



Diocese of the Midwest, Orthodox Church in America

Parish Financial Audit Guidelines



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Version 1.1



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Forward

Dear Parish Auditors,

Congratulations on being selected for this important task. Auditing the Church's books is a mark of great responsibility, one that should be taken with the greatest seriousness and the highest level of confidentiality. Auditing demonstrates good stewardship for all to see, ensuring best practices are being followed and that all care and concern are being shown to safeguard the management of church funds. It is a message to parishioners that their hard-earned money they choose to donate to the Church is being properly managed.

Reasons for auditing are:

- to protect the people in the church responsible for handling funds by reviewing policies and procedures.
- to build the trust and confidence of the financial supporters of the church in the way their money is being accounted for.
- to set habits of fiscal responsibility to assure that when there is a turnover in those who handle funds there will be continuity in accountability.
- to ensure that gifts made to the church with special conditions attached are consistently administered in accordance with the donor's instructions.
- to provide checks and balances for sums received and expended.
- to ensure transactions are recorded correctly and accurately.

In addition to tracking the cash through the system, auditors typically evaluate:

- Preventative accounting controls (methods and procedures that reduce the possibility of loss or errors)
- Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances)
- Reasonableness of systems and procedures in the light of all factors
- Proper authorization and documentation supporting financial transactions, especially those having material financial implications for the parish.

These guidelines have been put together to try and make your task easier. Please read it carefully and contact the diocesan Treasurer at treasurer@domoca.org if you believe something should be added to improve upon this publication. You can also consult the IRS publication 1828 on Tax Guide for Churches and Religious Organizations at: <https://www.irs.gov/pub/irs-pdf/p1828.pdf>



Introduction

Why were these guidelines prepared?

- To assist parish auditors (and parish treasurers) to conduct a meaningful internal audit of church finances, processes, and supporting documentation to ensure the management of church funds is being handled properly. This will hopefully inspire confidence in donors and parish governance that they can trust giving to the church and that church funds are being managed appropriately;
- To provide guidelines to assist those elected to be parish auditors to fulfill their task to the best of their ability;
- To help protect those whom the parish elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;
- To assure that when there is turnover in personnel there will be continuity in accountability;
- To help assure that gifts made to the church with special conditions attached are consistently administered in accordance with the donor's instructions and thereby let donors know their gifts will be used as intended.

The person(s) conducting the audit will obtain access to confidential information and must treat that information with the highest degree of professionalism and confidentiality. The audit performed should be well-documented to substantiate the audit report conclusions and recommendations, and to assist future audits in subsequent years. These work papers should be retained for at least seven years in a secure, limited access, fireproof storage area.

These guidelines were also prepared to help parishes improve the oversight of their financial controls and reporting. *These guidelines do not constitute an audit or review as defined by professional standards in the United States.* Rather, use of the term "audit" in these guidelines allows for an evaluation of the financial reports, records and the internal controls of the local church by an elected person or persons for the purpose of reasonably verifying the reliability of financial reporting and determining indicators as to whether assets are being safeguarded. Inherent in such work is the concept of using limited sampling (a subset or sample of the whole year is examined to gain a sense of the accuracy of the whole year) for auditing. It is understood that not all transactions are being verified in a parish internal audit.

It is not necessary for a parish to hire an external auditor to perform a full audit. However, if there has been fiscal malfeasance or mismanagement in the past, and the parish can afford it, an external audit may be considered in order to renew confidence in the community and ensure monies are being managed correctly. The size of the parish and the amount of revenue derived from sources other than donations are a few of the situational variables to be considered when making this decision. Also, at the discretion of the parish, an external audit may be desirable periodically to boost confidence that the church's finances are being properly managed. External audits are not typically inexpensive.

Realistically, the auditor(s) will be selected from amongst the parishioners, according to the parish bylaws. Parishes should consider someone to become an internal auditor who has the following experience or skillset:



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- A parishioner with some auditing, banking or business experience.
- Auditors should be independent and impartial.
- No auditor can be related to anyone on the Parish Council who handles any funds, or to another parish auditor.

Although the work outlined here can be performed at any time, it is recommended that the audit be performed shortly (within a few months) after the end of the parish's fiscal year once all accounts have been reconciled and prepared and completed within a defined timeframe (no more than 1 week).

We hope you will find these guidelines helpful as you work to fulfill your fiduciary responsibility by building upon these suggestions. It is a message to parish donors that you care about their gifts.

In Christ,
Diocese of the Midwest Finance Committee



Guidelines

The following are recommended steps to be performed to help conduct a meaningful internal audit. The term Monthly Report means the set of financial reports given to the Parish Council or other oversight group each month. If you choose not to perform a step, document your rationale. When you have completed the step check the box. At the end of the audit, it is customary and appropriate to reveal your findings to the parish treasurer and/or Parish Council before finalizing the report.

Getting Started

- ☐ Meet with the Parish Treasurer and those who count the weekly collections and conduct a walkthrough of the cash collection and counting process.
- ☐ Obtain the following for all accounts and ministries having their own bank accounts of the parish:
 - Income Statement (aka. Profit & Loss Report) by Month vs. Annual Budget.
 - Balance Sheet report showing balances for:
 - End of prior fiscal year
 - Start of fiscal year
 - End of fiscal year
 - Parish Council minutes
 - Annual Meeting minutes
 - Trial Balance report (showing all account balances for the year)
 - Payroll reports
 - Bank statements
 - Corporate credit card statements (if applicable)
 - Deposit slips or Counter's sheet recording what was deposited (this is to verify that the money that was counted is the same as what was deposited in the bank & recorded on the books)
 - Insurance policies
 - Investment account statements (if applicable)
 - Bank reconciliation reports (helpful if parish treasurer attaches this report to monthly bank statements)
 - Form 1 Financial Worksheet (this is submitted to the Diocese each year)
- ☐ Review the list of authorized check signers for propriety and verify against the signature card documentation obtained from the bank and stored in the parish files.
- ☐ Select at least two months during the year to sample.
- ☐ Verify the beginning bank balance, ending bank balance, deposits and disbursements on the monthly bank statement are equal to the monthly bank reconciliation report. Note any reconciliation discrepancies or historical unreconciled entries.
- ☐ Examine supporting documents for items included in the reconciliation (for example, outstanding checks are not more than 30 days old, they are not to unusual parties, and did they clear the bank the next month). Ensure any voided checks are properly recorded as such.
- ☐ Note any exceptions in the final audit report.



Verifying Income

Verifying income is especially important because it is usually the driver of determining budgetary expenses and is also used in determining the proportional giving amount to support the Diocese. Gain an understanding of how weekly collections are counted, deposited and recorded onto the books. For example:

- ☐ Do two unrelated/independent people count the money? There should be no less than two unrelated people counting cash to prevent collusion and embezzlement, and to provide proper oversight and double-checking of each other's count. Members of the Parish Council are good candidates to count money.
- ☐ Do those counting the money initial, date, and write both the total check and cash amount totals on the counters report?
- ☐ Is the money being stored in a secure place with limited access (e.g. a safe) and deposited in a timely manner? (*"Timely" usually means at the next available opportunity. Ideally, it would be the very next day the bank is open so that there is less potential to forget or lose a deposit.*)
- ☐ Select ____ (at least 2) months of collections to sample and verify the deposit amounts appearing on the bank statement are equal to the total deposited per the books.
- ☐ Review the monthly financial reports for other income sources. Test the recorded information and the related controls around the handling of any cash.
- ☐ Inquire as to whether there have been restricted gifts or designated assets and verify the gifts were recorded appropriately.
- ☐ Verify the "Form 1 Financial Worksheet" submitted to the Diocese conforms to the parish financial statements
- ☐ Identify transfers of cash between parish bank accounts, and that both bank accounts and accounting books have recorded their respective part of the transfers.
- ☐ Note any exceptions in the final audit report.

Verifying Disbursements

- ☐ Review disbursements for restrictions and designations (same as the steps above which tested income), as well as disbursement authorizations.
- ☐ Verify voided checks are entered correctly in the accounting software.
- ☐ Of the months sampled, verify the expenses have the proper approvals and documentation supporting each expense. For reimbursements, an "Expense Reimbursement Form" (see Appendix for an example) should be filled out showing¹:
 - Who is requesting reimbursement
 - The requestor's contact info (to send the reimbursement payment to)

¹ Encouragement should be given to not delay in submitting requests for reimbursement. Recommended time frame is no more than 3 months old, and to try to get all requests turned in as close to the end of the fiscal year as possible.



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- The amount
 - The date of the request
 - What the reimbursement is for
 - A receipt showing what the requestor paid for, the date it was paid on, and whether it is a legitimate parish expense².
-
- ☐ Verify the expense was recorded in the books correctly and timely (*timely meaning usually not excessively delayed*)
 - ☐ Verify the expense was authorized (from review of minutes, or other correspondence, or conforming to a spending policy)
 - ☐ Does the payment match the invoice being paid (amount and payee)? (*Best practice is to pay from an invoice and not a statement, as a statement usually doesn't give details, only an amount.*)
 - ☐ Was the payment consistent with an underlying restriction or designation (if applicable)?
 - ☐ Confirmation that payment receipt (or designation denoting "Paid", date paid, amount, payor initials) is attached to the invoice or reimbursement request.
 - ☐ Verify payroll and pension amounts were calculated and disbursed correctly.
 - ☐ Note any exceptions in the final audit report.

Compensation and Taxes

- ☐ Verify appropriate tax returns are being filed timely (Form 941, W-2/W-3 and 1099/1096).
- ☐ Any contract worker for the church paid more than \$600 total that year must have a W-9 form on file and be given a 1099 at the end of the year. Best practice is for the parish to receive a completed W-9 Form from the contractor prior to disbursing payment, to determine if a 1099 needs to be issued at the end of the year. Reimbursements do not count toward the \$600 threshold.
- ☐ Verify current W-4's and I-9's are on file for all employees.
- ☐ Determine (by verbal and/or written confirmation from the clergy) if a clergyman has elected to have social security taxes withheld or not (this is uncommon. An ordained clergyman must declare his objection to social security within 2 years of having been paid more than \$400 for performing religious duties and services, request an exemption from the IRS, and received a letter from the IRS stating he is exempt from paying (and receiving) social security from his clerical compensation. This is only for the purposes of whether the parish pays the priest one-half of the priest's SECA tax obligation. If the priest has chosen to be exempt, then the parish forgoes paying that portion to the priest because the priest has no tax liability.).
- ☐ Verify the amounts actually paid in total to employees matches the compensation per the financial statements.
- ☐ If there are any other pay related arrangements or bonuses, review for proper approval.

² "Legitimate parish expenses" are those conforming to a parish's policy on spending limits, types of expenses (e.g. no alcohol, etc.) and/or approved by either the Rector, an officer of the parish or the Parish Council.



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- ☐ Verify that housing allowances are approved and have properly reduced the clergy's taxable federal income amount on the W-2.³
- ☐ Note any exceptions in the final audit report.

Overview of Internal Controls

The internal control structure for receipts and disbursement procedures should be reviewed regardless of the size of the church. The internal control structure is the process that assures the local church's operational efficiency and effectiveness, that its financial reporting is reliable, and that its assets are safeguarded. Hold discussions and look for improvement ideas to include in the Audit Report.

Areas to consider include:

Segregation of duties:

- ☐ Important duties should be segregated among two or more persons, if possible. In small churches this may be difficult, but not impossible. Here are some examples. The financial secretary and the parish treasurer should not be related. These should be separate offices occupied by different individuals, who are not related by blood, marriage or employment relationships to maintain independence and impartiality.
- ☐ The persons performing the audit should not be related to either the financial secretary or parish treasurer.
- ☐ At least two persons should count the Sunday morning collections and they should not be related to each other nor should either one be the financial secretary or the parish treasurer.
- ☐ Depositing and disbursement of monies should be performed by different people.

Authorization for Disbursements:

- ☐ Are there actions in the minutes of the parish council or the policies and procedures of the parish that address authorizations (*meaning who has authority to authorize disbursements*)?

Other:

- ☐ Are decisions with financial implications being documented in minutes in sufficient detail?
- ☐ Are checks and cash stored in a church safe, deposited or placed in a bank night depository, and not taken to private homes or elsewhere until deposited? (*this is to limit potential opportunities for theft*)
- ☐ Are computer software and data files backed up on a regular basis, and are back-ups kept off the premises (e.g. cloud-based storage, flash drive, portable hard drive, etc.)?
- ☐ Is a current list of the contents of all safety deposit boxes (if any) maintained, and is a list of

³ Clergy housing allowance is exempt from Federal Income Tax. However, it is *not* exempt from SECA (self-employment tax), and the priest is responsible for the full 15.3% of wages (salary + housing) when filing his taxes. Housing is reported in box 13 only on the W-2.



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persons with authorized access likewise kept?

- ☐ Are reports to the finance committee and parish council accurate, timely and complete enough to provide necessary information to make prudent and informed decisions?
- ☐ Is the finance committee (if applicable) or parish financial officers or staff providing the parish council sufficient information to allow it to exercise its fiduciary duties? Are members of the finance committee and the board free to express opinions and to question management when appropriate, or is such action discouraged?
- ☐ Are loan documents and terms being complied with?
- ☐ Is there a policy on documentation retention, and if so, does it comply with the IRS's documentation retention recommendations (generally 3 years for payroll and 7 years for almost everything else)?
- ☐ Does the church have procedures in place to review its insurance policies for adequate coverage? Is there adequate insurance coverage for buildings and property, officers and those in positions of authority in the parish?
- ☐ An audit of all ministries that have separate bank accounts and accounting books (e.g. bookstores, sisterhood/brotherhood ministries, schools, pastoral discretionary accounts, etc.)
 - If a parish has a separate and distinct pastoral discretionary account, include it in the annual audit and ensure the proper documentation and rationale for disbursements are given. It should not be a "slush fund" for any 1 individual.
- ☐ Note any exceptions in the audit report



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- **Audit Schedule #1**
- **Sample Audit Report Template**
- **Sample Counters Report**



Glossary

Asset: a tangible or intangible resource that holds some monetary value that you own or is owed to you (e.g. money, property, brand, etc.).

Current Asset: something owed to you that is expected to be paid within 1 year (e.g. invoices)

Long-Term Asset: something that you own or is owed to you in excess of 1 year (e.g. land)

Accounts Receivable: the money owed to a business for goods or services that have been delivered but not yet paid for. It is categorized as an asset.

Disbursement: a payment made from one person (or entity) to another.

Audit: an evaluation of a company's corporate governance and accounting processes

Terms: payment details of an invoice stating when payment is due by (e.g. Net 15 = within 15 days of the invoice date)

Discretionary Account / Fund: monies that are disbursed at the sole discretion of the priest for charitable purposes. Because of the lower internal controls over these monies, higher scrutiny should be in place to ensure monies disbursed are going toward stated purposes, and not enrichment of person(s). To prevent discretionary funds being inadvertently considered taxable income to the priest, restrictions on the use of discretionary funds should be in place by the parish council and oversight of disbursements should be the sole privilege of the parish council and parish auditors. Reasonable restrictions include the priest cannot use discretionary funds for personal or familial expenses but must be for charitable purposes for those in dire need.⁴

Chart of Accounts: an index of all accounts of a company or organization.

Statement (as in a bank statement): this is a report from the bank stating beginning and ending balances for a time period (usually a month), and all the bank activity during that time frame.

Statement (as in a Financial Statement): a report showing financial activity and/or balances for a certain period of time. There are various types of financial reports (*see Income Statement, Balance Sheet below*)

Liability: something that is owed to someone else, usually having some monetary value.

Current Liabilities: owed within 1 year (e.g. pension withholding)

Long-Term Liabilities: owed in excess of 1 year (e.g. a 30-year mortgage loan)

Equity: the value of an organization's assets minus its liabilities.

Income / Revenue: gross proceeds collected by an organization. Recorded on the Income Statement (e.g. donations)

Expense: the costs of an organization (e.g. wages, utilities, maintenance, rent)

Income Statement: a financial statement that states a company's financial performance over a period of time (shows revenues, expenses, and net income)

Balance Sheet: a financial report showing a snapshot of a company's assets, liabilities and equity at a specific point in time.

Bank Reconciliation: the process of matching a company's cash balances to the balances reported by the bank.

Restricted Funds: donations with specific restrictions placed upon the receipt, use and management of those funds

⁴ 2025 Church & Clergy Tax Guide by Richard Hammar, JD, LLM, CPA © 2025 Church Law & Tax



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by the donor. The principal monies must be used only for that specific purpose, unless the donor (or their successor upon the death of the donor) removes the restriction and allows for the donation to be repurposed. Restrictions should be memorialized in writing by the donor. There are 3 types of restrictions:

- Permanently Restricted: the most restrictive designation, given by a donor for funds to be used for a specific purpose.
- Board Restricted: funds a governing body (e.g. parish council) restricts for a specific purpose. Funds can be repurposed by the consent and decision of the board.
- Unrestricted: there are no restrictions imposed on these funds. They are often used for operations.

Internal Controls: procedures and policies designed to uphold the integrity and reliability of a company's financial reporting.



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Appendix: Audit Schedule #1

Audit Report

For the Period Beginning: _____, and Ending: _____

LOCAL CHURCH FUNDS (Use those applicable to your Church).	(a) Balance at Beginning	(b) Cash Received and Recorded	(c) Total Disbursements	(d) Transfers +/- (-)	(e) Unclea red Checks	(f) Ending Balance
General Fund						
Restricted Funds						
Passthroughs						
Other Organizations or Funds:						
Name:						
Name:						
Name:						
Name:						
Name:						
Name:						
Total amount of cash in all treasuries of the church.	\$	\$	\$	\$	\$	\$



Appendix B: Sample Audit Report

Fiscal Year _____

All planned audit steps were performed except for:

Exceptions found in the testing were:

Recommendations for improvements are:

Respectfully submitted:

Signed: _____

Date: _____



Orthodox Church

Weekly Collection and Deposit Report

DATE: _____

Counted by: _____

Counted by: _____

Total Checks

\$ _____

Currency # Total

100		
50		
20		
10		
5		
2		
1		
coin		

Total Currency

\$ _____

Total Count

\$ _____

List any donor CASH receipts included in above:

Name/Origin	Amount	Purpose

ADMINISTRATIVE AIDE SECTION

Deposit Itemization:

General Fund:

Collection/Pledge	Cash	Checks	Total
Flowers/other contributions			
Rental Income			
Lenten Appeal			

Restricted Funds:

Building/Notes Reduction fund			
Memorial Fund			

Pass Through:

(list total here, attach detail)

Column Totals

DEPOSIT TOTAL:

--	--	--

Deposit Date:

Deposited by:
