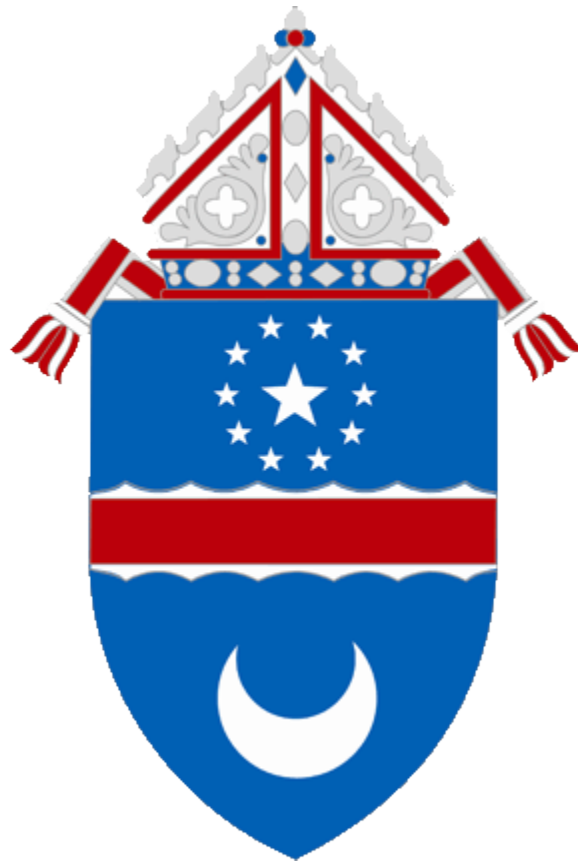


Protocol for Parish Fiscal Administration



Catholic Diocese of Arlington

INTRODUCTION

The Diocese of Arlington strives to employ the highest level of responsible stewardship of the assets entrusted to the Church by the faithful. The continuing enhancement of parish finances is an essential part of promoting a spirit of confidence, accountability, and transparency. There is significant responsibility associated with stewardship of the temporal goods of the Church; this protocol has been established to assist those entrusted with this responsibility.

The protocol has been prepared to provide diocesan entities with a document containing proper internal controls which include the physical safeguarding of assets, necessary record-keeping, segregation of duties, clear assignment of responsibility, strict adherence to established policies, and effective internal audit and review. Properly applied, good internal control procedures reduce the risks associated with undetected errors or irregularities and help parishes operate more efficiently and effectively. Internal controls prevent misappropriation or theft of assets. They are designed to minimize or eliminate the “near occasions of sin” associated with the stewardship of the Church’s assets.

The protocol is intended to serve as a reference for all who are involved in parish and school finances, especially bookkeepers and business managers, as well as pastors/parochial administrators and principals, in order to safeguard the assets of the diocese. The pastor / parochial administrator has the responsibility to enforce compliance with the protocol, guidelines, and recommended best practices contained in this document. It is the responsibility of the Diocesan Finance Office to monitor compliance through the Internal Audit Department. It is incumbent on all involved in diocesan finances to understand and embrace their roles in complying with these best practices.

This protocol will be reviewed and revised periodically.

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I. ECCLESIASTICAL ADMINISTRATION

“Administration” as defined by canon law is the direction and management of goods, property, and activity of a juridic person for purposes befitting its mission. A parish is a juridic person with all the resulting privileges and obligations provided for under the Code of Canon Law. The pastor, appointed by the bishop, is the spiritual and administrative leader of the parish. The parish business manager assists the pastor in his responsibility as administrator of the parish and is, as such, a chief support to the pastor.

Canon 519 notes that the pastor shares in the threefold duties of teaching, sanctifying and governing: *“The pastor...exercising the pastoral care of the community committed to him under the authority of the diocesan bishop...carries out the functions of teaching, sanctifying, and governing...with the assistance of lay members of the Christian faithful, according to the norm of law...”*

Canon 539 notes that when a parish becomes vacant or when a pastor cannot exercise pastoral function in the parish, the diocesan bishop is to designate a parochial administrator, a priest who takes the place of the pastor.

Canon 540 notes that, unless otherwise directed by the diocesan bishop, a parochial administrator is bound by the same duties and possesses the same rights as a pastor. Additionally, a parochial administrator is specifically not permitted to do anything that can harm parochial goods.

Canon 1280 notes that the pastor/parochial administrator is to have a finance council and he presides over it. The pastor/parochial administrator, through the assistance and expertise of its members as advisors in financial matters, is to carefully supervise the administration of all parish goods.

Canon 1283 notes that the pastor/parochial administrator must take an oath before the ordinary that he will be an efficient and faithful administrator.

Canon 1284 notes that the pastor/parochial administrator is bound to fulfill his duties with the *"diligence of a good householder,"* and be accountable for an inventory of property and goods, and must:

- Take care of the goods entrusted to his care;
- Accurately collect and safeguard income;
- Follow prescription of both canon and civil law;
- Carefully observe and respect donor intent;
- Pay loans when due;
- Keep well-ordered books of income and expenses;
- Draw up a report on administration at the end of each year; and
- Arrange and keep in a suitable and safe archive the documents and deeds which form the basis of ownership of properties.

Canon 1287 notes that the pastor/parochial administrator must present to the local ordinary an annual financial report of their administration; and the pastor/parochial administrator must give to the faithful an annual accounting of their finances.

II. STANDARDS FOR FINANCIAL GOVERNANCE

The Diocese of Arlington is committed to the highest standards of fiscal integrity and accountability. In order to establish a standard of high fiscal integrity and a strong internal control environment, the Diocese of Arlington has developed policies and procedures, offers periodic training of personnel, and has assigned responsibility for oversight, relating to parish and school operations, as follows:

A. **POLICIES** *[Full text version of the policies can be found in the Employee Policy Manual]*

1. **Conflict of Interest Policy** requires reporting of potential or real conflicts of interest, prohibits gifts and favors of value that could influence, or be construed as influencing, a decision or obligation in the performance of one's duties, prohibits board members from soliciting business or favors, and from voting on decisions that may constitute a conflict of interest, and prohibits board members from influencing any activity that could confer a benefit on such member or anyone in the member's family or business.

Employees and others with positions or roles that influence decision-making actions, involve purchasing decisions, and/or have access to proprietary information within a parish or school, are required to complete and sign a "Conflict of Interest Disclosure Statement" on an annual basis. This statement asks questions intended to reveal potential conflicts of interest. It also requires that these individuals acknowledge their awareness of and reaffirm their commitment to the Conflict of Interest policy. The annual statement for pastors/parochial administrators, parish finance council members, and business managers are submitted with the signing of the Parish Annual Report. All other annual statements are to be kept on file at the respective parish or school.

2. **Fraud Policy** states that fraud is not tolerated, and that the prevention of fraud is the responsibility of all personnel involved in Church administration. The policy stipulates that all suspected cases of fraud are to be reported and provides assurance against recrimination, defines actions constituting fraud, outlines reporting and investigating procedures, and stipulates that fraudulent acts will be subject to disciplinary action, up to and including termination, and civil and criminal prosecution.

Fraud is a deliberate and/or unlawful deception, misrepresentation, or concealment of facts committed to secure unauthorized personal advantage, benefit, or gain to the

individual or an unauthorized third party and to cause loss to another. Fraud includes, but is not limited to:

- Theft of assets, including money or property.
- Authorizing or receiving compensation for goods not received, services not performed, or hours not worked.
- Bribery, kickbacks, or rebates (given or received).
- Alteration or falsification of documents, including contracts, purchase orders, checks, invoices, and time sheets.
- Misappropriation, misapplication, destruction, removal or concealment of Church money, property, or other assets.
- Embezzlement (any loss resulting from misappropriation of asset).
- Intentional misstatement, distortion of facts or deliberate error in financial records, reports, or statements.

3. **Whistleblower and Reporting Ethical Misconduct Policy** requires reporting of violations of the Code of Ethics by Church personnel, stipulates that all reports will be treated in confidence as much as the diocese's duty to investigate allows, stipulates that all reported violations of the Code of Ethics will be investigated, and prohibits retaliation against a person who makes a complaint or provides information regarding any reasonably perceived reportable activity.

In addition, the Diocese of Arlington has contracted with EthicsPoint, a third-party fraud hotline, in order to create an independent avenue for the reporting of possible unethical or illegal behavior. The hotline provides a mechanism for employees, volunteers, and parishioners to raise honest concerns about financial, administrative and employment-related irregularities. The toll-free hotline telephone number is **1-888-293-3718**. All new employees must be familiarized with the EthicsPoint Program. For more information on EthicsPoint, click on the EthicsPoint link on the CDA homepage or contact the Office of Finance.

B. GUIDELINES AND PROCEDURES

The following documents are available for viewing and download on the Diocese of Arlington website.

1. **Office of Human Resource** <https://www.arlingtondiocese.org/human-resources/>
 - The **Employee Policy Manual** contains the employment policies of the diocese and the benefits available to diocesan employees.

2. **Office of Finance** <https://www.arlingtondiocese.org/finance> under Parish Files:
 - a. The **Parish Finance Council Guidelines** document addresses membership, responsibilities, and meeting protocols. A parish finance council supports the good governance of a parish and facilitates accountability to the diocese and to the parishioners.
 - b. **Standard Cash Collection and Count Procedures** requires rotating teams, the use of tamper-evident bags, and no fewer than two unrelated (independent) parties in possession of the collection.
 - c. The **Standard Chart of Accounts** document contains codes that must be used by all parishes.
 - d. **Budgeting and Financial Reporting Guidelines** stipulates that budgets are to be prepared annually and the pastor/parochial administrator and finance council are to review actual revenues and expenses against budgeted amounts on a regular basis. *This document is distributed by email in March.*

C. OVERSIGHT

The Diocese of Arlington recognizes the necessity of a properly functioning parish finance council as it relates to proper parish governance and internal controls. To that end, the diocese requires an annual representation letter from each parish containing:

- The names and professional titles of the members of the parish finance council;
- A statement declaring that the finance council met at least once per quarter;
- A statement declaring minutes were taken and approved at the meetings and filed at the parish office;
- A statement declaring the finance council has met, developed, and discussed the financial statements and budget of the parish; and
- The signatures of the pastor/parochial administrator and all finance council members.

The Diocese of Arlington Finance Office performs parish internal audits designed to test the existence and effectiveness of parish internal accounting controls and compliance with diocesan policies and civil regulations. At the conclusion of each audit, a report is issued to the pastor/parochial administrator and finance council chair with recommendations related to any deficiencies that have been identified. The pastor/parochial administrator, with assistance from the finance council, is expected to ensure that any deficiencies noted are addressed and that the recommended improvements are made to ensure the deficiencies do not reoccur.

D. TAXES

The Diocese of Arlington is exempt from federal income tax under section 501(c)(3) of the IRS code. Parishes are not automatically exempt from all state taxes, for example personal property tax.

- 1. Parish and school exemption from federal income tax:** The Internal Revenue Service issues an annual group ruling letter each June which clearly establishes those Catholic entities listed in the most recent issue of the *Official Catholic Directory*, also known as the Kenedy Directory, that are considered exempt from federal income tax under section 501(c)(3) of the Federal Tax Code. All parishes and diocesan schools located in the Diocese of Arlington are listed in this directory. The most current group ruling letter can be found at <http://www.usccb.org/about/general-counsel/tax-and-group-ruling.cfm>.

2. **If documentation is required to validate the tax-exempt status of the parish or school, provide the following:**
 - A copy of the first page of the most recently issued *Kenedy Directory*.
 - A copy of the page from the *Directory* that shows your particular parish or school.
 - A recent copy of the IRS group ruling letter ruling referred to above.
3. **Unrelated Business Income (UBI)** - Income received from activities not related to the primary purpose of the parish or school may be considered UBI and subject to income tax (UBIT).
4. **All fund-raising activities within the Diocese of Arlington must relate to the educational or charitable purpose of the diocese.**
5. **Use of the parish or school federal identification number must be strictly limited.**
6. **Private Inurement:** In order to qualify as tax-exempt under the Internal Revenue Code, the parish must adhere to certain limitations imposed by law. One of those limitations on the operations of the parish is a prohibition against private inurement. The parish is not a conduit for a donor to make a contribution to benefit a designated individual in order to obtain a tax deduction for an otherwise nondeductible gift.
7. **Raffle/Prizes:** Parishes may need to report prizes (cash or non-cash) for bingo, raffles, and drawings using Form W-2G to the recipient and to the IRS. Forms should be sent to the recipient by January 31 and to the IRS by February 28 of the subsequent year. Additional guidance can be found in IRS Publication 3079, Gaming Publication for Tax- Exempt Organizations at <http://www.irs.gov/pub/irs-pdf/p3079.pdf>

Further tax information for church and religious organizations can be found at: <http://www.irs.gov/Charities-&-Non-Profits/Churches-&-Religious-Organizations>

III. INTERNAL CONTROLS

The Church is responsible for safeguarding its assets, exercising prudence in financial matters, for providing accountability to those who provide monetary support to the Church and to regulatory authorities, and for maintaining compliance with all civil regulations. Strong systems of internal controls are needed to safeguard assets by protecting against error and reducing the risk of fraud, misuse, waste, or embezzlement.

All entities within the Arlington Diocese are required to follow a reasonably consistent methodology for the handling of financial activities. Proper care and efficient handling of parish/school finances help ensure that we are good stewards of the assets entrusted to us by the faithful in the pursuit of the various ministries and mission of the parish.

A. DEFINITION

Internal controls are the policies and practices put in place and performed by parish employees or volunteers to provide management with reasonable assurance that assets are safeguarded, and transactions are authorized, valid, complete, and accurate. Internal controls can be thought of as checks and balances to prevent errors and irregularities from occurring. By implementing and monitoring a well-designed system, staff and volunteers are free from any hint of suspicion and allowed to perform their duties as professionals following the same best practices used in business.

B. RESPONSIBILITY

All persons, either volunteers or employees, who accept responsibility for the raising or spending of parish funds, or who are in custody of material goods (e.g., cash, property, equipment, etc.) of the parish, must also accept responsibility to abide by the internal controls established by the parish.

C. INTERNAL CONTROL ACTIVITIES

Internal control activities are the procedures and daily tasks that are established within an internal control system. Two types of controls that are essential to an effective system are *preventive* and *detective*. Preventive controls attempt to deter undesirable events from occurring. Examples of preventive controls are separation of duties, proper authorization, adequate documentation, and physical control over assets.

Detective control activities are designed to detect errors or irregularities that may have occurred. Examples of detective controls include reviews, variance analyses, reconciliations, physical inventories, and audits.

1. Segregation of Duties *(Preventive)*

The integrity of the personnel is the most important internal control to have. Segregation of duties complements this internal control. Duties are divided among different people to reduce the risk of error or inappropriate action. An individual should not have responsibility for more than one of the three transaction components: custody, authorization and record keeping (C.A.R.). Lack of segregation of duties allows for fraud to be perpetuated and concealed (covered-up).

When resource constraints compromise the ability to segregate duties, many smaller parishes use certain compensating controls to achieve the objectives. If it is not feasible to separate the approval, accounting and custody job functions at your parish/school, contact the Office of Internal Audit to discuss alternative controls.

2. Approvals, Authorizations and Verifications *(Preventive)*

By requiring proper authorization of activities and transactions, management can ensure that these activities are in accordance with the mission of the parish. Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.

3. Reviews of Performance *(Detective)*

Management compares information about current performance to budgets, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

4. Periodic Reconciliations *(Detective)*

Management relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.

5. Accounting Records *(Preventive)*

Accounting records and documents must be maintained. One major objective is to provide reasonable assurance that the financial records reflect all financial

transactions that have occurred. The recording of all transactions must be correct in dollar amount and must be made in the proper accounting period. Parishes do not necessarily conform to Generally Accepted Accounting Practices (GAAP), but utilize a hybrid, modified accrual/cash basis, method of accounting. Required documentation includes such things as:

- a. Date, invoice/receipt number, purchase order number if used;
- b. Persons involved in transaction;
- c. Amount of funds involved;
- d. Proper authorization/approval signatures;
- e. Proper account codes; and
- f. Proper source.

6. Physical Safeguarding of Assets (*Preventive and Detective*)

The safeguarding of assets is an important aspect of any system of internal control. The following must be implemented to adequately protect cash, property, and financial records:

- a. A fireproof safe bolted to the floor or wall, or a sturdy locked fireproof cabinet must be available. A drop-safe with a combination lock is preferred.
- b. Accounting records must be secured in a locked room or file cabinet and accessible only by selected individuals.
- c. Financial records should not be removed from the office and never kept in someone's house, car, temporary location, etc.
- d. All parish and school facilities should be locked when not in use. A key log should be maintained to ensure that the pastor / parochial administrator knows who has access to the various areas of the facilities.
- e. Locks and safe combinations that secure financial or other sensitive materials should be changed periodically, especially when a key member of the staff leaves (voluntarily or involuntarily).

IV. CASH MANAGEMENT

Adequate safeguards and control over cash balances require a level of segregation of the primary responsibilities involving cash transactions: authorization, custodial, recording, and reconciliation. Ideally, the same individual should not perform two or more of these responsibilities. The following guidelines should be considered when evaluating the appropriate level of segregation:

- **Authorization:** The pastor / parochial administrator has the final responsibility of committing parish resources; he should be the main authorized signer on all parish bank accounts.
- **Custodial:** Parish funds must be maintained in adequately protected bank accounts, and limited individuals should have access to cash and cash equivalents (i.e., blank checks).
- **Recording:** Transactions should be recorded in the correct period and processed timely by a knowledgeable business manager/bookkeeper.
- **Reconciliation:** Reconciliation of account balances should be performed by the business manager/bookkeeper and reviewed and initialed by the pastor / parochial administrator or his designee, i.e., finance council member.

A. **BANK ACCOUNTS & SECURITY**

Each parish should strive to maintain only one checking account from which all check disbursements are to be made unless the need for an additional account is mandated by law (i.e. bingo, games of chance, etc.). The number of bank accounts should be strictly limited to those absolutely required. Fewer accounts provide greater control and less opportunity for errors or wrongdoing. In those rare, unusual circumstances where the parish may have more than one checking account, the pastor / parochial administrator should be the authorized signer on all accounts and these accounts should be included in the financial reports of the parish. This holds true for any of the fundraising committees or other parish groups operating in the parish name or utilizing the parish Federal ID number.

Parishes are permitted to have interest bearing checking accounts but are not permitted to have separate savings accounts. Parishes are prohibited from maintaining a savings account outside of the DIAL Corporation.

Transferring funds between parish/school cash accounts requires the same level of security as signing checks. Only persons authorized to sign on the parish/school bank

accounts are authorized to transfer funds between accounts. All transfers between accounts should be properly documented written requests.

Diocesan Parishes and Schools are to implement the following security services on their checking accounts:

1. **Positive Pay** - This is a check fraud prevention service that requires account holders to provide specific information (e.g., check number, date, payee name and the associated amount) for all checks written from a Parish bank account. The list is used by the bank to verify the authenticity and accuracy of the checks presented for payment. Most importantly, the “approved check” list protects Parishes from losses in the event a check is stolen from the mail and fraudulently presented for payment.
2. **ACH Positive Pay** - Similar to Positive Pay, ACH Positive Pay permits Parishes to establish rules and filters (by name, threshold, frequency, types, etc.,) to permit processing of legitimate transactions, and to enable the banks to identify potentially fraudulent transactions and notify the Parish.

Implementation of these banking services are intended to help Pastors fulfill the intent of Canon 1284, i.e., to better protect the funds of the faithful. Consequently, the Office of Internal Audit will review Parish implementation of these protections when conducting its periodic audits. Instances of non-compliance will be considered as Material Weaknesses and will be identified in the parishes’ formal audit reports, thus necessitating more frequent audits until the safeguards have been implemented.

B. CASH RESERVES

Operating Account

Generally, in order for parishes to maximize the earning potential on their cash, no more than an equivalent of two months of normal operating cash should be held in a checking account by the parish. Funds in excess of two months of operating cash should be deposited into a savings account within Arlington DIAL Corporation.

Savings Account (DIAL Corp)

Parishes should maintain operating and replacement reserves at levels adequate for achieving financial stability. Building and maintaining reserves help to ensure that sufficient funds are available to manage cash flow on a day-to-day basis and to maintain financial flexibility. Financial guideline recommendations:

- Operating reserves: A minimum of 50% of annual operating expenses
- Replacement reserves: Starting point of 50% of annual operating expenses*

**A more detailed analysis maybe done for replacement reserves, contact OPCF.*

C. BANK ACCOUNT SIGNATORIES

Authorized check signers on all parish bank accounts are to include the pastor / parochial administrator and an alternate signatory selected by the pastor / parochial administrator. The alternate signatory may be one of the following: 1) the parochial vicar; 2) a priest in residence at the parish; 3) the school principal or 4) a full-time or part-time deacon assigned to the parish. For smaller parishes, a lay person may be required to be the alternate signatory. The pastor / parochial administrator should sign all checks. The alternate signatory should only be used on an exceptional basis. The following norms are to be observed:

- Checks are not to be “pre-signed.”
- Signature stamps are not to be used on checks.
- The person who prepares checks must not be a signatory.
- Two signatures are required where the check amount exceeds \$10,000. The dual-signature requirement does not pertain to checks made payable to the Diocese of Arlington and its entities, i.e., Herald, DIAL, etc.

D. BANK RECONCILIATION

All parish banks accounts must be reconciled monthly to the general ledger in a timely manner. Unopened bank statements should be given to the pastor / parochial administrator as soon as they arrive in the mail for review and signature. This review includes looking over the scanned checks for unauthorized or altered signatures; a quick look at the payees to determine that all checks were issued to authorized payees; a review of the bank statements to determine that all cleared check numbers are within the number sequence of checks currently in use by the parish; as well as a general review of the bank statement account balances, deposit transactions, cash transfers, etc., for reasonableness and lastly, initialing the bank statement prior to reconciliation. Following this procedure will help the pastor / parochial administrator discover bank errors and the issuance of any unauthorized checks. The pastor / parochial administrator should then forward the statement to the individual responsible for the preparation of the bank reconciliations.

The monthly reconciliation of bank accounts must follow these guidelines:

- Uncleared checks (all checks older than 6 months) should be researched to determine if they should be voided and reissued or written off.
- Voided checks that the parish has in its possession should not be destroyed or “deleted” from the system but marked “VOID” across the face of the check, defaced, and filed in a separate folder.
- Uncleared deposits (deposits for the prior month) that are still outstanding should be researched and resolved.
- The detail bank reconciliation must be printed each month.
- Whenever possible, the account reconciler should not be an authorized signatory on the bank account.
- The reconciliation must be signed and dated by the person reconciling the account.
- The pastor / parochial administrator or his designee must review and initial the completed reconciliation. *(The pastor / parochial administrator may delegate this to the business manager, as long as he/she is not doing the reconciliation.)*

V. REVENUES & RELATED ACTIVITIES

The handling of cash is a primary financial concern in any organization. More than one person should be involved in every transaction involving cash. This provides the needed cross-check of one to the other for the protection of the parish, the individuals responsible for handling cash, and ensures accuracy in recording cash. The basic element in an internal control environment is the segregation of duties between the actual handling/counting of cash receipts and the recording of receipts in the parish accounting records. Cash receipts include cash and checks.

A. OFFERTORY AND OTHER CASH COLLECTIONS

1. Types of Collections

a. Regular Offertory

Regular offertory is the main source of revenue for operating needs and is restricted for parish use. These monies may be collected at Mass, mailed, or electronically funded provided they are designated for offertory. Included in this category are Holy Day collections.

b. Second Collections

The second collections required of each parish fulfill the responsibilities of the diocese for the support of local, national, and international works of charity and education. These collections are tremendous opportunities for all the faithful to participate actively in the life and evangelizing mission of the Church. Every parish should permit a full opportunity for people to participate in these appeals. The National and Diocesan collections established for this diocese shall be defined annually by the Bishop (canon 1266). Diocesan collections established by the Bishop of Arlington are Retired Priests Needs and Catholic Charities Christmas Collection.

According to *One Church, One Mission – Guidelines for Administering USCCB National Collections in Dioceses*, published by the USCCB Committee on National Collections, national collections are held to respond to one of the following: a Canon Law requirement, a special request from the Holy See, or a two-thirds vote of the diocesan and eparchial bishops and their equivalents in the United States who collectively have discerned and decided that all dioceses throughout the country support an important objective through special annual appeals and collections. Collections requested by the Holy See are the Peter's Pence Collection and the Holy Land Collection. The World Mission Sunday Collection is required

by Canon Law for the entire Church to support the Church's missionary work. Other special annual appeals and collections in the United States support Latin America, Catholic University of America, Porto Caravan, etc.

c. Other Collections

These comprise amounts collected from parishioners in addition to weekly offertory, for various designated purposes, which could include, but not be limited to debt reduction, maintenance needs, altar flowers, youth ministry or school assistance. The frequency of these collections may be monthly, semi-monthly, quarterly, or semi-annual.

In addition, occasional emergency appeals are received by the bishop. These are brought to the attention of the pastor / parochial administrator and his parishioners for consideration of their support. Such collections are optional, and the pastor / parochial administrator determines whether the parish will participate.

Receipts of second collections should be identified separately on the weekly tally sheet and should be remitted to the Diocesan Accounting Office within 30 days after the collection is taken.

2. Collection and Count

The following three items are the "key elements" that should not be compromised in the entire collection and count process, from beginning to end (that is, from the offertory collection through deposit):

- a. Rotating Teams
- b. Use of pre-numbered tamper-evident bags
- c. Never fewer than two unrelated (independent) parties in possession of the collection

Diocesan guidelines mandate the use of tamper-evident bags. A pre-numbered bag is designated for each collection and an individual assumes responsibility for the bag via signature on a control sheet. Ushers collect baskets with offertory and proceed to a separate collection area where contents are consolidated and transferred to sequentially numbered, tamper-evident bag(s). The tamper-evident bag must then be put in a secured area; i.e., a drop safe or locked cabinet in the sacristy or parish office.

At no time should the tamper-evident bag be opened by one individual for sorting or counting. The tamper-evident bags must be unsealed in the presence of no fewer than two unrelated counters. The count team should account for all bag numbers used by recording each bag number as it is opened on the count log. The team verifies the bag number to the bag number issued and verifies that the bag has not been tampered with. If any bag is missing or there is evidence that any bag was tampered with, a report must be made to the pastor / parochial administrator immediately.

The count should be performed by rotating teams of at least two designated, unrelated persons (but never the parish bookkeeper). Weekly collections should be counted by Mass so that accurate collection information is obtained. The counting team is responsible for tallying the collections, preparing the count log or tally sheet and deposit slip, and making the bank deposit. If a designated counter is not available, then a substitute counter may be assigned. The collection and other receipts are to be retrieved by at least two unrelated counters. Whenever possible, collections should be counted by multiple count teams which are rotated periodically. Sunday collections should be counted as soon as possible, but not more than one business day after the collection is taken. The collection must be counted on parish premises. Parish funds must never be taken to an individual's home for sorting and counting.

The bank deposit is to be made as soon after the count as possible. Remote deposit is permissible and highly recommended. For temporary storage of the deposit, a drop safe or fireproof locking cabinet may be used. Access to combinations or keys must be limited. Transport of the deposit to the bank by courier service is recommended. If that is not feasible, it must be made by a two-person team made up of independent individuals. The validated receipt deposit slip(s) and drop receipt(s) should be forwarded to the parish bookkeeper for purposes of verifying the bank deposit.

For further detailed procedures please refer to the Parish Guidelines for Collection and Count of Weekly Offertory.

3. Adequate Physical Safeguards

Every parish is encouraged to have a safe. Safes should be located in a discrete location and attached to a structure so that they are not easily moved. Although

there are various types of safes available, a drop safe with a combination lock is preferred. A drop safe permits anyone at the parish to “drop” funds into the safe without opening the safe. In addition, unauthorized individuals are prevented from opening the safe without the key or combination.

Cash and checks from all sources should be retained in a safe at all times other than during collection, counting, or depositing at the bank. These funds should be deposited into a bank account as timely as possible, no less than weekly.

Access to the safe is to be restricted to only those individuals who have valid business purposes for access, and access must be approved by the pastor / parochial administrator. The safe combination and / or key should be adequately safeguarded and changed periodically.

4. Cashing Checks out of the Offertory Collection is Prohibited

Priests, employees, and others are prohibited from cashing personal checks out of the currency portion of the offertory collections. Similarly, priest's offering checks are not to be cashed from the offertory collection. Avoiding this practice will help to ensure that the offertory collection is not compromised in any way.

5. Using the Offertory Collection to Pay Parish Expenses is Prohibited

Cash from the offertory collections is not to be used to pay parish expenses, or to fund petty cash needs. Even though the parish may have the intention of recording the offertory revenue prior to removing a portion of the cash to pay for certain expenses, all disbursements from the parish must be made either by check or by use of the petty cash fund. This practice ensures that the offertory collection is not compromised in any way, and also provides the parish with acceptable evidence of any disbursement in the form of the canceled parish check.

6. Recording of Contributions

Parishioner contributions must be recorded. The actual offertory envelope or copies of checks should be the source document for posting contributions by parishioners. The individual who records contributions from this source data must be independent from the team making the bank deposit. Written procedures should be provided to instruct this individual recording the contributions in the parish database. For example, contributions should not be backdated to the Sunday date printed on the offertory envelope; the date of the collection should be used. As another example, families may submit multiple

envelopes for previous collections on one Sunday. These contributions should be entered with the Sunday date on which the multiple envelopes were received, *not* the date printed on the envelopes.

7. Contribution Statements

All parishioners that donate with identifiable currency (i.e., check, envelopes) should receive an annual letter listing all contributions made throughout the calendar year in accordance with IRS regulations. Parishioners will then have support for any federal tax deduction, and the parish will have another type of internal control. A control weakness could be identified if parishioners complain that their contribution record is incorrect.

Annual parishioner statements of contributions are mailed to or made available to parishioners no later than January 31 of each year. The statement should contain the following notation:

“No goods or services were provided to you by the church in connection with any contribution, or their value was insignificant or consisted entirely of intangible religious benefits.”

8. Acknowledging Cash Donations of \$250 or Greater

The IRS requires that any single cash donation of \$250 or more be acknowledged in writing. A separate acknowledgment may be provided for each single contribution of \$250 or more, or one acknowledgment, such as an annual summary, may be used to substantiate several single contributions of \$250 or more. The law specifies that a written acknowledgment must include the following information:

- Name of charity
- Amount of cash contribution
- Date of cash contribution
- The statement should include the following notation: *“No goods or services were provided to you by the church in connection with any contribution, or their value was insignificant or consisted entirely of intangible religious benefits.”*

These donations may include, but are not limited to, offertory donations, designated gifts, estate gifts or bequests, or un-designated (unrestricted) donations. A donor must receive the acknowledgment by January 31.

9. Donation of Non-Cash Property

Donations of non-cash items to parishes are treated differently by the IRS based on the value of the item donated. Parishes should acknowledge donations without assigning a value to the donation, but rather by giving a description of the item(s) donated. The statement should include the following notation: *“No goods or services were provided to you by the church in connection with any contribution, or their value was insignificant or consisted entirely of intangible religious benefits.”*

10. Donations of Stock/Other Securities to the Parish

Occasionally, parishioners may wish to donate marketable securities in the form of stocks or bonds directly to the parish. The parish is asked to contact the Office of Development or Office of Finance for assistance in converting these gifts to cash.

B. COLLECTION OF OTHER PARISH RECEIPTS

Cash and check receipts from sources other than offertory collections (religious education fees, fundraising events, youth ministry, etc.) should also be in the possession of at least two unrelated persons at the time of collection, counting, and deposit.

1. Monies Collected through the Front Office

Receipts received by mail or those that are hand-delivered should be processed by one of the following procedures:

- a. Funds received in an offertory envelope should be placed in a secure area until the next regular collection count.
- b. Funds with a special designation (i.e., ministry funds, fund-raisers, Mass offerings) should be recorded with the deposit and documented in the cash receipts log when completed.
- c. Funds in the form of cash should be counted by two people and placed in an envelope, which is to be sealed. The amount is to be recorded on the envelope and signed, dated by the persons performing the count and documented in the cash receipts log when completed.
- d. All receipts should be deposited in a timely manner, once a week at a minimum. Until the deposit can be made, funds should be kept in a drop safe.

2. Poor Box/Votive Candle Offerings

The cash from the Poor Box and votive candles must be collected at least weekly, more often in those churches where there are numerous visitors throughout the week. The principle of collection by two persons is to be followed, as well as the safeguarding of receipts in tamper-evident bags kept in a safe or locked cabinet.

3. Fundraising Events

Fundraising events include annual festivals, auctions, and/or major dinner/dances. Many parishes rely on special fundraising events to supplement the weekly offertory as a source of revenue. These events can generate a significant amount of additional funds needed by the parish to meet their financial needs. As such, it is important that each parish take special care to ensure the adequate safeguarding and monitoring of these funds. Dual control of the cash during the event and placement of funds, in tamper-evident bags, placed in a secured safe on the parish premises.

All monies collected from an event should be reconciled to total sales prior to the deposit in the parish bank account. Under no circumstances should monies be taken before they are deposited to pay event-related obligations; cash disbursements are strictly prohibited.

C. PARISH OFFERTORY PROGRAM

Parish Offertory program helps parishioners understand the role of money and their possessions and their need to support the Church as they strive to live as disciples of Jesus. Many parishioners do not have a well-formed understanding on why or how much they should give each week to the Church. The diocesan-coordinated Offertory program asks parishioners to prayerfully reflect on the blessings they have received and to make a written, financial commitment to the parish for the coming year. This Offertory program is designed to be conducted every year in the fall, thereby annually incorporating a stewardship message into the life of the parish.

For more information, contact the Office of Development at 703-778-8600.

D. PARISH CAPITAL CAMPAIGNS

Capital campaigns must have the written approval of the Bishop and/or the Diocesan Finance Officer. The Development Office of the diocese provides parishes with all the services needed to conduct Offertory programs and small to mid-size capital campaigns. Working with the pastor / parochial administrator, the Office of Development

can help determine minimum financial goals, develop a campaign timetable, and review campaign materials. Parishes are encouraged to contract with a professional company for some mid-size campaigns and all large-scale fundraising efforts.

Monies donated through special fundraising campaigns conducted by a parish for a specific purpose should be considered restricted funds only if supporting documentation is provided. Acceptable documentation includes printed brochures prepared for the specific campaign and printed collection envelopes that clearly state the purpose of the campaign and the name and address of the donor. The parish should maintain a detailed record of the amount raised from each donor. Capital campaigns generally have a payment schedule of three to five years. Parishes should send reminder statements to donors according to their specific requests; i.e., monthly, quarterly, or annually.

For more information, contact the Office of Development at 703-778-8600.

E. ELECTRONIC GIVING

As financial technology capabilities improve, it is likely that within the next several years electronic giving will be the dominant payment option besides cash. This banking change will have an impact on parish offertory giving. Many churches do not have the staff or time to address both the marketing challenges and security standards required to manage a direct debit offertory program.

Any organization processing, storing, or transmitting credit card data must adhere to the PCI DSS (Data Security Standard) regarding the processing, storing or transmission of credit card data and the physical or electronic storage or use of credit card information in either real time or recurring payments.

Therefore, it is important to contract with a reputable company to implement an electronic giving program in your parish. Offering parishioners an electronic giving option can greatly enhance offertory collection. Once a parish family enrolls in electronic giving, their weekly offertory is not dependent upon their being “in the pew” on a given weekend; therefore, the parish is able to maximize the offertory giving per family, translating into a more consistent offertory for parishes.

For more information, contact the Office of Development at 703-778-8600.

F. TUITION AND FEES COLLECTION FOR SCHOOL AND RELIGIOUS ED

1. Collection of Tuition and Fees

A third party tuition collection service is highly recommended for elementary schools. Checks received for tuition and fees must be restrictively endorsed upon receipt. Pre-numbered duplicate receipts should be issued for payments of tuition and fees. Schools utilizing third party vendors to collect tuition and fees must monitor the collection process according to the agreement made with the vendor. It is imperative that tuition and fees are paid in a timely manner and that accurate records are kept at the local school. Written guidelines and procedures for monitoring the collection of tuition and fees should be developed.

2. Administration of Student Accounts

The tuition collection and fees should be recorded and reconciled to the student accounts. Tuition collections are reconciled to total tuition revenues recorded on the parish financial records. Two unrelated persons should be responsible for the custody and recording of tuition collections. Third party vendors should provide a monthly report to the principal, religious education director and business manager.

Student accounts must be maintained in electronic format. Document a standard policy for recording tuition and any school fees. If applicable, ensure that late fees are applied to the appropriate student account. Establish fees and guidelines for processing NSF checks. Monitor to enforce that all appropriate fees are applied and collected.

3. Scholarships, Reduction in Tuition, Tuition Waivers

Approval for all scholarships, tuition reductions and waivers must be obtained in writing from the pastor / parochial administrator and the principal and maintained in the files. If appropriate, an advisory committee may assist with the allocation of available funds. Written criteria should be promulgated to school families.

4. Segregation of Duties

The person who records the receipt of tuition and fee payments should not be the same individual who prepares the bank deposit.

5. Adequate Physical Safeguards

Tuition collections should be deposited at least weekly. During heavy collection periods, daily deposits may be necessary to prevent the accumulation of sizable sums of money. To safeguard funds until a timely deposit can be made, tuition collections should be sealed in pre-numbered tamper-evident bags and locked in a safe under dual control with limited access.

6. Payments Segregated by Type

Payments received should be separately recorded by type; such as, tuition and fees (identified by current year and previous year), for pre-school, before and after, and kindergarten through eighth grade, including fees, books, fundraising, scholarships and extended day charges. Separating income by type will aid in reconciling and reporting actual tuition and fees received.

7. Tuition and Fee Collection Plan

Written policies must be developed pertaining to reduction in tuition arrangements and collection of delinquent accounts. On a monthly basis, outstanding tuition balances should be identified and reviewed to determine if it is collectible. Payment plans and reminder notices should be utilized to collect past due tuition. To identify past due tuition: document all students registered under different tuition plans to monitor the accuracy of revenue collected on an ongoing basis. After all reasonable collection efforts, uncollected tuition should be written off after review and approval of the pastor / parochial administrator, principal, and the finance council.

For more information on school tuition management, contact the Office of Catholic Schools at 703-841-2519.

VI. EXPENDITURES & RELATED ACTIVITIES

The basic objective in establishing internal controls over disbursements is to ensure that all disbursements are for bona fide, parish-related expenses, that the expenses are promptly and accurately recorded, and that all expenses are authorized by appropriate individuals (i.e. those authorized to withdraw funds, enter into contractual agreements, or encumber the entity in any way) prior to commitment of funds. All contractual agreements should be signed by the pastor / parochial administrator.

The risk of an unauthorized use of parish funds can be significantly reduced if procedures are established to determine what documentation is required to substantiate an expense and who is authorized to approve the expenditure.

Certificates of insurance should be provided by any organization or vendor conducting business on Church property. This includes but is not limited to service/repair companies and groups requesting use of church/school facilities for non-parish related meetings. When requesting certificates of insurance from third parties, it is important to request that the church/diocese/bishop be endorsed on the general liability policy as additionally insured. If you have any questions about requesting vendor insurance, please contact the Office of Risk Management at 703-841-2503.

In addition, a form W-9 should be completed by any individual or vendor who will provide a service to the parish.

A. CASH DISBURSEMENTS

All disbursements, with the exception of petty cash and authorized credit cards, must be made by check. No one other than authorized signers may sign checks. The use of facsimile signatures is prohibited, as is the signing of blank checks. Checks are to be pre-numbered and used consecutively. They are to be stored in a locked safe or cabinet.

1. Purchasing

The pastor / parochial administrator is responsible for all commitments made on behalf of the parish. He may delegate purchasing responsibilities as he deems appropriate. Purchases should be made within the constraints of the budget. Since the budget represents a guideline for spending, purchases in excess of the budgeted amount require specific authorization from the pastor / parochial administrator.

2. Receiving

Upon acceptance of a delivery of merchandise, the person receiving the goods should verify the delivery, document the receipt thereof and initial the documentation. The receiving document should be forwarded to the church office promptly. Under no circumstance should the items ordered for the parish be delivered to a person's home address. Conversely, personal purchases made through parish accounts are prohibited.

3. Processing Invoices

Upon receipt of an invoice, verify that the material was received, or the service was provided (by reference to an initialed receiving document, if available). Payments should be made from invoices and not be made from statements.

4. Check Preparation

Periodically (i.e., weekly, bi-weekly, etc.) checks must be prepared on the basis of an original vendor invoice (not a photocopy) or other appropriate documentation which has been approved for payment, initialed, and dated. The check and/or remittance advice must include the vendor's invoice number(s) or equivalent. The checks and supporting documentation (i.e., invoices, check requests) are to be forwarded for authorized signatures. Once paid, the invoice or check request is to be marked "paid" and initialed by the signor. Voided checks must be defaced and filed.

B. ELECTRONIC PAYMENTS

It is a fact that Electronic Funds Transfer (EFT) payments through the Automated Clearing House (ACH) system reduce the risk to parishes of loss caused by check fraud. At the same time, however, they present a different set of risks. Therefore, in order to properly protect the parish assets, EFT/ACH transactions must be limited in number, executed with careful attention to detail, and in strict compliance with guidelines outlined below.

All EFT payments should be limited to monthly recurring payments or to vendors who do not accept checks.

Generally, vendors should be paid once during each 30-day period. In the event of multiple invoices from a single vendor during a 30-day period, parishes should consolidate payments whenever possible.

1. Approval

All EFT/ACH transactions must be pre-approved in writing by the Pastor. Specifically, Pastors shall provide written pre-approval detailing the vendors for which recurring transactions are authorized for EFT/ACH payment.

It is recommended that such approval for recurring expenses (e.g., utilities, credit cards, etc.) be formally documented by a consolidated memorandum detailing the names of all EFT/ACH-approved vendors and their associated banking information. Authorizations can be modified by preparing a new approval memorandum that has been updated to include or remove vendors. Parishes must maintain a historical file that contains a complete record of current and previous vendor authorizations.

Non-recurring transactions should be documented in writing; an email or memorandum of approval from a Pastor would suffice for this purpose.

All invoices being paid via an EFT/ACH payment must be reviewed by the Pastor before payment, who shall evidence his approval through his initials and date on the invoice. In conformance with Section IV, invoice payments of \$10,000 or more to an entity outside of the Diocese must be approved by a second authorized signatory to the account (e.g., Parochial Vicar, Priest in Residence, etc.).

2. Processing Controls

All EFT/ACH transactions must be conducted by computer. Additionally, the principles of segregation of duties through workflow control outlined in Section III must be implemented. Generally, responsibilities are segregated among staff members who perform specific tasks related to their respective role in the preparation, recordation/ confirmation, and execution of financial transactions.

For example:

Employee 1 is assigned tasks related to the receipt of invoices, verification of goods and services received along with associated amounts and is also responsible for documentation of vendor information and the associated payment amounts. Employees responsible for this phase of the payment process are specifically prohibited from performing bookkeeping or accounting responsibilities and are expressly prohibited from disbursing funds from the Parish commercial bank account.

Employee 2 reviews and verifies payments, paying particular attention to vendor payment information and amounts to be disbursed. Employees responsible for this phase of the payment process may be assigned bookkeeping or accounting responsibilities but are expressly prohibited from any data entry responsibilities

(described above) and from disbursing funds from the Parish commercial bank account.

As signatory, the Pastor (or his designate) must personally execute all payments to conform with Section IV. Pastors are prohibited from performing any of the responsibilities described above for the employees.

Parishes are encouraged to utilize third-party software applications that are compatible with their version of QuickBooks to facilitate and implement the proper segregation of duties.

3. Bank Systems/Security Requirements

The following security features must be implemented for EFT/ACH transactions to be endorsed under this protocol:

a. Positive Pay

This is a check fraud prevention service that requires account holders to provide specific information (e.g., check number, date, payee name and the associated amount) for all checks written from a Parish bank account. The list is used by the bank to verify the authenticity and accuracy of the checks presented for payment. Most importantly, the list protects Parishes from losses in the event a check is stolen from the mail and fraudulently presented for payment.

b. ACH Positive Pay

Similar to Positive Pay, ACH Positive Pay permits Parishes to establish rules and filters (by name, threshold, frequency, types, etc.) to permit legitimate transactions to process. The service also alerts the Parish of potentially fraudulent transactions.

c. Unique Access Identification

Each person with responsibilities requiring access to bank information related to processing ACH payments must have their own unique set of credentials to access the necessary systems. Under no circumstances may credentials be shared.

d. Multi-factor Authentication

All persons assigned responsibilities in the approval process must have unique credentials to access their payment system. Secure access to ACH processing is best accomplished by use of multi-factor authentication (MFA) systems linked solely to the personal communication device of each individual.

C. CREDIT CARDS [*Highly sensitive area that is often abused.*]

Parishes are vulnerable to fraud when there is a lack of controls over credit cards. The use of parish/school credit cards should be strictly limited, closely guarded and reconciled timely. All credit cards are to be authorized and approved by the pastor / parochial administrator; issued in the name of the parish or the school; and only issued to certain employees demonstrating a compelling need for regular use of this method of payment defined as: only in those instances where it is not appropriate or convenient to issue a check for payment; and must never be used for personal expenses (even if the parish is to be reimbursed), for ATM transactions or cash advances, or for wire transfers.

1. Purchasing

The pastor / parochial administrator should exercise good judgment and caution concerning who will carry and use parish credit cards. Purchases over an amount to be determined by the pastor / parochial administrator require prior approval from the pastor / parochial administrator. Detailed original invoices and receipts are to be provided as support for all credit card purchases. Details include: date, item description, unit and total cost, business purpose with attendee names, and any other source of information to support expenditure.

2. Processing the Card Statement

Actual monthly purchases and payments should be reconciled to the monthly statement as soon as it is received. The reconciler should carefully review each charge on the statement to ensure it is a legitimate charge, and that the amount is correct. This is best accomplished by matching the charges on the statement with receipts you received each time the card was used. Attach the receipt, or invoice, for each charge that vouches that the charge was proper. In the unusual circumstance, that a receipt is lost, then attach a memo, signed by the person who made the charge, that contains enough detail about the charge to verify that it was proper. The total amount due on the statement must be paid in full monthly, on or before the due date shown on the statement.

3. Card Security

Credit cards should be kept under lock and key when not in use. The card numbers should be recorded and kept on file in the office. Any misuse of the credit card should result in revocation of card privileges or disciplinary action, up to and including termination of employment. In the event of lost or stolen credit card, it is the user's responsibility to call and cancel the card immediately and contact the pastor / parochial administrator. Upon termination or leave of absence, all credit cards are to be surrendered immediately to the pastor / parochial administrator who will acknowledge the card was returned.

D. PETTY CASH DISBURSEMENTS

Petty cash activity should be minimal and used only for small expenditure items that are immediate and necessary. All disbursements from petty cash must be documented by either a petty cash voucher or an invoice. Vouchers must indicate the date and purpose, to whom paid, and the amount. The person receiving the cash must always sign and date the petty cash receipt or the invoice to acknowledge his/her receipt of the cash. Vouchers and/or paid invoices must be kept with the petty cash until the account is reconciled. After reconciliation, they are to be filed. The account shall be reconciled when replenished (by someone other than the person authorized to disburse payments, when possible).

The petty cash fund should always be replenished with a check. Never take cash directly from the Sunday collections or other cash income.

E. 1099 PAYMENTS

The Internal Revenue Service requires that certain payments made to qualified individuals for services (or a combination of parts and services) of \$600 or more in a calendar year be reported on IRS Form 1099-NEC. IRS Form 1099 is the counterpart to an employee's W-2, and is to be completed, with copies given to each qualified individual or unincorporated company by January 31, each year. For further information and instructions go to: <https://www.irs.gov/instructions/i1099mec> IRS Form 1096 is the transmittal form for the 1099 forms, and is filed, along with copies of the 1099 forms, with the IRS by February 28.

1. Extra Clergy Stipends/Extern Priest

Payments of \$600 or more in a calendar year to visiting priests, including bishops, must be reported to the member of the clergy and the IRS on Form 1099-NEC.

2. Deacons

Payments to deacons (not employed by the parish) of \$600 or more in a calendar year must be reported to the Deacons and the IRS on Form 1099-NEC Regularly scheduled deacons, even if occasionally, should be put in the payroll system.

3. Independent Contractors and Non-Incorporated Companies

Payments to independent contractors and certain non-incorporated companies (LLCs) of \$600 or more in a calendar year, must be reported to the independent contractors, non-incorporated companies, and the IRS on Form 1099-NEC.

As a reminder, a completed W-9 form should be obtained from any vendor providing a service to the parish, including individuals, LLCs and other entities, and retained in a file.

Electronic Filing Requirements: If you have ten or more informational returns to file, electronic filing is required. Informational returns include all W-2 forms used to report

employee wages and all 1099 forms that are required to be filed. For example, if a parish has eight employees being paid by Dayforce and, after reviewing vendor payment records, the same parish has 6 1099-NEC forms to file, the total number of forms is 14.

Electronic filing of 1099 forms can be accomplished the following ways:

1. QuickBooks provides the option to file your 1099-NECs electronically. This service will require additional fees.
2. Utilizing a third party such as an accounting firm or purchasing a commercially available product used to produce 1099-NEC's such as Greenshades.

The 1096 form is not required when you file 1099s electronically to the IRS. Be sure to print your 1099s for a final review prior to submitting electronically.

F. EXTRAORDINARY EXPENDITURES

Pastors, Parochial Administrators, and Heads of Schools are authorized to spend up to \$50,000 for extraordinary expenses without explicit permission. The exception is when expenses pertain to the architecture of churches and chapels, or any changes within the sanctuary (e.g., altar, tabernacle, stained glass windows, etc.). In these cases, all expenses are subject to the approval of the Diocesan Bishop as coordinated through the Office of Divine Worship.

All major expenditures incurred by parishes and schools which involve spending more than \$50,000 in total are to be approved by the Diocesan Bishop in advance as coordinated through the Diocesan Finance Office. This policy also applies to expenditures made by parish or school auxiliary organizations. Examples of major expenditures include new construction and renovation projects, major repair and maintenance, purchases of items such as computer equipment (smart boards, chrome books/laptops, etc.), athletic and playground equipment, furniture, and fixtures.

The Diocesan Bishop, through coordination with the Diocesan Finance Office, directs the approvals of expenditures of more than \$50,000 in totality. For a project that will affect the architecture of the church or changes in the sanctuary, as stated above, all expenditures require the approval of the Diocesan Bishop, through the Office of Divine Worship.

A written or electronic request for approval of extraordinary expenditures greater than \$50,000 is to be submitted to the Diocesan Finance Office with the following information:

- Purpose and reason for expenditure
- Amount of expenditure, including price quotes that have been obtained
- Availability of funds needed for expenditure, or DIAL loan request
- Signature of the Pastor / Parochial Administrator / Head of School

NOTE: A project may not be broken down into smaller components or phases to circumvent this requirement. In the case of a project being planned in progressive phases which are individually less than \$50,000, if the total expected cost exceeds \$50,000, approval is required in advance.

VII. FINANCIAL REPORTING

A. OBJECTIVES

The primary objectives of parish financial reporting are as follows:

- To accurately and completely report the financial activity of the Parish on a timely basis;
- To summarize financial transactions in a simple, concise, and consistent manner; and
- To provide a "benchmark" in conjunction with the financial statements in the form of a budget so that readers of the statements have a basis of comparison for assessing financial activity; and
- To fulfill the requirements of canon law.

Each month during the fiscal year, the pastor / parochial administrator and business manager should review actual revenues and expenditures against budgeted amounts. Regular fluctuation analysis is recommended, with variances researched and explained. At a minimum, the finance council should review actual revenues and expenditures against budgeted amounts on a quarterly basis. Any material variance should be investigated and resolved as soon as possible. Monthly reports must be timely; i.e., not more than 20 days after month's end. A monthly report package at a minimum should include balance sheet, income statement, fluctuation analysis, and bank reconciliation; and should be given to the pastor / parochial administrator for review.

B. BUDGETING

One of the most effective internal controls is the use of a budget which should be compared to actual balances (of income and expenses) on a monthly basis. Deviations from the budget should be noted and addressed. This type of overall review of the financial statements is very important and members of the finance council should ask questions about any item that appears out of line with the budget or with what would have been expected to be in the actual figures.

Prior to the beginning of the fiscal year, a financial budget for the upcoming fiscal year is to be prepared. It should be understood that budgeting for deficit operations is not permitted. The finance council should participate in developing the annual budget, with input from parish ministries and department heads. The finance council should recommend the final budget for approval by the pastor / parochial administrator, prior to the beginning of the fiscal year to which it applies. The members of the finance council should also participate in the communication of the annual budget to the parish community.

The budget is the plan of revenues and expenditures for the upcoming year. It is to be prepared in accordance with the standard chart of accounts. A line-item amount is to be budgeted for each revenue and expenditure account. During the fiscal year, the pastor / parochial administrator and finance council should review actual revenues and expenditures against budgeted amounts on a regular basis. Any material variance should be investigated and resolved as soon as possible; unfavorable actual-to-budget variances should be addressed by implementing offsetting measures, i.e., increasing revenue or curtail spending.

C. REPORTING FINANCIAL INFORMATION

1. Annual Financial Report to Chancery

Each parish is required to submit a complete Financial Report to the chancery annually, on or before the 15th of August. An Annual Report template is provided using a Microsoft Excel linked workbook.

4. Year-end Report to the Parish

A year-end financial report is to be presented to the entire parish community as soon as possible after the end of the fiscal year. At minimum, this must consist of a Balance Sheet and Statement of Revenues and Expenditures. A basic template for the Report to the Parish is provided within the Annual Report template. The format of this report may vary from that which is submitted to diocesan administration; however, all the major elements of the financial report are to be included.

D. INTERNAL AUDIT

A financial review of parish records shall be conducted as follows:

- All parishes/missions should expect and budget an audit every two (2) years.
- Parishes may be audited more often than every two (2) years if special circumstances exist and it is deemed advisable by the Diocesan Finance Officer; and when there is a change in pastor or parochial administrator.

The diocese will be responsible for notifying the parish when the audit is due and coordinate with the parish appropriate dates for conducting the audit.

1. Review Objectives

- Assess the extent to which the parish implemented prior audit recommendations.
- Compare the parish's annual reports to its underlying records.
- Assess controls and practices used by the parish and, if necessary, help strengthen existing practices and establish internal controls where none exist.

2. Review Process

The review process consists of evaluating and testing the parish accounting procedures and internal controls to determine whether the controls are adequate to meet the above objectives and whether they are operating effectively.

3. Review Results

As a result of the review process, weaknesses in accounting procedures and internal controls will be identified, and a report containing recommendations to improve these procedures and controls will be issued to the pastor / parochial administrator and to the chair of the parish finance council.

VIII. HUMAN RESOURCES

A. PAYROLL AND BENEFITS

Proper payroll processing and compliance with benefit deadlines is extremely important, not only because payroll and benefits comprise a significant portion of total parish expenses, but also because they can affect the employee with health care, pension and disability issues. Since payroll and benefits constitute a substantial portion of the parish's operating budget, controls governing payroll deserve special attention. To ensure adequate segregation of duties, the payroll register should be reviewed by the pastor / parochial administrator or principal. Hours, as well as wages, should be reviewed for non-exempt employees; salaries should be reviewed for exempt employees.

Please contact Human Resources with questions about employment, payroll and benefits, and other areas of human resources.

- Payroll Support: 703-841-3828
- Employee Benefits: 703-841-2588

B. BACKGROUND CHECKS AND SAFE ENVIRONMENT

All employees of the diocese, including parishes and schools, regardless of position, ministry, part-time or full-time status, must be approved in safe environment training within 45 days of their paperwork being submitted. In addition, all employees of the Diocese of Arlington and contracted employees must complete Criminal History Record Checks and annual renewal training in child protection.

Volunteers of the Diocese of Arlington who will have substantial (i.e., not incidental or reasonable to think that the person may at some time have contact with children outside the sight or hearing of other responsible adults) contact with children and youth in the course of their duties, or who will attend an overnight function with children or youth, must be fully compliant (i.e., approved background check and completed safe environment training or within the 45-day grace period) before the onset of any volunteer activity.

For more information, contact the Office for the Protection of Children and Safety at 703-841-3847.