Appendix 12: Periodic Financial Review & Risk Assessment Procedures

Introduction

As organizations become larger and more diverse in their activities, they become increasingly more difficult to control effectively. This is very apparent in the Diocese of Pensacola-Tallahassee as parishes have become more active in social issues, as well as, in diverse liturgical and ecumenical efforts since Vatican II. The financial aspects of many of these activities are significant and good stewardship demands that the financial dimension be adequately controlled as well as the non-financial factors.

Faced with these difficulties, administrators must rely on adherence to a set of pre-established policies and periodic written reports of performance if accounting, financial and operational controls are to be achieved. Internal control is concerned with events that take place within the site, and is the primary subject of this manual.

Pastors, principals, administrators, staff members and volunteers, like other human beings, are subject to human errors. They may make honest mistakes; they may unknowingly be inclined toward loose interpretations of what are theirs or other's mistakes; or they may be inclined to misuse or misappropriate parish/school property. Many persons are unfamiliar with the requirements of both civil and canon law and their differences. Good administrators are required to establish and enforce practices that will minimize the errors in use and the misuse of property. As a practical matter, minimization of errors and deliberate misappropriations are all that can be hoped for. Total elimination of irregular conduct is excessively expensive and operationally impractical.

Policy

Many sites have developed their own financial management practices over the years. They have often had little guidance in the past and have had to rely on their own experience and initiative. The Financial Policies and Procedures Manual is intended to provide some of that needed guidance. The primary purpose of a periodic financial review program as described herein is to provide feedback to sites to assist them with improving their internal controls and financial management. Through 2007, most sites received two internal controls reviews from Saltmarsh, Cleaveland and Gund (SCG); they used best practices and Generally Accepted Accounting Practices (GAAP) as their guide. This document formalizes the review process and is based upon the policies contained in the Financial Policies and Procedures Manual in addition to GAAP and best practices from across Florida and the United States. Financial reviews and risk assessments will be conducted by both Pastoral Center staff using the procedures detailed in this appendix. The expected review interval is not less than every three years and may be more frequent depending on the assessment of each site’s risk.

Review General Information

A key to an effective periodic financial review is good record keeping, consistent monitoring of processes, routine financial reporting and comparisons to past information to detect trends. The reports mentioned in this manual provide opportunities for an ongoing review of the financial health of the parish/school. It is important that administrators use those periodic financial reports to conscientiously evaluate the financial management of the organization, and not treat them as routine, unimportant paperwork. It is essential that there be some mechanism to insure that the financial reports actually reflect the financial transactions and financial condition of each site.

Periodic Scheduled Review Process

The primary purpose of the scheduled Periodic Financial Review & Risk Assessment is to assist the sites in managing their financial resources effectively. The review will consist of a pre-visit/preliminary preparation stage, an on-site visit stage and a report stage.

As stated previously, periodic financial reviews will be conducted at least every three years at each site. The exact timing of the reviews is a function of available manpower to conduct the reviews, as well as, any operational need for them. Consequently, the reviews will occur throughout the year and not necessarily at the end of a fiscal year. In addition to the periodic scheduled reviews, “spot” reviews of specific areas may be initiated when either financial reports indicate a need, when the risk is determine to be high enough to warrant more frequent checks or when the there is a change in pastors/principals/administrators/bookkeepers. In addition, a review of any intensity may be requested by a site when their internal monitoring suggests one is appropriate.

Pre-Visit/Preliminary Preparation

The pre-visit stage of the review involves information gathering to minimize the time spent on-site. The organization will be requested to provide certain information about current finances and financial management practices that may not otherwise available to the reviewer. The information that will be requested is in the Financial Records and Information Questionnaire and the pre-visit analysis that may be done are included as Addendums 1a & b to this appendix.

In addition to analyzing the information provided in the questionnaire, the reviewer(s) will:

- Perform preliminary analyses of the parish’s/school’s accounting records by running reports in the QuickBooks files maintained at the Pastoral Center.
- Review findings from prior reviews.

During this stage, the parish/school should:

- Promptly provide the information requested in the questionnaire.
- Start assembling the documents required by the reviewers.
- Ensure all files that may be scrutinized are readily available during the on-site stage.
- Ensure all appropriate staff (anyone involved in some way with the internal control processes) is available during the on-site stage including key volunteers.

On-Site Visit

The schedule of any review (other than surprise visits) will be established jointly by the pastor/principal/administrator and the reviewer(s) to occur at the most opportune time for both the site and the reviewer(s). The Pastor/Principal/Administrator must be available for his/her interview conducted during the review so this point must be considered when the entire review is scheduled. The goal is to have the reviews appropriately scheduled to give each site the focused attention and training they deserve. The visit will be conducted only after the reviewer has studied the information and reports assembled during the pre-visit stage.

The site is to provide the reviewer with adequate space for conducting the interviews and records analysis required by the process. The space should be relatively private yet easily accessible to other offices where peripheral records may be held. It should have access to a telephone and power. The records requested in the questionnaire are to be positioned in the selected space prior to the reviewer's arrival.

The on-site visit will include interviews with persons involved with any business process and an analysis of:

- Overall financial management including the participation of the Finance Council.
- Bank accounts and their reconciliation.
- Handling of cash receipts including offertory collections.
- How disbursements are made including the purchasing process, the use of petty cash and the controls over credit cards/accounts.
- Payroll, personnel files and federal/state reporting requirements.
- Asset management.
- Accounting procedures.

This list is not all inclusive. The analysis may go well beyond these areas depending upon what is revealed during the process. Besides performing an analysis of ongoing procedures, during the on-site visit the reviewer will conduct on the job training in areas requiring additional attention to either enhance the site's internal controls or improve the efficiency of operations.

During the on-site review, Appendix 13 - Graded Internal Control Checklist will be the primary document used to ensure all areas are covered. In addition, the reviewer may refer to Addendums 2a, 2b to this appendix. The internal controls checklist is a systematic list of questions that takes one through the entire gamut of polices and recommendations published in this manual. It begins with overall financial management and continues in much more detail and with probing queries into the specific business processes and cash handling to assess the health of the internal controls at a site. Many of the questions require the answers be supported by reviews of documentation. The number of substantiating documents required is a function of what the reviewer finds during the interview and general discovery process. Not all the questions apply to every site so Not Applicable (N/A) would be the appropriate answer.

The checklist is a graded instrument that will give both the reviewer and the site a relative position when compared to the required policies and procedures. The questions may have be scored differently than others depending upon whether it is classified as required or a preferred element in an internal control program and depending on the percentage of compliance found.

It is important to note that all the internal controls that apply for site operations also apply to any auxiliary organizations aligned with the site. The failure of those organizations to follow the same processes required of the parent will result in appropriate findings and recommendations negatively impacting the resulting "grade." A key point to remember is that every organization that is directly associated with the site is to be held accountable to the same standards.

Report Stage

The report stage may include an out briefing with key personnel responsible for financial management if desired by the pastor/principal/administrator. The out briefing will generally be conduct at the conclusion of the on site visit and is intended to provide preliminary feedback and recommendations on the more significant issues/concerns discovered. The meeting will also provide an opportunity for those involved to offer input on how they can or cannot carry out these recommendations.

Following the visit, a written draft report will be prepared to present the results of the review and provide recommendations for improvement to the Chief Financial Officer (CFO) of the Diocese requesting comments back to the Diocesan Internal Reviewer(s). Upon receipt, the comments will be incorporated by the reviewer prior to the completion of the final report. The final report will be forwarded to the site with a cover letter signed by the CFO. The discovery items and corrective action in the report must be presented to key personnel and the appropriate Finance Council or School Board. A report must be sent back to the Internal Reviewer(s) acknowledging that the presentation has been made and that the findings have been reviewed as required not later than thirty days after receipt of the report. The presentation to the appropriate committee must include an action plan to apply the recommendations made in the report.

Considerations for the reviewer when compiling the draft report are included in Addendum 3.

Addendums:

1. Preliminary Stage.
    a. Financial Information Requested.
    b. Preliminary Work Process.
2. Guide for Conducting On-site review.
    a. On-Site Process.
    b. List of Latest Pertinent References/Forms.
3. Considerations for Report Preparation.

Appendix 13: Graded Internal Controls Checklist

<u>Summary of Revisions effective August 2014</u>

- Changed wording to conform to generic definitions from introduction and made minor language improvements;
- Eliminated any references to Saltmarsh, Cleaveland and Gund performing internal reviews;
- Eliminated the Review Process section since it was already discussed in earlier sections;
- Eliminated any language referring to a draft report being sent to the site for comments prior to the final report being issued;
- Moved the language regarding the Internal Control Checklist from the Review Process section to the *On-Site Visit* sub-section.