

Diocese of Pensacola-Tallahassee
Guide for Conducting Financial Reviews & Risk Assessments
Addendum 2a: On Site Review Procedures

The procedures provided here give the reviewer a somewhat comprehensive approach towards completing an on-site review starting with an overall discussion of philosophy of management with the Pastor/Principal and moving gradually and systematically through the essential parts of any business operation. These procedures must be used in conjunction with the Internal Control Checklist to document the existence or absence of desired process discipline. The order and complexity of the procedures are not sacrosanct based upon the site's size, its scope of operations, its staff size and the experience/foresight of the reviewer(s). For a site that has had prior reviews, the common practice would be for the reviewer(s) to start looking at the pre-positioned documents requested while providing a listing of journal entries, deposits, expenditures and personnel files to the site for them to extract the specific data requested. Interactive dialogue will naturally occur as the document review progresses and questions arise. The reviewer(s) will use the review checklist to guide their activities and the follow on interviews when information not available in documentation will be sought.

Parish Administration

Primary Interview

After arriving at the site and being established in a separate space, the first interview should be with the Pastor/Principal. It would be better for this interview to be private; however, if desired by the Pastor/Principal, the primary staff administrative person may be included. The purpose of the interview is to:

- Explain the purpose of the visit to the site is to review the overall financial management controls and to assess any risk to which the site may be exposed. A further purpose of the review is to aid the Pastor/Principal in his/her administration and to offer training to bring the processes used in line with the Diocese of Pensacola-Tallahassee business policies.
- Gain a general understanding, from the perspective of management, of the financial administrative structure of the parish and how he/she views the integrity of the internal control processes. The following areas should be covered in the discussion and documented in the reviewer's notes:
 - Progress made on recommendations made during the last review performed.
 - Determine and document whether there have been any changes in the office/administration structure during the period under audit.
 - The Financial Questionnaire and its primary components including:
 - The Finance Council, its makeup, how it is used, relationship to Pastoral Council and Parish structure.
 - Effectiveness of the financial recordkeeping process and any perceived weaknesses.
 - The bank accounts listed:
 - √ Are there any other accounts that were not listed on the Financial Questionnaire?
 - √ Is he/she a signer on all accounts?
 - √ How are Auxiliary organization's accounts handled? Are they approved in writing by the Bishop?
 - His/her involvement with and knowledge of internal controls in place including:
 - √ Handling offertory (Sunday and Weekdays),
 - √ Handling other cash receipts,
 - √ Handling of bank statements,
 - √ Purchasing materials and services,

- √ Preparation of disbursement checks,
 - √ Employee hiring, evaluation and termination,
 - √ Payroll process and changes.
- Mass stipends, stole fees and Pastor's discretionary fund.
- Ascertain any special concerns or areas that he/she would like us to concentrate on, or spend addition time therein. (If such areas exist that are beyond the scope of your visit, call the Diocese immediately for approval).
- Explain that final findings and recommendations will be included in a written report.
- Also explain that the final report must be reviewed by the key personnel at the parish/school and presented to the Finance Council along with a proposed action plan to implement the recommendations. An acknowledgement report on this activity must be forwarded to the Chief Financial Office at the Pastoral Center.

Secondary Interview

Meet with the primary administrative staff member immediately after the Pastor/Principal meeting to continue the discussion to clarify (or correct) anything said previously and to gain a more detailed understanding of the current business processes and specific controls in place for:

- Cash handling,
- Cash disbursements,
- Purchasing,
- Petty cash,
- Auxiliary organizations and their transactions.

If the primary administrator was not at the first interview, then discuss the same topics with him/her with the same goals in mind. At this stage, the Internal Control Checklist should be actively used to answer each query posed in the list. An actual review of documents and processes will be required to validate the answers.

Specific Document and File Testing

This part of the on-site stage involves reviewing a number of documents and files to test the strength of a site's internal control program and assess their risk from a liability and regulatory point of view. The testing should be sufficient to satisfy the reviewer that adequate controls are in place to reduce risk and not be extraordinarily invasive. If the testing reveals significant concern affecting personal/organizational risk, ongoing fraud or severe violations of law or ethics further investigation and reporting outside of the normal review process is warranted and expected.

The following subsections provide a process to follow that should ultimately cover most if not all aspects of a site's financial operations. The Internal Control Checklist should be completed by the end of this process. Document copies and discovery must be retained along with the checklists and reports to justify findings and recommendations ultimately made in the report.

General Financial Planning and Management

1. Were all records, documents, files and personnel provided as requested? If not were they available quickly when asked? List those that were not to determine if the minimum level of readiness expected was achieved to warrant a discount on the review fee.
2. Review the minutes of the Finance Council meetings for background and general knowledge. At least 6 meetings should have been held each year. Does it appear the

members are qualified? Is the council involved with the budget process and internal control program?

3. Review budget & determine how it is being created & used (if at all) to manage the daily activities of the site.
4. Review any reports made either to the parishioners/constituents or the Bishop on the financial status of site.
5. Validate the qualifications of the bookkeeping personnel and their understanding of basic accounting/QuickBooks transactions. (Do they know what a Journal Entry is?)
6. Validate the physical safeguards in place for cash, blank check stock, credit cards, data and assets easily converted to personal use.
7. Review all the bank statements for each account:
 - a. What is name on account and where are statements sent?
 - b. Check retained signature cards for each account.
 - c. Insure monthly reconciliations are performed in a timely manner and reports from QuickBooks retained. Verify someone other than the bookkeeper handles and reviews the reconciliations.
 - d. For the period under review, secure all validated deposit slips, covering all bank accounts, and review for unusual amounts or donors. Trace to accounting records.
 - e. Review for any excessive deposit correction notices issued by the bank.
 - f. Randomly check statements for unusual disbursement activity in terms of size or payee– trace the unusual checks to the accounting records.
 - g. Look for unusual gaps in numerical sequence of checks.
 - h. Review reconciliations for old outstanding checks (and deposits although there should not be any).
 - i. Identify transfers between accounts.
 - j. Review monthly balances in operating account; are excess funds being remitted to the Diocesan Savings and Loan Program? Operating fund balance should not exceed the average needs for one month.
 - k. Review for any excessive deposit correction notices issued by the bank
8. Review physical financial files
 - a. Are records retained following policy
 - b. Who has access to financial records? Personnel records?
 - c. Are transaction records maintained as recommended:
 - i. By vendor/account for medium and large operations.
 - ii. By month for small operations.
 - iii. Are payroll records separate from other transactions due to a different cycle for them (calendar versus fiscal year)?
 - iv. Do deposit records fully support deposits made and are they filed with the bank statements and reconciliations.
9. Funds Management – Receipts
 - a. Evaluate systems of receiving, recording and depositing all cash received using internal control checklist.
 - b. In addition to any unusual deposit activity reviewed, select at least 10 deposits representing a cross section of the various types of cash receipts for verification against QuickBooks postings. Determine if each deposit is appropriately posted to QuickBooks and is adequately substantiated by retained documentation.
 - c. Spend appropriate amount of time to determine if the process for handling of offertory collections from the collection through the deposit. Tie count sheets to specific deposits and postings to QuickBooks. Determine if the procedures being used are in writing and distributed to volunteers involved. Have volunteers been

- trained? Have they received any kind of background check?
- d. Review and validate receipt handling process in the office and for other events.
- 10. Donor Records
 - a. Verify the existence and use of a donor recording system (should be ParishSoft for most sites).
 - b. Inquire whether the site has an established process for providing acknowledgement letters to donors for contributions:
 - i. Normal offertory,
 - ii. Specific donations exceeding \$250.
- 11. Funds Management – Expenses
 - a. Evaluate the system for approving invoices for payment and the actual payment of the invoice including the timeliness of the payment.
 - b. In addition to the unusual checks selected from the bank statement, select the lesser of 25 or 10% of non-payroll canceled checks from the transaction ledger for verification. Trace these checks to the bank statement; verify accuracy of account distribution; examine support for expenditure including approval initials; compare endorsement on back of check to payee; insure check signer is Pastor or other clergy designee.
 - c. Evaluate system for ordering and receiving goods and services.
 - d. Evaluate system for controlling and accounting for voided checks.
 - e. Review non-payroll payments made to staff members including any clergy, the principal for proper approvals and documentation.
 - f. Perform specific test on the petty cash fund to determine if handled on an imprest basis. Trace all reimbursements to QuickBooks and verify adequate documentation.
 - g. Verify adequate policies and practices are in place for credit cards, store accounts, gift cards and SCRIP.
 - h. Review all credit card or store account statements including attached receipts supporting each transaction.
 - i. Determine the receipt return rate, the adequacy of the receipt, purchases that appear to be personal and for any purchases of inappropriate items.
- 12. Personnel and Payroll
 - a. Evaluate system of hiring and firing personnel.
 - b. Secure a list of all current lay employees – randomly select 10-15% of them to:
 - i. Ensure each is actively at work.
 - ii. Insure they are being paid their authorized salary.
 - iii. Review their personnel files for completeness and accuracy. Use required Personnel File list for validation.
 - iv. Review the appropriateness of their classification as either "exempt" or "non-exempt" if classified at all.
 - v. Review for proper inclusion in or exclusion from Diocesan insurance and benefit plans.
 - c. Select three payrolls at random, and, on a *test* basis: –
 - i. Insure proper posting of the general ledger, payroll taxes, diocesan payables and payroll processing fees.
 - ii. Check for approval for payroll particularly for any changes.
 - iii. Check for the use of timesheets as appropriate.
 - d. Secure a list of all clergy and religious assigned to the parish, and review accounting records to insure compliance with all Diocesan compensation policies.
 - i. Determine status of priests: diocesan or order.

- √ How is ordered priest “compensated?” Who is payee on check?
 - ii. Ensure salary is correct based on latest schedule.
 - √ Are deductions being made? Are order priests’ excluded from deductions?
 - iii. Are paid allowances (Mass Stipends, Fixed Table Allowances, etc) included in payroll process?
 - iv. Review The Mass Intention record book and reconcile it to the paid Mass Stipends. Is Diocesan policy being followed?
- 13. Independent Contractors
 - a. Determine if any “vendor” or other person is being treated as an independent contractor.
 - i. Are they properly classified? Or are they actually employees?
 - ii. Is their work documented using a contract?
 - iii. Is there a W9 for each independent contractor?
 - iv. Is QuickBooks being properly used to document their status and payments?
 - v. Have 1099s been issued?
 - b. Check for the required certificates of liability insurance from vendors who provide service on the site’s campus.

Training

The reviewer(s) should take advantage of “teachable moments” throughout the process to explain why certain required or recommended procedures may be better than what he/she is finding. The approach should be one of showing how a new procedure might work and demonstrating it clearly and logically based upon the experience level of the personnel involved. Forms and procedures from the electronic files list should be shared and explained. QuickBooks postings recommendations, vendor/employee file setup, payroll file set up, etc should be shown to the bookkeeper.

Regardless of the specific needs of individual players at a site, the reviewer must emphasize to all the importance of segregating duties, meeting regulatory requirements and protecting site personnel and assets.

Summary of revisions effective August 2014

- Added language to the introduction to asset the process shown will vary depending on a variety of things the most important of which is the experience of the reviewer(s) and the background knowledge about the site.
- Shifted the information regarding independent contractors to its own section.