

Table of Contents

10. STANDARD INTERNAL CONTROLS RELATED TO PARISH FINANCE.....	1
SEPARATION OF DUTIES.....	1
BANK ACCOUNTS.....	1
Bank Statements.....	1
Authorized Signers.....	2
Signature Stamps	2
Bank Reconciliations	2
Accounts	2
Deposits with Diocese	3
Dual Signature Requirements.....	3
Number of Bank Accounts	3
Excess Cash	3
Name of Bank and Investment Accounts	3
OTHER PARISH ORGANIZATIONS.....	3
INTERNET BANKING/ ACH TRANSFERS/ WIRE TRANSFERS.....	4
CASH DISBURSEMENTS.....	4
Check Stock	4
Signing Blank Checks	4
Wire Transfers	5
Cash Disbursements.....	5
Manual Checks.....	5
OFFERTORY COLLECTION CONTROLS.....	5
Count Team	5
Security Bags.....	6
Deposits and Collection Report	6
CASH RECEIPTS	7
FINANCE BOARD	8

STANDARD INTERNAL CONTROLS RELATED TO PARISH FINANCE

Administration of parish finances is a sacred trust. It is very important for the Pastor to establish a strong system of internal control because he has the responsibility for overall stewardship of the Parish. The following procedures are designed to meet the requirements of good internal control and not be unnecessarily burdensome to the parish.

Internal Control is about being good stewards. In today's environment, it is essential to ensure the protection of assets and to protect the reputation of all those involved in financial administration. By implementing and monitoring a well-designed system, you protect the reputation of your staff and allow them to perform their duties as professionals.

These procedures detail the normal controls that should be in place for a medium to large size parish. A business manager, parish administrator, deacon or finance board member can be appointed by the pastor as his designate. Controls for smaller parishes may have to be tailored just for that parish.

SEPARATION OF DUTIES

The following job duties should ideally be done by separate individuals:

- Bookkeeping

- Signing Checks

- Reconciling the Bank Accounts and reviewing the cancelled checks

- Recording and Depositing receipts and Offertory Collections and other receipts

Other than reviewing the cancelled checks directly upon receipt from the bank, these are the most important internal controls to have in place. If it not feasible to separate these job functions at your parish, please contact the Parish Auditor to discuss compensating internal controls to have in place.

BANK ACCOUNTS

Bank Statements

All bank statements and cancelled checks should be received directly by the pastor or his designate. The pastor should a) open and review to ensure payees are valid and signatures are authentic, b) endorsements appear genuine c) all other transactions have been authorized and d) the balance appears reasonable. He should then sign and date the bank statement(s) to indicate his review and forward the statement to the person who reconciles the bank account.

Authorized Signers

The pastor must be included as an authorized signer on all accounts as administrator of the parish and its affiliated organizations. This ensures that the pastor is aware of all accounts in the name of the parish. It also protects the misuse of the parish's tax id number. Individuals with access to record entries in the accounting records and who receive, and process cash receipts should not be authorized signers. This separates the duties of those with control over cash to insulate the individual from any implication or temptation of wrongdoing.

Ideally, the pastor should be the individual signing all checks. When checks are presented for signature, the supporting documentation (invoice & possibly a purchase order) should accompany the check. In this way he is aware of all parish expenditures.

When there is a change in signers (ex. if a board member is a signer and rotates off) the bank should be notified as soon as possible via a change in signature cards and the bank resolution.

Signature Stamps

A signature stamp should never be used. In fact, it is strongly recommended that signature stamps should be destroyed. This way, all cash outflow is properly reviewed and authorized. Should a signature stamp be used for correspondence, it should be kept locked up in the pastor's possession and used only by him.

Bank Reconciliations

Bank reconciliations should be performed on a timely basis, preferably within ten days after the last day of the month. This helps to ensure that any errors can be found and corrected promptly by either the bank or the parish.

Reconciliations of checking accounts should be performed by an individual who does not sign the checks or keep the books (if possible, someone who does not process receipts either). A member of the finance board, the pastor or the business manager (in larger parishes) should be reviewing the reconciliations on a monthly basis, dating them and signing off.

Accounts

Any and all checking, savings, and investment accounts should be included on the parish general ledger. (See also section further on regarding other parish organizations.) This helps guarantee that the financial statements are accurate and allows the finance board and the parishioners to have a complete picture of the finances of the parish.

Deposits with Diocese

Deposits with the Diocese should be balanced to the diocesan Deposit and Loan statement(s) on a monthly basis with interest recorded on the general ledger.

Dual Signature Requirements

Dual signature requirements for the main operating account's manual and computer checks should be established and noted on the face of the check (i.e.- "any check over \$5,000 is required to have two signatures" and two signature lines should be printed on the check.) The signature card (or resolution, depending on the documents used by the bank) should also show the restriction requirement.

Number of Bank Accounts

The number of accounts should be kept to a minimum. This generally helps to streamline the accounting process.

Excess Cash

Norms of the Diocese of Nashville, Norm 135 "all surplus funds of parishes and institutions must be deposited with the Deposit and Loan Fund. Surplus funds are defined as those not needed beyond a period of six weeks."

Name of Bank and Investment Accounts

Norms of the Diocese of Nashville, para.113 "Priests, deacons, parish officers, and corporate officers may not hold assets in their own name or purchase in their own name any property that rightly belongs to the church. Bank deposits must be made in the name of the institution from which these funds originated."

OTHER PARISH ORGANIZATIONS

- Norms of the Diocese Norm 50 "In order for an association to be considered a fully integrated component of the parish, it must be recognized as such by the parish council as a matter of its written record, and it must be subject to the ultimate fiscal control of the pastor. An itemized record of receipts and expenditures must be filed in the parish office annually or made available upon request of the pastor."
- For satellite parish organizations, it is recommended that either the records be maintained as part of the parish's general ledger. or the organization send in at a minimum quarterly financial statements. This keeps the parish management apprised of the financial activity of the organizations. The monthly bank statements and any investment statements for organization accounts should be sent directly to the church office to be reviewed before they are handled by the treasurer of the organization.
- It is recommended that excess cash and investments be on deposit at the Diocese.

- The parish office should be reviewing (by signing off & dating) or completing the bank reconciliation and reviewing the cancelled checks on a quarterly basis.
- Organizations may have separate accounts based on approval by the pastor.
- The pastor must be included as an authorized signer on all its affiliated organizations that use the parish's tax id number. This ensures that the pastor is aware of all accounts in the name of the parish and prevents an organization from keeping parish related assets (primarily cash) out of the control of the pastor with the ability to either close an account or put money in an account the pastor is not aware of and thus has no access to.

INTERNET BANKING/ ACH TRANSFERS/ WIRE TRANSFERS

- Internet Banking has a potential for a great degree of exposure and should always be monitored by the pastor or the parish administrator/business manager in a larger parish. This is due to the fact that any individual who has access to online transactions literally has an open checkbook. It is strongly recommended that the pastor should be the only individual that "releases" the funds - wire transfers, ACH payroll deposits, 403(B) deposits etc. The pastor or his designate should be the system administrator of the bank password and software. He should generate the bank report that lists a detail of all transactions, sign it and date it. It should then be forwarded to the bookkeeper for recording in the general ledger. In the event an outside payroll service is used, or there are ACH payroll transfers made, at a minimum, the pastor should be signing off and reviewing every report processed by the bookkeeper.
- If the bank's software makes it possible for the system administrator to set up two people to release funds - each with their own confidential password - it is recommended that two individuals jointly process a transaction. Not all bank software is programmed with this capability therefore it is important that the pastor be the person releasing funds or carefully reviewing all bank, payroll and 403(B) transactions on a timely basis.

CASH DISBURSEMENTS

Check Stock

Blank check stock should be kept in a locked location, preferably in the safe or fireproof filing cabinet, and access limited to those who are authorized to prepare checks. This helps reduce the risk of stolen and forged checks.

Signing Blank Checks

Blank or partially blank checks should never be signed. The practice of signing blank checks severely decreases the effectiveness of other cash controls established related to accuracy and propriety of transactions. Checks should only be signed when the payee and dollar

amount are filled in and the supporting documentation (original invoice and check request) is with the check so it can be reviewed by the signer. Having this information readily available makes the process more efficient if there is a question related to an expense (especially if the pastor signs checks after regular business hours). It also provides for a double check of the accuracy of the payment being made.

Wire Transfers

If wire transfers are made, they should be infrequent, and a policy should be in place stating who is authorized to make such transfers and in what amount (preferably it would be limited to the pastor).

Cash Disbursements

All disbursements (including bonuses, Christmas or other gifts and payroll) should be made via check (except the obvious case when petty cash is used) and should be recorded in the general ledger. Cash should not be used to pay vendors, contractors or employees.

Manual Checks

If in an emergency, checks are prepared manually rather than generated by computer, a process should be in place to ensure that the disbursement is recorded accurately and timely in the accounting records (rather than waiting until the bank statement is received to record the transaction from the cancelled check).

OFFERTORY COLLECTION CONTROLS

The controls over collections are instrumental in ensuring we fulfill our responsibility as good stewards of the temporal goods of the Church. The primary controls that apply throughout the Collection/Count/Receipt process with regards to receipts, i.e., cash and/or checks, are:

1. Three-fold control over funds at all times;
2. Secure Environment and the use of Tamper Evident Bags;
3. Timeliness of processing; and,
4. Accurate and complete recording and subsequent reporting.

Count Team

- The Count Team should consist of three people, unrelated to each other. A committee of six people, divided into teams of three, should be established to count the collection after Mass on Sundays or Monday. Close relatives and husband and wife teams should not be allowed. If the number of available volunteers is insufficient to allow three on the team, two may be used as long as they are not related. A member of the staff may be included in the count team, but this should not be the staff member responsible for posting transactions to the accounting records or census. In no circumstance, should only one individual count the collection. The members of the team should be rotated

every month or at other appropriate intervals. They should be responsible for counting the money, completing the collection report and security bag log, preparing the deposit slip and taking the monies to the bank.

Security Bags

- Tamper Resistant Security Bags are to be used in the Church immediately by the ushers once the collection has been made and before the monies are taken to the Altar. They should be signed and dated with a permanent marking pen by the ushers (this may be done prior to inserting the money into the bags). The tamper-evident bag(s), once sealed, should be put into the safe or other locked and secured area by the ushers. The bags should remain sealed and should only be opened in the presence of three or more people who count the funds. In the event the Parish is depositing funds straight into the night deposit box or lockbox for counting, the bag(s) should not be opened before depositing in the lockbox.
- **A log of bags** used is to be maintained. The money counting team(s) will open the bag(s) with a pair of scissors. The bags should not be ripped open. After each bag is opened, a member of the counting team will sign-off on the control log. If there is a discrepancy with the control numbers or if the bag appears to have been tampered with, the counting team should contact the Pastor or Finance Chair.

Deposits and Collection Report

- **The collection summary report** should be accurately filled out in pen, and members of the team should sign and date the report, and balance to the deposit slip.
- **Endorsements** - the back of each check should be immediately endorsed with the parish endorsement stamp, which should have the parish name, bank account number and say "For Deposit Only."
- **The deposit slip** should list each check by parishioner, or the checks should be copied and included with the report. The duplicate deposit slip should be attached to the collection report. The validated deposit slip from the bank should also be attached to the collection report. Offertory envelopes should be retained for at least a year to leave an audit trail.
- The deposit is to be made preferably on Sunday. Funds should be sealed in a new security bag for delivery to the Bank after the count is complete. (The security bags are not reusable.) The bank is to be instructed to always look for these security bags to be in use. If the seal is broken or the bag is tampered with in any way, the bank will not work the deposit but notify the pastor. The funds should be deposited in the night drop. If this is not possible, the funds should still be placed in a security bag, and put in the safe overnight for deposit on Monday morning.

- The Bookkeeper should reconcile the deposit slips, bank bag and collection reports and ascertain that security bags have been utilized by observing the bag numbers. Employees who record the transactions in the general ledger should not be involved in the counting process as an assigned member of the count team, nor serve in a substitute capacity.
- The collection report will designate all funds. In order to complete the report, the envelopes will need to be sorted by fund, and a calculator tape should be attached to the group of envelopes for that fund. These totals will be transferred to the collection report. We ask you to encourage the use of checks, automatic account withdrawals (ACH) and envelopes.
- All persons who handle cash should be told that funds should be deposited intact. No cash should ever be taken or exchanged from the collections. A possible audit step is to trace bills from the collection basket to the bank.

CASH RECEIPTS

- Processing of cash receipts (opening mail, preparing the deposit, making the deposit) should be done by an individual (two together if possible) who does not enter the information in the accounting records.
- Donations should be recorded in the proper year. The postmark date on the mailing envelope should be used to record the date received at year-end. Checks received in envelopes postmarked January 1st or later should be recorded in the following year. Checks received thru the offertory collection baskets should be recorded on the date received as opposed to the date of the check or deposit.
- All checks should be restrictively endorsed "for deposit only" with the parish name and account number as soon as they are received.. This ensures that any lost or stolen checks cannot be cashed or deposited to any other account.
- Pre-numbered, two-part receipts (carbon and original) should be given for all cash received through the parish/school office.
- If cash/checks are received and not deposited to the bank the day they are received, they should be kept in a safe.
- If receipts are processed in batches, the batch total should match the deposit total and the cash portion of the deposit should match the total of the receipts in the receipt book. This is another way to verify the accuracy of the information being entered in the general ledger.
- All receipts/payments should be recorded in the general ledger. This is the only way to make sure that the records are complete and accurate. It also helps the finance board as they plan and budget.
- A list of receipts should be kept by name or category either from the accounting software or detailed on the bank deposit slip especially if copies are not made of the checks as

they are received. At a minimum, copies of the offertory collection checks or the donor's check number & name should be recorded on the deposit slip to leave an audit trail. Documentation also provides support if a parishioner ever questions the amount of their donation.

- Deposits should be made on a daily basis, or as soon as feasible. No cash or checks should be retained in the office for longer than five days, so as to safeguard the asset from theft or loss.

FINANCE BOARD

- Norms of the Diocese para. 48 "Each parish must have a finance board with a life of three years such that the original appointments to the board and subsequent appointments to fill vacancies would terminate simultaneously. The pastor must appoint at least three but not more than seven parishioners to this board. Members may be reappointed to provide continuity. A change of pastor has no effect on the life of the board or appointments to it. The finance board advises the pastor in the administration of the parish assets. The pastor, preserving his right and duty to act in juridic affairs on behalf of the parish, may allow the finance board to manage the financial affairs of the parish."
- Finance board meetings should be documented by official minutes with a copy kept at the parish.
- The finance board should be involved in the preparation of the parish budget. Norms of the Diocese para. 51 "a budget must be prepared annually for approval by the parish council and an annual report made to the parish on all parish funds."
- The board should be kept apprised of the financial activities of the parish by providing them with quarterly financial statements - both a detail balance sheet and income statement.
- The board should be involved when deciding to borrow funds (from either the Diocese or banks).