

# MEANS FOR MISSION

The Parish Finance Council Guidelines  
of the Diocese of Pittsburgh  
Revised 2013









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*Office of the Bishop*

October 2013

My dear Sisters and Brothers:

I am pleased to share with you the revised Parish Finance Council guidelines, *Means for Mission*. Partnered with the Parish Pastoral Council guidelines, *One Body, One Mission*, these guidelines will enable Parish Finance Councils to serve their pastor and parish in fostering *The Church Alive!*

Our values of stewardship and accountability are advanced by these guidelines. The Diocese of Pittsburgh is committed to the highest possible standard of accountability and transparency. As you will see, preventing fraud and financial misconduct are discussed in these guidelines. You will also see our values of collaboration and communication reflected in *Means for Mission*. In fulfilling their responsibilities, Parish Finance Councils are directed by the values of our Catholic faith as well as by commonly accepted business standards.

Pastors benefit by utilizing the gifts and talents of parish leaders who serve on Parish Finance Councils. The skills and professional expertise of these individuals safeguard and maximize the financial resources of our parishes.

As you know, Parish Finance Councils are mandated by Canon 537 of the Code of Canon Law. They are not discretionary. They are to be formed and are to operate within the law of the Church. Parish Finance Councils make certain that the sound financial practices offered in *Means for Mission* are in place and observed.

It is my hope that these guidelines assist pastors and finance councils in their important tasks for *The Church Alive!*

Grateful for our belief that “Nothing is Impossible with God,” I am

Your brother in Christ,

+ *David A. Zubik*

Most Reverend David A. Zubik  
Bishop of Pittsburgh

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These guidelines and documents that follow should be read in conjunction with the Parish, School and Cemetery Financial Administration Manual of the Diocese of Pittsburgh.

## **PREVENTING, DETECTING AND DEALING WITH PARISH FRAUD AND FINANCIAL MISCONDUCT**

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## INTRODUCTION

The teaching and law of the Church and our Bishop are quite clear. There are to be two parish advisory bodies and pastors are to preside over both. The parish pastoral council as described in *One Body, One Mission* the official guidelines of the Pittsburgh Diocese, is the parish leadership body of the parish that has the

*Every person should walk unhesitatingly according to their own personal gifts and duties in the path of a living faith which arouses hopes and works through charity.*

*- Vatican Council II Lumen Gentium 41*

clear purpose of “investigating, considering and recommending” pastoral activity. (Canon 511). In accordance with Canon Law and these Diocesan Guidelines, the parish must also have a parish finance council. *Can. 532: Pastor represents parish in all juridic affairs . . . He is to see that goods are properly administered*

*in accordance with norms of Can. 1281-1288 Can. 537: Each parish is to have a finance council . . . Regulated by universal law and local norms . . . To aid the pastor in the administration of parish goods. Can. 532*

The parish finance council is to have an active and defined role in advising and assisting the pastor in administering the temporal affairs of the parish by utilizing the skills and expertise of the finance council members in monitoring the financial activity of the parish. These two councils are the main canonical leadership bodies of the parish.





# RELATIONSHIPS







## RELATIONSHIPS WITH PASTOR, PARISH FINANCIAL COUNCIL AND OTHER PARISH ORGANIZATIONS

### Pastor and Parish Finance Council

The pastor serves the parish community entrusted to him by the diocesan bishop. The pastor carries out this role through teaching, sanctifying, and governing with the cooperation of others who share in the pastoral care of the

parish and the assistance of the lay members of the Christian faithful (cf. c.519). The role of the pastor cannot be surrendered or diminished. This authority is to be viewed as genuine service to the Christian faithful exercised in a collegial manner. As noted, the pastor represents the parish in all juridic affairs and is ultimately responsible for all legal, business, and administrative matters of the parish.

*Dear Lord, teach me to be generous. Teach me to serve you as you deserve, to give and not count the cost, to fight and not heed the wounds, save that of knowing that I do your will.*

*- St. Ignatius Loyola*

The relationship between the pastor and the parish finance council is one of support and collaboration.

The parish finance council assists the pastor in providing good stewardship of parish financial resources, ensuring that sufficient means are available and allocated appropriately to carry out the pastoral mission of the parish. Thus, in fulfilling its responsibilities, the parish finance council must be directed by the values of the Gospel as well as by good business practice. Efficient and effective use and management of parish resources must be measured as much by their contribution to the mission and ministry of the parish as by commonly accepted business standards.

By virtue of his office, the pastor presides over both the parish pastoral and finance councils. As such, he may choose to facilitate the meetings himself or appoint a facilitator from among the members to do so. The pastor must be involved with the parish finance council as it performs and fulfills its various duties and responsibilities, especially those that relate to budgeting and financial planning. In its capacity as a consultative body, the parish finance council provides the pastor with its recommendations concerning financial plans, controls, policies and other appropriate temporal matters affecting the parish. However, the pastor alone makes the final decisions on these matters and is responsible for their implementation. In those cases where diocesan statutes require the pastor to consult with the finance council, the approval or disapproval of the finance council will not prevent the pastor from proceeding with the proposed act. For example, the signatures on Forms A and B are required as an indication that the finance council has been consulted.

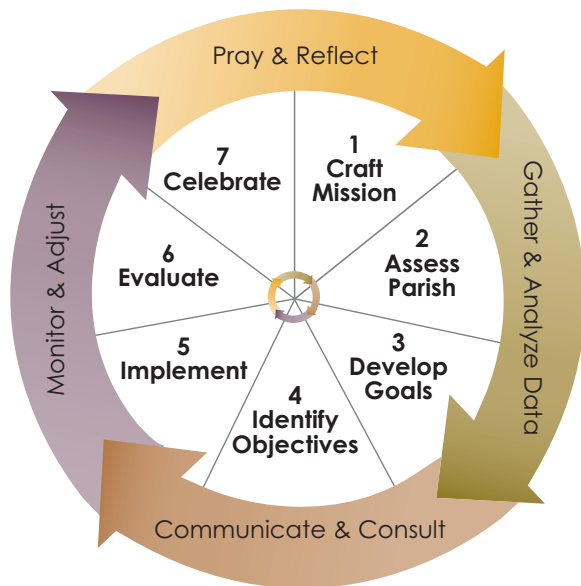
### Parish Pastoral Council and Parish Finance Council

The Parish Pastoral Council and the Parish Finance Council are advisory to the pastor. Each one having their specific roles and functions are nonetheless *partners in mission* for the greater good of the vitality and vibrancy of the pastoral life of the parish. The Second Vatican Council reaffirmed that laity claim their baptismal call to participate in the life of the Church and parish. “The laity’s action within Church communities is so necessary that without it the apostolate of the pastors will frequently be unable to obtain its full effect.” (On the Apostolate of the Laity, ¶10)

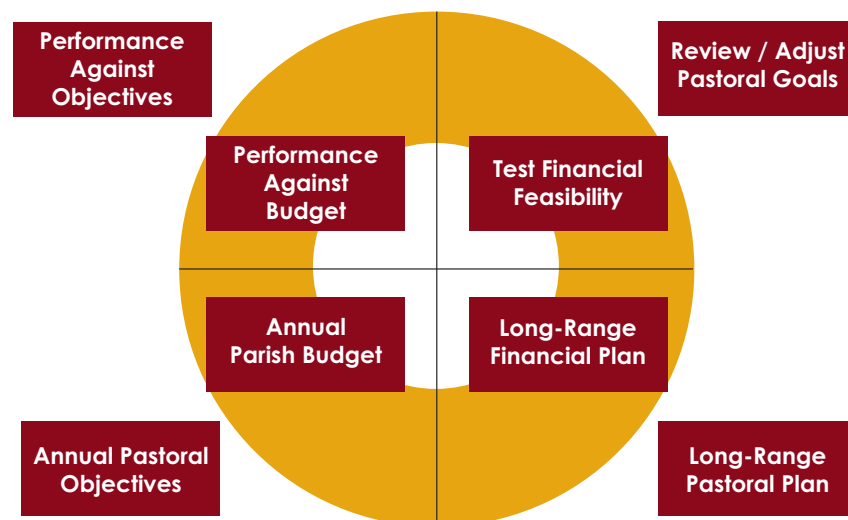
While the pastoral council is responsible in assisting the pastor in recommending a course of action for the future, the finance council is responsible in assisting the pastor in ensuring that sufficient resources are available and allocated appropriately especially in regard to any pastoral planning goals and objectives brought forth by the pastoral council. Because of this partnership, the pastor should see to it that these two leadership bodies meet occasionally to review the parish budget in light of the fiscal needs of the goals of the annual parish plan. The finance council can also be instrumental in informing the pastoral council of important administrative and fiscal matters that could influence future planning. The following schematics suggest the basic planning steps in both the pastoral council and the finance council. (See also *One Body, One Mission* pp. 27-57.)



## ANNUAL PLANNING CYCLE: PARISH PASTORAL COUNCIL



## ANNUAL PLANNING CYCLE: PARISH PASTORAL & FINANCE COUNCILS



Think of the second image as an outer circle and an inner circle, each broken into four quadrants. Looking at the year in four quarters, the pastoral planning approach, represented by the outer circle, may begin with the review and adjustment of the long-term pastoral goals surfaced by the pastoral council. This may be followed in the second quarter by the development of the long-range pastoral plan. Once the long-range plan is developed, the next step is developing a set of short-term pastoral objectives that are consistent with and support that plan. Usually, those objectives should be accomplished with a one-year period. Finally, in the fourth quarter, the pastoral council will want to measure whether the parish was successful in accomplishing the year's objectives.

The financial planning cycle, represented by the inner circle, links very closely with the pastoral planning cycle. For example, in the first quarter the parish finance council should test the financial feasibility of the new goals established by the pastoral council. In the second quarter, the finance council should develop a long-range financial plan that is consistent with the long-range pastoral plan. In the third quarter, the finance council should develop a budget that is consistent with the annual pastoral objectives. And finally, in the fourth quarter, the finance council should evaluate the performance of the parish in meeting its budget. The whole process then begins again the following quarter.



In summary, the cooperation between the two councils may be realized in various ways. Regular reports may be exchanged between the two councils. The pastor may consider appointing a member of the finance council to be a liaison to the pastoral council. The pastor may convene a joint meeting of representatives from both councils to discuss a particular issue of common concern. Both councils can foster cooperative relationships through regular communication. The pastor is to determine how this relationship is best accomplished so that the expertise of each group can be shared.

### **Other Parish Organizations and Parish Finance Council**

All parish organizations are subject to the ultimate fiscal control of the pastor if they are to be regarded as an official part of the parish.

Parish organizations are to submit a record of receipts and expenditures to the pastor. The pastor makes these records available to the finance council. Organizations not complying with this requirement lose their status as bona fide parish groups and thereby may forfeit the tax exemptions afforded to them by virtue of their church affiliation.

Parish organizations include those organizations that use the parish Federal Tax Identification Number, use the parish name or raise funds in the name of the parish. Organizations that have their own separate standing from the church such as scouting groups and the St. Vincent de Paul Society are not considered parish organizations even though the parish sponsors the organization or lets them have access to parish facilities (including poor boxes).



# MEMBERSHIP





## MEMBERSHIP, LENGTH OF SERVICE, ROLES, AND MEETINGS

Members of both advisory councils are to be active parishioners, participating, fully initiated members of the parish and possess enough experience, confidence and maturity to maintain wholesome relationships. While pastoral

*It's not how much we  
give but how much love we  
put into giving.*

*- Mother Teresa*

council members are discerned and selected from the parish at large (see *One Body, One Mission*, pp. 64-67), the finance council is to be composed of persons skilled in finances, civil law and business (cf. c.492).

Therefore membership shall be by appointment of the pastor who may consult with the pastoral council in making appointments to the finance council. (See *letter of appointment sample on page 14.*) Other considerations:

- The finance council shall be comprised of and not less than three and no more than nine parishioners who are knowledgeable and skilled in financial matters and known for their prudent judgment. The pastor is the presider of the finance council as he is at the pastoral council.
- The parish business manager and bookkeeper or other designated person may serve as staff persons to the finance council, and shall not be a member. His/her attendance at finance council meetings may be helpful and at times required.
- Persons related by blood or marriage to the pastor or to the parochial vicars assigned to the parish may not serve on the finance council.
- The names, addresses and email of the members of the parish finance council are to be communicated in writing to the chief financial officer of the diocese at the time of their appointment or reappointment. (See *letter of appointment sample on page 14.*)

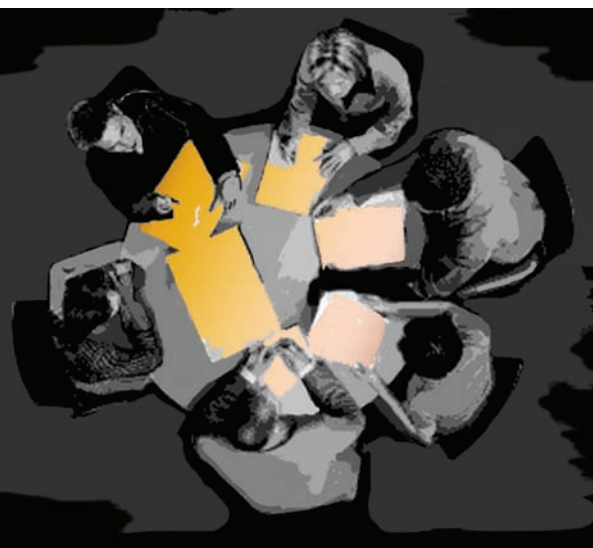


- The names of the members of the finance council are to be made known to all parishioners, preferably by publishing the names in the bulletin with the annual report.
- At the discretion of the pastor, a representative from the building and maintenance committee or temporalities committee (if they exist) and one from the cemetery board (if one exists) may serve as non-voting members of the finance council. If there is a major building or renovation project being considered or underway in the parish, a representative of the special project committee may also be a non-voting member of the council.

## Length of Service

Upon the appointment by the pastor, members of the parish finance council shall serve a four-year term and may be reappointed by him to a second four-year term. To prevent stagnation and burnout, and to create leadership opportunities for others, the term of membership should allow for half of the membership to serve a four-year term beginning on a staggered basis.

- If a finance council member resigns, dies or is removed from office, the pastor may appoint another member to complete the unexpired term. However, if the membership falls below three members, the pastor must appoint a member to complete the unexpired term.
- As an appointed member of the finance council to provide consultation to the pastor alone, any person can be dismissed by the pastor at his discretion.
- Since a finance council cannot act without a pastor/administrator, at the vacancy of the office of pastor/administrator, the finance council ceases to exist. The new pastor/ administrator must appoint a new finance council or confirm the previous finance council within one month of taking possession of the parish.



## Roles

- The pastor presides over the finance council assuring that the council performs its tasks. He sees to the ongoing development and training and replacement of council members and is ultimately accountable for the quality of decisions after he receives the council's recommendations.
- In the event the pastor chooses not to conduct the meetings himself, he can appoint a facilitator to do so. The role of the facilitator can be alternated among the members. The facilitator assures the smooth and timely flow of council business and full participation of all members in the process of consultation and consensus. The facilitator assists the pastor in coordinating the work of the council by collaborating with him in preparing meeting agendas.
- A secretary or recorder should also be appointed by the pastor. She/he documents important recommendations and deliberations of the council meetings. The recorder is also responsible for disseminating appropriate materials and reports.

## Meetings

**All meetings should be held in the spirit of collaboration, acknowledging the greater good of the parish. Perhaps reflection on the Parish Mission Statement, a passage from Scripture or a devotional prayer could set the tone.**

- The Parish Finance Council shall meet at least four times a year with at least two other meetings with the Parish Pastoral Council. The meetings and agenda shall be arranged by the facilitator in consultation and with the approval of the pastor. The pastor and members are expected to attend all meetings.
- The minutes of the meetings are to be kept on file at the parish office and shared with the diocesan auditors and the parish audit committee. Decisions are to be arrived at by consensus if possible. A quorum shall consist of a majority of the appointed members.
- Each member is required to maintain confidentiality on those matters designated as confidential.

## SAMPLE LETTER OF APPOINTMENT TO PARISH FINANCE COUNCIL

Date

Name

Address

City, State, Zip

Dear \_\_\_\_\_ ,

In accordance with the Code of Canon Law and diocesan policy, I hereby appoint you to a \_\_\_\_\_ -year term as a member of the Parish Finance Council of \_\_\_\_\_ Parish, effective \_\_\_\_\_ .

As a member of the Parish Finance Council you are to aid me in the administration of parish goods and property. To help familiarize you with this important ministry and service to your parish, you will receive a copy of the Guidelines of the Parish Finance Council, diocesan policies affecting our parish administration and financial information involving the parish.

I look forward to working with you and welcome you to the Parish Finance Council. I pray that your time on the council will be rewarding for you and the parish.

Sincerely yours,

Name

Title

Parish Name

cc: Diocesan Chief Financial Officer



# SUMMARY OF DUTIES AND STANDARDS







# FULFILLMENT OF DUTIES AND STANDARDS FOR PARISH FINANCE COUNCILS

## Fulfillment of Duties

To be effective in their consultation to the pastor, the pastor must provide to the finance council members access to such records and documents relating to the financial status of the parish, its organizations and its activities, always respecting the confidential nature of the records.

To fulfill its role, the finance council must:

1. Be kept informed by the pastor and/or business manager or bookkeeper of all parish financial matters including bank accounts, investments, endowments, bequests and other funds held by the parish, all indebtedness and payment schedules, diocesan obligations and assessments, recent audit report, parish salaries, income and expenditures;
2. Be provided by the pastor with copies of all diocesan policies and regulations affecting parish administration for their study and assistance in implementation in the parish;
3. Should attend diocesan training sessions held from time to time for members of finance councils;
4. Be familiar with and supportive of parish goals and objectives;
5. Be familiar with the general condition of parish property.

*Let not your hand be  
open to receive and clenched  
when it is time to give.*

*Sirach 4:31*

## Standards for Parish Finance Councils

1. Assist the pastor in implementing applicable diocesan financial policies and guidelines.
2. Advise the pastor on decisions of administration affecting the financial stability and viability of the parish.
3. Review the efficiency of procedures and effectiveness of internal controls in conformity with the policies of the diocese.
4. Determine through observation and document examination, at least quarterly, that the diocesan policy and procedures for the handling of the offertory collection and other parish fund generating activities are being followed. Any policy violations or exceptions should be reported to the pastor on a timely basis. In addition the council should make recommendations to prevent future occurrences. (Please refer to *Financial Fraud and Financial Misconduct* at the end of this document.)
5. Provide limited assurance that the parish, school and cemetery annual financial reports reflect a reasonably accurate and complete summarization of annual operations (revenues and expenditures), of cash and savings balances (including all parish bank and investment accounts), of indebtedness and capital activities. This is to be evidenced by returning the signed Annual Financial Report Representation Letter provided by the diocesan Office for Financial Services.
6. Assist the pastor and staff in the preparation and publication of the parish, school and cemetery annual financial report to parishioners in accordance with diocesan guidelines. Publication of interim financial reports to parishioners is also encouraged.
7. At least quarterly perform a variance analysis or review the analysis prepared by staff of the parish, school and cemetery on actual operating results (revenues and expenditures) as compared to the approved budget. Analyze items, which reflect a significant variance, and review these with the pastor along with suggestions for corrective action.
8. Assist the pastor and appropriate staff in the preparation of the parish, school and cemetery annual operating and capital budgets in accord with the priorities and directives established by the pastor and pastoral council and in accordance with diocesan guidelines.
9. Integrate the budget mechanism with the goal-setting process to insure that financial resources and parish goals are compatible.
10. Assist the pastor and staff in the preparation of long-range financial plans where appropriate and make recommendations for maintaining or increasing revenues to meet parish and diocesan goals and priorities.

11. Give direction to the parish audit committee, review its findings, assist in the implementation of changes, and remind the pastor to submit an annual copy of the findings to the Office for the Auditors Analysts. (Please refer to *Parish Audit Committee Policy* and *Audit Committee Procedures* at the end of this document.)
12. At least quarterly examine the bank reconciliations and supporting documentation for all parish, school, cemetery, and stipend bank accounts. The bank reconciliations are to be initialed by a finance council member to document the review. It should be verified that someone other than the person who reconciles the account initially opens and reviews the bank statements and contents. Verify that the financial records (bank statements, bank reconciliations, canceled checks, contribution records, etc.) for the parish are on file as required by the diocesan record retention schedule.
13. At least quarterly, examine the financial reports from all parish organizations and societies, including verification that bank statements are received, opened and reviewed by the parish administration before being given to the organization or society treasurer and are being properly reconciled.
14. Assist the pastor and other parish organizations with the coordination of all fundraising programs and activities in accordance with parish priorities and objectives. On an annual basis, the finance council members through the parish audit committee are to determine that adequate records are maintained for all major fundraisers, i.e., bingo, festival, raffle, script/grocery certificate sales, etc. See that the parish organizations are submitting reports to the parish as required by the pastor.
15. Assist the pastor in the development of a plan for systematic payment of parish debt.
16. Assist the pastor in the development of a plan for the financing of necessary repairs, renovations and purchase of equipment and to establish proper procedures to be followed regarding minor maintenance problems and emergencies.
17. Safeguard the physical assets of the parish from loss or damage through appropriate review of safety measures.
18. Sign Form B - Petition for Permission to Expend \$40,000 or More, or Borrow from the Deposit & Loan Program for Any Purpose (except to enter into real property agreements for any purpose) - and sign Form A - Petition for Permission to Enter into Real Property Agreements for Any Purpose, Borrow from Deposit & Loan to Purchase Real Property, Market Real Property for Sale, Alienate Parish Property, or Substantially Alter Parish Real Property dealing with the alienation or purchase of parish property as indication that the finance council members support this action.

19. Determine that any parish borrowing of money is done in accordance with diocesan policy. All borrowing must be done with the Diocese. No parish assets, including those of the school or cemetery may be subjected to a lien, nor may they be used as collateral for any reason. No cemetery perpetual funds may be borrowed by the parish, no pastor or staff may lend money to the parish or commingle their personal funds with parish funds; no parishioner may lend money to the parish, nor may the parish make personal loans to the clergy; parish staff or parishioners.
20. Determine that the required diocesan permission is obtained before the parish accepts any bequests/gifts that have restricted purposes and that bequests/gifts with restricted purposes received are administered according to the donor's wishes (for future reference a permanent file should be kept for records of such restricted gifts and the council should be provided information on the purpose and amount of each gift).
21. Assist the pastor to see that the parish meets all federal (reporting salaries and required legal postings) and state tax (proper use of sales tax exemption) requirements, maintains accurate records as required, submits to appropriate civil authorities tax exempt forms (Form 1099 and Gambling Winnings) as required by law and maintains records for all Church-owned properties.
22. Assist the pastor in the establishment and maintenance of a lay employee job classification (based on the job description) and salary administration program; as well as other appropriate personnel policy matters. Assist the pastor with lay personnel recruitment as necessary.
23. Review the annual cemetery financial results after the close of the fiscal year to determine compliance with the state and diocesan regulations.



## CONCLUSION





# The Church Alive!

## CONCLUSION

In conclusion, parish finance council members are to be true servant leaders who in partnership with the pastor and parish pastoral council share the blessed burden and challenge of the “Church Alive.” (Bishop Zubik Pastoral

Letter, 2008) In the end

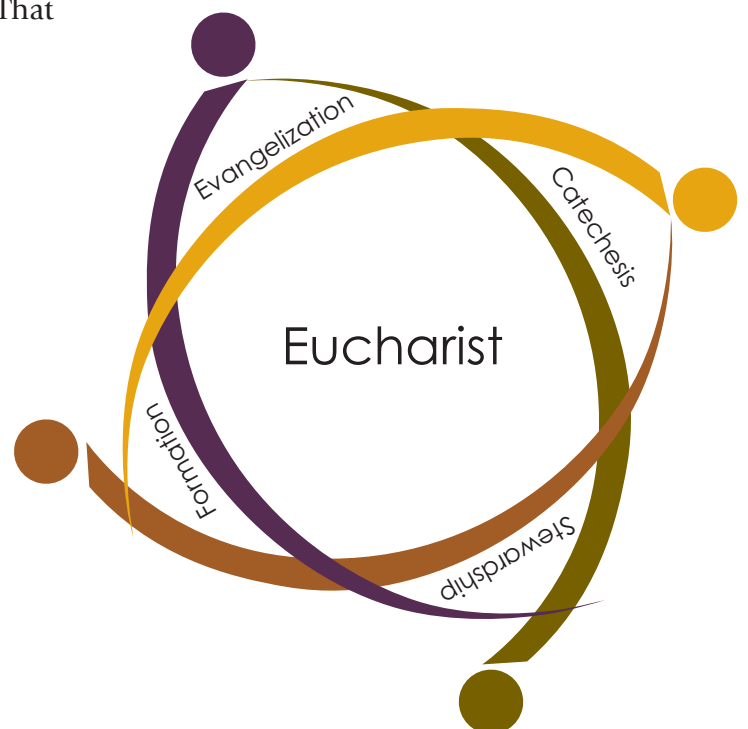
“Parishes must be, or become, true communities of faith within which this Christian way of life is learned and practiced.

Sound business practice is a fundamental of good

*Without cost you have received;  
without cost you are to give.*

*Matthew 10:8*

stewardship, and stewardship as it relates to church finances must include the most stringent ethical, legal and fiscal standards. That requires several things: pastors and parish staff must be open, consultative, and collegial in the conduct of affairs. And parishioners must accept responsibility for their parishes and contribute generously-both money and personal service-to their programs and projects. The success or failure of parish programs, the vitality of parish life or its absence, the ability or inability of a parish to render needed services to its members and the community depend upon all.” — from *Stewardship: A Disciples Response* The US Bishops’ Pastoral Letter on Stewardship







# CREATING A PARISH AUDIT COMMITTEE



Having a Parish Audit Committee is highly recommended. The role of the Parish Audit Committee can for the most part be absorbed by the expanded functions of the Finance Council. On the other hand a Parish Audit Committee can function as a subcommittee of the Parish Finance Council. Audit committee membership is to include at least one finance council member and other appointed parishioners as deemed necessary, all approved by the pastor. The audit committee is to be chaired by a finance council member. The audit is to follow the diocesan provided audit program and should normally be completed within 120 days after fiscal year-end.

Following is information on the duties and responsibilities of the Parish Audit Committee. Detailed audit procedures to be performed by the Parish Audit Committee are also included.

### Membership

If the Parish Audit Committee is not absorbed by the on-going functions of the parish finance council and acts as a subcommittee of the Parish Finance Council, the chairperson of the parish audit committee is to be appointed by the pastor and must be a member of the parish finance council. The other members may be comprised of finance council members or parishioners chosen by the chairperson and approved by the pastor. All members are to be fully initiated practicing Catholic members of the parish. No member of the parish, school, or cemetery staff may serve on this committee who is related by blood or marriage to the pastor or the parochial vicars assigned to the parish.

### Length of Service

Members of the Parish Audit Committee shall serve a four-year term and may be reappointed for a second, four-year term.

### Fulfillment of Duties

In order to be effective in their work, the members of the Parish Audit Committee need to have complete access to such records and documents relating to the finances of the parish, its organizations and its activities, always respecting the confidential nature of the records.

To fulfill its role, the audit committee must:

- 1) Receive from the pastor copies of all diocesan policies and regulations affecting parish administration.
- 2) Participate in diocesan training sessions held from time to time for members of the audit committee.
- 3) Be familiar with and supportive of the parish goals and objectives.



### Scope and Timing of the Review

The committee will review the financial records, complete the internal control questions and perform procedures to determine if parish assets are properly safeguarded and if financial transactions are properly reported. The limited audit review program format is provided by the diocesan Office for the Auditors/Analysts, and is not to be considered all-inclusive.

1. The financial review is conducted for the fiscal year July 1 through June 30 to determine if the parish internal control policies are functioning properly to effectively safeguard the assets of the parish.
2. Errors or omissions detected by the committee are to be brought to the attention of the pastor and finance council.
3. The audit committee workpapers and report are to be kept on file and made available for review during the diocesan audits.

### Duties and Responsibilities

The functions of the Parish Audit Committee shall include, but not be limited to the following:

1. Review the efficiency of procedures and effectiveness of internal controls in conformity with the policies of the diocese.
2. Review security procedures for handling money (counting, transporting, cash-on-hand) and ensure that the offertory collection procedures as recommended by the diocesan Office for Financial Services are being followed.
3. Review for accuracy the annual parish, school and cemetery financial reports that all financial transactions, including all parish related bank accounts, are accounted for and properly reported.
4. Review the fiscal year-end bank reconciliations applicable to all parish, school, cemetery, and stipend bank accounts.
5. Review the financial reports from all organizations and societies, and verify that bank statements are being properly reconciled.
6. Verify that the financial records (bank statements, bank reconciliations, cancelled checks, contribution records, etc.) are maintained on file as required by the diocesan record retention schedule.
7. Determine that the parish meets all requirements of federal and state tax laws, completes and files all appropriate forms as required by civil law, and maintains accurate records as required by civil and canon law for all Church owned properties.
8. Review the cemetery financial records at the end of each fiscal year to ensure compliance with state and diocesan regulations.
9. During a year in which an audit has been performed by the diocese, assist in implementing any recommendations and follow-up with parish personnel to ensure any problems noted are corrected.

## Parish Audit Committee Review Procedures



The following three areas follow:

	Section
Parish Audit Committee Review	I
Bank Account Review List	II
List of Records needed for the Review	III

Questions regarding these documents should be referred to the Office for the Auditors/Analysts of the Diocese of Pittsburgh.

### General Review Plan

The general review plan consists of the following:

**Preliminary Review** - of financial statements and prior audit/review results.

**General Questions** - to be reviewed with parish personnel and verified where possible.

**Receipt Tests** - for major sources of income.

**Reconciliation of Mass Stipends** - by comparison of unsaid Masses to Mass stipend funds.

**Review of Bank Accounts** - by preparing a Bank Account Review List for each account.

**Summary and Report** - of the findings of the review.

# SECTION I

## Parish Audit Committee Review

Parish: \_\_\_\_\_ Review Date(s): \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_

Pastor: \_\_\_\_\_ Location#: \_\_\_\_\_

Parochial Vicars: \_\_\_\_\_

## Key Personnel

	Parish	School	Cemetery
Bus. Mgr./Principal/Manager	_____	_____	_____
	_____	_____	_____
Bookkeeper	_____	_____	_____
	_____	_____	_____
Maintenance	_____	_____	_____
	_____	_____	_____
Other	_____	_____	_____
	_____	_____	_____

## Preliminary Review

1. Review the financial statements (Income & Expense) for the fiscal year. Note any significant variances between actual and budget. Determine the reason for these significant variances and recommend adjustments and changes in budgeting, coding, etc. to reduce the likelihood of future variances.
2. Review the balance sheet for June 30th and compare the balances to the prior year. Note any negative balances or unusual changes in balances. Determine if these negative balances or unusual changes are due to errors and recommend adjustments and changes in coding, procedures, etc. to reduce the likelihood of future errors.
3. Review the prior diocesan audit recommendations and parish financial review results. Note any recurring or serious problems.
4. Based on the above steps, prepare a list of potential problem areas and modify the review procedures, if necessary, to more adequately address these potential problem areas.

### Potential Problem Areas

### Modification to Review Procedures


Note: The majority of the records needed for the review are listed on page 43.

## General Questions

To be reviewed with the pastor and other key personnel. Circling an answer of "NO" or unsure "???" generally indicates a potential problem requiring a more thorough review and, if necessary, corrective action. Where possible, the answers to the questions should be verified on a sample basis by reviewing related documents such as schedules, reports, bank statement reconciliations, etc. and observing activities such as the offertory collection, counting, etc. Indicate verification by putting a check mark in the column with the blank "\_\_\_\_\_" or N/A if not applicable.

1. What is the normal Mass Schedule?

Saturday: \_\_\_\_\_

Sunday: \_\_\_\_\_

Week days: \_\_\_\_\_

2	A. Are ushers periodically rotated between groups?	YES	NO	??	_____
	B. Is a written schedule/sign-in sheet for ushers kept on file?	YES	NO	??	_____
	C. Are the collection baskets kept in plain view by the ushers as they take up the collection?	YES	NO	??	_____
	D. Do at least two people remain with the collection until it is secured in tamper-evident bags or counted and deposited?	YES	NO	??	_____
3	A. Is the collection counted in a secure location?				
	B. Is the collection counted the day received?	YES	NO	??	_____
	If no, are tamper-evident bags used to secure the collection?	YES	NO	??	_____
	If tamper-evident bags are used are bag numbers tracked by ushers and verified by money counters?	YES	NO	??	_____
	C. Are money counters periodically rotated between groups?	YES	NO	??	_____
	D. Is the parish bookkeeper not a money counter?	YES	NO	??	_____
	E. Is a written schedule of money counters kept on file?	YES	NO	??	_____
	F. Are there at least two money counter's present with the collection until it is counted?	YES	NO	??	_____
	G. Are money counter reports prepared and kept on file?	YES	NO	??	_____
	H. Do the money counter reports contain the following:				
	Number of envelopes?	YES	NO	??	_____
	Amount of envelope cash and checks?	YES	NO	??	_____
	Amount of loose cash?	YES	NO	??	_____
	Summary of collections by receipt type?	YES	NO	??	_____
	Signatures of the money counters?	YES	NO	??	_____
	Date the report was prepared?	YES	NO	??	_____
	I. Is a copy of the money counter report kept by at least one counter and a copy given to the parish bookkeeper?	YES	NO	??	_____

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4	A.	Is a night deposit used with the collection deposited the same day as received?	YES	NO	??	_____
	B.	Is the collection kept in the parish safe, if not immediately deposited?	YES	NO	??	_____
	C.	Does someone other than the parish bookkeeper prepare the deposit slip?	YES	NO	??	_____
	D.	Is a collection deposit summary prepared when several collections are combined into one deposit?	YES	NO	??	_____
	E.	Does the deposit summary indicated who has completed the various duties of preparing the deposit summary and deposit slip, taking the deposit to the bank and recording/posting deposit information in the accounting records?	YES	NO	??	_____
	F.	Is a duplicate deposit slip kept on file?	YES	NO	??	_____

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5	A.	Does the parish bookkeeper or someone not directly involved in the collection and counting process compare the money counter reports, deposit slip and bank verification/ deposit advice on a weekly basis to ensure they are in agreement?	YES	NO	??	_____
	B.	Does the bank contact someone <u>not</u> directly involved in the collection, counting, depositing, and posting process regarding major deposit discrepancies?	YES	NO	??	_____

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6	A.	Is the person who posts the collections to the individual parishioner contribution records <u>not</u> an usher, counter or the parish bookkeeper?	YES	NO	??	_____
	B.	Is the actual receipt/deposit (not envelope) date used for posting?	YES	NO	??	_____
	C.	Are total postings compared to the deposit and money counters report?	YES	NO	??	_____
	D.	For computerized parishioner contribution records, is a report printed out indicating total postings?	YES	NO	??	_____
	E.	Do all parishioners receive annual contribution statements at calendar year end?	YES	NO	??	_____
	F.	Are parishioners instructed to initially contact someone not involved in the collection process regarding contribution statement discrepancies?	YES	NO	??	_____

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7	A.	Are un-deposited funds & important records stored in a safe or other secure storage area?	YES	NO	??	_____
	B.	Is the safe/cabinet in proper working condition?	YES	NO	??	_____
	C.	Has the combination or lock been recently changed?	YES	NO	??	_____

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8	A. Are votive donations placed in a locked container by the donor?	YES	NO	??	_____
	B. Are the number of candles used compared to the receipts when the candles are replaced in the stands? (Votive Light Collection Form)	YES	NO	??	_____
	C. Is the ratio of votive income to votive expense on the financial report similar to the ratio between the requested donation and cost/candle?	YES	NO	??	_____
9	A. Are all employees paid through the payroll system?	YES	NO	??	_____
	B. Are all employees listed on the monthly payroll and insurance billings known/valid employees?	YES	NO	??	_____
	C. Are all significant expenses paid by check (not in cash)?	YES	NO	??	_____
	D. Are expenses paid from original invoices/contracts and not faxes, copies, emails or statements?	YES	NO	??	_____
	E. Is the receipt of goods or services verified before payment?	YES	NO	??	_____
	F. Is there a properly established and adequately documented petty cash fund for minor expenses?	YES	NO	??	_____
10	A. Are procedures in place regarding the handling and opening of mail to ensure that important information is received by appropriate personnel?	YES	NO	??	_____
	B. Are bank statements for the main operating accounts received, opened, reviewed and initialed by someone other than the parish bookkeeper before they are given to the bookkeeper?	YES	NO	??	_____
	C. Are all outside organization/society account bank statements mailed directly to the parish rectory and are they opened and reviewed before being given to the organization/society treasurer?	YES	NO	??	_____
11	A. Are all bank statements reconciled on a monthly basis?	YES	NO	??	_____
	B. Are bank reconciliations reviewed and initialed on a monthly basis by someone other than the person who is to perform the reconciliation?	YES	NO	??	_____
12	A. Are computer files periodically backed-up and stored away from the computer in a fire-resistant location?	YES	NO	??	_____
	B. Is a back-up copy of Quicken sent to the Diocese annually?	YES	NO	??	_____

13 A.	Is the pastor an eligible signer for all accounts?	YES	NO	??	_____
B.	Are there at least two priests (and no lay individuals) eligible to sign for the main parish operating accounts?	YES	NO	??	_____
C.	Are copies of all signature cards on file?	YES	NO	??	_____

14	Are all parish and related organization funds in excess of ordinary operating needs on deposit with the Deposit & Loan (D & L) Fund?	YES	NO	??	_____
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Based on responses to the above, prepare a list of potential problem areas and modify the review procedures, if necessary, to more adequately address these potential problem areas.

**Potential Problem Areas Noted**

**Modification to Review Procedures**

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

## Receipt Tests

As part of the review, receipt records such as offertory, tuition, votive, merchandise discount (scrip), other major sources of income and Mass Stipend records should be tested as follows:

### 1. Test of Individual Parishioner Contribution Records

Type of Records? ☐ Manual ☐ Computer & Software

- For manual records, an adding machine tape should be run on the cards or sheets for a sample of weeks (blocks).
- For computerized records, reports should be generated.

The totals from the individual contribution records are then compared to the money counter reports and bank deposits as follows:

Time Period	A Money Counter's Report	B Bank Deposit	C Contribution # Families	D Records Total	E Diff. Over* or (Short) (B-D)	F % Loose Cash (E/B)
	\$	\$		\$	\$	%

*\*Normally the deposit is higher due to loose cash that is not credited to any specific individual on the contribution records.*

Test Included: ☐ Offertory ☐ Monthly ☐ School ☐ PSP ☐ DOP ☐ Other: \_\_\_\_\_

Notes Regarding Contribution Records:

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## 2. Test of Individual Tuition Records

Type of Records? ☐ Manual ☐ Computer & Software

For manual records, an adding machine tape should be run on the outstanding balances for each family and you will need to analyze enrollment and tuition rate information. For records maintained via computer, a report should be generated listing all tuition billings, collections and outstanding balances. The totals from the individual tuition records are then compared to amount reported on the financial statements as follows:

A. Tuition Collected per Financial Statement	\$ _____
B. Total Tuition Billed _____ / _____ / _____	_____*
C. Less: Non-cash Grants/Free Tuition	( _____ )
D. Withdrawal/Late Enrollment Adjust.	( _____ )
E. Uncollected Tuition as of _____ / _____ / _____	
F. Tuition Collected per Student Records (B-C-D-E)	( _____ )
Difference Over/(Short) (A-F)	\$ _____

*\*For manual records, you can determine the billing by multiplying the number of students/families by the appropriate tuition rate based on the enrollment and tuition rate information maintained by the school administration.*

## 3. Test of Votive Light (Candle) Income

Summary reports for votive deposits and expenses are obtained from Quicken. The matching paid invoices and any unpaid invoices for delivered candles are used to determine the number of candles purchased. An inventory of candles on hand should be taken at the end of each period to be tested and un-deposited receipts counted. Summarize this information below: (Multiple columns are provided for different candle types/sizes)

A. Votive Candle Deposits per Quicken			\$ _____
B. Add: Ending Un-deposited Votive Receipts			\$ _____
C. Less: Beginning Un-deposited Votive Receipts			\$ _____
D. Total Votive Income for the Period (A+B-C)			\$ _____
E. Beginning Inventory #Candles _____ / _____ / _____	Type 1 \$ _____	Type 2 \$ _____	
F. Add: # of Candles Purchased this Period per Invoices	\$ _____	\$ _____	
G. Less: Ending Inventory # Candles _____ / _____ / _____	\$ _____	\$ _____	
H. Estimated Number of Candles Used (E+F-G)	\$ _____	\$ _____	
I. Requested Donation per Candle	\$ _____	\$ _____	
J. Estimated Candle Receipts for the Period (H x I)	\$ _____	\$ _____	\$ _____
K. Difference Over/(Short) (D – J)			\$ _____

#### 4. Test of Merchandise Discount (Scrip) Program Income

Summary reports for scrip deposits and expenses are obtained from Quicken or direct from bank account records for those not using Quicken. The matching paid invoices and any unpaid invoices for scrip are used to determine the face amount of cards/certificates purchased. An inventory of scrip (@ face amount) should be taken at the end of each period to be tested and un-deposited receipts counted. Summarize this information below:

A. Merchandise Discount Program (Scrip) Deposits during the period	\$ _____
B. Add: Ending Un-deposited Scrip Receipts	\$ _____
C. Less: Beginning Un-deposited Scrip Receipts	\$ _____
D. Less: Prepayments for Scrip Not Issued to the Buyer	\$ _____
E. Total Scrip Income for the Period (A+B-C-D)	\$ _____
F. Beginning Scrip Inventory @ FACE _____ / _____ / _____	# _____
G. Add: Purchases @ FACE this Period per Invoices	# _____
H. Less: Scrip ordered, included in purchases but not delivered @ FACE	# _____
I. Less: Ending Scrip Inventory @ FACE _____ / _____ / _____	# _____
J. Estimated Scrip Sales @ FACE (F+G-H-I)	# _____
K. Difference Over/(Short) (E – J)	\$ _____

#### 5. Test of Other Fundraising Records (Major events only)

Events that occur for a limited time, such as festivals, should be tested in total while ongoing events, such as bingos, should be tested on a sample basis. The primary sources of receipts for a cemetery are lot/crypt sales and interments and, where possible, deeds issued and interment records should be compared to deposits. Total the detail records, i.e. festival booth reports, bingo reports, lot sales etc. and compare the total to the amount deposited/reported as follows:

Type of Receipt	A Amount Deposited/ Reported	B Detailed Records Review Type of Records	C Detailed Records Review Amount	D Difference Over/(Short) (A-C)
	\$		\$	\$
	\$		\$	\$
	\$		\$	\$
	\$		\$	\$
	\$		\$	\$

## Reconciliation of Mass Stipends: As of \_\_\_\_ / \_\_\_\_ / \_\_\_\_

Due to the nature of Mass Stipends, it is best to determine whether there are sufficient funds on hand to cover unsaid Masses rather than testing receipts. Count all the Masses for which money has been received and the Mass has not yet been said and include Masses said during the current month(s) that have not yet been paid to the priest.

### Mass Funds Available:

- A. Mass Stipend Checking \_\_\_\_\_
- B. Cash on Hand \_\_\_\_\_
- C. Mass Stipend Savings \_\_\_\_\_
- D. Total Mass Funds Available (A+B+C) \$ \_\_\_\_\_

### Masses to be Satisfied or to be Paid to Priests:

- E. Permanent Book #1 \_\_\_\_\_
- F. Permanent Book #2 \_\_\_\_\_
- G. Schedule Book 20 \_\_\_\_\_
- H. Schedule Book 20 \_\_\_\_\_
- I. Other: \_\_\_\_\_
- J. Total Mass Intentions (Sum E thru I) \_\_\_\_\_
- K. Stipend per Mass @\$10.00
- L. Funds Required (J x K) \$ \_\_\_\_\_
- M. Mass Stipend (Shortage)/Surplus (D-L) \$ \_\_\_\_\_

Are Binctions\* promptly remitted to the Diocese? YES NO ??

\* If a priest says more than one Mass in a day the additional stipends are to be sent to the Diocese for the Seminary Fund.

Based upon the above tests of receipt records, list below any internal control problems or other exceptions and recommendations regarding the handling, documenting and reporting receipts.

### Type of Receipt

### Problem/Recommendation

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____



## Review of Bank Accounts

Indicate below the various bank accounts related to the parish i.e. use the parish name, tax identification number, etc. that are currently open or were closed within the past year?

Parish Acct #1		Altar/Rosary Soc.		School Acct #1	
Parish Acct #2		Christian Mothers		School Acct #2	
Parish Acct #3		Womens/Ladies Guild		School Acct #3	
CCD		Ladies of Charity		Cafeteria	
Building Fund		St Vincent de Paul		PTG	
Social Services		Holy Name Society		Principal's	
Raffle/Lottery		Ushers/Mens Club		School Activity	
Bingo		CYO/Youth Group		Preschool	
Grocery/Script		Choir		Athletic Assoc	
Festival/Bazaar		Special/Activity		Angel/Tuition Aid	
Mass Stipend Chk		Cemetery		Mass Stipend Sav	

Key: O = Open    R = Reviewed    X = Not Available    N/A = Not Applicable    C = Closed

Review a sample of the financial records i.e. bank statements, canceled checks, check stubs, invoices, etc. for each of the above accounts to determine compliance with parish and diocesan policies. Complete a "Bank Account Review List" for each account.

## Summary and Report

Summarize the review findings and prepare a report listing the exceptions and related recommendations. Copies of the report are to be provided to the pastor and finance council. If any problems are of a serious nature, copies of the report are to be sent to the appropriate diocesan personnel. Specific recommendations are to be provided to parish personnel, treasurers, volunteers, etc. to correct the exceptions and periodic follow-up is to be performed to ensure that significant problems are corrected.

## SECTION II

### Bank Account Review List

Parish: \_\_\_\_\_ Location Number: \_\_\_\_\_

Account Name: \_\_\_\_\_ Bank Name: \_\_\_\_\_

Type of Account: \_\_\_\_\_ Account #: \_\_\_\_\_

Eligible Signers: \_\_\_\_\_

Date of Last Bank Reconciliation: \_\_\_\_ / \_\_\_\_ / \_\_\_\_ Balance: \$ \_\_\_\_\_

Review a sample of the financial records i.e. bank statements, canceled checks, check stubs, invoices, etc. for this account to determine compliance with parish and diocesan policies. Circle "YES" if the organization/society is in compliance with policy or "NO" if they are not in compliance. If you are unable to determine whether or not they are in compliance circle the "?". Circle N/A if not applicable.

#### Parish/Diocesan Policy

#### Compliance

1. Copy of updated signature card is on file.	YES	NO	??	N/A
2. Pastor is an eligible signer.	YES	NO	??	N/A
3. There are at least two individuals eligible to sign.	YES	NO	??	N/A
4. All parish and school related operating/capital expenses are reported through parish/school accounting system.	YES	NO	??	N/A
5. Any excess funds are transferred to the parish/school before year-end and then to the Deposit & Loan (D & L) Fund if the funds are not needed for parish/school operations.	YES	NO	??	N/A
6. Check stubs/registers are properly completed.	YES	NO	??	N/A
7. Bank statements are properly reconciled and reviewed.	YES	NO	??	N/A
8. All financial records including void checks are kept on file for the required retention period.	YES	NO	??	N/A
9. Stale dated checks over six months old are voided and re-issued if a liability still exists.	YES	NO	??	N/A
10. Invoices are properly cancelled i.e. marked paid with the date, amount and check number.	YES	NO	??	N/A
11. Bills are paid from original documentation only and not from copies or hand written notes.	YES	NO	??	N/A
12. Blank checks are not pre-signed.	YES	NO	??	N/A
13. Signature stamps are not used to sign checks.	YES	NO	??	N/A
14. Proper endorsement stamps are used to endorse checks deposited.	YES	NO	??	N/A
15. All self-employed individuals paid over \$600 for services are issued Form 1099 via notification to the Diocesan Finance Office.	YES	NO	??	N/A

Bank Account Review List (continued)

Account Name: \_\_\_\_\_ Account #: \_\_\_\_\_

Parish/Diocesan Policy	Compliance			
16. All bonuses and payments to employees including those in lieu of benefits are reported as additional salary.	YES	NO	??	N/A
17. All payments to members of Religious Orders for services are paid to the Order not the individual.	YES	NO	??	N/A
18. No borrowings are permitted from local financial institutions. All borrowings are from the Deposit & Loan (D & L) Fund.	YES	NO	??	N/A
19. A Form B permission is obtained for all expenditures over \$40,000 i.e. purchase/improvement of property or equipment. Form A permission is obtained for alienations or sales of property.	YES	NO	??	N/A
20. All expenditures over \$4,000 for property/equipment are coded to capital and not operating expenses.	YES	NO	??	N/A
21. Checks are not written to "cash".	YES	NO	??	N/A
22. Raffle prizes of \$600 - \$5,000 that are 300 times the wager and all prizes over \$5,000 are reported to the IRS via the Diocesan Payroll Office and the required withholdings were remitted for winnings over \$5,000. Complied with PA Small Games of Chance Act.	YES	NO	??	N/A
23. Tuition aid/assistance is allocated to individuals based on financial need and not based on participation in fundraising events.	YES	NO	??	N/A

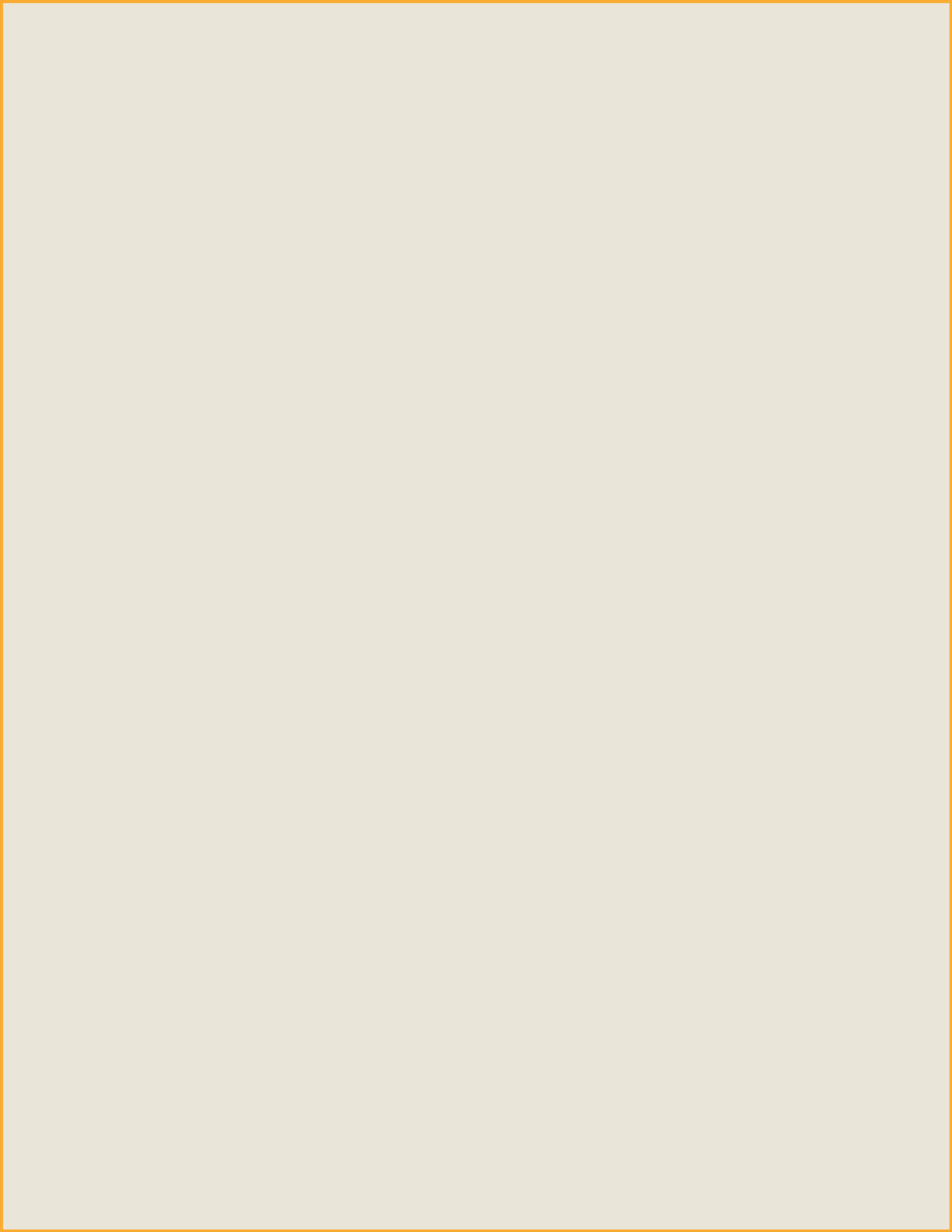
Based on the sample review of documents and the above policies, note any exceptions or recommendations below:

Exception/Problem	Recommendation
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

## SECTION III

### List of Records Needed for the Review

- 1. Parish/School/Cemetery Operating Accounts**
  - Bank statements
  - Cancelled checks including void checks
  - Checkbook or access to Quicken register
  - Duplicate deposit slips and bank deposit advices
  - Bank reconciliations
  - Monthly financial reports from the diocese (Balance Sheet, Financial Statement and Checkbook Activity Report)
  - Paid invoice files including contracts, leases, etc.
  - Payroll and Insurance records
  - Deposit & Loan (D&L) Fund quarterly statements
  - Form 1099 worksheets & prizes reported
  - Form A/B approvals & campaign exemption letters
- 2. Organization, Society, Fund Raising, Etc. Accounts**
  - Bank statements
  - Cancelled checks including void checks
  - Checkbook or access to Quicken register
  - Duplicate deposit slips and bank deposit advices
  - Bank reconciliations
  - Treasurer reports, ledgers, etc.
  - Paid invoice files including contracts, leases, etc.
  - Form 1099 worksheets & prizes reported
- 3. Mass Stipend Records**
  - Bank statements (checking and savings)
  - Cancelled checks including void checks
  - Checkbook or access to Quicken register
  - Duplicate deposit slips and bank deposit advices
  - Bank reconciliations
  - Permanent Mass scheduling book(s)
  - Annual Mass schedule book(s)
  - Cash on hand for Masses (recorded in schedule book but funds not deposited yet)
- 4. Other Records**
  - Copies of all bank signature cards
  - Contribution
    - Records
    - Parishioner records
  - Posting reports
  - Money counter reports
    - Usher schedule/list
    - Money counter schedule/list
  - Tuition Records
    - Individual student/family records
    - List of non-cash aid or credits given
    - Enrollment reports
    - Tuition rates
  - Fund raising detailed receipt records





PREVENTING, DETECTING AND  
DEALING WITH PARISH FRAUD AND  
FINANCIAL MISCONDUCT





It is important to have effective financial controls in place at the parish and its programs (school, cemetery, organizations) and seeing that they are properly followed. A comprehensive understanding of this information will significantly reduce the possibility of fraud and financial misconduct. It is important that the leadership in the parish (pastor and business manager) emphasize to staff the importance of following the established controls. It is also crucial that the parish finance council assist in implementing the internal controls and perform periodic reviews to ascertain that they are being followed.

The information is based on both actual and hypothetical cases of fraud and includes practical steps to be taken to prevent and detect fraud as well as what to do when there is an allegation or concern regarding potential fraud or financial misconduct.

Fraud and financial misconduct encompasses activities involving dishonesty, theft and/or deception on the part of an employee or volunteer to deprive the parish of its assets or gain personal benefit from their actions. For the most part our employees and volunteers are honest dedicated people who want to serve the church in one way or another. However, for those few who are weak and see an opportunity to enrich themselves at the expense of the church, the implementation of this document will serve to reduce such temptation.

### Understanding the Fraud Issue

Gaining an awareness of the scope of the issue and the major areas relative to addressing the issue is one of the first steps necessary to prevent and detect fraud and financial misconduct. This awareness may be best gained by reviewing the answers to the following questions which can be found in the succeeding pages of this document.

- How often does fraud occur in parishes and related organizations?
- How much is lost through fraud and financial misconduct?
- Where do the losses occur?
- What types of assets are taken?
- Who perpetrates fraud?
- How are frauds discovered?
- How are frauds investigated and resolved?
- What are some examples of fraud and how it could have been prevented?

## Ways To Prevent And Detect Fraud

Once there is an understanding of the issue, the next step is to determine the most cost effective ways to prevent and detect fraud and financial misconduct. This document answers the following questions and provides insight into what controls (checks and balances) should be in place.

- How should duties of paid and volunteer staff be assigned or delegated to provide proper oversight and segregation?
- What are the simplest and most effective controls that all parishes should have in place?
- What are some of the common warning signs of fraud?
- What can the finance council do to assist in detecting and preventing fraud?

## Steps To Be Taken When Fraud Is Suspected

What steps should be taken when there is suspected fraud or financial misconduct in the parish? Common questions that may be raised are listed below.

- What is the first step that should be taken when there is an allegation, concern or indication of potential fraud?
- Who should be notified when there is suspected fraud or financial abuse?
- What will happen once fraud is reported?
- What should parish personnel do after fraud has been reported?

## The Issue

No organization is ever free from the possibility of theft unless it is an organization owned and operated by the owner who is the only employee. After all, who would steal from themselves? Parish employees and volunteers are often entrusted with handling parish funds as part of their routine duties. There are various sources of parish receipts that need to be deposited and many types of operating and capital expenses that need to be paid in order for the parish to meet its financial obligations and fulfill its mission. Unfortunately some individuals, when entrusted with the funds of others, become tempted to use them for their own purposes rather than that of the parish. The following questions and related answers serve to highlight the various aspects of the issue:

### **How often does fraud occur in parishes and related organizations?**

A number of articles have appeared in the national media in recent years to lead one to believe that fraud and financial misconduct is rampant in the Catholic Church, including parishes. The articles have addressed the more serious and unusual cases that occurred. In our own diocese there have been a number of cases of theft reported over the years. Approximately 1 out of 6 of our parishes have experienced a known fraud in the past 20 years.

## How much is lost through fraud and financial misconduct?

On a national level there have been allegations of some serious losses pertaining to fraud. Locally, losses have ranged from a few thousand dollars to over half a million dollars. Most of these were recovered by insurance or restitution made by the individual. Overall the known losses are less than 1% of the combined receipts of all parishes, schools, cemeteries and organizations. However, individual parishes that experience a fraud lose an average of 5% and as much as 10% of their annual receipts during the fraud period. Experts around the country believe that many frauds go undetected and the actual losses could be significantly higher.

## Where do the losses occur?

- 80% of local fraud occurred in parishes and parish elementary schools.
- 20% occurred in parish programs, parish cemeteries and other parish entities.

## What types of assets are taken?

- 57% of funds taken have been from receipts that were never deposited into the parish or school operating bank accounts, primarily from offertory, PSP, votive, tuition and fundraising receipts.
- 18% of funds taken are via checks from operating, fundraising and organization bank accounts by forged signatures, fake vendors, or payments direct to treasurers for personal use.
- 25% of thefts are in the form of equipment and supplies or inventory such as theft of merchandise discount certificates, gift cards or other assets of the parish or school.

## Who perpetrates fraud?

- 77% of the frauds are committed by employees. They account for 82% of the loss.
- 15% of the frauds are committed by organization treasurers. They account for 16% of the loss.
- 8% of the frauds are committed by volunteers or others. They account for 2% of the loss.

## How are the frauds discovered?

- 43% of the frauds are discovered by routine audits.
- 40% of the frauds are discovered through the existence of internal parish controls.
- 17% of the frauds are discovered through complaints from parishioners and accidental discovery.

## How are frauds investigated and resolved?

Diocesan audit personnel should be contacted when there is suspicion of fraud or financial misconduct. The diocesan auditors will conduct an investigation and determine if there is any evidence of theft and advise the pastor and appropriate diocesan officials accordingly. 48% of the cases involving 77% of the lost funds were turned over to appropriate civil authorities (federal, state, county or local) for further investigation. Almost all of the cases turned over to civil authorities resulted in guilty pleas by the

individuals involved. The remaining 52% of the cases involved smaller amounts of money and were resolved through insurance or restitution without the need to involve civil authorities. Approximately 20% of the known losses are not recovered. The ultimate cost of fraud is not only the loss to the parish but also the costs to investigate and recover the funds, increases in insurance deductibles and premiums, and the negative publicity that may result.

### **What are some examples of fraud and how it could have been prevented?**

The following examples are taken from both actual and hypothetical cases. These are meant to facilitate awareness of how fraud or financial misconduct occurs.

**Case 1    The new business manager, bookkeeper, or volunteer joined the parish last year to handle the recordkeeping and assist the pastor with the operation of the parish. The pastor noted a decrease in parish income despite an increase in attendance. Theft of parish receipts was eventually discovered.**

#### ***How could this be prevented?***

Prior to hiring of the new employee or volunteer, the parish should have verified the personal references and previous job references provided by the applicant and completed a financial background check with the assistance of the Diocesan Insurance Office. The background check may have indicated that the individual was having financial problems with the IRS or credit problems that could seriously affect the reliability of the individual. See Section 2.05 B of the Financial Administration Manual.

**Case 2    Two people in the office conspired to embezzle parish funds by taking cash receipts from the offertory before it was counted, and in some cases after the collection was counted but before it was deposited by altering the money counter reports or ignoring shortages reported by the bank.**

#### ***How could this be prevented?***

Theft through collusion of two or more people is difficult to prevent and uncover. The use of tamper-evident bags to secure the offertory collections would have helped prevent this theft. Someone (such as a Finance Council member) not involved in the offertory counting, posting, depositing and recording receipts should be responsible for reconciling the money counter report to the receipted deposit slip. The parishioner contribution posting reports should be verified quarterly by the Finance Council to the deposits made during the quarter. See Appendix M of the Financial Administration Manual.

**Case 3** Votive candle cash was used for personal purposes rather than being deposited. A drop in votive candle income was noted in comparison to previous years. The financial statement reflected losses in the net votive candle money without an adequate reason.

***How could this be prevented?***

Parishioners should place votive offerings in a secure container. Two people should jointly empty the cash box and prepare the deposit slip. The candles purchased/used should be compared on a periodic basis to the votive receipts. See Appendix N of the Financial Administration Manual.

**Case 4** The bookkeeper participated in counting the offertory, posted the offertory records, and made out the deposit slip. By doing any or all of these activities, the bookkeeper was able to withhold cash by changing the deposit slip since no one verified the amount deposited nor the amount posted to the parishioner giving records.

***How could this be prevented?***

The bookkeeper should not be performing all these functions and is not to be a money counter. The Finance Council should assist the pastor, particularly in a small parish, with reviewing and performing some of the oversight duties. Someone not involved in the offertory counting, posting, depositing and recording receipts is to reconcile the money counter report to the receipted deposit slip. The parishioner contribution posting reports should be verified quarterly. See Appendix M of the Financial Administration Manual.

**Case 5** Checks were written to “Cash”, then cashed. Other checks were made out to a phony company. In some cases the pastor either pre-signed the checks or failed to ask for supporting documentation.

***How this could be prevented?***

Checks are never to be written to cash. Checks are never to be pre-signed, even if two signatures are required. Original supporting documentation is to accompany the check for signature. See Section 2.07 J of the Financial Administration Manual.

**Case 6** Bookkeeper wrote checks to herself and forged the pastor's name.

***How could these have been prevented?***

Someone other than the bookkeeper is to receive the unopened bank statements. That person (pastor, business manager, financial council member) should open and review the bank statement and cancelled checks before giving to the bookkeeper for reconciliation. Where possible, request that the bank return original cancelled checks or, if originals are not available, request the largest copy possible of both sides of the checks. The bank reconciliation is also to be reviewed and initialed and any unreconciled differences investigated. Refer to the various sections of the Financial Administration Manual regarding the above.

**Case 7** The maintenance manager performed various renovation and small building projects for the parish, allegedly purchased the material and submitted invoices for reimbursement. The employee was also the primary person who verified that the renovations were properly done and payment should be made. This created a conflict of interest. The maintenance person charged the parish for materials that were never purchased or used, services that were never performed and took parish maintenance equipment for his own personal or business use. The fraud was only discovered when an unreasonable bill for insulation was submitted for reimbursement that purported to be from a local building supply vendor. The pastor questioned the expense and it was eventually determined that the invoice was a fake along with many prior documents submitted for reimbursement.

***How this could be prevented:***

Avoid conflicts of interest. Anyone verifying the receipt of goods or services should not have a direct financial interest in the transaction. Reimbursements to individuals should be kept to the minimum amount necessary. Large expenses should be billed directly to the parish and paid by the parish directly to the vendor. The pastor, business manager or a member of the finance council should verify that the work was adequately completed. See Section 2.07 M & N of the Financial Administration Manual.

**Case 8** The housekeeper began work in the office daily at 5:00 a.m. and secretly accessed the parish safe on Monday mornings. The housekeeper took the loose offertory cash and cash in the envelopes for her own personal use. The housekeeper assisted with the contribution posting. The majority of the theft was concealed by posting the stolen envelope cash and offsetting it with loose check donations that were deposited but not posted to individual contribution records.

***How this could be prevented:***

Limit the number of individuals who have access to safe combinations and keep the written combinations secure. Un-deposited receipts are to be secured in tamper-evident bags. The bag numbers are to be tracked and verified to ensure the bags have not been switched. Someone (finance council member) not involved in the offertory counting, posting, depositing and recording of receipts is to reconcile/compare the money counter report to the deposit slip, deposit advice and parishioner contribution posting reports on a periodic (weekly/monthly) basis. See Appendix M of the Financial Administration Manual.



- Case 9** Parish used tamper proof pre-numbered bags to secure the offertory but failed to track the bag numbers. An employee simply opened one bag, took out some of the cash, discarded the bag, and moved the funds into another bag.

***How this could be prevented?***

The tamper-evident bag numbers are to be tracked. A Bag Control List is to be maintained in the parish office indicating the bags released for each mass. The head usher is to retain the tear-off numbered bag tag. The money counters are to verify the bag tag number with the list and periodically verify the bag by calling the head usher with the tear-off tag. See Appendix M of the Financial Administration Manual.

- Case 10** An employee took scrip cash receipts and gift cards. The scrip shortages were noted by other parish personnel. Procedure changes were made in an attempt to fix the problem. When the new procedures failed to prevent the shortages, the pastor resorted to the use of video cameras and recorded the individual accessing and taking receipts from the safe.

***How this could be prevented?***

The scrip gift card inventory should be kept secure. Make periodic counts of the inventory. Reconcile inventory, charges and purchases with the sales and deposits. There should be two people at all times handling cash. See Appendix Q of the Financial Administration Manual.

- Case 11** An individual not known by the seller purchased script gift cards by personal check. The check bounced and the individual could not be located.

***How could this be prevented?***

The seller should always ask for identification from the purchaser if not known or recognized. Receiving a bad check is not an insurable event and will take a lot of sales to make up for one bad check. In effect, you are giving cash (scrip card) for a check. The seller should also ask for the parishioner's envelope number and note it on the script record of the sale.

- Case 12** A school or parish organization performed various fundraisers such as the sale of Entertainment/Enjoy Books, Sarris Candy, Dances, Fashion Shows, etc. Although the volunteers worked very hard at each of the fundraisers, they did not appear to make as much money as was expected. Also, there didn't appear to be much cash deposited. Theft of cash receipts was eventually discovered because not all of the money from the fundraisers was turned in to the treasurer for deposit.

***How could this be prevented?***

A reconciliation of receipts deposited is to be compared to items sold or admissions sold (and inventory on hand, if applicable) by the organization treasurer or person in charge of the fundraiser. Any shortages are to be immediately investigated. A daily deposit report indicating items/admission sold and receipts collected is to be prepared by the individual collecting receipts. See Sections 2.07 and 2.09 B. of the Financial Administration Manual.



**Case 13** A school parent pays their child's tuition in cash. The school bookkeeper pocketed the cash and records a tuition credit on the student's tuition record. The tuition credit was not independently verified against an approval list of aid given students.

***How could this be prevented?***

If the size of the school's staff allows it, the duties of cash receipts and recording tuition payments are to be segregated. In a smaller school, with only one school office employee, a written authorization of the initial credits as well as any changes that occur during the year is to be maintained. This list is then be reconciled to the total credits awarded during the school year by the pastor, principal, or finance council member. See Section 2.07.1 of the Financial Administration Manual for more information on controls over receipts.

**Case 14** The school bookkeeper is responsible for billing and collecting past due tuition unpaid for prior years. Since no one verified the status of the past due tuition records, the bookkeeper pocketed past due tuition payments received in cash and destroyed the tuition record.

***How could this be prevented?***

A member of the parish administration or the finance council should periodically verify that the outstanding prior year tuition records agree to the Prior Year Tuition Receivable Manual Control Account and that payment was actually received and deposited. Payments posted to the prior year tuition receivable control accounts can be compared to the prior year tuition payments per the financial statement. Prior year tuition "write-offs" from year to year should be reviewed for authorization.

**Case 15** The bingo supervisor stole cash from the bingo and falsified bingo reports to cover up the thefts.

***How could this be prevented?***

Cash should be collected regularly from floor workers and from the door. Collections should be counted and recorded promptly and locked in a safe until deposited. Floor workers, in particular, should not keep large amounts of cash. Removing cash from the bingo playing area will help prevent loss due to careless record keeping or theft. See Appendix Q of the Finance Administration Manual.

**Case 16 The business manager, who is responsible for submitting the payroll electronically, adds an amount to his normal rate of pay and submits the increased amount for payment.**

***How could this be prevented?***

Parishes and schools are required to submit an annual operating budget to the diocesan Financial Services Office by May 1 for the fiscal year beginning the following July 1. The budget is an important management tool. It is a financial plan that serves as the control framework that allows for comparison of budgeted goals with actual results. Adherence to the budget is the responsibility of the pastor. The finance council is to review the financial statements on a monthly basis and any variances such as in the salary category should be investigated.

### Preventing and Detecting Fraud and Financial Abuse

Parishes and their organizations are particularly vulnerable to fraud and financial abuse mainly because the recommended internal controls can seem cumbersome, expensive or an imposition and therefore, are not always implemented or followed. Internal control is a process designed to provide reasonable assurance regarding the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations. The answers to the following questions may provide some insight into what internal controls should be in place to prevent and detect fraud and financial abuse in a cost effective manner.

**How should duties of paid and volunteer staff be assigned or delegated to provide proper oversight and segregation?**

Listed below are the most common duties that should be in place. Refer to the Financial Administration Manual for more detail.

1. There should always be two or more individuals (never one person alone) involved with the handling of receipts until secured or counted. This includes handling the offertory collection, emptying the votive candle box, handling raffle receipts, scrip monies, etc.
2. Someone (preferably a member of the finance council) not involved in the offertory counting, posting, depositing and recording of receipts is to compare the money counter report to the deposit slip, deposit advice and parishioner contribution posting reports on a periodic (weekly/monthly) basis.
3. At least two individuals should be involved in all check disbursements. One person signs the checks and another person does the bookkeeping and reconciles the bank account. The pastor, parochial vicar or regional vicar are the only signers for the parish operating account.
4. Bank statements for all parish accounts, including organizations, are to be mailed to the parish. Someone other than the bookkeeper (pastor, business manager or finance council member) is to be the first person to open, review and initial the bank statement before it is given to the bookkeeper to reconcile. It should be reviewed for anything unusual (checks to cash, unauthorized payments to the bookkeeper/treasurer, invalid/forged signatures, unknown payees or endorsements).

5. The completed bank reconciliation is to be reviewed and initialed by someone (pastor, business manager or finance council member) other than the bookkeeper or person preparing the reconciliation, on a monthly basis.
6. The bookkeeper is not to be a money counter or a check signer.

### **What are the simplest and most effective controls that all parishes should have in place?**

Listed below are some of the controls that should be in place. Refer to the Financial Administration Manual for more detail.

1. Financial background checks should be conducted for new hires and volunteers involved in handling funds. Employment application data should be verified and an organizational (financial) code of conduct must be a high priority. See Section 2.05. B, part 5 and Appendix's H and Z of the Financial Administration Manual.
2. Cash receipts not immediately counted and deposited should be secured in pre-numbered tamper-evident bags. The tamper-evident bags are to be secured in a properly functioning safe or secured cabinet.
3. Safe combinations should be changed periodically to ensure that only authorized personnel know the combination.
4. Procedures must be in place to verify that the tamper-evident bag numbers agrees with the bags assigned to the Sunday collection before they are opened. A number of parishes use the bags but fail to control the numbers, which makes the tamper proof bags useless.
5. Require reports for all major fundraising events summarizing the income, expense and net proceeds for comparison to amounts deposited and reported.
6. Expenses are not to be paid without an original invoice/contract and verification that the goods or services have been received.
7. The employee responsible for verifying that work has been done should not be allowed to perform work as an independent contractor without oversight by someone else.
8. Reimbursements to employees should be kept to a minimum with the majority of expenses billed by and paid directly to vendors.
9. Checks should never be pre-signed even if two signatures are required.
10. Legible copies of cancelled checks should be returned by the bank or be available online for the required retention period.
11. Merchandise discount program (scrip) inventory should be kept secure and counted periodically (weekly, if not daily) and reconciled with purchases and sales.
12. Votive candle donations should be placed in a secure container by the donor and candle inventory counted and compared to purchases and sales on a semi-annual basis for reasonableness.

### **What are some of the common warning signs of fraud?**

Listed below are some of the common irregularities to look for that could indicate the existence of fraud.

1. Continued checkbook imbalances may be a sign that some checks or transfers are not being reported or deposits not made and these may be funds diverted for personal use.
2. Delayed deposit or transfer of routine receipts or unexplained declines in the amount of receipts deposited may be signs that funds are being misused.
3. Missing financial records or documents may be due to someone attempting to hide evidence of diverted funds.
4. A decline in cash receipts when check receipts are constant or increasing may mean that cash is being diverted for personal use.
5. A lack of support or the use of photo copies of documents rather than the original documents may indicate that expenses are not legitimate.
6. Past due fundraising bills such as scrip gift card invoices may be a sign that receipts are not sufficient to pay the expense due to the theft of receipts or gift cards.

### **What can the finance council do to assist in detecting and preventing fraud?**

The pastor should make use of the expertise of the finance council members. The members should participate in periodic reviews of the internal control structure of the parish and its organizations noting weaknesses and offering to the pastor reasonable safeguards that can be enacted.

As a finance council member you probably do most of the following:

- Help prepare or review the annual parish budget.
- Review monthly/quarterly financial reports.
- Read the weekly parish bulletin.
- Attend parish fundraising events and activities.
- Talk to and interact with other parishioners.

Being familiar with the parish budget means you know the major sources of income to the parish and what expenses are expected. If the monthly financial reports show income or expense that is significantly different from the expected or budgeted amount, you should determine why. Reading the weekly bulletins, attending parish events and talking with other parishioners gives you a sense of what is going on in the parish and whether all activities are being reflected in the parish financial statements. If you know the festival normally makes \$60,000 but only \$30,000 is reported, you should ask why. It could be that some festival funds weren't transferred yet, were miscoded, bad weather caused a decline in receipts or maybe the funds were misused.

To better prepare yourself, be familiar with the Parish, School and Cemetery Financial Administration Manual. The pastor can have the finance council form an audit sub-committee to review parish financial records during the years between diocesan audits. When you are not satisfied with the answers to your financial questions, contact the diocese with your concerns.

### What To Do About Suspected Fraud Or Financial Abuse

Common questions that may be raised when determining what to do about suspected fraud are listed below:

#### **What is the first step that should be taken when there is an allegation, concern or indication of potential fraud?**

An initial investigation should be performed by the pastor and the chairperson of the finance council to determine if there is any evidence to support the allegation or concern. This might involve talking to the person making the allegation and finding out what led to their concern, obtaining a copy of any documentation the person might have regarding the concern or gathering what information you can regarding the matter. Specific questions to ask are as follows:

- Indicate for reference whether the person raising the concern is a parishioner, council member or employee?
- Who is the concern about?
- What has the person allegedly done?
- How was the problem discovered?
- What records are there related to the concern and who has custody of them?
- Who else may have information about the concern?
- Who else have they discussed the concern with?
- Does the person raising the concern wish to keep their identity confidential?

If the initial investigation results in a conclusion that the complaint or suspicion was unfounded, notify those who reported the concern of the result, as well as any person who was advised that they were under suspicion. If those who reported the concern are not satisfied with the explanation provided, the matter should be reported to the diocese.

#### **Who should be notified when there is suspected fraud or financial abuse?**

**The Chief Financial Officer, the Director of Financial Services and the Audit Supervisor are designated as the persons within diocesan administration who clergy, parish financial staff and finance council members can contact. The matters reported should be financial in nature, have possible significant consequences and in their opinion are not being properly or adequately addressed within the parish. All parish employees and parishioners may also write to the appropriate diocesan official or the Bishop about parish concerns. Diocesan officials can be contacted at 412-456-3000 or 111 Boulevard of the Allies, Pittsburgh, PA 15222. See the Financial Administration Manual, Section 2.07.S.**

#### **What will happen once fraud is reported?**

The parish should perform the initial investigation and contact the diocese whenever there is a credible allegation of financial misconduct in order to determine how best to proceed. When a financial allegation is reported to the diocese, an investigation based on the elements of the complaint is performed. This may involve a review of parish financial data, previous audit reports and consulting with various diocesan offices that may have

pertinent information. If warranted, a focused diocesan audit or investigation of the allegation will be conducted which may take several days to several months. The investigation may lead to an admission by and/or dismissal of the responsible person.

If the diocesan investigation leads to confirmation of a significant fraud or financial abuse, diocesan personnel, in consultation with the parish administration, will determine if civil authorities should be contacted. The diocesan auditor will prepare a Proof of Loss, when needed, to assist the parish in recovering the lost funds. Investigations by civil authorities may take from several months to over a year. The insurance claim may not be fully settled until the civil investigation is completed. When the person responsible and the loss amount is determined, the information is reported to the IRS as illegal income and is taxable to the individual. In no case should the parish accept a promissory note from the individual without approval of the diocese.

Most cases result in a plea bargain or guilty plea without the need for a hearing or court trial, however, the possibility always exists that key individuals may have to testify.

### **What should parish personnel do after fraud has been reported?**

The following are some general recommendations:

- Any allegation over \$1,000 must be reported immediately to the Diocesan Insurance Office or coverage can be denied.
- Don't confront the suspected individual(s) directly. Once alerted, they may alter or destroy important evidence or information and become uncooperative.
- Where possible, do take steps to minimize further losses in such a way that it does not alert the suspected individual(s). Attribute any change in procedures to implementing diocesan policy or prior audit recommendations.
- Secure important documents related to the fraud or theft to ensure they are not intentionally or inadvertently discarded or destroyed.
- Avoid dismissing personnel not involved in the fraud but who may have important information regarding the loss or related events.
- Cooperate fully with any investigation by the parish, diocese or civil authorities.
- Keep all information related to the fraud confidential and only discuss it with authorized personnel or on a need to know basis.
- No information should be released publicly or to the media without consulting the diocesan Communications Office.
- Don't agree to an amount or obtain a promissory note from the responsible party until a full investigation is completed. Often the amount taken is much higher than the initial admission or the initial investigation may indicate.

Hopefully the above will better prepare you to prevent, detect and deal with fraud and financial abuse in your parish. Unfortunately, individuals who commit fraud are constantly changing and adapting their methods. Thus it is important to always be alert for potential new types of fraud and financial abuse not specifically discussed here. Other types of fraud and financial abuse as well as a more thorough discussion of internal controls are contained in the Parish, School and Cemetery Financial Administration Manual.

- All other statements from financial institutions relating to any investments.



# DIOCESE OF PITTSBURGH









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