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Chapter 1 : Diocesan Internal Controls: A Framework

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Relationships and Responsibilities Introduction To be effective, internal control policies and procedures must be properly followed by personnel, regardless of responsibility level. People, not policies, determine whether a system will function properly. People at different levels have different backgrounds, technical skills, needs, and priorities. Therefore, it is important that they be properly trained in their responsibilities and limits of authority. Just about everyone in a diocese has some responsibility for internal control. Everyone also has an expressed or implied responsibility to report a breakdown in internal control. Personnel must always believe they can report a problem to a responsible member of management, where the ultimate responsibility for the internal control system of a diocese lies. The responsibilities of the various levels of authority in a diocese are discussed below, under the headings of "Management and Personnel," "Committees," and "External Auditors. He is responsible for ensuring integrity, ethics, competence, and other factors of a positive control environment. The bishop fulfills his responsibilities by providing leadership to his senior management team, who shape the values, principles, and operating policies that are the basis for a strong internal control system. He should meet periodically with his management team and review their areas of responsibility to see that the diocese is being properly controlled. The bishop and his representatives, therefore, establish a control environment that ensures effective communications and sets up monitoring procedures. Finance Officers Finance officers and their staffs are important in the monitoring process. Their activities cut across the operating and other activities of a diocese. They are involved in developing diocese-wide budgets and plans. They produce reports that analyze performance from operational, compliance, and financial perspectives. The chief financial officer CFO and other finance officers are central to the way management exercises control. The CFO provides valuable input and direc-tion and should be an equal partner with the other functional heads in a diocese. Any attempt by management to have the CFO more narrowly focused limited to areas of financial reporting, treasury, and internal audit could prevent a diocese from succeeding in its business objectives. Internal auditors should take the following steps to appraise the internal control system: Review the reliability and integrity of financial and operating information. Review compliance with diocesan policies, plans, and procedures and compliance with laws and regulations. Review the means for safeguarding assets. Review the means by which resources are used effectively and economically. Ascertain that operations and programs have accomplished established objectives and goals. The functions of internal auditors may not always be fulfilled by paid staff employees but can be performed by others in an organization or by volunteers who are trained in such functions. Other Diocesan Personnel Internal control is the responsibility of all the personnel in a diocese. Examples of personnel activities include generating invoices, ordering, reporting expenses, preparing time cards or time sheets, and preparing requisitions. Volunteers To the extent volunteers are involved in an organization, they should be made aware of its control consciousness. Personnel who volunteer need to understand the business implications of their activities. While the organization is grateful for their volunteerism, there may be occasions when accepting their help would be inappropriate because of church or personal conflicts of interest. Committees Every organization is assisted by either paid or volunteer committees. Certain committees may be able to help the bishop and management carry out their responsibilities over internal controls. Although committees are not necessary, their existence typically provides another deterrent to incidents of fraud. Some of the responsibilities of these committees are described below. Finance Council The finance council of a diocese should have a significant role in the internal control function of a diocese and in providing direction, guidance, and oversight to the bishop. In addition to its advisory capacity, the finance council has specific rights and duties under canon law. Members must be objective and competent. To be effective, the diocesan finance council should carry out its responsibilities through committees. Some of the committees may include audit committee, financial or project review committee, properties committee, investment committee, employee benefits and compensation committee, and insurance committee. Membership on the finance council should be diverse with respect to areas of technical competence, covering areas such as accounting, financing activities, real estate, construction, insurance, and investments. Committees should include clergy as well as lay persons. The responsibilities of the various com-mittees of the finance council may be as follows: The audit committee is responsible for reviewing the annual diocesan budget, the financial results throughout the year monthly or quarterly , the results of the annual audit, the activities of the internal auditor, the adequacy of the accounting system, the overall adequacy of the internal control system, and the functioning of the system. The financial or project review committee reviews the financial feasibility of any con-struction project or property acquisition in the diocese. This review should include any related debt acquisition. The properties committee advises the bishop on properties acquired, held, and alienated. Members should be concerned with the quality of construction on purchased property, since quality may ultimately involve future financial outlay. They could also be charged with assessing the need for a proposed project and ensuring the liturgical correctness of the project when appropriate. The investment committee sees that there are proper controls over the invested funds of a diocese. They should establish diocesan investment guidelines and review the ade-quacy of investments from financial and ethical viewpoints. On a periodic basis they should review the investment performance of managed funds against diocesan guidelines and other criteria that are commonly used to evaluate the effectiveness of money managers. The employee benefits and compensation committee ensures that controls are in place with respect to employee benefit programs and compensation arrangements. Members should see that fiduciary responsibilities over employee benefit programs are being properly discharged. The committee is responsible for reviewing the programs with respect to cost, adequacy of coverage, and implementation of risk management activities. External Auditors External auditors independent public accountants can be helpful in reporting material deficiencies in internal control systems and their implementation. A diocesan entity should not, however, rely on external auditors to identify all weaknesses unless the auditors are specifically engaged to review the system. External auditors who are engaged to audit and issue an opinion on the financial statements design their procedures to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. However, there are inherent limitations in the auditing process. For example, audits are based on the concept of selective testing of the data being examined and are therefore subject to the risk that errors and irregularities may not be detected. Also, because of the characteristics of irregularities, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material irregularity. The areas identified are common to every organization. The chapter is not intended to describe internal control procedures for every business transaction. Basically, all of the procedures discussed in this chapter have two major aims: To protect assets e. There are, however, a number of basic elements of internal control that should be part of any system. Each diocese should evaluate its business cycles to design elements of an internal control system. Once the basic elements are covered, organizations need to design internal controls for the following business cycles: Financial planning and control Payroll Purchasing The elements of a "revenue" cycle in a church structure are covered in the cash management cycle noted above since most types of revenue are converted to cash very quickly. Basic Elements of Internal Control Honest and Capable Employees Recent frauds perpetrated on dioceses have been committed by employees having a great deal of trust. Certainly, any system is critically dependent on the people who use it. If the people are dishonest or incompetent, even the finest system will not perform properly. Honest and capable employees can and do function effectively even in situations where other elements of internal control are lacking. The following suggestions may help in deterring employee dishonesty and apply to volunteers as well as paid employees: Require annual vacations of employees to help ensure that any fraud requiring their constant attention would be discovered during their absence. This requires cross-training to ensure work continues during such absences. Bond or secure fidelity insurance on employees in positions of trust. A fidelity bond is insurance protecting the organization from losses resulting from employee dishonesty. Establish and educate personnel on the conflict-of-interest policy to prevent potential abuse. Investigate all employees adequately before their employment as part of the hiring process. Delegation and Separation of Duties Employees must know what they are to do and what others are responsible for.

Establishing an organizational chart is clearly important for defining responsibility lines. Job descriptions should be used to further explain proper delegation. Most important is a clear separation of duties. The system should provide for an appropriate segregation of duties between the custody of and the accountability for assets. This segregation should preclude any one person from performing all aspects of a function. Custody of assets must be separated from the record-keeping of those assets. Also, authorizing transactions must be segregated from recording the transactions. Generally, involving more people in the accounting system reduces the potential for fraud, unless, of course, there is collusion. In situations where this is impractical due to financial constraints, a responsible officer, finance council member or trustee who is not involved in the daily record-keeping should oversee the accounting activities. Procedures for the Processing of Transactions Specific procedures will be discussed later as they relate to business cycles. In general, a basic element of internal control is proper authorization. It is imperative that the day-to-day operating authority be delegated to the appropriate manager s with specific guidelines to follow for example, the maximum amount to be borrowed without authorization or the maximum amount of a disbursement to be approved. Suitable Documents and Accounting Records Accounting records and documents should be maintained to provide an audit trail. One major objective of an internal accounting control system is to provide reasonable assurance that the financial records reflect all financial transactions that have occurred. The recording of all transactions must be correct as to quantity and dollar amount, and must be made in the proper accounting period. The supporting documentation should be simple and easy to use to help reduce error; numbered to help keep physical control over the documents; as few in number as possible to minimize confusion; and designed to ensure that they will be properly completed. Physical Control Over Assets and Accounting Records The safeguarding of assets is an important aspect of a system of internal control. Accounting records can be protected by physical barriers, such as locked rooms or drawers accessible only to select individuals.

Chapter 2 : Manuals & Forms | calendrierdelascience.com

reporting/calendrierdelascience.com Fraud Prevention Programs and Controls Guidance to help prevent and deter fraud can be found in Managing the Business Risk of Fraud.

Share Article Lifestyle Catholic parishes and dioceses in the United States face a financial scandal: Embezzlement occurs at an alarming frequency. In my Villanova University colleague Robert West and I conducted a study of diocesan financial practices, including incidences of embezzlement. We surveyed diocesan chief financial officers and found that 85 percent of reporting dioceses had experienced embezzlement within the last few years, many more than once. Our study was conducted nearly 10 years ago, but the problem has not subsided. Over the last few years Catholics across the United States have been able to pick up their newspapers and read about priests and employees stealing from their parishes. Embezzlers typically steal money to feed addiction or alleviate financial stress. The temptation to embezzle funds comes from a combination of need and opportunity. Are Catholic priests and parish staff more dishonest than individuals working in the private or government sectors? Do they have more addictions? Do they have more opportunity to steal? In most cases the answer is yes. Catholic dioceses and parishes are notoriously careless with their internal financial controls. Too many parish finance councils are nothing more than rubber-stamp bodies, approving whatever the pastor or parish business manager puts in front of them. In a study I conducted, more than 40 percent of parish finance councils surveyed viewed their ability to review financial statementsâ€"from balance sheets to investment resultsâ€"to be insufficient. No one thinks that a priest or layperson would steal from the church, so routine internal financial controls are either missing or lax. The document also makes clear that most of its recommendations can also be applied at the parish level. However, the document does not prevent financial mismanagement. Bishops and priests are free to follow them or not. Even when official diocesan policy is to follow the recommendations, their implementation at the parish level can be hit or miss. In my research I found that only two out of three parish finance councils followed the guidelines issued by the diocese. An opportunity for theft arises when the same people count the collection week after week. I conducted a survey that showed in 5 percent of the parishes studied, only one person counted the weekend collection. In another 40 percent of parishes, the same team counted the collection each weekend. Rotating teams of collection counters, with no team containing individuals related by blood or marriage, is the best practice for parishes. Believe it or not, in some parishes, once the collection has been counted, one individual is responsible for depositing the collection, writing all of the checks, and reconciling the bank statements, usually without any checks or balances. Parishes should segment these tasks so that no one person performs all of these steps. Parish fundraisers should follow this model as well. Limit the number of parish checking accounts. In order to control spending, parishes should limit the number of parish checking accounts. Not every parish organization needs its own checking account. Does the school need its own checking account? Does a national fraternal organization like the Knights of Columbus need its own checking account? How about the choir? A line item in the parish budget should be sufficient. Limit the number of individuals who have check-signing authority. If parishes limit who has the authority to sign checks, they will be better able to control the disbursement of funds. Require multiple signers for large checks. I conducted a survey that showed that in two-thirds of responding parishes only one person was authorized to sign checks, no matter how large. That gives one person too much responsibility, especially when a lot of money is involved. Require supporting documentation for every check. Checks should not be issued without supporting documentation, like receipts for purchases, including for those parishioners who are seeking reimbursement for an expense that they incurred on behalf of the parish. Parishes should encourage parishioners to contribute money through electronic transfer, which eliminates much of the handling of cash. Through electronic transfer, parishes receive contributions even when parishioners are on vacation, sick, or otherwise unable to attend Mass. My studies show that when a parish household starts contributing electronically, their annual contributions increase by 30 percent. Dioceses should administer annual random audits of their parishes to ensure their finances are being used in the correct way. One of the best defense mechanisms against embezzlement is an open, transparent, and accountable financial process. Potential embezzlers who view the system as transparent and accountable are less likely to steal. However, parishioners must insist on financial transparency and accountability at all levels, including in both parishes and dioceses. Unfortunately, too many bishops and priests fail to acknowledge the importance of open and transparent finances. What they need to recognize is that parishioners will contribute more if they know how their funds are being spent. I give presentations about proper internal financial controls to groups around the country. During my presentations I provide some examples of poor controls and their results. You think your examples were bad? Wait until I tell you about what happened in my parish! How is your parish doing? This article also appears in the January issue of U.

Chapter 3 : Director of Internal Audit

DIOCESE OF ST. PETERSBURG INTERNAL CONTROL QUESTIONNAIRE page 3 of 8 YES NO BANK ACCOUNTS. Is the pastor an authorized signer on all bank accounts.

What is the financial and operational relationship of the Diocese and its parishes? The funds required to execute those responsibilities come from three sources: Parish Assessments â€” each parish in the Diocese pays a percentage of its income to support the overall operations and ministries provided by the Diocese. This is the model across the country for all dioceses. Fundraising â€” the Diocese conducts several fundraisers, from the Annual Catholic Appeal to Golf Outings to scholarship funds and school alumni giving campaigns. In addition, the recently concluded Faith to Move Mountains campaign raised funds for trusts to support ongoing operations. Investments â€” The Diocese maintains funds in trusts and accounts that are invested and generate returns that can be used to fund operations while maintaining the principal of those funds. From a financial perspective, what are some of the most significant ways the Diocese serves and supports the parishes? Manages centralized insurance procurement for all diocesan entities. This enables better pooling of risk and purchasing power to reduce costs for insurance across all categories â€” medical, property, workers comp, auto, life, etc. Administers a pension plan for diocesan employees. Provides basic legal and real estate support services for parishes and schools. Conducts reviews to ensure appropriate controls and best practices are in place at parishes and schools. How has the Diocese responded to financial challenges over the past few years, and how would you describe the fiscal health of the Diocese at this time? The Diocese takes its responsibility to manage resources seriously and strives for improvements in efficiencies and operations to ensure good stewardship. A deficit in recent years, exacerbated by the impacts from Superstorm Sandy in , has been reduced as a result of careful and prudent planning. In , the Diocese implemented a Reduction in Force, which included, but was not limited to, early retirement offers. Several expense items have been reduced, and constant scrutiny of all aspects of the operations is exercised. Again, the Faith to Move Mountains campaign will provide funds to support ministries and activities on an ongoing basis from trusts established to allow ongoing support. What structures are in place to conduct financial oversight of the Dio cese and ensure accountability? Finance Council â€” The Diocese has a Finance Council, established under Canon law, which provides support, guidance and oversight to the Diocese. This audit is done to ensure the financials fairly and completely represent the results of the Diocese in accordance with Generally Accepted Accounting Policies. The Diocese has had a clean audit every year.

Chapter 4 : Audits & Internal Controls â€” The Episcopal Diocese of Central New York

Audits & Internal Controls Each parish, chapel and institution of the Diocese of Central New York is required to conduct an annual audit in accordance with the most current method of The Episcopal Church Manual of Business Methods in Church Affairs (BMCA).

In Hellenistic Egypt there was a dual administration, with one set of bureaucrats charged with collecting taxes and another with supervising them. Definitions[edit] There are many definitions of internal control, as it affects the various constituencies stakeholders of an organization in various ways and at different levels of aggregation. COSO defines internal control as having five components: Control Environment-sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control. Risk Assessment-the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed Information and Communication-systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities Control Activities-the policies and procedures that help ensure management directives are carried out. Monitoring-processes used to assess the quality of internal control performance over time. The COSO definition relates to the aggregate control system of the organization, which is composed of many individual control procedures. Discrete control procedures, or controls are defined by the SEC as: A control may exist within a designated function or activity in a process. Controls have unique characteristics â€" for example, they can be: Controls within a process may consist of financial reporting controls and operational controls that is, those designed to achieve operational objectives. Control itself exists to keep performance or a state of affairs within what is expected, allowed or accepted. Control built within a process is internal in nature. It takes place with a combination of interrelated components â€" such as social environment effecting behavior of employees, information necessary in control, and policies and procedures. Internal control structure is a plan determining how internal control consists of these elements. Internal controls help ensure that processes operate as designed and that risk responses risk treatments in risk management are carried out COSO II. In addition, there needs to be in place circumstances ensuring that the aforementioned procedures will be performed as intended: Roles and responsibilities in internal control[edit] According to the COSO Framework, everyone in an organization has responsibility for internal control to some extent. Virtually all employees produce information used in the internal control system or take other actions needed to affect control. Also, all personnel should be responsible for communicating upward problems in operations, non-compliance with the code of conduct, or other policy violations or illegal actions. Each major entity in corporate governance has a particular role to play: Management[edit] The Chief Executive Officer the top manager of the organization has overall responsibility for designing and implementing effective internal control. More than any other individual, the chief executive sets the " tone at the top " that affects integrity and ethics and other factors of a positive control environment. In a smaller entity, the influence of the chief executive, often an owner-manager, is usually more direct. In any event, in a cascading responsibility, a manager is effectively a chief executive of his or her sphere of responsibility. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an enterprise. Board of directors[edit] Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem. Auditors[edit] The internal auditors and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control. They may also review Information technology controls , which relate to the IT systems of the organization. There are laws and regulations on internal control related to financial reporting in a number of jurisdictions. Audit committee[edit] The role and the responsibilities of the audit committee, in general terms, are to: Review significant findings or unsatisfactory internal audit reports, or audit problems or difficulties encountered by the external independent auditor. Personnel benefits committee[edit] The role and the responsibilities of the personnel benefits, in general terms, are to: They also ensure that benefit-related performance measures are properly used by the management of the organization. Operating staff[edit] All staff members should be responsible for reporting problems of operations, monitoring and improving their performance, and monitoring non-compliance with the corporate policies and various professional codes, or violations of policies, standards, practices and procedures. Their particular responsibilities should be documented in their individual personnel files. In performance management activities they take part in all compliance and performance data collection and processing activities as they are part of various organizational units and may also be responsible for various compliance and operational-related activities of the organization. Staff and junior managers may be involved in evaluating the controls within their own organizational unit using a control self-assessment. Limitations[edit] Internal control can provide reasonable, not absolute, assurance that the objectives of an organization will be met. The concept of reasonable assurance implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures. Effective internal control implies the organization generates reliable financial reporting and substantially complies with the laws and regulations that apply to it. However, whether an organization achieves operational and strategic objectives may depend on factors outside the enterprise, such as competition or technological innovation. These factors are outside the scope of internal control; therefore, effective internal control provides only timely information or feedback on progress towards the achievement of operational and strategic objectives, but cannot guarantee their achievement. Describing internal controls[edit] Internal controls may be described in terms of: Objective or assertions categorization[edit] Assertions are representations by the management embodied in the financial statements. Further such fixed assets must be disclosed and represented correctly in the financial statement according to the financial reporting framework applicable to the company. Controls may be defined against the particular financial statement assertion to which they relate. Accounts and disclosures are properly described in the financial statements of the organization. Only valid or authorized transactions are processed. Assets are the rights of the organization and the liabilities are its obligations as of a given date. All transactions are processed that should be. Transactions are valued accurately using the proper methodology, such as a specified means of computation or formula. For example, a validity control objective might be: Activity categorization[edit] Control activities may also be explained by the type or nature of activity. These include but are not limited to: Segregation of duties â€” separating authorization, custody, and record keeping roles to prevent fraud or error by one person. Authorization of transactions â€" review of particular transactions by an appropriate person. Retention of records â€" maintaining documentation to substantiate transactions. Supervision or monitoring of operations â€" observation or review of ongoing operational activity. Physical safeguards â€" usage of cameras, locks, physical barriers, etc. Top-level reviews â€" analysis of actual results versus organizational goals or plans, periodic and regular operational reviews, metrics, and other key performance indicators KPIs. IT general controls â€" Controls related to: IT application controls â€" Controls over information processing enforced by IT applications, such as edit checks to validate data entry, accounting for transactions in numerical sequences, and comparing file totals with control accounts. Control precision[edit] Control precision describes the alignment or correlation between a particular control procedure and a given control objective or risk. A control with direct impact on the achievement of an objective or mitigation of a risk is said to be more precise than one with indirect impact on the objective or risk. Precision is distinct from sufficiency; that is, multiple controls with varying degrees of precision may be involved in achieving a control objective or mitigating a risk. Precision is an important factor in performing a SOX top-down risk assessment. After identifying specific financial reporting material misstatement risks, management and the external auditors are required to identify and test controls that mitigate the risks. This involves making judgments regarding both precision and sufficiency of controls required to mitigate the risks. Entity-level controls are identified to address entity-level risks. However, a combination of entity-level and assertion-level controls are typically identified to address assertion-level risks. This typically involves identifying scenarios in which theft or loss could occur and determining if existing control procedures effectively manage the risk to an acceptable level. For example, automating controls that are manual in nature can save costs and improve transaction processing. If the internal control system is thought of by executives as only a means of preventing fraud and complying with laws and regulations, an important opportunity may be missed. Internal controls can also be used to systematically improve businesses, particularly in regard to effectiveness and efficiency. Continuous controls monitoring[edit] Advances in technology and data analysis have led to the development of numerous tools which can automatically evaluate the effectiveness of internal controls. Used in conjunction with continuous auditing , continuous controls monitoring provides assurance on financial information flowing through the business processes.

Chapter 5 : Best Practices for Internal Control | Diocese of Superior | Superior, WI

For the past six months, we have been looking at ways to assist us in our accounting and management of funds in our parishes, schools, and diocesan offices.

Chapter 6 : Internal Controls

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Chapter 7 : How to stop embezzlement in your parish | calendrierdelascience.com

2 POCKET - 3-Reporting:$$$$The$best$accounting$system$isoflittle$value$unlessitcommunicatestheinformationit containstothose$responsible.$$$Although$there.

Chapter 8 : Department of Finance - Diocese of Trenton - Lawrenceville, NJ

Internal Control: Relationships and Responsibilities Establishing Internal Controls: Specific Practices, Procedures, and Techniques Guidelines for a Diocesan Internal Controls Review Fraud and Irregularities: Concepts.

Chapter 9 : Internal control - Wikipedia

U - 2. Purpose of the Manual. The purpose of this manual is to provide guidance and assistance to those involved in the financial and administrative activities of parishes and schools within the Austin Diocese.