



DIOCESE OF AUSTIN

PARISH INTERNAL CONTROL MANUAL
Revised October 2019



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Purpose of the Manual

The purpose of this manual is to provide guidance and assistance to those involved in the financial and administrative activities of parishes and schools within the Austin Diocese. We hope this manual will be of assistance, especially to the bookkeepers and business administrators, as well as pastors and principals, to safeguard the assets of the diocese. This manual is written in a very basic form to explain some abstract ideas as well as to provide and summarize diocesan policies and procedures.

- I. The information contained in this manual is common business practice for nonprofit Catholic parishes and schools.
- II. We have included and emphasized certain procedures that have developed as a result of past experience.
- III. Our goal is to provide clearly written policies and guidelines to ensure consistency and efficiency within the diocese to accomplish our mission.
- IV. Pastors are encouraged to make use of this manual in conjunction with their finance council and share this information with them.
 - A. The finance council with the pastor, by Canon Law, should provide assistance and oversight with the business/financial activities being carried out by parish/school administrators and bookkeepers.
 - B. The pastor and finance council should complete the self-evaluation questionnaire on an annual basis in conjunction with the bookkeeper and/or the administrator ([See Appendix IV: Internal Control Questionnaire](#) (Page U-31)).



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General

All entities within the Austin Diocese should follow a consistent methodology for the handling of financial activities. Proper care and efficient handling of parish/school finances help ensure that we are good stewards in the pursuit of the various ministries of the parish. As good stewards, we are charged with safeguarding the assets entrusted to us.

This manual will be kept updated, and it will be improved as requests are made. We strongly urge you to pass along suggestions pertaining to this document to the Director of Parish Business Services.

I. Definition

The foundation of any financial process is based on the concept of internal controls. In other words, there should be processes in place to protect the parish and school from loss.

- A. No one should steal from the parish.
- B. The concept of internal control must be understood so that we do everything possible to protect the assets of the parish.
 - 1. There are many definitions of Internal Control, here is one:

Internal control is defined as the separation of duties and responsibilities which is made by an organization in order to establish a system of checks and balances so designed that 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.

II. 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:

- A. Handling and recording cash receipts into the accounting system

- B. Approving and signing time cards to authorize payment of wages and then preparing the actual payroll
- C. Authorizing expenditures, verifying invoices, and preparing checks for distribution
- D. Preparing checks and signing checks
- E. Counting the collection, preparing, and recording the deposit into the accounting system or posting to the individual donors' accounts

III. Conflict of Interest

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

- A. 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.
- B. 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.
- C. All volunteers are required to sign the *Code of Conduct for Volunteers Handling Money or Advising on Financial Matters* form (Page U-29).
- D. The potential for a conflict of interest exists in many circumstances including the following:
 1. Having private business involvement or other dealings with the parish (i.e. construction work, remodeling, housekeeping, etc.)
 2. Accepting gifts for services or favors
 3. Engaging in transactions with friends or relatives
 4. Acting with partiality toward another employee or parish member
 5. Violating confidence of another for personal gain

NOTE: Items 1 and 3 above must be disclosed and the transaction approved by the pastor.

IV. Suitable Documents

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

- A. Documentation is required any time a transaction or unusual event occurs. Required documentation includes such things as the who, what, where, when, and how:

1. Date, invoice/receipt number, purchase order number if used
2. Persons involved in transaction
3. Amount of funds or properties involved
4. Proper authorization/approval signatures
5. Proper account codes
6. Proper source

B. Document everything that is considered essential at all times.

V. Accounting Records

- A. Accounting records and documents must be maintained to provide an audit trail.
- B. One major objective is to provide reasonable assurance that the financial records reflect all financial transactions that have occurred.
- C. The recording of all transactions must be correct as to quantity and dollar amount and must be made in the proper accounting period.
- D. Proper supporting documentation must be:
 1. Simple and easy to use to help reduce error
 2. Numbered to help keep physical control over the documents
 3. Kept to minimum of documents to minimize confusion
 4. Designed to ensure that they will be properly completed

VI. Physical Control Over Assets

The safeguarding of assets is an important aspect of any system of internal control.

- A. Safeguarding assets includes cash, property, and financial records:
 1. A fireproof safe bolted to the floor or wall or a sturdy locked fireproof cabinet must be available.
 2. Accounting records must be secured in a locked room or file cabinet and accessible only to select individuals.
 3. Financial records should not be removed from the office; they should never be kept in someone's house, car, temporary location, etc. without the approval of the pastor.

4. A key log should be maintained to ensure that the pastor/administrator/principal knows who has access to the various areas of the facilities.
5. Locks and safe combinations that house financial or other sensitive materials should be changed periodically, especially when a key member of the staff leaves (voluntarily or involuntarily).
6. Desks should be kept locked if they contain financial records or other sensitive and confidential material.

VII. Administrative Controls

Administrative controls are simply ensuring that documentation exists so that an independent party could verify approval for the movement of assets into or out of an organization.

- A. If funds or property are transferred, documentation should exist to show, at a minimum:
 1. Date
 2. Persons involved in transaction
 3. Amount of funds or properties involved
 4. Proper authorization/approval signatures
 5. Circumstances of the movements including the reason
 6. Source and destination
 7. Proper account codes

VIII. 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 for supervisors to periodically assess the performance of their subordinates to help ensure that any accounting and internal control systems are functioning properly.

- A. Internal auditing can assist in an independent review.
- B. Examples:
 1. Reconciling actual transactions with transactions entered into the accounting system.
 2. Reconciling the bank account to the general ledger.

IX. When Things Do Not Work

- A. Any theft or misappropriation of funds (or suspicions of such) must be reported immediately to either the Bishop's Office or the Director of Parish Financial Services.
- B. Any flagrant and deliberate violation or noncompliance of diocesan Financial Policies must also be reported.
- C. The Austin Diocese is committed to investigating and holding responsible those involved in any financial misconduct.
- D. Every effort will be made to protect the identity of the reporting party.



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Area of Internal Controls

I. Income and Cash

- A. The controls for cash include controls over non-cash assets that can be readily convertible into cash (e.g., marketable securities, receivables and liabilities whose liquidation will require the use of cash, such as accounts payable and notes payable).
- B. All persons handling money or advising on financial matters must also agree to and sign the Code of Conduct form located at [Appendix III](#) (Page U-29).

C. Bank Accounts

- 1. No more than seven (7) checking accounts are recommended in a parish
 - a. The parish operating account
 - i. Canon 958, § 1 requires a separate book, but not a separate account for Mass intentions. These funds can be part of the parish operating account.
 - b. A checking account for related organizations
 - c. A building fund account
 - d. A separate school account, if applicable
 - e. Perpetual-care cemetery fund, if applicable
 - f. A fifth account for bingo is required, if applicable
 - i. This is a statutory requirement by the State of Texas, if a parish or school conducts bingo.
 - g. A separate payroll account may be used when warranted

2. Checking Accounts

- a. Checking accounts must be opened in the name of the entity (parish, school, bingo entity).
 - i. Checking accounts must never be opened in the name of an individual.
- b. The mailing address must never be a private residence.
- c. All parish organizations should keep the monies raised under the auspices of the church or school in the parish or school operating account. Another option is to keep these funds in the related organizations' checking account referred to above.
 - i. The parish accounting system can be used to track ministry funds by using sub-accounts within the related organizations' checking account.
- d. It is recommended that a parish or school operating checking account balance should not consistently exceed three month's expenses.
- e. Surplus funds should be deposited in an interest-bearing account.

D. Check Signers

1. The pastor, the business administrator, and the associate pastor should be the only authorized ordinary check signers for the parish.
 - a. The bookkeeper or anyone with access to the accounting system should not have signature authority.
2. The pastor, associate pastor, or principal should be the only authorized ordinary check signers in schools.
3. In the event of the ordinary signatory's absence for a period of more than several days, the following are recommended to be designated by the pastor to sign checks in his order of preference:
 - a. Permanent deacon, or chair of the Finance Council, assuming that neither of these have access to the accounting system.
 - b. In absence of the ordinary check signer, the secretary or bookkeeper prepares the checks as usual and gives them, along with supporting documentation for the expenditure, to the other person(s) for signature.
 - c. In the absence of the ordinary check signer, two signatures should be required.

- d. In no case are pre-signed blank checks to be left to be filled out by anyone. Checks with defined payee but no dollar amount should be avoided.
- e. Rubber-stamped signatures should never be used.

E. Bank Statements

1. Bank statements should be opened and reviewed by someone other than the bookkeeper.
2. Each month, the bank statement should be reconciled to the accounting records no later than fifteen (15) days after receiving the statement.
3. The bank statement reconciliation should be reviewed by someone other than the check signers and those with access to the checking account, such as the bookkeeper.
 - a. This is essential to determine if any unauthorized checks were issued or receipts stolen.
 - b. Actual reconciliation should be compared with the financial statements by a separate responsible individual at least quarterly.
4. Completed bank reconciliations are to be signed and dated by both the preparer and an appropriate reviewer.
5. All electronic funds transfers (EFT) must be pre-authorized by two authorized individuals.
6. Entities within the parish (i.e. RCIA, parish bookstore, youth group, etc.) should not have a separate checking account from the parish.

F. Loans/Advances to Employees

1. Loans or advances should not be made by a parish/school.

G. Petty Cash

1. To the greatest extent possible, all parish expenditures should be paid with a check.
2. A petty cash fund is discouraged, but can be set up with a recommended limit of \$500 to be used for very small dollar expenditures that are of an emergency nature.
3. Basically, the petty cash fund should only be used for situations where an immediate payment is essential.

4. The petty cash fund is never to be used for major expenses or payments that are consistently a part of parish/school/department operations.
5. Petty Cash Administration
 - a. Petty cash is set up by writing a check payable to the custodian of the fund.
 - i. The check must be prepared to the custodian with the notation for petty cash.
 - b. Petty cash is a balance sheet item and the amount of the fund must appear on the balance sheet.
 - c. The fund is an imprest fund, which means that the total of the cash and the receipts is always the same amount.
 - d. One person should be charged with the petty cash fund and named as the custodian.
 - e. The custodian must maintain the petty cash in a locked cabinet, desk, or safe where the custodian is the only one with access.
 - f. Persons having approval for withdrawal from the fund should be so designated by the pastor/principal.
 - g. The maximum of expenses covered by the fund should be specific (i.e. \$25).
 - i. Expenses in excess of \$25 should be handled through the issuance of a check.
 - h. The use of petty cash vouchers provides the best support and monitoring of fund use.
 - i. Numbering, dating, describing expenses, listing amount, and signing the voucher ensures the safeguarding of proper petty cash use.
 - ii. Receipts are to be attached to vouchers.
 - iii. Payments should never be made without receipts approved by either the pastor or business administrator.
 - i. All replenishment and receipt maintenance are the sole responsibility of the custodian.
 - i. Replenishment of petty cash should be supported with proper petty cash vouchers supported with receipts.

- ii. The replenishment check must equal the vouchers/receipts.
- iii. The check should be coded to the expense accounts as determined by the supporting vouchers and receipts.
- iv. The replenishment check is to be made payable to the custodian of the fund with the fund designation denoted on the face of the check (i.e. Jane Doe-Petty Cash Fund).
- j. A party independent from the custodian should periodically review the petty cash fund to see that it is being properly administered.
- k. Stipends or any other type of compensation must never be paid with petty cash funds.

H. Receipt of Income

The Austin Diocese is exempt from federal income tax under section 501(c)(3) of the IRS code. Therefore, there are no federal taxes on its income from activities that are substantially related to religious and educational purposes.

1. Federal Tax-Exempt Status

- a. Parish and school exemption from federal income tax
 - i. The Internal Revenue Service issues an annual letter each June which clearly establishes those Catholic entities listed in the most recent issue of *The Kenedy Directory - the Official Catholic Directory* considered exempt from federal income tax under section 501(c)(3) of the Federal Tax Code. The most current letter is available through the diocesan finance office.
 - ii. All parishes and schools located in the Austin Diocese are listed in this directory.
- b. If documentation is required to validate the tax-exempt status of the parish or school, provide the following:
 - i. A copy of the first page of the most recently issued *Kenedy Directory*.
 - ii. A copy of the page from the *Directory* that shows your particular parish or school.
 - iii. A recent copy of the IRS letter ruling referred to above.

c. Unrelated Business Income Tax (UBIT)

Income received from activities not related to the primary purpose of the parish or school may be considered UBIT.

- i. Questions regarding this income should be directed to the Director of Parish Business Services.
- d. All fund-raising activities within the Austin Diocese must relate to the educational or charitable purpose of the diocese.
- e. Use of the parish or school federal identification number must be strictly limited.

I. Handling of Monies (other than offertory collections) in the Office

Receipt of income must be handled with great care. The office staff has responsibility to ensure:

1. That all monies received are handled in a safe and secure manner. This includes all money whether from collections, bingo, electronic fund transfers, Mass stipends, student activities, booster club, etc.
2. That cash is never left unattended in an open area regardless of the amount of time involved. A receipt should be issued when cash is received.
3. That a list of the checks is made when the mail is opened.
4. That the person opening the mail and preparing the list is independent of the accounting function
5. That a responsible official periodically compares the list with the journal record and the bank deposit
6. That cash and check receipts are deposited no less frequently than weekly, except offertory collections, which are to be deposited the same day or no later than the following business day
 - a. All checks received should be restrictively endorsed (For Deposit Only) immediately
7. That no check cashing is permitted from the offertory collection.

J. Handling of Offertory Collections

1. Two (2) ushers should place collection in lock bags and either deliver the bags to the count team or place the bags in a safe. This should be together, not alone. The use of tamper proof bags is highly encouraged (Appendix VI).

- a. The bags should be pre-numbered to ensure that the count team will be able to account for all bags.
 - b. The bags should be marked or coded to distinguish between the regular collection and special collections.
 - c. The ushers should be identified so that if anything unusual should happen it would be possible to identify everyone having access to the collection.
2. Ideally, each parish should have a minimum of two (2) count teams consisting of at least three (3) members per team.
- a. Parish staff members or relatives of parish staff members should not be on the count teams.
 - b. Family members should not be allowed on the same count team unless there are two (2) other unrelated individuals on that same team.
3. Count team members are to sign the *Code of Conduct for Volunteers Handling Money or Advising on Financial Matters* form (Page U-29), which includes that they will keep the amount of contributions of fellow parishioners confidential.
4. Members of teams should be scheduled to rotate on a periodic basis.
5. Training should be provided to count team members.
6. Ideally, weekend collections should be counted the day the Mass is celebrated and deposited immediately.
- a. If the money is counted but not deposited the day of the Mass, the money should be put back in the bag along with the deposit slip and copy of the count sheet and locked.
 - b. The bag(s) should be put in a locked safe, preferably a safe with a drop slot so the safe does not have to be opened in order to secure the money.
 - c. If the money is not counted on the day of Mass, the locked bags should be placed in the safe until the day it is counted but not later than the following Monday.
 - d. The count team should unlock the bags and log in the number of the bag and the names of the ushers delivering the bags.
 - e. One (1) member of the count team should have the key to the bag. This individual should not have access to the safe.
7. The collection is to be counted in a secure area where parishioners or others do not have access during the counting time.

8. All checks received should be immediately restrictively endorsed. A self-inking endorsement stamp is recommended for this purpose.
9. Envelopes should be separated from loose checks, currency, and coins.
 - a. Copies of loose checks should be made. If not possible, a listing of each check should be prepared showing contributor, check number, date of check, and amount.
10. One (1) team member should count and record on the counter worksheet and another member should verify the count.
 - a. Adding machine tapes should be used and stapled to the count worksheet.
 - b. Another team member should prepare a tape of the cash and checks to be deposited. This same individual should also prepare the bank deposit.
 - c. The person preparing the deposit should compare all adding machine tapes to ensure that they are the same and accurate.
 - d. All members of the money counting team should sign the collection summary tape and the counter worksheet to verify the amounts of the collections.
 - e. A copy of the deposit slip should be provided to the bookkeeper.
11. Ideally collections should be deposited in the bank without delay.
 - a. They should not be retained in the parish or rectory, as this provides an opportunity for theft and burglary and possibly endangers the pastor.
12. The recap of the receipts or envelopes along with the tape should be given to the bookkeeper for entry into the accounting records.
 - a. The deposit slip and tape should accompany the cash and checks.
 - b. The team captain should maintain copies or a record of the count that is not available to the bookkeeper.
13. Someone other than the bookkeeper should enter the record of parishioner contributions into the parish records.
 - a. The bookkeeper should reconcile the parishioner contribution totals in the parish records to the deposits.
14. The bookkeeper should compare count team worksheets and tapes to the deposit slip.

15. The bookkeeper should compare the bank receipt to the deposit slip if the deposit is made during normal banking hours and the money counted by the bank teller.
16. Cash withdrawals or cashing checks from the contributions must never be allowed for any reason.
17. Parishioners should be encouraged to use offering envelopes, checks, and electronic funds transfers when making offerings and other gifts to the parish.
18. Annual contribution statements are to be mailed no later than January 31 of the subsequent year to all parishioners who made identifiable contributions (i.e. envelope, check, etc.).

K. Recording of Contributions

1. Parishioner contributions must be recorded.
2. Parishioner's financial information must be safeguarded (Appendix V)
3. All parishioners that donate with identifiable currency (i.e. check, money order, envelopes) should receive an annual letter listing all contributions made throughout the calendar year in accordance with IRS regulations.
 - a. Parishioners will then have support for any federal tax deduction, and the parish will have another type of internal control.
 - b. A control weakness could be identified if parishioners complain that their contribution record is incorrect.
4. The actual offertory envelope or copies of checks should be the source document for posting contributions by parishioner.
5. The individual recording contributions from this source data must be independent of bank deposits.
6. The bookkeeper should ensure that the total of the envelopes and checks, deposits and postings agree, without exception, to the parishioner records.
 - a. This reconciliation process must be done weekly and properly documented.
7. [Appendix II](#) contains a sample contribution acknowledgement letter (Page U- 27).
8. Copies of envelopes and checks must be retained for three years and kept in a secured location. (Annual contribution statements that include verbiage requiring donors to question any discrepancies within a year because documentation that church relied on in preparing the summary will be disposed of after a year relieves the church of warehousing envelopes for 3 years).

II. Disbursements

A. Contracts

1. Pastors and business administrators are authorized to enter into contracts up to \$10,000.
 - a. The diocesan finance officer should be advised when values exceed \$10,000 but less than \$50,000.
 - b. Contracts over \$50,000 require the consent of the Bishop.
 - c. Where title to real estate is involved, the Bishop must act regardless of amount, since he holds title to all real property.

B. Purchasing Cycle

For the best internal control, the following describes the way cash disbursements should flow. It is important that some type of system exist to ensure all purchases are properly approved, that there is evidence of receipt, and an original invoice supports all payments. Depending on the size of staff and other variables, purchase orders may or may not be a cost-effective way to address disbursements, but some system is required to ensure that payments are properly made.

1. A pre-numbered purchase order is prepared and approved by someone with the proper authority.
2. The actual order is placed by telephone, fax, Internet, or mail, referencing the purchase order number.
3. A copy of the purchase order is provided to the bookkeeper where it is placed in suspense file.
4. When the materials are received, the packing slip is compared to the purchase order to ensure receipt.
5. The packing slip is sent to the bookkeeper for safekeeping until the invoice is received.
6. When the invoice is received, the bookkeeper should compare the invoice to the purchase order and receipt document to verify the agreed prices and the quantity received.
7. The bookkeeper either codes the invoice properly or verifies the coding is proper and prepares a check supported by the purchase order, receipt, and invoice.
8. The bookkeeper is never to make payments to vendors from a month-end statement only.

- a. All payments must be supported with an invoice/receipt.
- b. Itemized receipts are required for credit card statements.

C. Disbursement Checks

1. As previously noted, using checks for all payments ensures the disbursement is authorized and there is a permanent receipt.
 - a. Controls for the disbursement function include:
 - i. The signing of checks by an individual with proper authority
 - ii. Separation of responsibilities for signing the checks and performing the accounts payable function
 - iii. Careful examination of the supporting documentation by the check signer
2. Check signing should operate in accordance with *Area of Internal Controls*, sections *I.C: Bank Accounts – I.G: Petty Cash* (Pages U-8 – U-13).
3. Even if a purchase order system is not used, the following are the minimum acceptable procedures:
 - a. To ensure that disbursements are proper, the following documentation should be kept:
 - i. A proper original invoice
 - ii. Evidence that goods or services were received
 - iii. Evidence that the purchase transaction was properly authorized
 - b. All supporting documents must be cancelled or marked “PAID.” We suggest a rubber stamp for this purpose to include:
 - i. Invoice has been checked for mathematical accuracy
 - ii. Check number
 - iii. Coding to ensure proper account recording in the accounting system
 - iv. Date and initials of person performing tasks
 - c. When the check is presented for signature, it should include all supporting documentation for the review of the signer.
 - d. Checks must have a payee and never be written to “cash.”
 - e. If a mistake is made, the check should be voided.

- f. “Void” should be marked on the face of the voided check and the signature block should be cut off.
- g. All voided checks must be retained to demonstrate all pre-numbered checks are accounted for and filed with other checks for a permanent record.
- h. The stock of unused checks should be safeguarded in a locked safe or secured file cabinet and regularly inventoried.
- i. All checks should be mailed promptly and directly to the payee.
- j. The person mailing the check should be independent of those requesting, writing and signing.

D. Employee Expense Reimbursements

- 1. Generally, all purchases of materials and services should be paid directly through the regular operating checking account.
- 2. Reimbursements to individuals for business use of their private automobiles must be documented.
- 3. All reimbursements are to be submitted and processed in the fiscal year incurred.
- 4. No reimbursements should be made for prior fiscal year expenses.
- 5. Expense Reimbursements
 - a. In the event that it is not possible or practical to pay for materials or services through the operating account, exceptions can be approved so that an individual can make the purchase and be reimbursed at a later date.
 - b. Purchases by individuals must be approved prior to purchase except for those with pre-approved budgets.
 - c. The original invoice or written receipt for the purchase, with proper approval, must be presented for reimbursement.
 - d. The reimbursement check must be written to the individual making the purchase and not, for example, to the individual’s credit card company.
 - e. The check and check stub must show the notation that it is a reimbursement check.

6. Mileage Reimbursement

- a. Employees may be authorized to receive reimbursement for miles driven in their personal car when on business.
- b. Reimbursement must be at the rate established by the IRS.
- c. In order to be reimbursed, an individual is required to submit supporting documentation noting the date, purpose, origin, destination, and mileage for each trip taken.

E. Debit and Credit Card

1. It is strongly advised that debit cards never be used. Funds are automatically taken out of the checking account and currently, there is no federal regulation protecting fraudulent use of business debit cards.
2. Credit cards for parish usage should be kept to an absolute minimum.
3. When parish credit cards are used:
 - a. Credit card balances must be paid in full monthly. Credit cards should never be used to incur debt in excess of one month.
 - b. Only a small number of employees should be authorized.
 - c. Receipts must be turned in immediately after use, with proper approvals.
 - d. Priests may acquire personal credit cards in their name but they are required to submit receipts with an explanation of the purchase.
 - e. Reimbursements must be limited to the scope and amounts identified in the accountable reimbursement plan.
 - f. It is acceptable for priests to carry gasoline credit cards in the name of the parish.

F. Parish Credit Card Usage

1. Parish credit cards are never to be used for the following types of transactions:
 - a. Cash advances or cash refunds
 - b. Splitting of purchases to circumvent the dollar limitation
 - c. Personal items

2. Personal credit cards should not be used for the following items:
 - a. Leases
 - b. Service Agreements (annual maintenance contracts)
 - c. Cellular telephones
3. A receipt must accompany all requests for payment. It is improper to pay for charges not supported by a receipt.
4. It is suggested that office supplies be ordered from a catalog and delivered.
 - a. Most office supply stores will deliver without charge.
5. The use of office supply credit cards can result in capricious purchases.
6. A personal purchase on parish credit cards by employees is prohibited.

G. Sales Tax

1. The purchase of a taxable item, which relates to the purpose of an exempt organization, is exempt from tax when the organization or an authorized agent of the organization pays for the item and provides the vendor an exemption certificate in the form prescribed by the Texas Comptroller of Public Accounts.
2. An employee of an exempt organization cannot claim an exemption from tax when purchasing taxable items of a personal nature, even though the employee receives an allowance or reimbursement from the organization.
3. A person traveling on official business for an exempt organization must pay sales tax on taxable purchases whether reimbursed on a "per diem" basis or reimbursed for actual expenses incurred.

III. Payroll

Proper payroll processing is extremely important, not only because it is a very significant portion of total expenses, but also because it can affect the employee with disability issues, pension, and health care.

- A. The payroll cycle has three components:
1. Personnel administration and employment file maintenance
 2. Timekeeping and payroll preparation
 3. Payment of payroll.

B. The following are the minimum requirements for all parishes/schools operating within the Austin Diocese.

1. Personnel Administration and Employment File Maintenance

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

Texas law require that all hourly employees be paid twice a month.

- a. The most important internal controls in personnel involve the formal method of recording and maintaining:
 - i. Information on the authorization of new employees
 - ii. Authorization of initial and periodic changes in pay rates
 - iii. Termination dates for employees
 - iv. Separation of duties over these procedures is particularly important. No individual with access to payroll records or checks should also be permitted access to personnel records.
- b. The Diocesan Policies on Ethics in Integrity in Ministry¹ must be followed to ensure that only reasonably competent and honest persons are hired and retained.
 - i. While the selection of honest, capable employees does not ensure that errors or irregularities will not occur, such selection will enhance the likelihood that they will not.
- c. New or prospective employees must be properly screened. Most embezzlers are repeat offenders. This screening should include a verbal check of all references, former employers, etc. The following process is recommended:
 - i. A list of references is required and should be contacted.
 - ii. Criminal background checks are required.
 - Applicants must sign a release that is completed with the employment application.
 - iii. Credit checks are recommended for any employees who will handle money.
 - Applicants must sign a release that is completed with the employment application.

- iv. A copy of the Policies on Ethics and Integrity in Ministry (EIM) must be provided.
 - v. All parish employees and those volunteers who are involved with children must fill out the online application; eApps.
 - vi. Employees handling money for the parish or school must have a demonstrated history of being able to manage their own personal finances; therefore, the necessity of credit reports.
- d. Individual personnel files must be maintained on all employees.
 - e. 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.
 - f. Policies and procedures should be established for handling vacations, holidays and sick leave. Paid Leave policies must be developed and communicated to employees.

2. Timekeeping and Payroll Preparation

This function directly affects payroll expense for the period. It includes preparation of time cards; the summarization and calculation of gross pay, deductions, and net pay; the preparation of payroll records; and the preparation of payroll checks.

- a. Time and attendance records must be maintained and approved in writing by the pastor/principal or appropriate supervisor prior to payroll processing for all salaried and hourly staff.
- b. Anyone who is responsible for preparing the checks or for inputting data should be prevented from signing or distributing payroll checks.
- c. An independent party should recalculate actual hours worked, review for the proper approval of overtime, and recheck pay rate and calculations.
 - i. This can be done through spot checks.

3. Payment of Payroll

- a. The signing and distribution of checks must be properly handled to prevent theft.
 - i. No person who has access to timekeeping or the preparation of payroll can sign payroll checks.
- b. Payroll checks should not be distributed by someone involved in the

payroll process.

- c. All payroll disbursements must be made with pre-numbered checks.
 - i. Cash payrolls, including cash bonuses, are prohibited.
 - ii. All compensation is to be reported on form W-2.
- d. Labor Relations and Tax Regulations
 - i. Federal and State labor laws require overtime pay for non-exempt personnel for hours worked in excess of 40 hours per week.
 - Overtime pay must be computed at a rate of 1½ times the employee's regular hourly rate of pay for those hours worked in excess of the forty (40) hours.
 - ii. Regardless of when the employee is paid, all phases of the law are based on a work week.
 - The work week may begin on any day and hour of the week as established by the employer.
 - Pay periods for two or more weeks or for a month may not be averaged out for the sake of overtime or minimum wages.
 - Both Federal and State regulations require posting of a sign "Notice to Employees" where employees can readily see it.
 - iii. In the State of Texas, an employer shall pay wages to each employee who is exempt from the overtime pay provisions of the Fair Labor Standards Act of 1938 (29 U.S.C. Section 201 et seq.) at least once a month.
 - iv. An employer shall pay wages to hourly employees at least twice a month.
 - v. If wages are paid twice a month, each pay period must consist as nearly as possible an equal number of days.
- e. Religious order priests and sisters have taken a vow of poverty and are not to receive checks made in their names.
 - i. 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.

Appendix I: Collection Count Report

Collection Account Report

Collection Counter Worksheet Example

Date of Collection _____ Locked Bag Number _____

	Stewardship	Holy Day	Special Collection	Building Fund	Other Misc.	Total
Loose Collection						
Checks						
Currency						
Coins						
Total Loose						
Envelope Collection						
Checks						
Currency						
Coins						
Total Envelopes						
Total Loose & Envelope Collection Combined						
Contribution Amount Recorded						

	Stewardship	Holy Day	Special Collections	Building Fund	Other Misc.	Total
Deposit Amount Verification						
Checks						
Currency						
Coins						
Total Deposit						
Unreconciled Amount*						

Names of Counters _____

Reconciled By: _____
 Date _____ Collection _____ Counted _____
 _____ Date _____ of _____
 Actual Deposit _____
 Bank Adjustments _____

Comments _____

Approval of Unreconciled: _____

* Any unreconciled amount \$25.00 or greater must be approved by the pastor.

Appendix II: Sample of Contribution Acknowledgement

St. Mary
3333 N. Main Street
Austin, Texas 78701

January 15, 2004

Mr. & Mrs. John Doe
43 Heavens Gate Way
Austin, Texas 78701

Dear Mr. & Mrs. Doe:

It is that time of the year to send out contribution statements so that you will have a record of your contributions to St. Mary for your income tax report. Your generosity to the parish over the past year has made it possible to finance a number of improvements. Were it not for your continuous help, this would be impossible. So, on behalf of the entire parish, I wish to thank you.

Our records show that you have contributed the following amounts for the period January 1 through December 31, 2003:

Date	Amount	Date	Amount	Date	Amount	Date	Amount	Date	Amount	Date	Amount	Grand Total
1/5/03	\$ 35	3/2/03	\$ 30	5/4/03	\$ 50	7/6/03	\$ 50	9/7/03	\$ 25	11/2/03	\$ 50	
1/12/03	\$ 10	3/9/03	\$ 12	5/11/03	\$ 20	7/13/03	\$ 10	9/14/03	\$ 15	11/9/03	\$ 15	
1/19/03	\$ 15	3/16/03	\$ 15	5/18/03	\$ 15	7/20/03	\$ 14	9/21/03	\$ 15	11/16/03	\$ 15	
1/26/03	\$ 10	3/23/03	\$ 15	5/25/03	\$ 15	7/27/03	\$ 11	9/28/03	\$ 10	11/23/03	\$ 15	
2/2/03	\$ 35	3/30/03	\$ 10	6/1/03	\$ 40	8/3/03	\$ 60	10/5/03	\$ 55	11/30/03	\$ 45	
2/9/03	\$ 15	4/6/03	\$ 45	6/8/03	\$ 15	8/10/03	\$ 20	10/12/03	\$ 15	12/7/03	\$ 62	
2/16/03	\$ 10	4/13/03	\$ 11	6/15/03	\$ 20	8/17/03	\$ 30	10/19/03	\$ 20	12/14/03	\$ 15	
2/23/03	\$ 15	4/20/03	\$ 15	6/22/03	\$ 15	8/24/03	\$ 15	10/26/03	\$ 10	12/21/03	\$ 15	
		4/27/03	\$ 10	6/29/03	\$ 10	8/31/03	\$ -			12/28/03	\$ 10	
Total	<u>\$ 145</u>		<u>\$ 163</u>		<u>\$ 200</u>		<u>\$ 210</u>		<u>\$ 165</u>		<u>\$ 242</u>	<u>\$ 1,125</u>

This acknowledgement of your contribution is provided pursuant to section 170(f) (8) of the Internal Revenue Code. St. Mary parish did not provide any goods or services in whole or in part in consideration for the above contribution. Only intangible religious benefits were provided.

Please accept my sincere appreciation of your loyalty and commitment to our parish.

Devotedly yours in Christ,

Appendix III: Forms

Code of Conduct for volunteers handling money or advising on financial matters

Code of Conduct for volunteers handling money – Attachment 1

Attachment 1

Code of Conduct for Volunteers Handling Money

- Two (2) ushers should place collection in lock bags and either deliver the bags to the count team or place the bags in a safe. The bags should be pre-numbered to ensure that the count team will be able to account for all bags. The ushers should be identified so that if anything unusual should happen it would be possible to identify everyone having access to the collection.
- Ideally, each parish should have a minimum of two (2) count teams consisting of at least three (3) members per team. Parish staff members or relatives of parish staff members should not be on the count teams. Family members should not be allowed on the same count team unless there are two (2) other unrelated individuals on that team.
- Members of teams should be scheduled to rotate on a periodic basis.
- Ideally, weekend collections should be counted the day the Mass is celebrated and deposited immediately. If the money is counted but not deposited the day of the Mass, the money should be put back in the bag along with the deposit slip and copy of the count sheet and locked. The bag(s) should be put in a locked safe, preferably a safe with a drop slot so the safe does not have to be opened in order to secure the money. If the money is not counted on the day of Mass, the locked bags should be placed in the safe until the day it is counted but not later than the following Monday.
- The count team should unlock the bags and log in the number of the bag and the names of the ushers delivering the bags. One (1) member of the count team should have the key to the bag. This individual should not have access to the safe.
- The collection is to be counted in a secure area where parishioners or others do not have access during the counting time.
- All checks received should be immediately restrictively endorsed. A self-inking endorsement stamp is recommended for this purpose.
- Envelopes should be separated from loose checks, currency and coins. Copies of loose checks should be made. If not possible, a listing of each check should be prepared showing contributor, check number, date of check, and amount.
- One (1) team member should count and record on the counter worksheet and another member should verify the count. Adding machine tapes should be used and stapled to the count worksheet. Another team member should prepare a tape of the cash and checks to be deposited. This same individual should also prepare the bank deposit. The person preparing the deposit should compare all adding machine tapes to ensure that they are the same and accurate. All members of the money counting team should sign the collection summary tape and the counter worksheet to verify the amounts of the collections. A copy of the deposit slip should be provided to the bookkeeper.
- The recap of the receipts or envelopes along with the tape should be given to the bookkeeper for entry into the accounting records. The deposit slip and tape should accompany the cash and checks. The collections should be deposited intact on the day of the count.
- Cash withdrawals or cashing checks from the contributions must never be allowed for any reason.
- No one should ever be alone with the cash and checks.

Appendix IV: Internal Control Questionnaire Self-Evaluation Form

- 1) Is a bookkeeper employed? Full or Part Time?
Name: _____
- 2) If no bookkeeper is employed, who has the responsibility for recording transactions?

- 3) Who maintains the accounting records? _____
- 4) Does the parish priest review financial records? ____ If yes, how often?
- 5) Are all of the following items paid up to date?
 - a. Worker's compensation
 - b. Property and casualty insurance
 - c. Loans
 - d. Cathedraicum
 - e. Priest's annual pension contribution
 - f. Assessments
 - g. Health insurance premiums
 - h. Payroll taxes
 - i. Payroll deductions
 - j. Vendor invoices/statements
- 6) Is an annual budget prepared? If yes, is it prepared before the new fiscal year begins?
- 7) Are monthly or quarterly financial statements prepared?
- 8) Do the reports compare actual numbers to budgeted numbers?
- 9) Are the reports reviewed:
 - a. by the pastor?
 - b. by the Finance Council?
- 10) Does the parish file the following with the IRS?
 - a. Payroll Tax Form 941 (Quarterly)?
 - b. Form W-2 with Transmittal Form (W-3)?
 - c. Form 1099 – Miscellaneous Income with Transmittal Form (1096)?

11) Does the parish have a Finance Council? If yes, list all members of the Finance Council and the number of years served:

Name and Phone Number for Finance Council President:

12) Have members of this council reviewed the diocesan Internal Control Manual?

13) Have members of this council and volunteers who handle money signed the Diocese Code of Conduct for Volunteers Handling Money or Advising on Financial Matters?

14) Is the parish limited to only one OPERATING account? If not, list below the other open bank accounts used as operating accounts.

15) Identify below the name of all the authorized check signers

Parish

School

16) When was the last time a financial report was provided to the parishioners?

Petty Cash

17) Is an imprest petty cash fund used?

18) If an imprest fund is used, is responsibility vested in one person only?

Name _____

What is the amount of the fund? _____

19) Are checks for petty cash reimbursements made out to the order of the custodian of the fund with the fund designation denoted on the face of the check?

20) Are receipts obtained for all petty cash disbursements?

21) Is the petty cash account listed on the parish balance sheet?

Bank Reconciliations

- 22) Are **all** bank statements mailed to the parish office?
- 23) Who opens the bank statements? _____
- 24) Who reviews cancelled checks?
- 25) Who performs the bank reconciliation?

- 26) Is the bank reconciliation prepared on a monthly basis?
- 27) Are bank reconciliations initialed and dated by the preparer?
- 28) Are bank reconciliations reviewed by someone other than the preparer?
- 29) Are bank reconciling items cleared on a timely basis?
- 30) Are cancelled checks and bank statements retained?
- 31) Does the Finance Council review the bank reconciliations?

Receipts

- 32) Does a count team count the receipts from the offertory collection?
- 33) Are there three (3) or more members on each count team?
- 34) How many count teams are there?
- 35) Are count teams rotated?
If so how often? _____
- 36) Are count teams independent (no relatives, spouses, children, etc.)?
- 37) Are count sheets prepared during the counting and signed by the counters?
- 38) Are count sheets subsequently reconciled to the deposit by a person other than the individual making the deposit?
- 39) Are receipts posted to a record of individual parishioners/parents contributions/tuition?
- 40) Are parishioner envelopes retained as support for subsequent review? ____ If yes, how long? ____
- 41) Are checks photocopied?
- 42) Do separate persons post envelopes and prepare deposit slips?

- 43) Are cash receipts posted to individual records by someone not having access to cash?
- 44) Is the record of contributions mailed or otherwise given to parishioners?
If yes, how often? _____
- 45) Is appropriate documentation provided to contributors (IRS Publication 1771)?
- 46) Are cash receipts kept in a safe until deposited?
If no, how are they safeguarded?
- 47) How many people have access to the safe?

- 48) Who deposits cash in the bank?

- 49) When was the safe combination last changed?

- 50) How often are receipts deposited in the bank?

- 51) Is a night depository used when necessary?
- 52) Are all receipts accompanied by a deposit slip which identifies:
- a. Amount of deposit
 - b. Account to be credited as income
 - c. Date of deposit
 - d. Source of deposit
 - e. Signature of person verifying deposit
- 53) Are deposits made intact directly to the regular checking account?
- 54) Are differences between the actual amount deposited and the recorded deposits corrected by a separate entry?
- 55) Are cash receipts deposited on the first business day following services? If no, when are they deposited?

- 56) What other types of receipts are received?

- 57) Are all other receipts deposited daily? If no, how often are they deposited?
-
- 58) Is a record of cash or checks received through the mail kept by the person opening the mail and subsequently compared to the deposited funds?
- 59) Are checks restrictively endorsed (FOR DEPOSIT ONLY) when received?
- 60) Are NSF checks re-deposited on a separate deposit slip from other deposits?
- 61) Are amounts to be deposited to savings accounts first deposited to regular checking account?
- 62) Does the parish provide online giving? ___ If yes, who is your online processing company?
-
- 63) Has the parish completed a self-evaluation of best practices concerning safeguarding parishioner's financial information (Appendix V).

Disbursements

- 64) Are all disbursements, other than from petty cash, made by check?
- 65) Is any special approval required for checks to be written?
- 66) Are all checks pre-numbered?
- 67) Is it a policy to NOT write checks to the order of CASH?
- 68) Is the signing of checks in advance prohibited?
- 69) Is the countersigning of checks in advance prohibited?
- 70) Who signs checks if the pastor is sick or on vacation?
-
- 71) Is the bookkeeper prohibited from signing checks?
- 72) Are signature rubber stamps prohibited?
- 73) Are documents in support of all disbursements retained?
- 74) Do check signers review supporting documentation prior to signing?
- 75) Are VOIDED checks retained and accounted for?
- 76) Are interest and principal amounts separated on the ledger sheets for payments made on loans?
- 77) Is the account distribution indicated on the face of the invoice?

- 78) Are unused checks locked in a secure location?
- 79) Are checks mailed by the check preparer?
- 80) In event of the pastor or parochial vicar's absence for a period of more than several days, are two signatures required on checks over a predetermined amount? Are itemized receipts required in support of credit card purchases?
- 81) Are credit card statements reconciled to credit card receipts before payment?
- 82) Does the parish own a debit card?

Property, Plant, and Equipment (PP&E)

- 83) Are parish land and buildings recorded in the balance sheet at cost?
- a. If there is furniture, artwork, appliances, or equipment belonging to a priest or employee, is it properly marked or inventoried?
- 84) Is there a list of property controlled by various organizations on file in the parish office?
- 85) Is a list maintained of all persons who have keys/security codes to the premises?
- 86) When were keys/codes last changed?
- 87) List any vehicles owned by the parish (include VIN):
- 88) Does the parish/ lease any automobiles or other vehicles?

Other Assets

- 89) List all other investment assets owned by the parish (e.g.: real estate, oil wells, limited partnerships, rental properties, etc.)

Investment	Cost	Market Value
_____	_____	_____

Liabilities

- 90) Are chancery-approved borrowings recorded on the balance sheet as a liability?

Payroll/Personnel Issues

- 91) Is the payroll prepared using:
- a. Time sheets for all employees
- b. Current Circular E information (Federal Income Tax and Social Security Withholding Information)

- 92) Are the following human resource/payroll related items maintained for each employee:
- a. Salary history
 - b. Completed application form
 - c. Proof of reference verification
 - d. IRS form W-4 stating exemptions or address changes
 - e. Position description
 - f. Employment Eligibility Verification Form (I-9) proof of citizenship
 - g. Vacation days, sick days, personal days
 - h. Salary rate, approved by the pastor
 - i. Copy of "Ethics and Integrity in Ministry" certification
 - j. Copy of completed benefits card
 - k. Signed waiver of refusing medical coverage by eligible employees
 - l. Termination documentation if applicable
- 93) Is salary and payroll information kept in a locked filing cabinet?
- 94) Are W-2s issued for each employee (including the pastor) by January 31?
- 95) Are W-9s used?
- 96) Are 1099s issued for all non-employee persons paid over \$600 for the calendar year? This includes all non-incorporated contractors, consultants, musicians, visiting priests, etc.
- 97) Is the 941 Quarterly Federal Report prepared and taxes submitted on a timely basis?
- 98) Are all eligible employees (working 30 hours or more per week effective January 1, 1992) offered health benefits?
- 99) Have all eligible employees been given an Employee Handbook? If yes, has each employee signed a certificate of understanding in their personnel file?
-

Affiliated Activities

For Parishes with Raffles

- 100) If the parish hold raffles, please answer the following:
- a. How many raffles do you hold in one year?
 - b. What is the prize offered?
 - c. Is Form W-2G filed for recipients of \$600 or more in prize winnings?
 - d. Is withholding taken from prize winnings of \$5,000 or more? ____ If yes, what percent is held?

For Parishes with Bingo:

- 101) If Bingo is conducted, please answer the following questions.
- a. How often is Bingo conducted? _____
 - b. Has a copy of state laws been made available to all members of the Finance Council,

- Pastoral Council and Bingo committee?
- c. Is Bingo being held “on-site”?
 - d. Are quarterly reports submitted to the appropriate authority as required by law?
 - e. Is a separate checking account maintained for Bingo?
 - f. Are deposits made the first business day after the games?
 - g. Is the Bingo administered, conducted, and promoted by volunteer personnel who receive no remuneration of any kind (even tuition)?
 - h. Is the Bingo account listed on the balance sheet?
 - i. What is the frequency of transfers of Bingo proceeds to the parish general fund?
-

For Parishes with a Cemetery

- 102) If the parish has a cemetery, please answer the following questions.
- a. Are cemetery records (perpetual care, lots, etc.) maintained in the parish office?
 - b. Are they maintained in a safe or locked fireproof cabinet?
 - c. Are there duplicate records stored at another location? If yes, where?
-

Mass Stipends

- 103) Are Mass stipends recorded in a parish Mass Intention Book by date, intention, and amount received?
- 104) Are Mass stipends recorded in the financial records?
- 105) Are Mass stipends deposited in the parish general checking account?
- 106) Are Mass stipends included in the priest’s W-2?
- 107) Are stipends received on a “free will” basis only?

Other

- 108) Is there rental income received from any of the following sources:
- a. Rental of parish hall?
 - b. Rental of buildings (apartments, houses, stores, offices, etc.)?
 - c. Use of parking lot on weekdays or nights?
 - d. From a business activity that could also be carried on by a commercial establishment?
 - e. Advertising in the bulletin?
 - f. Are fundraising activities of all affiliated organizations reviewed by the Finance Council?
- 109) When mailing large quantities of mail, is a third- class bulk mailing permit for non-profit organizations used by the parish/ school?
- 110) Are postage stamps kept in a safe and secure location?

Preparer	Date
Preparer	Date
Preparer	Date
Priest	Date

Appendix V – Safeguarding Financial Information

A. Network Security

1. Do you have a system firewall?
 - a. If yes, do you have a valid contract to ensure firewall is constantly patched and updated?
 - b. Did an authorized service provider ensure proper configuration and test rule changes for your firewall? If yes, when was it done?
2. Password security for all computers and network devices.
 - a. Do you use any default passwords?
 - b. Do you use complex passwords (Mix of uppercase, lowercase, numbers, and special characters)?
 - c. How often are you required to change your password?
 - d. If you document passwords, where is it kept?
 - e. Does your passwords expire? _____. If yes, in how many days?
3. Do you have an anti-virus software?
4. How often do you run Windows Updates?

B. Protect Sensitive Data

5. Do you store cardholder data? If yes, how do you store it?
6. Do you black out written credit card numbers and/or checking account numbers data as soon as possible (e.g. pledge cards)?
7. Do you keep a spreadsheet or database with credit card information?
8. Do you keep a spreadsheet or database with checking account information?
9. Do you email (send or receive) credit card information?
10. Do you keep paper records containing credit card and checking account information under lock and key?
 - a. Who has access to these records?
 - b. How long do you keep these records?
 - c. What do you do with these records after this time period?
11. What is your policy for when an employee who has access to these records leave or change roles?

Appendix VI – Use of Tamper Proof Bags

Preparation

1. A person other than the bookkeeper or a member of the count team puts a sufficient supply of pre-numbered bags in the church prior to each Mass. A designated person is responsible for obtaining the bags before Mass.
2. Bags should be labeled as to the Mass time and collection purpose. The bag numbers should be recorded on a control sheet.
3. Extra supply of pre-numbered bags should be on hand in case malfunctioning bags or increased collection volumes. All bags should be accounted for each week before it is replenished.

Ushers

1. The collection can be immediately placed in the tamper-evident bag or immediately after Mass (more than one person). Each bag should be signed and dated with a permanent marking pen by the two ushers.
2. After sealing the bag, ensure the contents are secured properly. Malfunctioning bags should be kept and placed inside the substitute bags.
3. Once sealed, tamper-evident bags will be placed in a safe until it can be opened by the money counters.

Money Counters

1. Before opening, the numbers on the bags should be compared to the numbers on the control sheet. Bags should NOT be ripped open but rather be opened with scissors. If there is discrepancy with the control numbers or if the bag appears to be tampered with, contact your priest immediately.
2. The Parish Business Administrator or other representative should monitor the verification of bags assigned and used. The Parish Finance Council should periodically review the procedures followed by the ushers and volunteer counting teams.

