2019 COMMITTEE AUDIT INSTRUCTIONS

INCLUDING WORKSHEETS FOR:

CASH RECEIPTS
CASH DISBURSEMENTS
PAYROLL TESTS
COMMITTEE AUDIT OF 2019 FINANCIAL STATEMENTS
INSTRUCTIONS

Introduction

1. Purpose: These audit guidelines have been developed to assist audit committees in performing the annual audit of the books of account of the parishes of the Episcopal Church.

2. Reasons for an Audit: Annual audits are required for all parishes, missions and other institutions by the Canons of the Episcopal Church. Any person handling any monies or investments of the church needs an audit to protect the church assets and him or herself against suspicion of mishandling the monies and investments. Similarly, rectors, vestries, treasurers and other persons in positions of responsibility are 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 an audit is complete reveals that all monies and investments are properly accounted for and will have a positive impact on stewardship.

3. Pre-Audit Advice: When meeting with the auditors, be prepared to discuss your plans and objectives. Auditors are in the positions to advise you and serve your interest when they understand the goals you have set and when you can clearly explain what you expect and hope to get from their services.

Keep good records and help your auditor save you money by not using professional time for routine work, such as gathering information.

Keep your auditor informed of changes and new directions in the congregation.

The treasurer and others, such as Vestry members, rectors, and staff, should be available to the auditor to provide any needed information.

A copy of the Manual of Business Methods in Church Affairs should be made available to the auditors.

4. Approved Auditors: The canons permit the auditing of congregational accounts by “an independent Certified Public Accountant”, by “an independent licensed public accountant” or by such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority.”

a. Certified Public Accountant: Very often the complexity and/or the size of congregations necessitate an independent examination and reporting on their financial statements.

   1. Certified Public Accountants offer several levels of service. These include the audit, the compilation, and the review. Refer to the Glossary of this manual for definition of these terms. **Neither a review nor a compilation is acceptable in place of an audit of a parish, mission, or other institution of the church.**

   2. Certified Public Accountants engaged in public accounting are available to all who wish to engage them for independent accounting skills. These skills consist
primarily of the design and installation of financial systems, audits, investigations and reports based on audits, advice on management and financial policies, and tax return preparation.

3. Certified Public Accountants have met the statutory requirements of a state or other political subdivision of the United States as to age, education, residence, moral character, and expertise, and have passed a uniform examination administered by the appropriate regulatory authority.

4. Certified Public Accountants are permitted to advertise their services. This should help you in your search. Generally, when people do not know an accountant in the community, they will ask friends to recommend someone. Businesspersons, especially those in the non-for-profit field, can be helpful in finding an accountant with expertise in the non-for-profit sector. Lawyers and bankers can be of assistance as well.

5. Fees are based on time charges. Moreover, fees vary with the level of experience of those required to perform the work. The prevailing cost of conducting a practice in the community will affect professional audit fees. Fees also vary based upon the time of year the audit work is performed.

b. Independent Licensed Public Accountant: While the CPAs and PAs are both licensed to perform the same public accounting services, they prepare differently to become licensed. A Public Accountant has a license based solely upon public accounting experience. Note, however, that in most states, there are few, if any, LPAs remaining due to stricter state licensing requirements. The state of Ohio no longer licenses LPAs.

5. The Committee Audit is provided for in the Diocese of Ohio under conditions set forth in the Business Practices, which have canonical authority. These Audit Guidelines have been specially prepared for audit by committees. The Auditor’s Opinion Letter issued by an Audit Committee will be termed “Committee Audit Certificate.” The Auditor’s Comments on Internal Control will be termed “Committee Audit Findings on Policies and Procedures.”

Audit committee members should be independent of the decision making and financial record keeping functions of the congregation. The members of the audit committee should include at least one financial expert.

An audit committee must consist of at least 3 individuals. A typical audit committee has three members. The actual number of members should be determined by the size and scope of the audit.

6. Scope of the Committee Audit: The scope of the audit shall include:
   a. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation;
   b. Verification of (or preparation of) financial statements in the form approved for the Episcopal Church as set forth in the Manual of Business Methods in Church Affairs, and
   c. A review of management control practices using the Internal Control Questionnaire.

7. Accounts to be audited: All accounts must be audited. This requirement covers not only the operating accounts of the organization, but also all its restricted, foundations, endowments, discretionary and property funds, and the accounts, if any, of its organizations. No church money is exempt from the audit requirements. If a separate
auditor has audited a separate treasurer’s account, such as that of a parish foundation, include the audit report in the financial statements.

6. Objectives of the Audit: The major objectives of an audit of a parish are to ascertain the following:
   a. That the various transactions during the year are proper and are documented appropriately; i.e. authorized, appropriate church purposes, complete and accurate;
   b. That the various transactions during the year are recorded in the proper amounts and in the proper accounts, and that there were no “off the books” accounts or activity;
   c. That the assets, liabilities, income and expenses which should be in the financial records are so shown, in the proper amounts, and in the proper accounts;
   d. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and
   e. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.

7. Timing of the Audit: The Canons call for a church’s financial year to end on December 31. The audit committee should be engaged prior to the end of the year being examined. This timing allows the audit committee to perform certain audit procedures that can only be done at year-end.

8. Contents of the Audit: The audit committee is responsible for submitting an audit report to the Vestry of the church. The Audit Report shall consist of:
   a. The Audit Committee Certificate;
   b. The Statement of Financial Position;
   c. The Statement of Activities;
   d. Footnotes to the Financial Statements;
   e. The completed Audit Program Checklist;
   f. The Committee Audit Findings on Policies and Procedures, and
   g. Internal Control Questionnaire completed by the treasurer or other financial person with knowledge of the policies and procedures used in the financial system.

9. Filing of the Audit:
   a. Prior to actual delivery of the audit report, the treasurer and rector (senior warden if no rector) should sign a letter to the audit committee stating that all records were made available for audit and that no church funds were omitted.
   b. Upon completion, the audit committee should present the audit report to the church Treasurer, Rector, and Wardens.
   c. Any recommendations should be presented in the Committee Audit Findings on Policies and Procedures, not in the Audit Committee Certificate. These items will be discussed with the Treasurer, or other responsible persons. Their written response should be received within 30 days and be attached to the audit report for presentation to the Vestry.
   d. The audit report shall be submitted to the Vestry upon completion.
   e. A copy of the audit report shall be forwarded no later than June 1 to the Finance Office of the Diocese. The minutes of the vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Finance Office of the Diocese.

For separately incorporated institutions with fiscal years ending at other times during the calendar year, the audit report shall be forwarded to the Finance Office no later than 8 months after the end of the institution’s fiscal year.
f. If, at any time during the audit, the records reveal a situation suggesting that something is seriously wrong, the matter should be brought immediately to the attention of the Rector, the Wardens, and the Chief Financial Officer of the Diocese.

Instructions for Completing a Committee Audit

1. General
   The following suggested procedures are merely tasks that can be performed to determine the appropriateness of the financial statements presented. An audit is a series of procedures to test, on a predetermined selective basis, the various transactions occurring in the year under examination. It is unrealistic to examine every transaction for the year. Therefore, certain tests are necessary to verify the reasonableness of all transactions.

2. Pre-Audit Needs
   a. Obtain a preliminary understanding of the accounting systems (both manual and computer) that generate significant financial statement items and the related internal accounting controls.
   b. Obtain copies of the minutes of the Vestry meetings for the period under examination. This should include the minutes of any committee authorized to receive and disburse monies. Read the minutes with regard to the election of officers, compensation of personnel, bonding of the treasurer, budget approvals, contracts entered into, purchase of items, borrowing of monies, purchase and sale of securities, resolution confirming clergy housing allowance for tax purposes, etc. This should be done before the actual examination of any accounting records. You may need to see the minutes of the previous year if they contain authorizations for expenditures in the year being audited.
   c. Obtain a copy of the previous audit complete with the Committee Audit Findings on Policies and Procedures. This will provide you with a firm set of starting balances that may differ from the Treasurer’s reports. It will also give you a chance to check on the progress of corrections of management control deficiencies, which is an important part of the teaching process.
   d. Obtain a copy of the annual financial statements as prepared and presented by the treasurer.
   e. Review the procedures that are being used to account for church monies. Identify the individuals with responsibility for financial operations and decisions by name and position and verify with them that all the funds of the congregation have been included in the statements.
   f. Identify all bank accounts and authorized check and withdrawal signers, including those under separate treasurers. Confirm with your bank that there are no additional open accounts using the Church’s tax identification number.
   g. Request that all accounting records of all funds be presented together including:
      1. Chart of Accounts and Organization Chart
      2. General Ledger
      3. Cash Receipts Journals or detailed report of receipts
      4. Cash Disbursements Journals or Check Register
      5. Bank Statements including cancelled checks or check images
      6. Blank checks
      7. Paid Invoices
      8. Individual payroll records including Forms W-4 and I-9
      9. Federal, state, and local payroll withholding and worker’s compensation reports
      10. Passbooks and evidence of other investments
11. Pledge Records by individual and total

h. Meet with members of the Finance Committee to discuss the annual financial statements. Inquire if there are any significant matters about which the Audit Committee should be informed. Also, inquire into significant variances noted on the financial statements.

i. Request a location where the audit can be performed. The audit can be more thoroughly and efficiently performed if it is conducted in the church office where the records are located.

3. Receipts:

a. Plate offerings: Cash receipts journal entries should be traced to weekly cash receipts records (deposit slips) on a test basis. A valid test is a minimum of 10 entries. Complete Cash Receipts Test worksheet.

b. Pledge receipts: Pledge receipts should be verified by tracing cash receipts entries to individual pledge records on a test basis. A test of 10% of postings should be traced. Results will indicate if a broader sampling is necessary.

Adding machine tapes should be made of the individual pledge records with the total agreeing with the total pledge payments reported.

Random selection of individual pledge records should be tested for accurate total and balance. A minimum of ten percent should include the same individuals as above.

If the audit committee is engaged before year-end and if the church sends statements to the pledgers, the audit committee can save time and effort by supervising the mailing of the year-end statements. The audit committee can then use this mailing to obtain direct confirmation.

The audit committee should always review the pledge receipts of the congregation personnel involved in money transactions.

The decision regarding the size of the representative sample of postings and pledge records for examination depends on the dollars involved and the sophistication of the parish records.

c. Contributions from parish organizations: Receipts must be listed separately for each organization. A sample of amounts entered in the cash receipts journal should be traced to the weekly cash receipts records. These listed amounts should also be confirmed with their sources.

d. Contributions from the Diocese: Receipts must be listed and amounts entered in the cash receipts journal traced to weekly cash receipts records.

e. Investment and endowment income: Income from securities should be verified by examining the brokerage house statements. Income from investment accounts should be verified by examining the statements provided or confirmed with the trustee of the agency. Income from saving bank deposits should be confirmed by the bank. The use of a spending rule should be authorized in vestry minutes and confirmed by examining these minutes. The annual total should be checked by recalculation.

f. Restricted income: Income received for special purposes should be noted by the Audit Committee and traced from the cash receipts journal entries to the weekly cash receipts records. The Audit Committee should also be satisfied that the income was used for the intended purpose.
g. *Non-income receipts:* Verify all cash receipts journal entries by tracing them and ascertaining that the proper authorization was given for any transfer, inter-fund borrowing, or for the sale or redemption of any investment or property.

h. *Petty Cash:* The Audit Committee should be satisfied that a proper imprest system is being maintained. Petty cash should not be used to cash personal checks. Cash flow and size of the fund should be reviewed for possible misuse. All transactions should be documented with a receipt and account number to be charged.

i. All receipts should be compared to budgeted amounts and material variances should be explained.

j. Contributions of tangible assets or services: Refer to Chapter III of the *Manual of Business Methods in Church Affairs* (Bookkeeping) for discussion and proper treatment of these contributions.

4. Disbursements:

a. Test (minimum 10% of postings) disbursements throughout the year to satisfy that they have been accurately classified, and that invoices in support of the disbursements have been properly approved and canceled or marked “PAID”. Complete *Cash Disbursements Test* worksheet for the sample.

b. The committee must be familiar with the financial statement expenditure categories listed on the congregation’s chart of accounts.

c. All disbursements, by line item, should be compared to budgeted amounts. Any material variances should be discussed with the treasurer and explained.

d. All pension contributions for the clergy and lay employees should be traced to the employee’s elections and/or the minutes. Verify that the payments were made to the trustee or custodian on a timely basis.

e. Testing of Disbursements: Select a sample of disbursements. A minimum of 10 percent of postings should be traced. Results will indicate if a broader sampling is necessary. Test the disbursements and the corresponding invoices as follows.

For the same disbursements examined under step a:

1. Examine invoices for a signature that verifies the ordered items were received or contracted services performed for a sufficient number of items so the committee may be satisfied that goods and services were acknowledged by an authorized person.

2. Check the arithmetic on invoices and vendors’ monthly statements for a sufficient number of items to assure the committee that invoiced amounts were properly recorded on the statements.

3. Compare the invoices with the recordings in the cash disbursements journal to assure the committee that they are fairly recorded and classified. Comparison should include vendor’s name, date and amount billed. If ten or fewer checks are written each month, examine all items. If more than ten checks are written, select a random sampling of two or three months. This sample size should suffice if a good system of accounting is present. Additional items should be selected if controls are inadequate.

4. Travel and business expense reimbursements should be checked to see that they are in accordance with the qualified reimbursement policy of the parish. Refer to Chapter IV (Taxes) for discussion of an accountable reimbursement policy. Obtain a copy of the policy adopted and compare requirements with those of the model policy. Check transactions to verify that the policy has been complied with and note any discrepancies.
5. Bank Accounts:
   a. The committee should ascertain the number of bank accounts maintained and the purpose of each account.
   b. The committee should examine the canceled checks, or check images, for:
      1. Authorized signature(s)
      2. Proper endorsement
      3. Comparison with the cash disbursements journal for proper recording of payee and amount.
   c. The Audit Committee should account for all voided checks.
   d. Outstanding checks from the previous period should be examined to determine if amounts cleared the bank. Any check outstanding for a period longer than three months from the balance sheet date should be questioned and a satisfactory explanation obtained.
   e. The Audit Committee should verify bank balances as of the end of the period being audited and should check to see that the closing cash amount is correctly stated. Examine the January bank statement following the close of the audit year for items impacting the audit year.
   f. Determine whether transfer of funds occurred between bank accounts near the balance sheet date. If transfers occurred, determine that the transfers were recorded in the books in the same accounting period and that any transfer not recorded by the bank appears in the appropriate bank reconciliation.

8. Investments:
   a. If investments are held in the Joint Investment Fund of the Trustees of the Diocese, examine monthly activity statements and confirm ending balances with the investment lines on financial statements.
   b. If investments are managed by a bank or brokerage, obtain or prepare a listing of securities owned showing:
      1. The description of each security
      2. The serial number of bonds or securities
      3. The denomination of each security or its par value
      4. The interest rate of each bond
      5. The cost of each security and the amount recorded on the books
      6. The interest and dividends received during the year
      7. The market value of each bond or security as of the year-end date.
   c. Review the investment summary for reasonableness, consistency of amounts between years and obvious omissions.
   d. Compare the securities listed with ledger accounts and/or with the statement. Whenever practicable, serial numbers should be compared with records of security purchases or gifts in order to obtain positive identification and to verify that substitution did not occur.
   e. Examine securities listed or obtain confirmation from the holders for securities held by depositories. Preferably, this examination should occur as close to the examination date as possible. Insure that the securities are registered in the name of the church or are endorsed as transferable to the church. Examine the coupons on bonds to ascertain that unmatured coupons are intact.
   f. Examine all transactions for verification of acquisitions and dispositions.
   g. Trace acquisitions to disbursements records and sales (dispositions) to receipts records.
   h. Examine broker statements and compare with the investment ledger, where applicable.
   i. The Audit Committee should be satisfied that the securities are being adequately safeguarded.
j. Examine securities for ownership, certificate number, dates, endorsements, assignments, etc.
k. Verify any income that has not yet been distributed.
l. Determine, by reference to the dates of purchase and disposal of investments, interest rates and published dividend records, whether income earned and accrued income receivable have been appropriately recorded.

7. Restricted funds:
   a. Obtain a list of restricted funds showing:
      1. The source and date;
      2. Terms governing the use of principal and income;
      3. The frequency for distribution of activity and valuation reports and the name of person(s) to receive these reports; and
      4. How the funds are to be invested.
   b. Examine the trust or agency agreement, or donor letter, for each new gift and contribution received during the fiscal year.

8. Loans:
   a. Obtain a schedule of all loans to include:
      1. The name of the lending institution
      2. The date of origin
      3. The original amount of loan
      4. The interest rate and payment schedule
      5. The monthly payment
      6. The unpaid balance
      7. The purpose of the loan
      8. The authorizing body
      9. The collateral for the loan
      10. The restrictions imposed by the lender, if any
   b. Review loan balances for reasonableness, consistency of amounts between years and obvious omissions.
   c. Determine that any loans for the year being examined were properly authorized and were recorded in the minutes of the Vestry.
   d. Verify, by direct communication with the lender, the outstanding indebtedness at year-end and its terms.
   e. Reconcile the unpaid balance of all loans as reported by the parish records to the figure reported by the lending institution.

9. Property and Equipment:
   a. Obtain a list of fixed assets showing the cost and date of purchase, if known.
   b. Review balances for reasonableness, consistency of amounts between years, and obvious omissions.
   c. Examine all the deeds and titles of ownership related to the properties owned by the congregation. Verify the proper recording of the name of the owner and the existence of any encumbrances or liens.
   d. Determine if any inventory identification procedure is in effect.
   e. The church must have a physical inventory of capital assets. The committee should test a sample of this inventory.
f. Ensure that all property and equipment is adequately insured.
g. If depreciation of property is recognized, review entries for accuracy.

10. Payroll Records (For two pay periods during the year, randomly selected): Using checklist, evaluate the positions to confirm a person's status as contractor or employee and that withholding and reporting requirements have been met for each.
   a. Examine the individual earnings records for name, address, social security number, number of exemptions, rate of pay, and its effective date.
   b. Ensure that the salary paid is authorized by comparing it with the amount budgeted.
   c. Trace the individual's earnings record postings to the check register.
   d. Reconcile total wages paid and total withholding taxes with the quarterly Forms 941 and end-of-year Form W-3, verifying that they were remitted on time.
   e. Determine if a current signed Federal Form W-4 and a Form I-9 (Immigration and Naturalization Service) (for employees hired after November 6, 1986) is on file for each employee.
   f. Determine if Form W-2 has been given to each employee (including the clergy) and that the W-2 forms are correct and timely filed.
   g. Determine if Forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid $600 or more annually and all recipients of educational scholarship funds of $600 or more in a given year.
   h. Test the payroll to be sure that a real employee exists for every payroll check written.

11. Receivables and Payables (N/A if the financial statements are prepared on the cash basis)
   a. Obtain a schedule of accounts receivable as of the balance sheet date. These may include pledge payments that were received after the end of the year in which the money was pledged or authentic obligations owed to the congregation at year-end.
   b. Obtain a schedule of accounts payable as of the balance sheet date. These may include monies owed by the congregation to vendors at year-end for goods and services received during the year being audited.
   c. Trace significant receivables to current year cash receipts records and/or significant payables to current year cash disbursements records to verify subsequent receipt/payment.
   d. Discuss any old or disputed payables or receivables with the treasurer.

12. Insurance: The committee should review a schedule listing the name of carrier, description of coverage period of insurance, premium amount and date of premium payment for the following policies:
   a. Fire insurance on buildings and equipment
   b. General Liability (Public Liability and Property Damage)
   c. Burglary
   d. Fine Arts
   e. Malpractice
   f. Workmen's Compensation
   g. Fidelity Bond
   h. Automobile coverage on cars owned by the church
   i. Non-ownership liability insurance for cars owned by others when used for parish business
   j. Directors’ and Officers’ Liability
   k. Umbrella Liability
   l. Other special policies held by the church.
13. Discretionary Fund: Check that the discretionary fund is in the name of the parish, that the parish’s Federal tax identification number is the number used to identify the account at the bank, and that the fund has not been used for operating fund expenses or for the personal expenses of the clergy. If a separate checking account has been authorized, all monies for the discretionary fund must pass through the parish’s general bank account and a check then written to transfer the monies to the separate discretionary fund checking account.

Refer to Chapter V of the Manual of Business Methods in Church Affairs before proceeding.

14. Work Papers: The committee should retain a file of the work papers prepared during the audit. These papers could guide the preparation of the subsequent year’s audit. The next Audit Committee should be provided with a copy of your working papers. These work papers should include such things as: the marked up audit and internal control check lists; lists of bank accounts, restricted funds, investments, insurance accounts and loans; the schedules you prepared, the procedures you followed in performing the audit and memoranda describing significant issues raised during the audit.

15. Audit Committee Certificate: The Audit Committee Certificate states that steps have been taken to ensure that the financial statements are presented fairly in all material respects. If the essential tests have not been performed, the certificate should state this fact. The Audit Committee Certificate should identify exceptions when the audit committee questions any aspect of the financial statements. When this occurs, the audit committee should carefully describe the condition raising the question. Such a statement does not nullify the accuracy or the importance of the audit, but it does alert the reader that the financial statements may be affected in some way because of the noted variance.

16. Committee Audit Finding on Policies and Procedures: The Audit Committee should comment on the internal control procedures in effect at the parish in a separate letter which should be addressed to the Vestry and made a part of the minutes. Inadequate procedures should also be noted as part of these comments. Repeat items from previous years should be identified. Good business practices and policies as well as safeguards should be recommended to correct policies and procedures that are inadequate, unacceptable or nonexistent. A copy of this letter and the Audit Program Checklist should accompany the audit report.

17. Accruals (if records are maintained on a cash basis): The Audit Committee may perform a significant educational service by teaching the accrual method of accounting. This entails noting those revenues and expenditures related to a calendar year previous or subsequent to the year being audited. A simple example is an insurance premium paid for coverage that extends over to the next fiscal year. The intent of identifying the accruals is to accurately determine the expenses and revenues attributable to the current fiscal year, regardless of the receipt or payment date.
## Name of Parish or Shared Ministry
December 31, 2019

### Cash Receipts Test
(Suggest 10% of deposits during the year)

<table>
<thead>
<tr>
<th>a</th>
<th>a</th>
<th>b</th>
<th>Account Distribution (*names/account numbers of income accounts)</th>
<th>OK</th>
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<tr>
<td>Amount</td>
<td>Date Prepared</td>
<td>Date in Bank</td>
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<tr>
<td>ex: 100.00</td>
<td>2/27/16</td>
<td>3/1/16</td>
<td>$45</td>
<td>$55</td>
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a - per deposit slip and supporting detail

b - per bank statement

c - Traced to cash receipts journal/records and for the month to the appropriate general ledger accounts and reviewed for proper account distribution

* opg. pledge, opg. plate, restricted-memorial, restricted-discretionary fund, restricted-capital fund, etc.

**NOTE:** A significant time lag between date prepared and date in bank should be investigated.
Name of Parish or Shared Ministry  
December 31, 2019  

**Cash Disbursements Test**  
(Suggest sample of 10% of disbursements throughout the year)  

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<td>Payee</td>
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A - per invoice examined.  
B - per invoice - traced to general ledger or cash disbursements journal under this account. Verified proper account distribution.  
C - examined endorsed canceled check payable to proper payee.  
D - Examinations notation of approval by authorized individuals.
Payroll Checklist
For completion with your 2019 audit by committee

1) If your parish uses a payroll service, which company do you use?

2) Number of Employees? _______

3) Please indicate that the following items are on file for each employee. Please do not use names.

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3) Compare salaries and wages recorded in the general ledger with total compensation on your payroll tax returns. Note any exceptions here.

4) Reconcile FICA/Medicare tax expense in the general ledger with amounts withheld for lay employees as shown on W-2 forms or forms W-3. Note exceptions here.

6) Review Worker’s Compensation return. Indicate whether clergy are covered by supplemental coverage. (see Model Policies and Resolutions for examples)

   Yes    No

7) Is the housing allowance designated on the clergy’s W-2 form?

   Yes    No

   Is the designated allowance documented in the vestry minutes no later than the first meeting of the year?

   Yes    No