

## INTERNAL CONTROL

Internal control refers to the policies and procedures that the parish or school establishes to provide reasonable assurance that assets, both physical (property, cash, personnel) and intangible (reputations) are safeguarded, that accountability is achieved, and that errors are held to a minimum. Internal controls play an important role in preventing and detecting fraud. In order to obtain optimum internal control, the following issues must be addressed:

### 1. Healthy Financial Environment

The pastor, pastoral administrator, or school administrator and parish or school leadership, including the parish council, school board, and finance council, must commit to establishing and monitoring effective financial policies and procedures. All persons, either volunteers or paid employees, who accept responsibility for the raising of funds, the spending of funds, or custody of the material goods of the parish or school also accept responsibility to abide by the internal financial controls established by the parish or school. However, it should be clearly understood that the pastor, pastoral administrator, or school administrator is ultimately responsible for the sound fiscal management of the parish or school.

### 2. Organizational Structure

The proper allocation of responsibilities and authorization of transactions is essential to good internal control. In general, no one person should be responsible for handling all phases of a transaction. For example, a person who authorizes a transaction should not record the transaction nor should that person have custody or control over the asset. Other examples of transactions that should be segregated include:

- Handling cash receipts, recording cash receipts, and reconciling bank accounts
- Authorizing payment of wages, preparing payroll, approving payroll, preparing payroll entry, approving payroll entry, and reconciling the bank account
- Authorizing expenditures, verifying invoices and preparing checks in payment of invoices (especially employee reimbursements)
- Preparing checks and signing checks
- Counting the collection and recording the deposit in the records or posting to the individual donors' accounts
- Preparing journal entries and posting to the general ledger

Staff size may limit a parish or school's ability to separate duties in practice. In some smaller parishes or schools, the bookkeeper may perform most of the procedures on a monthly basis. In those instances, the ability of the bookkeeper to authorize and execute transactions should be limited to the greatest extent possible. To the extent that otherwise appropriate separation of functions is not practical, the Finance Council and/or audit committee's procedures should be performed with the objective of offsetting the resulting deficiencies in the internal control structure. Additionally, the pastor, pastoral administrator or school administrator should be reviewing the information and signing off on the document being reviewed.

3. Parish or School Accounting System

Most financial information needed by the parish or school comes from the accounting records. The information, to be of maximum value, must be reliable, complete, and available as quickly as possible. Documentation should be maintained to support/substantiate all transactions. The policy entitled "Accounting System" should be used for specific information regarding acceptable accounting practices for the Archdiocese of Louisville.

4. Policies & Procedures Manual

A good internal control system must include certain policies and procedures as related to the financial transactions of the parish or school, such as how to handle cash receipts, disbursements, bank reconciliations, etc. The Archdiocesan Policies and Procedures Manual should be followed at each parish or school. If desired, parish or schools may establish more stringent policies and procedures than those described in the Archdiocese Policies and Procedures Manual.