



**Report to the 164th Convention of  
the Episcopal Diocese of Kansas  
on Resolution 2022-1  
*Review and Revision of Audit Policy***

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# Finance Committee and Mandate

## Finance Committee, 2023

Mr. Brian Geary, *Treasurer and Chair*

Mr. Gary Charter, *St. Bartholomew's, Wichita*

The Rev. Jim Cummins, *St. Francis of Assisi, Overland Park; Council of Trustees*

The Very Rev. Laurie Lewis, *St. Stephen's, Wichita*

The Rev. Rex Matney, *St. Paul's, Clay Center*

The Rev. Doreen Rice, *St. David's, Topeka; Council of Trustees*

The Rt. Rev. Cathleen Bascom, *Bishop, Ex Officio*

Mr. Jay Currie, *Comptroller, Ex Officio*

The Rev. Patrick Funston, *Canon to the Ordinary, Ex Officio*

## Mandate

### Resolution 1 of the 163rd Convention (2022)

*Resolved*, that the 163rd Convention of the Episcopal Diocese of Kansas requests comprehensive review and revision of the diocesan policy titled “Internal control and audit standards for parish funds and assets” (last revised September 2007) by the Council of Trustees, with support of the diocesan Finance Committee and any other expertise deemed necessary to achieve that end; and be it further

*Resolved*, that every effort be made to ensure congregations be required to pay only for those accounting services deemed essential to the satisfactory resolution of audits under the revised policy; and be it further

*Resolved*, that it be expressly understood that any congregation is free to annually adopt more stringent auditing standards as needed to minimize liability and maximize operational effectiveness; and be it further

*Resolved*, that report be made to the 164th Convention as to actions undertaken, with analysis and reports made available in preconvention materials.

## Summary of Work

The Finance Committee's work took the form of extended conversation over the course of the year among the regular business of our monthly meetings. The Treasurer reported our ongoing work to monthly Council of Trustees meetings answering questions and bringing perspective back to the Finance Committee. Our audit policy work centered around layers of review of a suite of policy documents beginning with local data:

- Current diocesan policy
- Review of compliance statistics
- Recent audits filed by Kansas congregations (including those conducted by Certified Public Accountant, Licensed Public Accountant or Audit Committee)

Following review of our local documents, the Finance Committee reviewed the *Manual of Business Methods in Church Affairs (December 2019)* published by The Episcopal Church. This document is periodically updated pursuant to Canon I.7 "Of Business Methods in Church Affairs" and is intended to support dioceses and congregations in practices of financial stewardship and controls while providing clarity about the distinction between legal requirements and "best practices." Special care was taken in review of the twenty pages of *Chapter VI: Audit Guidelines for Congregations*.

Having refamiliarised ourselves with local policy and General Convention guidance, the Committee undertook review of the standards and practices around the Church including the dioceses of:

- Central New York
- Dallas
- Montana
- Newark
- North Dakota
- Ohio
- Oklahoma
- Pittsburgh
- Others

With all this data in mind and an approaching deadline for this report, the Committee worked to come to consensus on a broad plan for our ongoing work and reported the following to the Council of Trustees' August meeting.

## Expected Timeline of Next Steps

October-December 2023	<ul style="list-style-type: none"><li>- Develop a new policy (broad parameters on next page) with an effective date of 1/1/2025 and possible canonical amendments for review/feedback from Council of Trustees.</li><li>- Reflect and iterate policy, submit for review, and adoption by Council of Trustees.</li></ul>
January-June 2024	<ul style="list-style-type: none"><li>- Develop forms and procedures related to the new policy.</li><li>- Review and learn best practices of audit committees doing audits under the current policy, especially in the Southeast and Northwest Convocations.</li><li>- Develop training, including videos, in-person and online resources for parishes and audit committee members.</li></ul>
August 6, 2024:	<ul style="list-style-type: none"><li>- If pertinent, submit canonical amendments for 165th Convention.</li></ul>
August-December 2024:	<ul style="list-style-type: none"><li>- Final identification and training of audit committees and begin scheduling of 2024 audits.</li></ul>
October 18-19, 2024:	<ul style="list-style-type: none"><li>- 165th Diocesan Convention</li></ul>
January 1, 2025:	<ul style="list-style-type: none"><li>- Audit Policy Effective Date</li></ul>

# Policy Update Parameters and Ongoing Considerations

## Policy Update Parameters

At the time of this report, our work leads us toward a new policy adopted and communicated soon, but with an effective date of January 1, 2025. Such effective date would mean the new policy would be effective with audits of 2024 financials and processes. Within that policy, the Finance Committee sees the following parameters:

1. Annual audits will still be required for all parishes
2. Professional CPA audit is not required for parishes of any size, except as required by:
  - a. Another organization (for example, banks with liens on parishes)
  - b. The Council of Trustees, for whatever reason
3. Annual audits will be done by trained & approved Diocese or Convocation-based audit teams using forms and procedures developed for that purpose.
  - a. Parish leadership may, for whatever reason, adopt policies for and/or conduct audits under more stringent standards to be reviewed/approved by the Finance Committee.
4. Review of financial controls may be required by the Council at other times, such as periods of presbyter-in-charge or treasurer transition.

## Ongoing Considerations

The Committee continues to ponder the need for canonical language to require audits and enact penalties for non-compliance. If needed, these amendments would come before the 165th Convention (2024) for its consideration.

# Appendix: Current Diocesan Audit Policy



## The Episcopal Diocese of Kansas

### Internal control and audit standards for parish funds and assets

Adopted by the Council of Trustees May 15, 2007; revised September 18, 2007

#### Purpose:

From the Manual of Business Methods in Church Affairs (MBMCA):

“Annual audits are required by the Canons of the Episcopal Church for all parishes, missions, and other institutions. The primary purpose is to assure that the 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/herself against suspicion of mishandling of those assets. Similarly, *rectors, vicars, vestries, 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.* In addition, an announcement to the congregation that a completed audit reveals that all monies and investments are properly accounted for can have a positive impact on stewardship.”

#### Policy statements:

1. All parishes, regardless of size, are required to adhere to **standards of financial recordkeeping** and reporting, drawn from the MBMCA.
2. All parishes, regardless of size, are required to have an annual audit.
  - a. Audits of parishes with average normal operating income (as defined by diocesan Canon IV.2, sec. 3) **in excess of \$200,000** must have audits conducted by an independent Certified Public Accountant or Licensed Public Accountant.
  - b. Audits of parishes with average normal operating income **\$200,000 or less** may be conducted by a Certified Public Accountant, Licensed Public Accountant or Audit Committee.
3. An annual audit of the parish accounting records is to be performed as of **December 31** (fiscal year end) in accordance with the audit requirements found in the MBMCA.
4. **A copy of the audit** and written audit response must be provided to the comptroller of the diocese no later than September 1 of the year following the audited year

#### Accountability standards:

The Rector and Vestry are charged with the following:

1. Appointment of a **qualified treasurer** on an annual basis.
2. Ensuring that the parish adheres to **reasonable internal control standards**.
3. Requiring **timely financial reporting** from the treasurer that includes reconciliation of bank statements to submitted reports.
4. Recognizing that enforcement of this policy serves to **protect the parish**, the treasurer, the Rector, the Vestry and, most importantly, the intent of the persons contributing money to the parish.

# Appendix: Current Diocesan Audit Policy

## Process standards:

1. An **annual budget** must be approved by the Vestry. Any changes to the budget must be approved by the Vestry and recorded in the minutes of the meeting.
2. A **double-entry bookkeeping system** must be used. Any individual who will serve as treasurer must understand double-entry bookkeeping to qualify for the position.
3. Certain **minimum reporting standards** must exist for the protection of both the parish, parish leadership and the treasurer. These minimum reporting standards can be expanded, but at minimum must include:
  - a) A **monthly** financial report from the treasurer must be submitted to the Vestry or accounting committee of the Vestry.
  - b) This report must contain **sufficient detail** of the nature of each income and expense item recorded in each account, including beginning and ending balance in the account, which must tie back to bank statement or other bank-provided documentation.
  - c) The report should contain **current actual financial data** compared to the approved budget.
  - d) The **format** of the report is at the discretion of the parish but must contain sufficient detail to meet item 3(b) and must be verified by current bank statements, reconciling the balances of all accounts to the balance submitted by the treasurer.
  - e) **Record retention** of parish financial records is to follow the retention schedule in Chapter IX, “Records Management,” of the MBMCA.
4. **Financial reports** of funds segregated into designated or restricted usage accounts are to be reported to the Vestry no less than quarterly, adhering to the reporting standards above. Frequency of reporting in these accounts may be determined by the Vestry in a simple majority vote, but in no case is this reporting to occur less than quarterly. Reporting must include the beginning and ending balance in each account.
5. **Bank statements** are to be sent to the church office and opened by someone who is not an authorized check signer, with a copy of the statement and check images maintained on file at the parish office. The statement and check images are to be reviewed monthly by the Rector or senior warden to determine that all payments appear reasonable in both amount and payee. Any questionable entries are to be investigated and resolved prior to the next Vestry meeting. Bank statements and all other **financial records are to be maintained** in the parish office for a minimum of **seven years** with access provided to the treasurer only under dual control — if the treasurer needs copies of old records, it should be for a reasonable purpose, approved by the Rector or senior warden or Vestry, and a photocopy provided to the treasurer. The treasurer should have working copies of statements but is not permitted to maintain the archived file of financial records. Financial records are to be securely stored at the parish in a fireproof file or moved to secure, limited access offsite storage after six months.
6. **Clearly stated policies and procedures** regarding the handling of cash serve three purposes:
  - a) The **safeguarding** of funds.
  - b) The **protection of clergy and lay leadership** considered responsible for the safeguarding of funds.
  - c) The **proper recording** of all transactions.



## Appendix: Current Diocesan Audit Policy

7. **The Rector and the Vestry** are responsible for:
  - a) Obtaining the audit, the written audit report and statements required by MBMCA.
  - b) Ensuring that a written response to the audit report is prepared.
  - c) Addressing all audit recommendations.
8. Internal controls are to be based on **segregation of duties and dual control** wherever possible. Segregation of duties prevents any one individual from controlling funds from receipt through disbursement and reporting. Dual control requires that any given function be done by at least two unrelated people functioning simultaneously and together. The Rector and Vestry are responsible for assuring that reasonable internal controls are in place to protect the assets of the Parish including, but not limited to, petty cash, the collection, the operating account, all designated accounts and funds, and all disbursements of funds.

**Note:**

Suggested internal controls are provided as an attachment to this policy. Parishes choosing not to use the suggested internal controls are to provide **alternate written internal controls** to the Comptroller of the Diocese for assessment and approval.

This policy also is on the diocesan website: [www.episcopal-ks.org](http://www.episcopal-ks.org) > Resources > Policies.

### Internal Controls for Parishes

Processes	Inherent Risk	Risk Level	Internal Control	Mitigated Risk
Refer to the Internal Control Questionnaire in chapter II of the MBMCA for all the questions an auditor should be asking regarding the internal control structure.				
<b>Collection and other cash receipts</b>	<b>Loss of funds between donation and deposit at the bank</b>			
Collection is taken in the middle of each service and delivered to the altar to be blessed.	If collection is under the control of one individual between collection and delivery to the altar, cash can disappear. The risk is determined by visibility to the congregation and sanctuary party.	Moderate	Two unrelated people maintain dual custody of the funds until secured.	Low
Collection is taken from the nave to a place where it will be counted.	Once out of sight of sanctuary party and the congregation, cash very easily can disappear prior to being counted.	Very High	Two unrelated people maintain dual custody of the funds until secured by placing the collection in a location that requires two keys or a dual combination to enter -- this can be as simple as a locking bank bag that is placed into a larger locked bag and left in a locked office. No individual can have all the keys necessary to access the funds. For instance, one person has a key to the office, another has a key to the bank bag.	Mod
Collection is counted and bank deposit prepared.	Loss of funds between donation and deposit at the bank.	Very High	Only dual control will protect cash until it has been counted and the total written down and initialed by at least two people. Cash count must be provided to a person who is not responsible for making the deposit but who is responsible for verifying that the deposit receipt is for the expected amount.	Mod
Checks are recorded in the pledge records.	The only significant risk is checks being siphoned out of the deposit and deposited at a fraudulent account in the name of the parish at another bank.	Medium Low	The bank deposit should include the amount of checks received in the collection; the deposit receipt should agree. By using dual control with two unrelated counters and a locked bank bag, this opportunity to siphon checks and cash should be effectively removed.	Low
Deposit is taken to the bank and receipted.	Discrepancy at the bank between cash listed on deposit ticket and cash received.	Moderate	Most tellers list the cash received with a deposit by denomination. If there is a discrepancy at the teller window, the teller will change the deposit amount and should have the deposit ticket initialed by the person making the deposit. If the collection is placed in a locked bank bag, the bank will have the key at the bank -- the person making the deposit does not need to take the key with them and should not have access to the key.	Low
Bank receipt is returned to the church.	Deposit receipt is misplaced.	Low	Deposit can be verified online or by calling the bank.	Low

### Internal Controls for Parishes

Processes	Inherent Risk	Risk Level	Internal Control	Mitigated Risk
<b>Disbursements</b>	<b>Inherent risk in any disbursement occurs when there is insufficient oversight of the accounts, checks being issued, electronic transactions or approval of invoices.</b>			
<b>Payments to vendors</b>				
<b>Reimbursements</b>				
<b>Petty Cash</b>				
<b>Rectors Discretionary Fund</b>				
Payment request initiated by invoice or bill	Fraudulent invoice or personal bill combined with legitimate invoice; recurring payments are of less risk than one time payments for building repairs (for example).	Moderate	All invoices are approved by someone with knowledge of the invoice and initialed and dated as properly payable (may not totally prevent "add-ons" but shifts liability to the approving party).	Medium Low
Payment request initiated by staff member (i.e., organist needs check for hired musicians)	Fraudulent or inflated payment request; incorrect tax reporting -- payments of \$600 or more to an individual are to be reported on a Form 1099.	Moderate	Requesting staff member fills out request form showing payee, TIN, amount of check and purpose of check -- staff member signs off on validity of request.	Low
Reimbursement of legitimate business expenses to staff or others	Reimbursing legitimate business expenses without an IRS reimbursable plan in place and a valid expense report; risk is having business reimbursements classified as untaxed W-2 income.	Moderate	Require the use of an expense report that meets IRS guidelines for all reimbursements for parish expenses.	Low
Check is issued for disbursement (other than Rector's Discretionary Fund)	If one person has access to blank checks, can approve payment, prepare the check, sign the check and issue the check with no safeguards, it takes no time at all to make a bad decision and write a fraudulent check.	Very High	Require a minimum of two unrelated people to be involved in the check issuance process -- very minimum, the treasurer prepares checks for someone else's signature or someone else prepares checks for the treasurer's signature. In two-person situation, the person holding the blank check stock can not be an authorized signer on the account, and the Rector and/or Vestry must review the bank statement for electronic transactions and check images, and compare the account transactions against reasonable expectations.	Moderate
Check is issued for disbursement (other than Rector's Discretionary Fund)	If one person has access to blank checks, can approve payment, prepare the check, sign the check and issue the check with no safeguards, it takes no time at all to make a bad decision and write a fraudulent check.	Very High	With three or more unrelated people, unrelated persons approve (Person A), prepare (Person B) and sign the checks (Person C); the person preparing the checks keeps the blank check stock locked securely and has a back-up person to issue checks (Person D) in his/her absence -- Person D can not approve or sign checks.	Low

### Internal Controls for Parishes

Processes	Inherent Risk	Risk Level	Internal Control	Mitigated Risk
Check issued from Rector's Discretionary Fund	One risk is the Rector writing a check to benefit him/herself; opposing risk is that the Rector doesn't have enough discretion to write a check in an emergency without a bunch of red tape.	Moderate	Allow Rector to write checks up to an amount approved annually by the Vestry; all checks are reviewed by the treasurer or senior warden within 10 days of receipt of bank statement. Checks over the pre-approved limit receive the same treatment as a check to a vendor; any checks the Rector feels are of sufficient emergency to circumvent controls should be approved by the Vestry at the next meeting and noted in the minutes.	Medium Low
Petty Cash	Primary risk is one petty cash fund with multiple people having access and nobody having accountability; amount of risk is equal to the amount of petty cash and how easily it is replenished.	Moderate	To the extent that individual staff members need petty cash, it should be in imprest funds that are under the sole control and accountability of the staff member. In an imprest fund, the cash and receipts/vouchers add up to the total amount of the authorized petty cash; to get more cash, the receipts and vouchers are turned in for reimbursement; the staff member is responsible for protecting their petty cash fund from theft or misplacement.	Medium Low

Suggested Internal Controls
<b>Collection Controls</b>
Two unrelated persons remain with collection until funds have been locked in a locking bag in a locked office or closet.
Two unrelated persons are required to gain access to the collection to count it after the service - one with a key to the bag and one with a key to the office.
Two unrelated persons count the collection, noting the amount of each denomination and totaling the cash on a standardized form used for counting the cash (see accompanying example). Checks are added to the deposit, the deposit is totaled and placed in a locking bank bag that can only be unlocked at the bank.
The amount of the deposit is given to both the treasurer and the senior warden (or their designees).
No checks may be cashed from the collection by anyone.
Documentation of checks is to be given to the person responsible for recording pledges and designated funds (altar flowers, etc.).
Counter's sheets are to be given to an unrelated person who is to verify the deposit at the bank, either by bank receipt attached to the counter's sheet or online. Verification is to be noted on the counter's sheets and the amount given to the treasurer.
The bookkeeper and the treasurer should be separate positions, not related to each other or living at the same address.
Bank statements should be delivered to the church address (or the senior warden if mailbox at church is not secure and church isn't staffed during weekdays).
Bank statements should accompany all financial reports from the Treasurer, reconciling the amounts reported to funds on deposit at the bank.

## Internal Controls for Parishes

Processes	Inherent Risk	Risk Level	Internal Control	Mitigated Risk
<b>Disbursement Controls</b>				
Bank statements must come to the church address for all accounts and be opened by parish secretary, rector or senior warden and photocopied before being given to the treasurer for the financial statement				
Prior to issuance of a check, the invoice, bill or check request is to be approved (initialed and dated) by an authorized staff or vestry member as being a valid expense, with detail filled in as needed to provide sufficient information to the treasurer.				
Payment must be authorized by someone who is not a signer on the account.				
Payment to individuals that may accrue to \$600 or more in a calendar year must be accompanied by a form listing their legal name, tax ID and mailing address -- the parish must have a reasonable mechanism to ensure that all Forms 1099 are issued				
Authorized signers must not have access to blank checks.				
Because the treasurer is responsible for balancing the bank statements and preparing financial reports, the treasurer should not be involved in the check issuance process or have access to blank checks.				
<b>Petty Cash Controls</b>				
Each individual who needs access to petty cash has their own petty cash imprest fund for which they are solely responsible.				
The amount of petty cash is to be approved by the Vestry on an annual basis.				
Petty cash is to be reimbursed monthly by turning in all receipts and vouchers; the petty cash is subject to being counted at any time.				
Receipts and vouchers are to be reviewed and approved prior to reimbursement; review is for reasonableness, authorization and to determine how to post the transactions to the accounting system.				
The total of petty cash, vouchers and receipts must total the amount of authorized petty cash.				
Small parishes with limited staff and lay resources can offset some of the risk resulting from an inability to adequately segregate duties by applying increased review of bank statements by the Vestry or senior warden, particularly check images and electronic funds transfers. In a situation of limited resources, the treasurer position should either be replaced annually (even if alternating between two unrelated people) or the parish should request an outside, independent audit.				

# Appendix: Current Diocesan Audit Policy

## Counter's Sheet

<b>Date:</b>	
<b>Service Time:</b>	
<b>Counter Initials</b>	
<b>Counter Initials</b>	

<b>Cash Received</b>	
100's	\$ -
50's	\$ -
20's	\$ -
10's	\$ -
5's	\$ -
1's	\$ -
<b>Currency Total:</b>	\$ -
Half Dollars	\$ -
Quarters	\$ -
Dimes	\$ -
Nickels	\$ -
Pennies	\$ -
<b>Coin Total:</b>	\$ -
<b>Cash Deposit:</b>	\$ -
<b>Check Deposit:</b>	\$ -
<b>Total Deposit:</b>	\$ -

### AFTER DEPOSIT:

<b>Deposit Verified:</b>	
<b>Date of Deposit:</b>	
<b>Discrepancy:</b>	
<b>Initials</b>	
<b>Date:</b>	
<b>By Receipt:</b>	
<b>Verified Online:</b>	