INTERNAL CONTROLS

PURPOSE

Pastors are encouraged to make use of this guide in conjunction with their finance council and share this information with them. The finance council with the pastor, by Canon Law, should provide assistance and oversight with the business/financial activities being carried out by parish staff.

The core of any financial process is based on the concept of internal control, which include processes to protect the parish from loss.

The concept of internal control must be understood so that we constantly protect the assets of the parish.

Internal control can be defined as the separation of duties and responsibilities made by an organization in order to establish a system of checks and balances. With this system, the activity of one employee independently performing his own prescribed work will check automatically, continuously, and with little or no duplication, the work of another.

SEPARATION OF DUTIES

This concept is simply dividing duties or functions so that no one person has control over all parts of a transaction. It is like having two sets of eyes watching. The question to ask is "does one person perform all parts of the transaction from initiating to reconciling?" Examples of duties to be separated include:

- Handling and recording cash receipts into the accounting system.
- Approving and signing time cards to authorize payment of wages and then preparing the actual payroll.
- Authorizing expenditures, verifying invoices, and preparing checks for distribution.
- Preparing checks and signing checks.
- Counting the collection, preparing, and recording the deposit into the system and/or donors' accounts.

CONFLICT OF INTEREST

Both Clergy and employees should avoid placing themselves in a position that might present or could be perceived to present a conflict of interest. This conflict may call into question one's integrity.

- In connection with any actual or possible conflict of interest, an interested person must disclose the existence and nature of his or her financial interest and all material facts.
- After disclosure of the financial interest and all material facts, and after any discussions with the interested person, that person shall leave the applicable meeting while the determination of a conflict of interest is discussed and voted upon.
- All volunteers should sign a Code of Conduct form (see example provided).
- The potential for a conflict of interest exists in many circumstances including the following:
  - ◊ Having private business involvement (i.e. construction work, remodeling, housekeeping, etc.)
  - ◊ Accepting gifts for services or favors
  - ◊ Engaging in transactions with friends or relatives
  - ◊ Acting with partiality toward another employee or parish member

INDEPENDENT VERIFICATION OF TRANSACTIONS

The human condition prevents us from objectively evaluating our own performance effectively. In addition, few individuals are able to record large amounts of data with perfect accuracy. It is therefore necessary to periodically assess the performance of parish staff to help ensure that any accounting and internal control systems are functioning properly. Internal auditing can assist in an independent review. Examples:

- Reconciling actual transactions with transactions entered into the accounting system.
- Reconciling the bank account to the general ledger.

INTERNAL CONTROLS (cont'd)

ACCOUNTING RECORDS

Of all the internal control tools, proper documentation is one of the most important. It is difficult to maintain internal controls without proper documentation.

- Accounting records and documents must be maintained to provide an audit trail to provide reasonable assurance that the financial records reflect all financial transactions that have occurred.
- The recording of all transactions must be correct as to quantity and dollar amount.
- Proper supporting documentation should be:
  - ⇒ Simple and easy to use to help reduce error.
  - ⇒ Kept to minimum of documents to minimize confusion.
  - ⇒ Designed to ensure that they will be properly completed.

ADMINISTRATIVE CONTROLS

Administrative controls are simply ensuring that documentation exists so that an independent party can verify approval for the movement of assets into or out of an organization. If funds or property are transferred, documentation should exist to show, at a minimum:

- Date
- Persons involved in transaction
- Amount of funds or properties involved
- Proper authorization/approval signatures
- Circumstances of the movements including the reason
- Proper account codes

AREAS OF INTERNAL CONTROLS

The controls for cash include controls over other assets that can be readily converted into cash (i.e. receivables and liabilities whose liquidation will require the use of cash, such as accounts payable).

◊ Bank Accounts - It is recommended that a parish limit the number of bank accounts owned. Examples:

- The parish operating account
- Building fund account
- Bingo account - separate account is required, if applicable, a statutory requirement by State of Texas.

◊ Checking Accounts

- Checking accounts must be opened in the name of the entity, never in the name of an individual.
- The mailing address must never be a private residence.
- All parish organizations should keep the monies raised under the auspices of the church operating account.

◊ Bank Statements

- Bank statements should be opened and reviewed by someone other than the bookkeeper.
- Each month, the bank statement should be reconciled to the accounting records.
- The bank statement should be reconciled by someone other than the check signer or bookkeeper. **This is essential to determine if any unauthorized checks were issued or receipts stolen.**
- Actual reconciliation should be compared with the financial statements by a separate responsible individual at least quarterly.
- Completed bank reconciliations are to be signed and dated by both the preparer and an appropriate reviewer.

◊ Loans or Advances - must not be made to any employee by a parish.

DIOCESE OF SAN ANGELO
SUGGESTED BEST PRACTICES ON:

PARISH FINANCE COUNCIL

ANNUALLY, EACH PARISH IS REQUIRED TO SEND A LETTER TO THE BISHOP CONTAINING:

- The names and professional titles of the members of the parish finance council.
- The dates on which the parish finance council met during the fiscal.
- The dates on which the approved (i.e. by the parish finance council) parish financial statements/budgets were made available to parishioners during the preceding fiscal year and since the end of the fiscal year. A copy of said published financial statements/budgets should be provided to the bishop.
- A statement signed by the pastor and the parish finance council members that they have met, developed, and discussed the financial statements and budget of the parish.

RECOMMENDED AREAS FOR CONSULTATION:

- The advice of the finance council should be sought both for acts of ordinary administration and acts of extraordinary administration.
- Diocesan norms require the pastor to consult with the parish finance council regarding any commitment of parish resources over $15,000.
- The advice of the finance council should be sought in the management of parish funds and banking arrangements. This also applies to bank accounts for auxiliary groups.
- The finance council should review the parish annual budget and parish annual report.
- The finance council should provide assistance in the formulation and communication of the Annual Financial Report to the parish community, as required by Canon 1287.2.
- The finance council should review any indebtedness of the parish and assist the pastor in fulfilling his obligations under canon 1284.5.
- Regularly review periodic (at least quarterly) financial reports – balance sheet, income statements, comparisons to budget as well as prior year results and cash flow analysis.
- Detail of budget to actual comparisons should be reviewed by individual program category

PARISH FINANCE COUNCIL (cont'd)

RECOMMENDED AREAS FOR CONSULTATION (CONT'D):

- Review internal controls and procedures:
  - If written procedures do not exist, participate in the development of written procedures for cash receipts, cash disbursements, and administration of bank accounts, petty cash, and payroll.
  - Review the financial reports for parish general operations, parish school(s) and other parish organizations or programs with bank accounts or revenue.
  - Collection responsibilities, to determine that proper accounting practices and internal control procedures are in place.
  - Alternatively, after consultation with the diocesan finance office, the parish may engage a CPA firm to perform an audit.

The expertise of the Finance Council should be utilized.

- Review the activities of any parish auxiliary groups and verify cash balances of bank accounts.
- Meet with auxiliary groups to review the reporting of past year's activities and a review of the budget for the upcoming year.
- Consult on the construction or renovation of parish facilities, the sale or purchase of parish property, and lease agreements.
- Assess effectiveness of existing fundraising programs and recommend new programs or changes to existing programs if revenues are insufficient.
- Review fundraising activities, such as raffles, bingo, and concession sales for acquisition of required licenses, support documentation for tax filings, and actual tax filings.
- Become knowledgeable of diocesan fiscal policies to provide advice on implementation.
- Provide advice on compliance with diocesan policies.
- Provide advice on utilizing unbudgeted revenue.
- Provide advice on training that might be helpful for parish staff.

DIOCESE OF SAN ANGELO
SUGGESTED BEST PRACTICES ON:

COLLECTIONS

INTRODUCTION AND PURPOSE

It is of utmost importance for the parish to ensure that all assets are protected and safeguarded so that those resources are available to fulfill the ministries of the parish. Sunday and Holy Day cash collections present a unique challenge in the area of internal control and proper safeguarding – there is no way to fully verify what was collected, it is handled by many individuals, there can be times where it may not be properly safeguarded, etc.

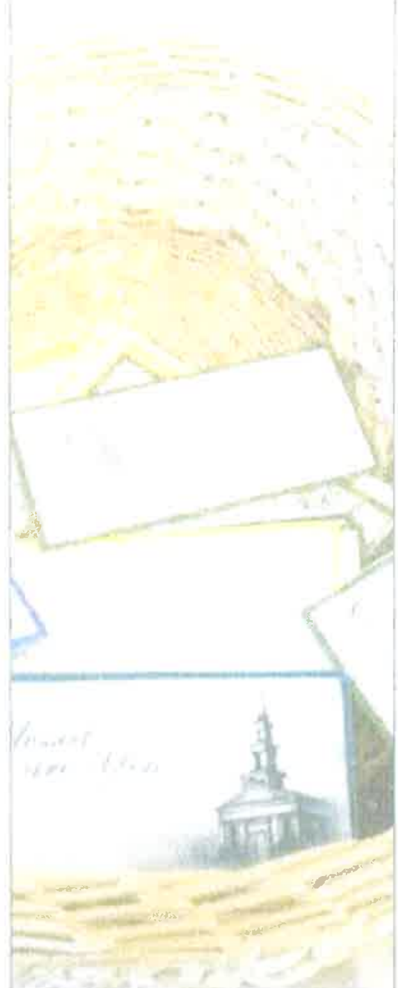
It should be clearly communicated to all involved in the counting process that good procedures safeguard the integrity of the very individuals who have been faithfully serving in collecting, counting and depositing the offerings of the people of God. A case can be made that a parish is derelict in its responsibility to these individuals if it does not have controls in place for the proper management of offerings.

There are at least three purposes for parish policies and procedures governing the collection, counting and depositing of Sunday/Holy Day collections. Sensibly designed procedures:

- protect the integrity of all custodians of cash from unwarranted suspicion;
- assure donors of careful security, confidentiality, and stewardship of the collected funds; and
- heed God's instructions regarding accountability for church collections.

In his second letter to the Corinthians, St. Paul expresses that we should be "concerned for what is honorable not only in the sight of the Lord but also in the sight of others."

(II Corinthians 8: 21) Further, II Chronicles 24:11 describe how the royal scribe ***and*** an overseer for the chief priest would handle the collections together. Additionally, they would do this 'daily'; i.e. not let the collections stock pile. In the fourth chapter of Acts (verses 32-35), money was always put "at the feet of the Apostles" – note the plurality of the word Apostles; i.e. no one Apostle had sole possession of the purse. So, we are directed by Holy Scripture to be sure that we are properly handling church funds.



TAMPER EVIDENT BAGS:

- unable to be opened without leaving evidence of being opened.
- Sequentially numbered which can be logged, tracked and controlled per mass.
- has folded bottom edges which discourage tampering; only puncturing allows entry, which is easily detected.
- Secure tape resists heat, dry ice, solvents and other temperature controlling agents which can be used to open bags without leaving evidence of tampering.
- more secure than 'locked bank bags'

COLLECTIONS (cont'd)

GENERAL STANDARDS AND REQUIREMENTS

Key concerns that address proper cash collection counting procedures:

- Uncounted offerings and other cash receipts should *never* be in the sole possession of one individual. They should be counted by a counting team of two or three individuals.

  Count teams:

  * are designated as members of the counting team;
  * are rotated on a regular basis;
  * are always in the room when the counting takes place;
  * are not related to each other by blood or marriage;
  * prepare a "Collection Count Sheet" that certifies the amount of each offering count and the faithful observation of all offering count procedures.

Uncounted offerings and other cash receipts should never be in the sole possession of one individual.

- When not in the possession of one of the count teams, collection monies should be kept in tamper evident bags in a secure and safe location; preferably a locked vault with limited access.
- An individual responsible for the disbursement of parish funds is not to be a custodian of uncounted collections.
- *No* disbursements should be made from undeposited collections.

COUNT PROCEDURES

PROCEDURES FOR COLLECTIONS:

- Before mass, tamper evident bags should be issued for each mass. The parish staff should write the date/time of each mass on separate bags and record which bag number was assigned to each mass with a permanent marker. Bags should also be issued for any additional collections.
- Ushers take the collection from the offering baskets immediately after the collection is taken (before it is taken to the altar). All contents should be placed into the plastic bag identified for that mass. The bag is to be sealed and signed by at least two of the ushers on the lines marked "FROM".
- After mass, the plastic bags should be placed in a safe/secure location. Preferably under lock and key with a limited number of people having access to the key.
- On counting day bags are brought from the safe/secure location to a secure room. From this point, until the completion of all procedures, at least two people should always be present.
- To prevent confusion, distraction and loss of concentration, only persons involved in the counting process should be present in the secure room.

The bags should be examined for evidence of tampering. Should any evidence of tampering be found, the count should be stopped immediately (without opening the bag) and the evidence reported to the pastor. The counting should continue only after documenting the situation entirely. This may include taking pictures of the bag, making notes of what was seen, who saw it, what was found, etc.

Finding no evidence of tampering, all counters are then to sign the bag on the lines marked "TO". Then begin the "Collection Count Sheet" by listing the collection date, date counted, and disposable bag numbers.

Bags are then opened and the counting begins.

Separate the loose cash, loose checks, parishioner envelopes, miscellaneous envelopes and other non-cash items which may be included in the collection basket.

TAMPER EVIDENT BAGS:

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COUNT PROCEDURES (cont'd)

Loose cash:

- Separate bills into stacks by denomination.
- Count the cash/coins twice. Verify the two totals match.
- Wrap the currency in appropriately sized bundles.
- Log the count on the "Collection Count Sheet"
- Set the cash aside.

Loose Checks:

- Make a separate list and total the 'loose checks.'
- Attempt to ascertain the appropriate envelope number of the family, if possible.
- Endorse the checks with a restrictive endorsement stamp; i.e. "for deposit only"

The amount entered into the system is to be reconciled to the total of count sheet. All discrepancies must be investigated and reconciled.

Open the envelopes and separate those containing cash from those containing checks.

Envelopes with cash:

- Write the amount of the cash on the face of the envelope.
- Cash in the envelope should stay with the envelope.
- A second person verifies the cash in the envelope as recorded.
- Separate the cash from the envelopes.
- Count the cash in the same manner as the loose cash procedures above.
- Total the amounts written on the envelopes.
- Ensure that the total of the cash and the total of the envelopes are the same.
- Log the count on the "Collection Count Sheet"
- Set the cash and envelopes aside.

Envelopes with checks:

- Write the amount of the check on the face of the envelope.
- Separate the envelopes and the checks into two piles – keep them in the same order in their respective piles to help with any issues at the end of the counting.
- Total the amount of the checks – saving the adding machine tape.
- Total the amount written on the envelopes – saving the adding machine tape.
- Ensure that the total of the checks and the total of the envelopes are the same.
- If they do not agree, compare the two adding machine tapes.
- Endorse the checks with a restrictive endorsement stamp; i.e. "for deposit only"
- Log the count on the "Collection Count Sheet"
- Set the checks and envelopes aside.

The deposit slip, cash and checks should be placed in a new tamper evident bag in a secure location until the deposit is taken to the bank. The "Collection Count Sheet" and opened disposable collection bags should be given to the parish bookkeeper. The empty envelopes are used to enter the amount given into the system used to keep track of envelope contribution for each family. The amount entered into the system is to be reconciled to the total of count sheet.

THE COLLECTION COUNT SHEET:

- Total all loose cash, loose checks, and envelopes.
- Total the "Collection Count Sheet"
- Compare the deposit slip total to the "Collection Count Sheet"
- The counting is finished when the "Collection Count Sheet" equals the total on the deposit slip.
- **All discrepancies must be investigated and reconciled.**
- All counters should initial the deposit slip and sign the "Collections Control Sheet"

DISBURSEMENTS

PURCHASES

The pastor is responsible for all commitments made on behalf of the parish. He may delegate purchasing responsibilities as he deems appropriate.

Purchases should be made within the constraints of the budget. Since the budget represents a guideline for parish spending, purchases in excess of the budgeted amount require specific authorization from the pastor. Purchases should be made proportionately throughout the year, based upon cash flow.

PAYMENT PROCEDURES

Suggested procedures to be used for making purchases and paying vendor invoices:

- A W-9 Request for Taxpayer Identification Number should be obtained for every vendor/individual receiving a payment.
- Purchases by the parish should be made using the Texas Sales and Use Tax Exemption Certification.
- Upon receipt of an invoice, verify that the material was received or service provided.
- In the absence of a vendor invoice, a written check request is required before a check can be issued.
- Vendor month-end statements should be reconciled to vendor invoices.
- Disbursements **should not** be made from month-end statements without individual invoices.
- The checks and supporting documentation (i.e., invoice, check request) should be given to the parish Pastor for approval and authorized signature.

Normally, expenditures should be paid by check. Only in extreme circumstances should cash be used to pay bills and documentation for such expenditure is required.

Blank checks should be stored on parish property in a locked safe or secure file cabinet.

ALL INVOICES MUST INCLUDE:

- amount to be paid
- payee and address
- signature of person authorizing payment

DISBURSEMENTS (cont'd)

SIGNATURES

The original hand signature of the pastor is required on every check drawn on parish accounts except as indicated below:

- The pastor appoints two individuals to sign jointly in his absence.
- Signature stamps or other check signing devices should not be used.
- Blank checks **should never** be signed in advance of preparation.
- Checks **should never** be made payable to "CASH".

No personal purchases can be charged to the parish/school credit card.

CREDIT CARDS/CHARGE ACCOUNTS

Credit cards and charge accounts may be used to facilitate business purchases. It is imperative that adequate controls governing access, signatures, and documentation of business purpose be monitored. Finance charges should be avoided and balances should be paid in full at the end of the billing cycle. Statements must be mailed to the parish office and reviewed by the pastor, pastoral administrator or school administrator.

Each individual purchase receipt must be submitted in a timely fashion. These receipts must be attached and reconciled to the corresponding purchase on the monthly credit card statement.

No personal purchases can be charged to the parish/school credit card.

A list of the cardholders and authorized charge account signers should be maintained and kept in a secure location. The list should list the name of the cardholder, the account number, credit limit and expiration date. Credit cards must be returned when employees leave their job or position. Name of the employee leaving must be removed as an authorized signer on all charge accounts.

Each parish/school may develop internal policies that are more stringent if desired.

DIOCESE OF SAN ANGELO
SUGGESTED BEST PRACTICES ON:

AUXILIARY ASSOCIATIONS

DISTINCTIONS

Parish auxiliary associations are those organizations sponsored by the parish that qualify as tax-exempt by use of the parish taxpayer ID for purposes of establishing a bank account. Examples of these organizations are: Men's Club, Ladies Club, and Altar Society.

Other associations affiliated with outside organizations use their affiliated organization's taxpayer ID when establishing bank accounts. These guidelines do not apply to the outside organizations. Examples include the Knights of Columbus and Catholic Daughters.

INTERNAL CONTROLS TO CONSIDER:

- Each parish auxiliary association should have a clearly defined purpose that is consistent with the mission of the parish.
- All fundraising activities should be consistent with the principal purpose of the association.
- The auxiliary organization's annual budget needs to be reviewed and approved by the pastor.
- Each organization may have one checking account at a local bank approved by the pastor.
- The *organizations*' bank accounts should be in the name of the parish with a second line containing the name of the organization. The address is to be the parish office.
- Authorized signatures should be limited to two officers and the pastor.
- Only authorized signers may sign checks.
- Blank checks should not be signed.
- The stock of unused checks should be securely stored and regularly inventoried.
- A designated person, preferably the, pastor at the church, is to open and review the bank statements before they are forwarded to the organization. The review should include a check of signatures on the checks or facsimile copies of the checks for authenticity.
- Bank reconciliations should be prepared monthly and signed and dated by the person who performed the reconciliation. Once a month a designated member of the organization who is independent of cash and checking activities should review the bank statements and reconciliations. The officer reviewing the reconciliation should sign and date the bank reconciliation indicating a satisfactory review of the information. For example, the secretary prepares the bank reconciliation and the pastor signs off on it.

EXAMPLES:

PARISH AUXILLIARY ASSOCIATIONS:

- Men's Club
- Parish Festival
- Youth Funds
- Altar Society

NON-PARISH AUXILLIARY ASSOCIATIONS:

- Knights of Columbus
- Catholic Daughters

DIOCESE OF SAN ANGELO
SUGGESTED BEST PRACTICES ON:

PERSONNEL ADMINISTRATION

Personnel Administration includes interviewing candidates, checking references, and hiring qualified personnel. The process produces personnel records and wage information.

The most important internal controls in personnel involve the formal method of recording and maintaining:

- Information on the authorization of new employees
- Authorization of initial and periodic changes in pay rates
- Termination dates for employees
- Separation of duties over these procedures is particularly important.

Individual personnel files should be maintained on all employees.

New or prospective employees must be properly screened as most embezzlers are repeat offenders. This screening should include a verbal check of references, former employers, etc. The following process is recommended:

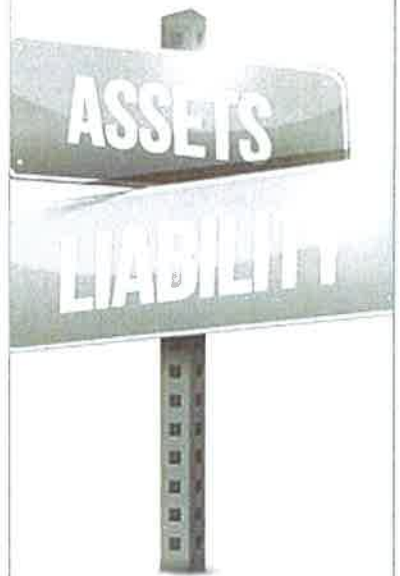
- A list of references should be provided with the employment application. References should be contacted before any job is offered.
- Criminal background checks are required on all prospective employees. Applicants must fill out the criminal background check application. (eAppsdb)
- New employees must attend an Ethics and Integrity Workshop within 30 days of hire.

Changes in employment (additions and terminations), salaries or wage rates, and payroll deductions must be properly authorized and documented in the employee's personnel file.

RELIGIOUS ORDERS

Religious order priests and sisters have taken a vow of poverty and are not to receive checks made in their names. Compensation checks to religious order priests and sisters are to be made payable only to the name of the order for the specific priest/sister.

DIOCESE OF SAN ANGELO
SUGGESTED BEST PRACTICES ON:



GL ACCOUNT TYPES

ASSETS

- Cash: Main parish checking accounts, including Altar Society, men's clubs, etc. (if applicable).
- Savings: All deposits in the Diocesan Savings and Loan program.
- Petty Cash: Cash on hand to pay for minor expenses. Petty cash should never be used to pay for employee compensation.

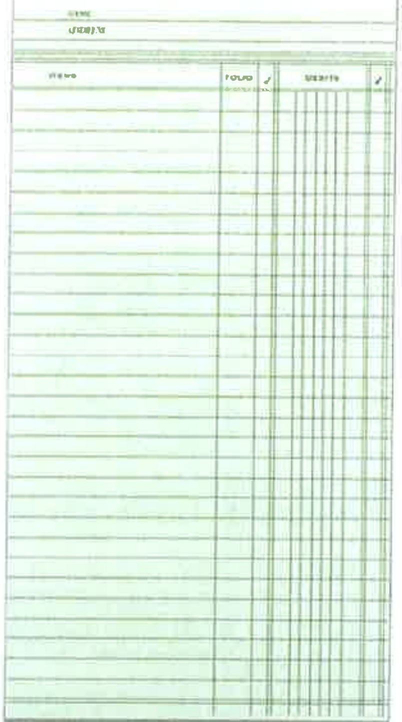
***Note: ALL bank and investment accounts must be included in one of the above categories.**

- Accounts Receivable: Any monies that are owed to your parish. Example: Loans owed to you by a mission or another parish. *Interest receivable should also be included. Loans should not be made to parish employees. Any monies that are owed to your parish.
- Plant Assets: The original cost, less depreciation, for buildings, furnishings, and vehicles. Land is also included but not depreciated.

*Auxiliary Accounts are to be recorded as an income account on the parish books, **not** as a liability account.*

LIABILITIES

- Collections in Transfer (CIT): Second collections taken for outside charitable organizations that are to be sent to the pastoral center. Examples: CSA, mission collections, national collections, disaster collections, etc.
- Notes Payable: Parish Loan owed to the diocese.



GL ACCOUNT TYPES (cont'd)

REVENUES

ASSESSABLE INCOME:

- Collections: Normal Sunday and Holy Day Mass collections.
- Auxiliary Associations (Net): all revenues and expenditures should be included in this total.
- Fundraising (Net): all revenues and expenditures should be included in this total.
- Interest and Dividends: Interest or dividends received from checking or interest bearing savings account.
- Rents: Includes rent payments for use of parish facilities such as parish activity center or hall.
- Other - Assessable: Other income that is subject to assessment. Please specify. (Detail must be provided.)

NON-ASSESSABLE INCOME:

- Subsidies: Monies received from other parishes, diocesan grants, insurance proceeds, etc.

EXPENDITURES

- Pastoral Services: Any expense associated with the clergy, rectory, and liturgy. Examples: salary, telephone, utilities, household expense, travel expense, stipends, etc. Examples of Liturgy expense: missals, hymnals, hosts, wine, flowers, etc.
- Religious Development: DRE salaries, Religious Education expenses, youth program expenses, adult education expense, etc.
- General and Administrative: Clerical salaries, FICA expense, medical insurance, telephone, office supplies, workers' compensation premiums, etc.
- Social Services: Social activities/hospitality, donations to other charities.
- Plant Operations and Maintenance: Utilities for church buildings, custodian salaries, property insurance, property taxes (if any), landscape services and general maintenance on buildings or equipment.
- Diocesan Assessment: This should be the monthly assessment amount.
- Interest Expense: Interest paid on debt.
- Other: Please specify.
- School Subsidies: Direct subsidy to school. These expenditures are deducted from the amount subject to assessment.
- Mission Subsidies: Direct subsidy to parish mission. These expenditures are deducted from the amount subject to assessment.

AUXILIARY ACCOUNTS:

- Must be recorded on the parish books.
- Are **not** to be recorded as a liability account.
- May be have income and expense "netted" together in one GL account.