

## AGREED UPON PROCEDURES

The agreed-upon procedures listed below were specified and agreed to by the management of The Episcopal Church in Hawaii (specified party) on financial management and related systems of the various Missions of The Episcopal Church in Hawaii for the year ending December 31, 2018. This engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures performed or to be performed is solely the responsibility of the management of The Episcopal Church in Hawaii.

### Collections and Other Cash Receipts

We will:

- Review the Church's procedures for controls over counting, depositing, and recording collections and other receipts, by performing the procedures below to test whether there are two unrelated counters who sign the countsheets, and that the countsheets are maintained by the counters and that a copy is made and reviewed by a third party who agrees the countsheet to the deposit slips on a monthly basis. In general, the counters should not have access to the accounting system and the person who deposits the collection should not have access to the countsheet after the deposit is made. The collections should be kept in a fire-proof safe until deposited;
- Randomly select three Sundays and compare countsheets and related documentation to deposit slips, bank statements, and to the general ledger;
- Compare recording of individual donations for three individuals for each Sunday selected to individual donation records and year-end statements provided to donors;
- For the three months in which the selected Sundays fall, trace the posting of the entire month's offerings from the countsheets to the check register, to the general ledger, and to the financial statements;

### Cash Disbursements

We will:

- Test a sample of 15 disbursements by vouching to supporting invoices and canceled checks, testing for appropriate approvals, check signers, endorsement, and recording in an appropriate general ledger account;
- For the selected disbursements in the previous procedure, determine whether check request forms include a place for approval and if check request forms are being used to approve disbursements, if applicable;

### Cash Balances

We will:

- Review internal controls over the bank reconciliation process to determine that the person who opens the bank statement and reviews cancelled checks does not have access to cash disbursements or check signing authority. Examine the year-end bank reconciliation for accuracy and timeliness;

- Review the year-end bank reconciliation for outstanding checks that have been outstanding for over three months. Review the subsequent bank statement and bank reconciliation to determine whether the outstanding checks cleared. Inquire with the Church staff regarding the status of the stale dated checks and recommend a stop payment or possible reissuance for checks still considered outstanding;
- Review system of cash management to determine whether there are excess amounts of cash that have not been invested.

#### Financial Statement Preparation

We will:

- Obtain the 2018 and 2017 financial statements and obtain explanations for large changes between years. Obtain the 2018 budget and obtain explanations for large variances between budgeted amounts and actual amounts on the 2018 financial statements. Read obtained documentation and note apparent errors based on the documentation provided;
- Review the balance sheet for receivables and/or payables with related parties or employees. Inquire with the Church staff regarding a payment plan for the receivables and/or payables identified;
- Review documentation that the Church has adopted a budget for the year and that the Church has a budget versus actual comparison as part of their monthly/quarterly financial statements;
- Review the use of accounting software for appropriateness for the preparation of Church financial statements. This will not include a detailed study of the Church's accounting software.

#### Construction and Repair Contracts

We will:

- Based on the transactions reviewed in our other procedures and by inquiry of Church staff, determine whether construction and repair projects and contracts in excess of \$5,000 were approved by the Diocesan office prior to acceptance by the Church.

#### Endowment / Restricted / Designated Funds

For the purpose of this section the following definitions apply:

Endowment - The invested principal or original contribution is permanently restricted by the donor;

Restricted - An amount that is invested and is restricted for a specific purpose by the donor, but the entire amount is able to be spent;

Designated - An amount that is invested and is designated for a specific purpose by the Vestry or Bishop's Committee or an amount that has no donor specific restriction. The entire amount is able to be spent.

We will:

- Reconcile the schedule of funds to the balance sheet;
- Select three funds from the endowment, restricted, or designated funds. Verify the purpose and restrictions, if any, by reviewing the documentation establishing the fund through agreements, letters from donors, and inquiry with church staff;
- Inquire with Church staff regarding designated funds that were established during the year. Obtain documentation for the establishment and nature of the fund. Vouch to the Vestry/Bishop's Committee minutes;

- Select three funds for which income distributions were received. Ask to see evidence that the income distributions were used in accordance with applicable restrictions or designations;
- For endowment funds established during the year, agree original contribution per investment statement to trust or other documents (minutes, correspondence). Agree the balance recorded on the financial statements at the year-end to the investment statements. If the original contributions are more than the balance, inquire about the reasons.

#### Alms Fund

We will:

- Obtain a copy of a check or a deposit slip from each clergy alms fund to determine that the account is in the name of the Church and inquire of the Church staff whether the account is under the federal identification number of the Church;
- Determine that an audit was performed and that written documentation of the audit is available;
- Test a sample of disbursements by vouching to supporting invoices and canceled checks, testing for appropriate check signer, endorsement, and use of the alms fund.

#### Tax Returns

We will:

- Determine the applicability of Hawaii general excise tax for cash receipts and if general excise tax returns are being prepared accurately and timely filed;
- Review one quarterly federal Form 941 (quarterly federal payroll tax return) for accuracy and timeliness based on underlying payroll records and disbursements, and the corresponding Hawaii state withholding (HW-14) and unemployment (UC-B6) filing for 2018. Reconcile Forms 941 to the totals for Forms W-2 and W-3 for 2018;
- Test for proper tax reporting for pastor's compensation, housing, auto, utility, and other allowances by inquiry of staff and scanning of financial statements and payroll documents to determine whether applicable payments to clergy are included on their W-2;
- Inquire whether the Vestry/Bishop's Committee reviews the Forms W-2 and W-3;
- Inquire whether the Church paid any person \$600 or more for services rendered, and whether Form 1099-Misc was issued by and filed with the IRS by January 31, where applicable.

#### Letter of Agreement and Mutual Ministry Review

We will:

- Inquire with the Church whether a Letter of Agreement was signed between the Clergy and the Vestry/Bishop's Committee;
- Inquire with the Church whether a mutual ministry review was performed in either of the last 2 years and the date of the last review.

#### Minutes of Vestry/Bishop's Committee

We will:

- Review the minutes of the Vestry/Bishop's Committee for 2018, and ensure that significant financial activities encountered in other procedures were reflected in the minutes.

## Safe Church Training

We will:

- Obtain a list of all clergy, Bishop's Committee/Vestry members, employees, all volunteers and anyone else who works with Children.
- Review the annual signed resolution adopting The Episcopal Diocese of Hawai'i Safeguarding Policy for completeness and inquire whether a copy was sent to the Church.
- Review the list of individuals required to attend the Safe Church Training. For two individuals, not previously tested, review the training certificates. Training certificates should be maintained by the Church;
- Select two individuals, not previously tested, who are required to have background checks and confirm with the Diocese for clergy members, and the Church for lay members, that background checks were performed as part of the hiring process, if required;
- Inquire with Church staff whether the clergy would refer an individual to professional counseling after six sessions.

Agreed-upon procedures do not constitute an examination or review, and there will not be an opinion or conclusion on the financial management and related systems of the various Missions of The Episcopal Church in Hawaii. In addition, there is no obligation to perform any procedures beyond those listed.

A written report will be issued upon completion of the procedures for each of the Missions of The Episcopal Church in Hawaii that lists the procedures performed and the findings and recommendations. The reports will be addressed to the management of the various Missions of The Episcopal Church in Hawaii.

An agreed-upon procedures engagement is not designed to detect instances of fraud or noncompliance with laws or regulations; however, any instances of known and suspected fraud and noncompliance with laws or regulations affecting the financial management and other related systems will be communicated. In addition, the report may include recommendations for the financial management and other related systems. Such disclosures, if any, may not necessarily include all matters that might have come to light had additional procedures or an examination or review been performed.

The management of the various Missions of The Episcopal Church in Hawaii are responsible for the financial management and other related systems and that it is in accordance with the criteria in the agreed-upon procedures. The management of The Episcopal Church in Hawaii is responsible for selecting the criteria and procedures and determining that such criteria and procedures are appropriate for your purposes. The management of the various Missions of The Episcopal Church in Hawaii is responsible for, and agree to provide us with, a written assertion about the financial management and other related systems. In addition, the management of the various Missions of The Episcopal Church in Hawaii are responsible for providing us with (1) access to all information of which you are aware that is relevant to the performance of the agreed-upon procedures on the subject matter, (2) additional information that we may request for the purpose of performing the agreed-upon procedures, and (3) unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence relating to performing those procedures.