

## 2023 AUDIT GUIDELINES JURISDICTIONAL EPISCOPAL OFFICE

¶806.5 of the 2016 *Book of Discipline* reads, in part, “...It (the General Council on Finance and Administration) shall require an annual audit of all treasuries receiving general Church funds, following such audit procedures as it may specify.”

¶805.4.a. reads, in part, “...Committee on Audit and Review... whose duty it shall be to review audits of all treasuries receiving general Church funds in accordance with all established auditing standards...”

¶806.12 provides directives for monitoring and making recommendations for any non-compliance within the stated audit guidelines for all treasuries receiving general Church funds.

The General Council on Finance and Administration (GCFA), in accordance with those provisions, has adopted the following guidelines for the area episcopal offices receiving general Church funds from the Episcopal Fund. The audit and reports described below shall be referred to as the “reporting package.”

1. Full Audit - The audit should be conducted based on generally accepted auditing standards (GAAS). Financial statements accompanying the audit should be prepared in accordance with either the modified cash basis of accounting or the full accrual basis of accounting. The cash basis of accounting may also be used but only if the office does not own any fixed assets. A full audit shall be conducted annually for each calendar year, and a written report shall be provided to GCFA by July 31 of the following year. A full audit is required. A “compilation” or “review” of the episcopal office financial statements is not acceptable.
2. The audit report – Episcopal Office Audit Guidelines require an audit report stating the results of the audit. There are two ways to comply with this requirement.
  - a. If the episcopal office accounting function is performed separately from the annual conference, an individual audit of the operations shall be conducted and a separate audit report for the episcopal office is required. The information required to be presented in the financial statements is outlined in 2c below.
  - b. If the episcopal office accounting is performed within the annual conference offices or with annual conference treasurer’s oversight, there are two choices to comply with the audit requirement:
    - First Choice: An individual audit of the episcopal office could be conducted, and a separate report submitted (see a. previous).
    - Second Choice: The audit of the episcopal office could be conducted as part of the annual conference audit. In this case, separate schedules should be presented which include the various Episcopal Office balances as required in 2c below. See Appendix A to this document for an example footnote for how the episcopal office activity might be presented in the related annual conference’s consolidated financial statements.
  - c. The standalone audit (and the statements accompanying the report or opinion) or the separate Episcopal Office schedules (if a standalone audit is not performed) shall include at least the following:
    - Beginning and ending cash balances.

- Receipts and expenditures of Episcopal Fund monies (apart from the other area funds), including office grant funds, and equipment and furnishing reimbursements. Receipt categories should be presented for all funds received in excess of 5% of total income. Further, expense categories should be presented for all expenses in excess of 5% of total expenses.
- Fixed asset and depreciation schedules, including beginning balances, additions, disposals, depreciation expense and ending balances for each asset category (as defined by the office). This is a required schedule for financial statements presented in accordance with either the modified cash basis of accounting or the full accrual basis of accounting. See Appendix B to this document for an example schedule to be include with the financial statements.
- Changes in fund balances.
- The financial statements should include the beginning and ending fund balances.
- The financial statements should present comparative figures for the previous and current years for both the balance sheet (if needed) and income statement.

3. The auditor's report on significant deficiencies or material weaknesses in internal control - A letter issued by the auditor to the auditee (i.e., the episcopal area bishop and annual conference management (if applicable)) to communicate to management any deficiencies in internal control, fraud, illegal acts, or any other situation considered to be a "reportable condition" encountered during the audit by the auditor. This is different from the "Engagement Letter" and the Client Representation Letter.

A "report on significant deficiencies or material weaknesses in internal control" is not always issued by the auditor. When this is the situation, a statement from a representative of the episcopal office or from the annual conference stating that "no report on significant deficiencies or material weaknesses in internal control was issued" should accompany the audit report when forwarded to GCFA.

In cases where a "report on significant deficiencies or material weaknesses in internal control" is issued," a "Letter of Response to the auditors' report" stating how the reported deficiencies will be corrected must be included.

4. Response to Previous Management Letter with Current Audit - In those cases where the same deficiency is reported by the auditor in more than one year, a statement explaining the reason for the continuance of the deficiency must be included.
5. Auditors are required to communicate certain information at the conclusion of each financial statement audit. This information usually includes significant estimates, problems encountered during the audit, uncorrected errors or misstatements, and various other information. This information is usually communicated in a letter or via another document format. This letter or other document should be submitted every year with the financial statements.
6. The written report of the audit shall be identified by the name of the episcopal area rather than by the name of the resident bishop.
7. Monies from the Episcopal Fund of the General Church shall be segregated in the report from other funds available to the area episcopal office.

The audited financial statements along with all related documents shall be provided to the GCFA by July 31 each year in order to ensure continued funding of the episcopal office. Following July 31, the office allowance will be withheld until all required documents have been received.

In addition, if the audit guideline requirements are not met, changes to the financial statements may be requested for either the current or subsequent year financial statements. If the requested changes are not incorporated by the episcopal office, the office allowance will be withheld until all requirements have been met.

Please provide a copy of the reporting package to:

Sharah Dass  
General Council on Finance and Administration  
Episcopal Services Department  
1908 Grand Avenue  
Nashville, Tennessee 37212

Electronic copies to:

[sdass@GCFA.org](mailto:sdass@GCFA.org)

Episcopal Office  
 Example Schedule of Episcopal Office Activity Presented in the  
 Consolidated Annual Conference Financial Statements  
 Year Ending 20XX

Provided below is a recommended example of how an episcopal offices' Episcopal Fund accounting activity might be captured in the notes of the related annual conference's financial statements if all activity is presented on a consolidated basis. This information might also be reported in a supplementary table to the financial statements.

**EPISCOPAL FUND**

The Conference receives funds from the Episcopal Fund established by the General Council on Finance and Administration (GCFA) of The United Methodist Church. This fund is one of the general church funds to be used for administrative expenses of annual conferences.

The GCFA requires certain comparative information to be disclosed as a part of the annual audit of the Conference for the years ended December 31:

	202X	202X
<b>Revenue</b>		
GCFA Episcopal Fund receipts	\$ XXX,XXX	\$ XXX,XXX
<b>Expenses</b>		
Salaries	XXX,XXX	XXX,XXX
Payroll taxes and benefits	XXX,XXX	XXX,XXX
Travel	XXX,XXX	XXX,XXX
Episcopal initiatives	XXX,XXX	XXX,XXX
Occupancy and office expenses	XXX,XXX	XXX,XXX
	XXX,XXX	XXX,XXX
	\$ XXX,XXX	\$ XXX,XXX

Episcopal related expenses exceed funding received annually; accordingly, there is no beginning or ending cash balances as funds are fully utilized by the year-end. Other operational or contribution funding is effectively utilized to pay for Episcopal expenditures greater than the funds provided from the Episcopal Fund. None of the Episcopal Funds were used for property and equipment purchases in 202X or 202X.

**GCFA Note:** This example assumes there are no beginning or ending cash or other asset balances. If there are beginning or ending asset balances, they should be disclosed.

Episcopal Office  
Fixed Asset Schedule  
Year Ending 20XX

	Furniture & Fixtures	Office Equipment	Automobiles	Other	Total
<b>Fixed Assets</b>					
Beginning Balance	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Additions	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Disposals	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Ending Balance	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
<b>Accumulated Depreciation</b>					
Beginning Balance	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Additions	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Disposals	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Ending Balance	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Net Fixed Assets	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX

Note: If the "Other" category is used and the dollar amount of the purchases is material to the financial statements, please include a description of the purchases either in the table or in a note below the table.