



ARCHDIOCESE
of MILWAUKEE

Internal Controls Training

Parish & School Financial Consulting

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Protecting the Parish Purse

- Moreover, it is required of stewards that they be found trustworthy.

1 Corinthians 4:2



What are Internal Controls?

- Internal controls are measures utilized by an organization to safeguard assets from waste, fraud and inefficient use.
- Internal controls are a measured response to risk.
- Internal controls can be a sensitive issue in parishes, especially if your parish relies on volunteers.



Fraud Triangle

Three elements are needed for fraud to occur:

- Pressure- personal financial trouble such as medical bills, addiction problems, greed, excessive debt and lavish lifestyles.
- Opportunity-poor internal controls, too much trust. This is the area parishes can control.
- Rationalization-excuses to commit fraud. The money is “owed” to them, or the money is just a “loan” and will be paid back.



Why create Internal Controls?



Internal controls not only protect the Parish's interests, but also can protect the staff members from false allegations



Good internal controls make the right things happen the first time, and minimizes opportunities for fraud or error



Most volunteers and Parish staff are good, honest people, so they do not mind controls put in place that protect the organization's assets from theft or loss

Setting up a system of Internal Controls

The financial leaders of each organization must design the system of internal controls to meet their specific needs.

If you do not have someone within your organization you can trust, you may want to consider hiring someone who is familiar with churches and/or non-profits, if you are not comfortable setting up the system yourself.



Internal Control Procedures



The most important measure you can put in place is separation of duties.

Having different individuals perform these functions creates a system of checks and balance.



There are three basic types of financial activities that are performed in a Parish:

1. Authorization of Transactions
2. Recording of Transactions
3. Custody of Assets

Internal Control Procedures

Authorization of Transactions

Why?

- Helps ensure that transactions are appropriate & in line with organizational goals.

Who?

- Individuals who authorize & approve transactions before they are recorded, such as the Pastor and the Trustees.

What?

- Follows the budget and signs the contracts (check signing, purchase requests, accounts payable).

Internal Control Procedures

Recording of Transactions

Why?

- Ensures that financial statements are accurate and that an organization's assets are accounted for.

Who?

- Individuals who handle the finances and bookkeeping of the Parish, such as the Director of Administrative Services (DAS) or bookkeeper.

What?

- Record keeping, document retention and record retention schedules.

Internal Control Procedures

Custody of Assets

Why?

- Helps protect the Parish's assets and records.

Who?

- Individuals who collect cash or checks, make bank deposits, such as the counters and the administrative assistant.

What?

- Electronic and mechanical controls (safe, employee ID cards, credit cards, petty cash, cash registers, files and locks).
- Computer related controls (access privileges, backup and recovery procedures).

Checks and Balances

- Verify that all checks have been properly signed and that the bank balance reconciles or the bookkeeping records.
- Verify that the beginning balance equals the ending balance of the previous month in both the checking account and the general ledger.
- The number of bank accounts should be strictly limited to those absolutely required. The fewer the accounts, the greater the control and the smaller the opportunity for errors.
- Require two signatures on all checks.
- Those writing and signing the checks have the responsibility of checking all invoices for accuracy before payment is made.
- Establish clear guidelines for the handling of your organization's funds. A written financial procedures manual will help establish these guidelines.

Parish Credit Cards

- There should be a business credit card usage agreement signed by every user and cardholder. Parish & School Finance has a template, if you would like something to start with.
- All parish merchant credit card accounts should be reconciled to the general ledger monthly. The reconciliation process helps identify errors and omissions in the accounting records, making the financial reports more accurate.
- The pastor or his designee should receive the credit card statements for all parish accounts unopened when they arrive in the mail. He should review the statements and charges for propriety before the accountant or bookkeeper reconciles the account.
- The finance council should conduct a periodic review, at least quarterly, of the financial reports, balance sheets, income statements & comparisons to the budget as well as prior year's results & cash flow analysis.

Parish Credit Cards

1. Pre-approved supplies for church activities such as books, materials, & office supplies
2. Print materials
3. Fuel for church-owned vehicles
4. Technology & equipment purchases
5. Business travel and meal expenses
6. Certain online purchases that will not bill the parish

- What can you use the Parish credit card for?
 - Items purchased in the normal course of church ministry operations, travel related purchases, and other business expenses.
 - Never use a Parish credit card for personal expenses, even if the intent was to reimburse the Parish.
 - It is not recommended to use a credit card to pay for normal billing process, bill payment process, or cash advances.

Parish Credit Cards

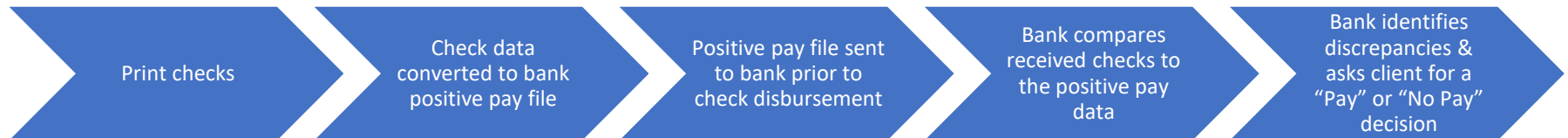
Steps to reconcile the credit card statement:

- Collect the receipts from the cardholders for each transaction they make using the credit card.
- Match the receipts from the cardholders to each line on the statement. Other than fees or interest charges, there should be no other unmarked items on the credit card statement.
- Attach packing lists for items purchased or other purchase verification collected from cardholders to be sure the items charged to the credit card were not returned or unauthorized.
- If cardholders are using the credit cards for travel, meals, entertainment, etc., be sure the transactions are approved by the Pastor.
- Verify there are no duplicate charges, the refunds for canceled purchases are given and that there are no charges for failed transactions.

Positive Pay for Checks

What is positive pay?

- An automated fraud detection tool offered by most banks.
- This service matches the account number, check number, payee, date and dollar amount of each check presented for payment against a list of checks previously authorized and issued by the company.
- If the data does not match, the bank notifies the issuer and pends the check. Until the issuing company instructs the bank to either pay or decline the check.
- This extra layer of security minimizes the risk of facing a loss due to fraud or identity theft.



ACH Positive Pay

- ACH Positive Pay is a service that helps businesses monitor and manage ACH debits and credits to detect and prevent fraud:

Businesses can:

- Establish filters to allow certain ACH debits to post and blocks to prevent unauthorized ACH activity.
 - Set up rules for approved vendors, including a maximum amount that can be paid to each vendor.
 - Receive email and text alerts about any unrecognized ACH debits.
 - Review transactions that don't meet their criteria and approve or deny them.
 - Reduce their risk of exposure to ACH fraud.
- To learn more about ACH Positive Pay, contact your business banking representative.

Conflict of Interest

The Conflict-of-Interest Policy is part of the [Parish and School Policy Manual](#) (Section 444). It states the following:

- A Conflict of interest is a situation in which someone cannot make a fair decision because he or she may be affected by the result
 - There should be no direct line management between two or more members of the same family or household or between two employees who have a personal relationship
 - Employees and their immediate family may not accept gifts, except those of nominal value, or any special discounts or loans from any person or firm doing, or seeking to do, business with the employer
 - Employees are expected to refrain from any transaction where their own interests may conflict with those of the parish/school

Peer to Peer Payment Solutions (P2P): Venmo / PayPal

Nonprofit
PayPal w/
Parish EIN

Set up nonprofit
PayPal account
with parish /
school EIN.

Venmo w/
Charity
Profile

Venmo Charity
Profile may be
linked to nonprofit
PayPal account.
Nonprofit fees are
1.9% + \$0.10*

Stop!

- 1) Never use a personal Venmo or PayPal account for parish / school business.
- 2) May not be appropriate for collecting donations the parish / school needs to track by donor name for IRS tax reporting purposes.

Peer to Peer Payment Solutions (P2P)

Tax reporting

- As of January 2024, business transactions through the platforms that exceed \$5,000 for the calendar year will receive a 1099-K.
- To be tax exempt, the account **MUST** be a charity account. Cannot be an individual's account. If it is an individual's account, they cannot send donors charitable tax donation receipts.



Tips to Strengthen your Internal Controls



- Pre-numbered, multi-part receipt forms are a way to strengthen internal control over cash receipts. They must be issued in strict numerical order & a limited number of employees should accept cash receipts.
- No one person should be left alone with money, especially in an out of the way location. A thief is less likely to “surprise” multiple people vs one person.
- Counters should endorse all checks immediately.
- Under no circumstances should a DAS, Business Manager, Bookkeeper or anyone who has regular access to the accounting records be an authorized signer on a bank account. **Only pastors and trustees should be authorized signers on bank accounts!**

Report Misconduct

The Archdiocese of Milwaukee offers online and phone methods of reporting misconduct. Please make sure that all new employees, key volunteers who work with children or vulnerable adults, and key volunteers involved with handling money (ushers, money counters, etc.) are aware of the options available for reporting misconduct. It is a best practice to remind all employees and key volunteers of these options at least annually.

There is a link to “Report Misconduct” at the bottom of the [Archdiocese of Milwaukee \(archmil.org\)](https://www.archdioceseofmilwaukee.org) website.

Options to report misconduct:

[Report Misconduct \(archmil.org\)](https://www.archdioceseofmilwaukee.org)

Call: 800 461-9330 | Text: 414 348-4261

Contact:

ParishFinance@archmil.org



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