

Parish/School Internal Audits

Presented on December 6, 2018

Why do we have the audit process?

- Ensure parishes/schools are operating within Archdiocesan financial policies
- Assess the internal controls utilized at parish/school to safeguard assets
- **Most Important-*Improve the financial operation and health* of the parish or school**

How do we decide who to audit

- We follow a rotation cycle of auditing each parish or regional school every 3 years
- We may also audit a parish that will undergo a pastor change.
- We also may audit parishes/school upon request or recommendation of pastor, CFO, etc.

What happens before the audit visit

- Selection audit letter from Arch. CFO sent to pastor/principal
- About 1 week later, internal auditor will contact business manager or bookkeeper to schedule audit
- Once scheduled, internal auditor will send email to pastor/principal and business manager/bookkeeper with a letter confirming the audit date.
 - Letter includes request for meeting at start of site visit with the pastor, principal, business manager/bookkeeper, and other staff. Also, a wrap-up meeting at the end of the site visit is requested.

What happens before the audit visit (Cont.)

- The business manager/bookkeeper is emailed an Internal Control Questionnaire, Vacation Schedule (Attachment A), and Review Checklist.
 - The Internal Control Questionnaire requests information regarding the different areas that affect the finances of the parish or school.
 - The Review Checklist includes all materials and records that will be needed at the time of the audit site visit. We will request financial transaction/statements records from two different months from the past year.

What happens before the audit visit (Cont.)

- The Vacation Schedule requests a listing of all employees with vacation time earned/rolled over. The Personnel Office reviews the schedules; they will recommend changes in the Paycor payroll system and employee vacation time earnings.
- Internal auditors will ask bookkeeper to perform “Sync with Diocese” in PDS Ledger. The auditors can produce and review financial statements prior to the audit site visit.

Audit Site Visit

- Once auditors arrive at parish office, meeting with pastor, principal, business manager, bookkeeper, etc. takes place.
- It is very helpful if records requested in the Review Checklist have been gathered and readily available to auditors to review. Makes for a much quicker site visit!

Review of Parish Council and Finance Council

- Parish Council & Finance Council Meeting Minutes
 - Review meeting minutes from last 6-12 months for content, frequency, meetings, membership, and timeliness of filing
- Finance Council:
 - Does F/C review parish monthly financial statements and bank reconciliations?
 - Does the F/C review the charitable gaming reports, Café D-2 and bank reconciliations?
- Budget Process And Documentation of Approval In Minutes Of Each Council Is Reviewed.
- Audit Committee-Does the Parish have a committee and has a report been issued recently? *Contact Finance Office for audit comm. report examples.*

Parish Financial Reports

- How are Collection Totals reported to Parishioners?
 - What is method of communication and how often published?
 - Are Budget and Year-to-Date totals also reported?
- Are Parish Council Minutes available for parishioner review? How is information disseminated (website, bulletin, posted in narthex/gathering space, etc.)?

Parish Financial Reports (Cont.)

- Does the Parish publish an Annual Accountability Report?
 - We review the report for inclusion of income statement, balance sheet, proposed budget, and sacramental statistics.
 - Contact Finance Office for report examples.
- Does the Parish publish interim financial reports for dissemination to parishioners?
 - How often: Monthly, Quarterly, Semi Annually
 - Are Income Statements compared to Budget, and Balance Sheets included?

Balance Sheet/Income Statement

- Review of Accounts Receivable/Payable accounts
 - Looking for documentation of balances on the general ledger
- Fixed Assets-Is Parish recording fixed asset costs and accumulated depreciation properly?
- Are Unrestricted and Restricted Funds in balance?
- Income Statement comparison of Actual vs. Budget. Explain reasons for large variances.

Balance Sheet/Income Statement (Cont.)

- What is the percent of Parish Payroll and Related Expense to Collection Income? *Benchmark for a Healthy Parish is less than 50%.*
- Have Extraordinary or Repair & Maintenance expenses have been capitalized? Looking for items with useful life more than one year and over \$1000 cost.

Separation of Duties

- We ask the parish/school several questions:
 - Who opens mail and bank statements?
 - Who receives cash, prepares deposits, records contributions?
 - Who prepares, approves, signs checks and EFT disbursements?
 - Who prepares and approves payroll?
 - Who prepares and approves adjusting journal entries
- We want to see proper separation of duties in all of these processes
 - Example: Check request is approved by Dept./Ministry head; Check is prepared by Bookkeeper; Check is signed by Pastor (and another signer if over \$5,000)
- ***One person should not be performing all steps in cash handling and recording process***

Bank Statements and Reconciliations

- Review of bank statements and reconciliations from two months over the past year.
- We look for the following:
 - Bank reconciliation adjusted balances agree with the general ledger cash balances
 - Checks are signed by the Pastor (over \$5,000 additional signer or two other signers if pastor is unable to sign)
 - Unusual transactions or payees
 - Voided checks-are they accounted for and where are they stored

Petty Cash Accounts

- We ask to physically count all petty cash accounts and cash drawers
- The cash on hand plus unreimbursed receipts should equal the established dollar amount of the petty cash fund or cash drawer
- Review of storage and access of the funds; are they locked in a safe place.
- Petty cash funds that have not been used within last year to six months may be recommend to be closed and funds deposited to general checking acct. (i.e. Do you really need it?)

Imprest Accounts

- Imprest checking accounts are used by parish organizations for paying expense (same concept as petty cash using checking account):
 - Account balance should be no more than one month's operating expenses for the organization.
 - The checking account should have at least three authorized signers, one being the pastor or school administrator.

Imprest Accounts (Cont.)

- When checking account balance is low, organization requests reimbursement from parish for checks written from the account. Request will include listing of the checks with payee, amount, purpose, and original receipts attached. Pastor or school admin. must sign reimbursement check.
- Reimbursements from the parish are the only deposits to imprest account; other organization receipts must be deposited to general parish checking account.

Receipts-Collections

- Document the steps in the money counting process (from collection plate to deposit at bank).
- Practices we look for:
 - How is collection transported; are two or more people involved when transporting collection at any point until delivered to count team
 - Tamper-Proof bags used before and after the collection count
 - Where is collection stored before it is counted by collection count team?

Receipts-Collections (Cont.)

- Collection Count teams consist of two or more unrelated individuals that are rotated on a regular basis
- Count Sheets completed and signed by count team members
- Parish staff does not participate or recount collection before it is taken to the bank for deposit
- Deposit is taken to the bank by next business day in tamper proof/sealed bag.

Receipts-Collections (cont.)

- Testing of collections from sample of count sheets and PDS Office contribution reports:
 - Totals from count sheets should agree with PDS Leger postings & deposits trace to bank statement
 - Count sheet totals should agree with the PDS Office Quick Posting report
- Parishes using ACH to debit parishioner bank accounts for contributions
 - Procedures used for executing bank transactions; looking for proper separation of duties
 - How is parishioner bank information secured?
- Parishes using 3rd party vendor for online giving (**preferred over ACH**)
 - Procedures used for recording parishioner contributions

School Operations

- Review School Board minutes
- Tuition review:
 - Review Enrollment (how is it trending) and Tuition Schedule.
 - How is tuition collected: Electronically by parish (ACH), 3rd Party vendor (FACTS, Smart Tuition), Stewardship
 - Is the school using a Tuition Agreement other than agreement between 3rd party & parents?
 - What is the process for recording tuition payments to receivable accounts (PDS Office)?

School Operations (Cont.)

- What is the process for following up on past due accounts and is the process documented (i.e. Student/Parent Handbook)?
- Testing of a sample of transactions for separation of duties, proper posting to individual family record, proper gen. ledger recording, etc.
- Review the School Income, Payroll/Related Exp. and Parish Subsidy to the School.
 - *Payroll and Related should be no more than 75% of Total School Income*
 - *Parish Subsidy to School should be no more than 20% of Net Assessable Collections*

Mass Intentions/Stipends

- Procedures for recording Mass intentions and monies received
- According to Canon Law, the Archbishop, either personally or through others, must examine the Mass intention book.
- Mass intention that cannot be satisfied within one year should be transferred to the Chancellor's Office for distribution to other priests/missions
- Payments for Mass intentions given to the parish are considered donations and should be tracked in PDS Office for parishioner donors.

Fundraising and Other Receipts

- Fundraising and Other Activities
 - Assess operating procedures utilized by parish/school
 - Cash handling
 - Inventory procedures
 - Internal controls
 - Is there more than one person handling, reporting, and depositing event/activity receipts?
 - Documentation of collection and depositing of receipts
 - Is cash register used?
 - Is event report used; signed by preparer and verifier?
 - Are tickets used for athletic gate sales?

Disbursements

- Review of two months of check registers:
 - Missing or duplicate check numbers
 - Checks made payable to “CASH”
 - Again, looking for checks over \$5,000, unusual payees, and extraordinary expenses. See if we missed anything with bank statement review or balance sheet review

Disbursements (Cont.)

- Choose a sample of disbursements from the check registers:
 - Adequate supporting documentation
 - Appropriate approval/authorization of the expense
 - Are appropriate expenses charged?
- Parish/School should be using a Check Request Form which includes:
 - Amount to be paid
 - Payee and address

Disbursements (Cont.)

- Due date of disbursement
- Purpose of expenditure
- G/L account name and number to be charged or debited
- Signature of person requesting payment
- Signature of person authorizing payment
- This form, or one similar, should be used for EFT payments and credit card receipts.

Credit Cards

- What credit card accounts does the parish/school possess?
 - Authorized users of each card or account
 - If cards are not in possession of pastor/staff, how are they secured (ex. locked in office safe)? Is a check out log used?
- Are signed/approved receipts reconciled to each credit card statement? Are they reasonable parish/school expenses?
- Are credit card statements approved prior to payment?
- What is the credit line amount of each credit card account?
 - Is parish/school overexposed with a credit line that is too high?

Grant Income

- Grants received by the parish/school in the past 12 month:
 - Review award letters
 - Verify receipt of grants
 - Recorded properly on the general ledger
 - Used for designated purpose
- CEF/School Choice/Archdiocesan Tuition Grants:
 - For Assessment calculation, make sure receipts for tuition grants are credited to 1501-1504 series accounts on the general ledger

Charitable Gaming

- Current license is reviewed
- Quarterly/Annual report filed with the KY Dept. of Charitable Gaming is reviewed.
- Finding notices from KY DCG are reviewed.
- Charitable gaming bank statement/reconciliation is reviewed in same manner as general parish checking and other accounts.
- Most recent Form W-2Gs are reviewed.
- Bingos-if held off-site, obtain copy of lease and approval letter from Archbishop

Fundraising & Scrip Programs

- Assess if Fundraising programs are benefiting collective program/organization and not individuals. (Ex. Funds raised by an individual student will be applied to the group cost of 8th grade trip, not to that individual student's cost)
- Scrip programs (Gift Cards)-very few left
 - Procedures for selling scrip and accounting for inventory
 - Count scrip/cards in inventory and compare to balance sheet
 - How is scrip income recorded on G/L

Assessments

- Review Finance Office records for parish assessment payments
 - Are the payments current?
 - Have past due assessment balances been addressed by parish; has a payment plan been formalized?

Special Collections

- Review the amount received by the Finance Office for the most recent Archdiocesan Charities collection (4th Sunday each December).
- Recalculate the required amount to be remitted
 - 50% of an average weekend collection.
 - December 2017 collection-Calculate 50% of calendar year collections from calendar year 2017
 - Compare calculation to amount remitted to Finance Office for Arch. Charities collection from parish
 - Parish does not receive enough in donation, expected to remit from operating funds

Parish Property/Liability

- Property rented from a 3rd party
 - Obtain copy of lease agreement
 - Assess if agreement has Archbishop approval
- Property rented to 3rd party by parish
 - Review lease terms; is it expired-should a new lease be drafted
 - Discuss with parish if lessee is current with payment/lease terms
- Property rented to 3rd parties for Non-Parish events
 - Does usage agreement include:
 - Liability insurance requirements
 - Parish alcohol policy and rules based on parish's alcohol license

Parish Property/Liability (Cont.)

- Key access policy for parish buildings & property
- Parish property inventory
 - Is there a complete current listing?
 - Also, a current photo or video album should exist
- Insurance certificate review
 - Outside contractors or service providers must provide certificates of insurance to the parish before work is performed
 - Liability coverage-\$1,000,000 minimum with parish/location listed as additional insured
 - Statutory Workers' Compensation coverage
 - Sample of contractors chosen and certificates of insurance reviewed

Payroll & Personnel

- Sample of employees records are reviewed:
 - Two months of timesheets are reviewed for accuracy and proper approval
 - Individual employee files are reviewed for required documents such as,
 - IRS Form W-4, Kentucky Form K-4
 - Safe Environment training certificate
 - Current criminal background records check
 - Position Description
 - Salary History
 - Records of time taken off (vacation, sick days, personal days, etc.)

Payroll & Personnel (Cont.)

- Employment Eligibility Verification-USCIS Form I-9
 - Review form for completeness
 - Forms for all employees must be stored together in a separate file or binder
- Does the parish have any local amendments to time off policy (i.e. snow days, Oaks Day)?
- Review any employee/clergy gifts of cash/checks or gift cards.
 - Have these gifts been reported as income to the employee on Form W-2 or Form 1099-MISC?

Taxes

- Kentucky Sales Tax
 - Is the parish filing KY sales tax returns for reportable income?
 - Recent changes to law: admissions, athletic league fees, etc.
- Review Form 1099s and Form 1096 filed with the IRS, Louisville Metro Government
 - How is the parish tracking who is eligible to receive a 1099?
 - Does the parish obtain Form W-9 from all vendors/clergy before issuing payment? W-9 info. can be entered in PDS Ledger to easily identify eligible vendors.
 - Does it appear all eligible vendors are receiving 1099s?

Cafeteria

- Applies primarily to schools that are using National School Lunch Program
- Review bank statements/reconciliations
- **All Cafeterias**-review income statement (YTD and most recent FYE)- are they Self-Supporting?
- Review D-2 reports from two months
- Check for cafeteria reimbursement of indirect costs to the parish

Daycare/After School Care

- Review Enrollment and Tuition Schedule.
- Review collection procedures of tuition.
- Income statement is reviewed; is each program self-supporting?
- Are any government subsidies received by programs?

Parish Cemeteries

- Review maps and other records for access and safekeeping
 - Stored in Parish Office; duplicate copies stored off-site?
- Procedures for selling plots and updating records
 - Preferably-plots are sold through Parish Office
 - If sold thru local funeral home, how are records/maps updated?
- Providers of grounds keeping and grave digging services?
 - If contracted, do they have required insurance?
- Is there a Cemetery Board?
 - Regular meetings; minutes taken and given to parish office?
- How is perpetual care and maintenance funded?
 - Monies set aside and is collection taken for the cemetery?

Pastor Compensation & Benefits

- Pastor paid according to schedule in Priest Compensation Manual
- Pastor housing-parish provided or alternative housing
 - If alternative housing arrangement, has the priest worked with Vicar for Priests for financial considerations.
 - Have financial considerations been communicated and approved by Parish and Finance Councils?
- Review Auto and Out-of-Pocket reimbursements to all parish priests
 - Is accountable method used for reporting auto mileage?
 - Do priests have parish credit cards?
 - Are expenses submitted for reimbursement reasonable in nature and \$ amount?

Post Audit Site Visit Procedures

- Finish up audit workpapers in office
 - May have questions/requests for business managers/bookkeepers to tie up loose ends
- Write a preliminary report from information in workpapers
 - Review preliminary report with CFO
 - Reviewed report is send to Pastor and Business Manager/Bookkeeper for their comments
 - If needed, make changes to report based on parish comments
- Final report is issued to Archbishop, Pastor, Finance Council Chair, Parish Council Chair, Chancellor, CFO, Controller
- Letter with report from CFO requests responses to finding/recommendations within a month of issuance

Questions

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