

Diocese of Covington

Policies & Procedures Manual

Section: Compliance – Accounting

Policy: Agreed Upon Procedures Audit Program



- 1) **Before you begin**, obtain and familiarize yourself with a copy of the Diocesan Parish Fiscal Policies and Procedure Manual in the possession of the parish. Your review should take into consideration adherence to these policies and procedures. All policies are loaded on the Diocesan website at www.covdio.org. Click “Offices”; click “Finance”; click “Policies and Procedures”.
- 2) **General**
 - a) Obtain and read Parish Council and Parish Finance Council minutes, etc., since last examination, or for the most recent 3 years in the case of an initial examination, in order to determine any issues of particular concern to the parish or occurrences that warrant further investigation.
 - b) Obtain and review internal financial reports and Parish Annual Financial Reports submitted to the Diocese since last examination, or for the most recent 3 years in the case of an initial examination. Particularly note any unusual items, and determine any trends in parish finances that may be of significance in your review.
 - c) Complete prescribed “Internal Control Questionnaire”. Your findings on the internal control review and your recommendations for improvement will constitute a significant portion of your report. Include in your report a copy of the completed Internal Control Questionnaire.
- 3) **Trial Balance/General Ledger**
 - a) Tie the most recent Parish Annual Financial Report submitted to the Diocese in to the General Ledger.
 - b) Review trial balance for any unusual balances (e.g., credit balances in asset or expense accounts or debit balances in liability or revenue accounts) and perform any further investigation that may be warranted to assure the reasonableness of these items.
 - c) Review detailed general ledger reports for all years since the last audit, including for school accounts, and examine for proper supporting documentation and approval, for:
 - i) Amounts indicating payroll advances to employees, looking especially for round dollar amounts
 - ii) Receivable amounts or entries in expense accounts indicating the same
 - iii) Checks written to “Cash” or to an authorized check signer
- 4) **Cash and Investments**
 - a) Inquire of pastor/business manager regarding existence of cash/investment accounts.
 - i) Are there any restrictions on the accounts?

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- b) Verify the all parish bank accounts are in the parish/school name.
- c) Determine whether all accounts are accounted for on the parish/school ledger.
- d) Review accounting for any ancillary accounts (PTO, Athletic Boosters etc.) not on the ledger is monthly, or quarterly at a minimum, and to determine inclusion of 1) copies of bank statements/checks, 2) listing of all deposits including source funds, 3) listing of all checks including purpose
- e) Obtain signed copy of the Bank Account Certification form, to be included in the final Audit Report, listing Bank, Account Name, Purpose of the Account, Balance as of Audit Date (year-end), whether the account is maintained on the General Ledger or that accounting as described in (d) above is done.
- f) Review reconciliations for all year-end cash accounts and agree to trial balance.
- g) Review year-end statements for all cash/investment accounts and agree to trial balance or reconciliation.

5) Receivables

- a) Inquire of pastor/business manager regarding accounts receivable.
 - i) Are accounts receivable accounted for on the trial balance?
 - ii) Does a subsidiary listing/report exist?
 - iii) Does the subsidiary listing/report agree to the trial balance?
- b) Review cash receipts through the field date to identify unrecorded receivables.
- c) Review listing with pastor/business manager and identify if any receivables are uncollectible.

6) Inventory

- a) Inquire of pastor/business manager whether any inventory exists (materiality should be a consideration).
- b) If applicable, review value of inventory on trial balance – compare carrying value to estimated cost.

7) Prepaid and Other Assets

- a) Inquire of pastor/business manager regarding existence of prepaid expenses, deposits and other assets.
- b) Review items on trial balance for authenticity.



8) Property, Plant and Equipment

- a) Most parishes are on ‘modified accrual’ accounting basis. As such, parish property is not capitalized on the balance sheet. However, all properties owned by the parish (e.g. real estate, rental properties) should be listed on a separate sheet or ledger. Review the subsidiary ledger (or trial balance, if the parish has capitalized assets) for property, plant and equipment.
 - i) Walk through the parish plant with the pastor or business manager. Does the listing appear to be complete?
 - ii) Is there photographic or other evidence to support the existence/value of assets in the case of an insurance loss claim?
- b) Regarding additions and disposals of assets during the year:
 - i) Verify cost of additions or disposals.
 - ii) Ensure that additions and disposals have been properly approved by the pastor and, when necessary pursuant to the guidelines in the Parish Fiscal Policies and Procedures Manual, the bishop.
 - iii) Ensure that proceeds of disposals have been properly deposited in the parish’s cash account.
 - iv) Review income and expense accounts for potential additions or disposals.

9) Accounts Payable and Accrued Expenses

- a) Agree listing of accounts payable to trial balance.
- b) Review calculation of accrued expenses included on trial balance.
- c) Inquire of pastor/business manager regarding unrecorded accounts payable or accrued expenses.
 - i) Have there been any items ordered but not yet received at the end of the fiscal year?
- d) Review subsequent disbursements for 60 days for unrecorded liabilities.
 - i) Are recurring items being paid, *i.e.*, utilities, insurance, etc.?
- e) Review expense accounts for unrecorded accruals.

10) Deferred Revenues

- a) Review income accounts for possible deferred revenue.
 - i) Recalculate deferred revenue for tuition, grants, etc.

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11) Debt

- a) Inquire of pastor/business manager regarding balances of all parish debt.
 - i) Have all parish loans been recorded on trial balance?
 - ii) Is the parish current with its loan obligations?
 - iii) Is any parish property pledged as collateral on the loans?
 - iv) Has the parish entered into any capital leases?
- b) Agree debt balances to bank statements, monthly invoices, etc.

12) Revenues

- a) Collections
 - i) Review counting procedures to ensure that the “Collection Counting Procedures – Sundays and Holydays” instituted in 2013 are being followed by the parish. Particular attention should be given to the disposable bag control to ensure that bags are issued sequentially and are all accounted for.
 - ii) Follow 5 weeks of collections from issuance of disposable bag(s), to deposit in the checking account, to recording in the general ledger.
- b) Special events, including parish festivals or other special fund-raising events
 - i) Review that procedures for controls exist. There should be written procedures describing how cash is counted and deposited and how the results of the event are reported.
 - ii) Ensure the parish is following the provisions of the “Parish Festival and Special Events” policy. Particular focus should be placed on the safety and insurance coverage aspects of the policy.
 - iii) Compare festival/fund-raising events results to prior years for reasonableness.
- c) Other
 - i) Compare to prior years and budgets and explain variations.
- d) Review 2 months activity for proper classification of revenues.
- e) Tuition (where applicable)
 - i) Compare to prior years for reasonableness.
 - ii) Compare revenue to number of students.
 - iii) Review procedures for granting of tuition discounts, write-offs, etc. to ensure that decision-making guidelines exist and that decisions are made by committee and/or the pastor.

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13) Expenses

- a) Compare to prior years and budgets and explain variations.
- b) Review relationships to income or other expenses and explain variations.
- c) Compare payroll to payroll reports and to the Diocesan schedule by position.
 - i) Are the amounts reasonable?
 - ii) Is there any evidence of “ghost employees” or excessive employment of relatives?
 - iii) Verify that no employees are being offered compensation in lieu of medical insurance coverage (or any other Diocesan benefit).
- d) Review 40 checks for application of proper internal controls per questionnaire.
 - i) Verify that 1099 reporting was done for all appropriate vendors from the sample.
- e) Review 25 payroll checks for application of proper internal controls per questionnaire item #82.
- f) Review payments to employees to determine that all compensation is going through the payroll system.
- g) Review for related party activity.
 - i) Inquiry
 - ii) Are amounts material? Reasonable?
- h) Review any ACH disbursements for propriety.
- i) Note any unusual or inappropriate expenditures.

14) Calendar Year End IRS Reporting (Form 1099-MISC; 1099-NEC)

- a) Review the latest submission the parish made to the Diocese in response to 1099 reporting ensuring that amounts/FEINs match the accounting records
- b) Ensure the parish understands 1099 reporting requirements of the Diocesan policy.

15) Fiscal Year-end Parish Annual Financial Report submitted to the Diocese

- a) Obtain a copy of the report for the most-recently ended fiscal year.
- b) Review items included for proper classification and reporting as described in the Parish Fiscal Policies and Procedure Manual, paying particular attention to items classified as non-assessable income.
- c) Follow up on irregularities and unusual items.

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16) Previous Audit Reports

- a) Obtain a copy of the most recent “Agreed Upon Procedures” audit report performed for the parish. If report is not available from the parish directly, prior audit reports can be obtained from the Diocesan Finance Office by contacting Dale Henson at (859) 392-1552.
- b) Review the recommendations (and parish responses) from that audit and confirm that the parish accomplished all items relative to the recommendations/responses.

17) Issuance of Report

- a) Your report on the procedures performed by you and your related findings should be prepared and issued in triplicate. One copy should be sent to the Pastor of the Parish. The other two copies sent as follows:

Most Reverend John C. Iffert, Bishop
Diocese of Covington
1125 Madison Avenue
Covington, KY 41011-3115

Mr. Dale Henson, CFO
Diocese of Covington
1125 Madison Avenue
Covington, KY 41011-3115

- b) You should also prepare a separate letter of recommendations for improvement in financial and accounting policies and procedures. The parish’s responses to the recommendations are to be included in the recommendation letter. This letter is also to be prepared in triplicate, and distributed as directed in item 16a) above.