



The Episcopal Diocese of Kansas

Internal control and audit standards for parish funds and assets

Adopted by the Council of Trustees, November 29, 2023

Effective January 1, 2025

Purpose:

From the Manual of Business Methods in Church Affairs (MBMCA), 2019:

“Annual audits are required by the Canons of TEC 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 his/herself against suspicion of mishandling those assets. Similarly, *rectors, vestries, vicars, bishops’ committees, treasurers, and other persons holding positions of fiduciary responsibility may be liable for any losses, which would have been discovered by an ordinary audit but were not discovered because of failure 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 will 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. Unless required by another organization (e.g., banks with liens on parishes), audits of parishes may be conducted by a Certified Public Accountant or Licensed Public Accountant. Audit Committees trained and approved through a process authorized by the Council of Trustees may also be used.
 - b. The Council of Trustees may require a higher level of audit for a parish for any reason.
 - c. Parish leadership may, for whatever reason, adopt policies for and/or conduct audits under more stringent standards.
 - d. An annual audit of the parish accounting records is to be performed covering each fiscal year, which runs from January 1 to December 31.
 - e. **A copy of the audit** and written audit response must be provided to the comptroller of the diocese not later than September 1 of the year, covering the financial reports of the previous calendar 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** including sufficient training for clergy, vestry and officers to understand finance reporting.
3. Requiring **timely, accurate, and clearly stated 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.

Process standards:

1. An **annual budget** must be adopted 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.
7. **The Rector and the Vestry** are responsible for:
8. Obtaining the audit, the written audit report and statements required by MBMCA.
Ensuring that a written response to the audit report is prepared.
Addressing all audit recommendations.

9. 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.