

Parish Administration – Evidence of Pastor Reviews of Financial Transactions

Reviewing parish transactions and providing an audit trail of these reviews is an important part of diocesan principle #4 (*The limited resources available to parishes often makes it difficult to segregate key financial duties. The pastor or parish administrator plays an integral part in making sure that parish assets are adequately protected, and should ensure that all available best practices are adequately employed*).

It is incumbent upon any organization with material finances to establish strong internal controls to prevent fraud or misuse of funds. Unfortunately, our parishes and schools are not immune from problems faced by all organizations.

Strong financial controls have the following benefits:

- Good stewardship of parishioner donations
- Protects individuals (parish employees as well as volunteers) who may have personal financial issues
- Safeguards limited parish assets
- Prevents misappropriation of funds
- Ensures reliability and integrity of financial reports

Segregation of Duties

Segregation of duties is a common sense and important internal control designed to prevent one individual from having control over a range of functions that could lead to fraudulent activity. An example of proper segregation of duties would be having one staff member responsible for writing checks and another responsible for reconciling the parish bank account. Due to limited funds, parishes often do not have the requisite resources to hire additional staff members. This makes the oversight role of a pastor paramount.

The four transaction types we want to emphasize in this category include:

1. Payroll expense review
2. Cash disbursement review (vendor payments)
3. Credit card expense review (if applicable)
4. Bank account reconciliation reviews

1. Payroll Expense Review

Employee costs represent the single largest expense for most parishes. This review would identify inappropriate or incorrect salary expenses being paid by the parish.

The *parish office staff* should be able to provide a pastor the following:

1. Payroll register
2. Back-up, including signed and approved timesheets and personnel files with current fiscal-year approved pay rates

The ***pastor*** can then do the following:

1. Ensure the amount paid salaried employees agrees to the approved amount in the personnel files
2. Ensure there is a signed and approved timesheet for hourly employees, and that the hours paid agreed to the timesheet
3. Ensure that the hourly rate on the employee timesheet (hourly employees) ties to the payroll register
4. Ensure that any bonus amounts paid (if applicable) tie to an approved memo documenting the bonus (note that all bonuses paid should be paid via payroll subject to appropriate taxes)
5. Shortened review (after you have become acclimated to the process): Compare the expense paid in the current pay cycle to the previous cycle (looking for any material changes). A payroll exception report may be available from some payroll providers. This will show changes made since the last payroll cycle (salary rates; job titles, etc.)

The pastor should sign the payroll register each month as evidence of his review and the parish staff should file a copy of the register.

2. Cash Disbursement Review (vendor payments)

This is a review of your parishes purchasing efforts, specifically a review allowing you to identify unknown vendors or unusual payments.

The ***parish office staff*** should be able to provide a pastor the following:

1. Check register or list of canceled checks from monthly bank statements
2. Copy of select (larger) vendor invoices

The ***pastor*** can then do the following:

1. Review the list of canceled checks – are you familiar with the checks and/or vendors paid?
2. For unknown vendors or unusually large purchases, ask for the vendor invoice to review the following:
 - a. Look for a description of the service provided on the invoice – Are you aware of the product or service? Did you approve the purchase?
 - b. Review the amount billed – was it appropriate? Does the total on the invoice agree to the amount on the check?
 - c. **Make sure you are not paying MA sales tax!!!** (parishes and schools are sales tax exempt)

The pastor should sign the canceled check report and/or invoices as evidence of his review, and the report should be filed by parish staff.

3. Credit card Expenses Review (if applicable)

This review is to make sure there are no inappropriate expenses charged to parish credit card. If the card holder is the pastor, it may be appropriate to have a 3rd party perform this review (for example, a member of the Finance Council).

The ***parish office staff*** should be able to provide a pastor the following:

1. Credit card statement
2. Back-up support (receipts)
3. Approved expense reimbursement forms

The ***pastor*** (or third party) can then do the following:

1. Review the credit card statement
 - a. Do the expenses look reasonable?
 - b. Was an expense reimbursement form completed, signed, and approved?
 - c. Are there receipts supporting the transaction?

The pastor should sign the credit card statement as evidence of his review, and the signed statement should be filed by parish staff.

4. Bank Reconciliation Review

Each month the parish should reconcile the bank accounts balance in your financial reporting software to the balances in your respective bank statements. This ensures the integrity of the financial reports being provided to your finance council as well as The Chancery. Differences between the bank and general ledger balances should be related to “timing issues”.

The ***parish office staff*** should be able to provide a pastor the following for each bank account:

1. Monthly bank statement with full detail including copies of cancelled checks
2. General ledger reconciliation report with full detail including outstanding deposits and checks

The ***pastor*** can then do the following:

1. Ensure that the preparer has completed and signed the reconciliation report
2. Make sure that the bank statement is attached, and that the bank balance listed on the general ledger report, matches the ending bank balance on the actual bank statement
3. Discrepancies between the general ledger balance and the bank statement are typically the result of checks that have not yet cleared your bank account (maybe the person the check was sent to has not cashed the check yet, or deposits that have been booked in your account, but are not reflected in the bank account yet (perhaps the deposit has not been brought down to the bank yet)).

For un-cleared checks or deposits, ask the following questions, and follow-up with parish staff if you find any oddities:

- a. Check the age of the item (how old is the check?)

- b. Check the amount of the item (Is it a big check?)
- c. Is the check an unusual amount?

If you are satisfied with your review – sign a copy of the bank reconciliation and keep a copy on file with the bank statement.

[Please note that all questions related to **Parish Administration – Evidence of Pastor Reviews** should be directed to the Finance Department – See Exhibit  for a list of Chancery Staff]