

Episcopal Diocese of East Carolina

Appendix for In-House Audit

Appendix A

Background Information for audit

These audit guidelines were developed to assist auditors in performing the annual audit of the books of account of the congregations of the Episcopal Church. Annual audits are required by the Canons of the Episcopal Church for all parishes, missions, and other institutions. The primary purpose of an audit is to assure that financial statements are fairly stated. Any person handling the monies or investments of the church needs an audit to protect the church assets and him/her against suspicion of mishandling those assets. Similarly, rectors, vestries, vicars, bishop's committees, treasurers and other persons in positions of responsibility may be liable for any losses which would have been discovered by an ordinary audit but were not discovered because they failed to have an audit conducted.

General Review

Question 2. Clergy Salary and housing Allowance resolution.

A housing allowance is simply a portion of a minister's compensation that is so designated in advance by the minister's employing church. For example, in December of 2019 a church agrees to pay its minister "total compensation" of \$45,000 for 2020, and, at the request of the minister, designates \$15,000 of this amount as a housing allowance (the remaining \$30,000 is salary). This "costs" the church nothing. It is simply a matter of designating part of a minister's salary as "housing allowance."

The Internal Revenue Code ("Tax Code") specifies that the housing allowance of a minister who owns or rents a home is nontaxable in computing federal income taxes to the extent that it is

1. declared in advance,
2. used for qualified housing expenses, and
3. does not exceed the fair rental value of the minister's home, furnished, plus utilities.

The housing resolution should ordinarily equal the fair rental value of the clergy-provided housing, unless the minister expects the housing expenses to be substantially less.

Note that it is the responsibility of the ordained employee who owns or rents his/her home to determine the fair rental value, furnished, plus utilities of that home; and — unless the housing allowance resolution amount suggested by the ordained employee exceeds his/her compensation — the employer or vestry should accept and duly approve it.

Under no circumstances can a church designate a housing allowance retroactively. Although the costs of a mortgage qualify as part of the housing allowance, costs associated with refinancing a principal residence or with a home equity loan qualify only if the proceeds are used for acquiring or maintaining a principal residence.

Sample Resolution: Whereas, the Rev. _____ is compensated by parish name exclusively for services as a minister of the gospel; and
Whereas, parish name does(not) provide clergy name with a rectory, therefore, it is hereby
Resolved, that the total compensation paid for clergy for the calendar year 2020 shall be \$ _____ of which
\$ _____ is hereby designated to be a housing allowance; and it is further
Resolved, that the designation of \$ _____ as a housing allowance shall apply to calendar year
2014 and all future years unless otherwise provided.

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Question 3. Insurance Records Review

Insurance policies should be reviewed including description of coverage, period of insurance, premium amount and date of premium payment for the following policies which the committee is to review:

- a. Fire insurance on buildings and equipment
- b. General Liability (Public Liability and Property Damage)
- c. Burglary
- d. Fine Arts
- e. Malpractice
- f. Worker's Compensation
- g. Fidelity Bond
- h. Automobile coverage on cars owned by the congregation
- i. Non-ownership liability insurance for cars owned by others when used for congregation business
- j. Directors' and Officers' Liability
- k. Umbrella Liability
- l. Other special policies held by the church

Question 4. Tax Status

501(c)3 organizations are exempt from federal taxation, and donations are tax deductible. They are also exempt from income and sales taxes in most states. It is important to keep a copy of your IRS determination letter on file in the parish office.

North Carolina law does not exempt nonprofit organizations from payment of sales and use tax on items they purchase for use. However, G.S. 105-164.14(b) provides for semi-annual **refunds** of sales and use tax paid by qualified organizations and institutions on direct purchases of tangible personal property for use in carrying on their nonprofit work.

In order to apply for sales tax refunds, you must furnish the NC Department of Revenue a copy of the documents used to create the organization. More information about filing for sales tax refunds may be found at http://www.dor.state.nc.us/downloads/e585_faq.pdf

Question 6. Church Sponsored Schools

If a parish has a Church sponsored school, and the school shares the same Federal ID number, the school's financial records must either be audited with the Parishes records or by separate audit. A copy of the school's audit must be sent with the Parish audit to the Diocesan office.

If the school has a separate Federal ID number, the school should have an audit each year and file a copy with the parish each year.

If a school or preschool is not sponsored by the parish, but rents space for the school, see question 5 pertaining to other groups using parish buildings.

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Appendix B

Assets

Random Testing Calculations

1. Random Sampling Calculation Procedures for checking accounts
 - a. This procedure is to put testing data (check numbers, weeks, etc.) in random order for your selection
 - b. Open an excel spreadsheet.
 - c. In column B list the data you wish to put in random order:
 - i. Check numbers beginning with first check number used at the beginning of the year and ending with last check used at the end of the year.
 - ii. Number of Sundays in the audit year, 1-52 or 53
 - iii. Cash Receipts reference numbers in general ledger
 - iv. In Cell B1 put name of account and start your numbers in cell B2.
 - d. In Cell A2 type in the formula box =rand().
 - e. Copy formula in cell A2 to all cells in Column A that has a corresponding check number in Column B.
 - f. Highlight all Column A and B cells that contain data. (Do not highlight Row 1 because of the title in cell B1).
 - g. On Data Tab, choose AZ ↓.
 - h. This will give you the data to be tested in random order once you decide how large your sample is.
 - i. Based on the number of items you are testing, start with the first check number and simply go down the list until you have the number of items needed.

Cash Receipts

For the sake of confidentiality, we do not require In-House auditors to trace contribution deposits back to donor pledge records. However, it is very important that donors be sent regular statements, at least quarterly, showing all their contributions to the parish, with a note requesting notification of any errors or discrepancies.

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Appendix C

Sample In-House Audit Committee Certificate

Date

To the Rector, Wardens and Vestry of (Church Name; Church Address; City and Zip)

Subject: (Audit Year) Audit of (Church Name)

We have inspected the statement of financial position of (Name of Church) as of December 31, (Audit Year), and the related statement of activities for the year then ended. Our inspection was made in accordance with the Episcopal Diocese of East Carolina Audit Procedures for In-House Audits and is based on financial documentation provided to us by the parish.

We have taken steps to see that the parish's financial statements present fairly, in all material respects, the financial position of the Congregation at December 31, (Audit Year).

Our inspection and certificate is not meant to be construed as an audit or opinion rendered by a Certified Public Accountant.

A copy of the Audit Report and Findings are included for your review. Copies of the financial statements and the Audit Report and Findings should be reviewed by the Vestry and then a copy of the Report and Findings and the Vestry's plan to address any areas of concern must be mailed to Diocesan House no later than September 1, 2021

Sincerely,

List names of members of In-House Audit Committee