.	We are obligated to provide information when requested and specifically for the annual Total Commitment Process.
8. Who makes deposits? Who writes checks? Who performs the accounting? Who does the bank reconciliations?	Current Treasurer, Assist. Treasurer, President or any assigned office staff may make a deposit.
9. Please provide a list of all written but uncleared checks at December 31/xx. Alternatively, please provide copies of the bank reconciliations at December 31 xxxx, yyyy, zzzz and aaaa.	These will be provided at the audit meeting.

<sup>5</sup> Sample derived from Ladies Philoptochos Society of Resurrection Parish in Castro Valley, CA