

## AGREED UPON PROCEDURES Revised May 2021.

The agreed-upon procedures listed below were recommended by Commission on Finance and Administration (COFA) and adopted by Diocesan Council on financial management and the related systems of the parishes and missions of TECH for the year ending December 31, 2021. These 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 TECH.

### ***Frequency and Type of Audit/review Required:***

- Congregations with operating revenue (from the Parochial report line B) greater than \$500,000 annually or incorporated parishes shall have a Generally Accepted Accounting Principles (GAAP) audit performed by a CPA Firm every 6 years. The first GAAP audit using a CPA Firm would be in year 2027 for calendar year 2026.
- Congregations not covered above, shall have an Agreed Upon Procedures (AUP) using a CPA Firm every 6 years. The first AUP using a CPA Firm would be in year 2027 for calendar year 2026.
- All congregations in years 1 through 5 shall perform an AUP by two persons having “financial knowledge.” Financial knowledge can be based on relevant work experience, education, and familiarity with the AUP, such as church treasurers (if they are doing another congregation’s AUP), or attending training provided by the COFA. Reviewers can be from the congregation provided they are not employees, Treasurer, or members of the Vestry/Bishop’s Committee, clergy or any family members of the above and are pre-approved by COFA.
- COFA recognizes that some exceptions to these policies may need to be made and exceptions may be granted on a case-by-case basis

### ***Collections and Other Cash Receipts:***

- Review the Church’s procedures and controls over counting, depositing, and recording collections and other receipts, to determine whether there are two unrelated counters (also, no clerics or anyone related to any of the clerics) who sign the count sheets, that one copy of the count sheets are maintained by the person who inputs this information into the books (ex. bookkeeper/accountant), and a second copy of the count sheets are made and reviewed by a third party (ex. Treasurer) who agrees the count sheets to the deposit slips on a monthly basis, that the counters do not have access to the accounting system, that the person who deposits the collection does not have access to the count sheets after the deposit is made, and that the collections are kept in a fire-proof safe until deposited.
- Randomly select three Sundays during the year ended December 31, 2021 and compare the amounts on the count sheets and related documentation to deposit slips, bank statements, and to the general ledger.
- Compare the recording of donations received from three individuals for the Sundays selected above to individual donation records and year-end statements provided to donors.

- For the three months in which the selected Sundays fell, trace the posting of the entire month's offerings from the count sheets to the check register, general ledger, and monthly financial statements.

***Cash Disbursements:***

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

***Cash Balances:***

- Review the internal controls over the bank reconciliation process to determine that the person who opens the bank statement and reviews cancelled checks does not approve cash disbursements or have check signing authority. Review the year-end bank reconciliation for completion in a timely manner and for unusual or unexplained reconciling items.
- Review the year-end bank reconciliation for outstanding checks that have been outstanding for over three months. Review the subsequent bank statements and bank reconciliations to determine whether the outstanding checks cleared. Inquire with the Church staff regarding the status of the stale dated checks and discuss whether the Church should put a stop payment on the check or possibly re-issue another check to the payee.
- Review the system of cash management to identify whether there are excess amounts of cash that have not been invested and could be invested based on calculation of days cash on hand and discussions with Church management.

***Financial Statement Preparation:***

- Obtain from Church management the 2021 and 2020 financial statements, calculate the dollar and percent change in the account balances, and obtain explanations for significant differences. Obtain from Church management the 2021 budget, compare the actual amounts to the budgeted amounts, and obtain explanations for significant differences. Obtain documentation to support management's explanation for the significant differences noted, if such documentation is available.
- Obtain from Church management a list of related parties and employees and review the general ledger for receivables and/or payables with related parties or employees. Inquire with the Church management regarding a payment plan for the receivables and/or payables identified.
- Obtain documentation to support that the Church has adopted a budget for 2021, that the Church has adopted a budget for 2021, and that the Church prepares a budget versus actual comparison as part of its monthly/quarterly financial statement reporting package.
- Review the Church's use of accounting software for the preparation of its financial

statements including who has access to the software, the level of access for those with access (i.e., read only or administrative rights), and the use of passwords and other procedures to limit access to the appropriate individuals. This does not include a detailed study of the Church's accounting software.

***Construction and Repair Contracts:***

- Based on the transactions reviewed in our other procedures and inquiry of Church staff, identify whether construction and repair projects and contracts of a high risk nature (electrical and / or work involving ladders such as, roofing or painting) or \$50,000 or higher were approved by the Commission of Finance and Administration or Diocesan Council prior to acceptance by the Church.

***Endowment/Restricted/Designated Funds:***

For the purpose of these procedures 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.

- Compare the fund balances per the schedule of funds to the general ledger and obtain explanations from Church management for differences between the schedule and general ledger.
- Select three funds from the endowment, restricted, or designated funds, and 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 if there were any designated funds established during the year. Obtain documentation for the establishment and nature of the fund and vouch to the establishment of the fund to the Vestry / Bishop's Committee minutes.
- Select three funds for which income distributions were received and obtain documentation to support that the income distributions were used in accordance with applicable restrictions or designations.
- For endowment funds established during the year, agree the original contribution per the investment statement to trust or other documents (minutes, correspondence) that established the fund. Agree the balance recorded on the financial statements at the year-end to the investment statements. If the original contributions are more than the year-end balance, inquire with Church management as to the reasons for the decrease.

***Alms Fund:***

- Obtain a copy of a check or 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 whether an audit was performed, and that written documentation of the audit is available.
- Test a sample of disbursements by vouching to supporting invoices, canceled checks, and other supporting documentation and review for the appropriate check signer, endorsement, and use of the alms fund.
- Scan disbursements to see if there are repetitive payments to a same party. Inquire and check if it is valid.

***Tax Returns:***

- Review the revenue and income accounts in the general ledger to identify revenue and income that may be subject to Hawaii general excise tax. If taxable revenue is identified, determine whether general excise tax returns were prepared with the proper revenue amounts 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 and unemployment filing for 2021. Compare the total per the Form 941 to the totals for Forms W-2 and W-3 for 2021.
- Test the tax reporting for priest'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 Treasurer reviews W-2 and W-3 forms and whether there is documentation to support that the review was done. (Do this only if the church does not use an outside payroll service)
- Inquire whether the Church paid any person \$600 or more for services rendered, and whether Form 1099-Misc was issued and filed with the IRS by January 31, where applicable.