



HOLY ROSARY PARISH

Internal Control and Financial Review

OCTOBER 25, 2021

DIOCESE OF NASHVILLE

Parish and School Financial Services

Andy Royer, Parish Auditor

Holy Rosary Parish
Internal Control and Financial Review
October 25, 2021



Diocese of Nashville
Internal Control and Financial Review Summary
Holy Rosary Parish

Purpose: Father Daniel Steiner has been Pastor of Holy Rosary Catholic Church for three years. Father Steiner welcomed the Parish Auditor of the Diocese of Nashville to conduct a review of the financial records and internal control processes at the Parish. This review is pursuant to diocesan policy for a review or audit of the accounting records contemporaneous with each new pastor assignment and the policy that every parish is to be reviewed once every two years.

Scope: The review will include an overview of the most current fiscal year's transactions and financial records through Fiscal Year June 30, 2020 and extended through Fiscal Year June 31, 2021.

Limitations: A diocesan internal control review is not intended to find fraud or to discover the existence of a concerted effort to defraud. It is intended to provide an overview of the financial records to determine whether a more thorough formal "audit" is recommended and to provide the pastor a list of observations and recommendations regarding certain financial processes existing within the administrative/financial responsibilities at the parish. The review included an inquiry into the current form of internal controls and compliance with diocesan policies.

Duration: The review was conducted on August 03, 2021 and August 10, 2021 by Andy Royer from the Diocese of Nashville Auditing Department in direct conversation with Father Daniel Steiner and the Controller/Randolph Business Resources, Ms. Joanne Stallman. Additional review was done remotely.

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Tasks

1. Review Balance Sheet and Income statement FY June 2020 and FY June 2021.
2. Confirm cash and investment balances and bank reconciliations. Confirm list of approved signers.
3. Review credit card transactions and card holder approvals.
4. Analysis of other Statements and Supporting Documentation e.g., Safe Environment records for the Parish.
5. Internal Control Questionnaire review and discussion with Pastor and Accounting Staff.
6. Review Payroll Authorizations and Payroll Reports/Entries into Financial records.
7. Review diocese Norms on Asset Administration.

Executive Summary

The Financial records provide a thorough overview of the financial condition of the parish. The records are maintained on the Parish Data System (PDS) General Ledger. Recommendations for improving the accounting system, cash controls and internal controls are included in this report, and we have briefly highlighted some of them below:

We did not analyze all transactions or ledger accounts, but we reviewed a small sampling.

- **Involve the Finance Council in reviewing and approving the bank reconciliation and credit card statements monthly.**
- **Enhance the money handling process to ensure the collection summary report is fully completed by the independent money counters as a permanent documentation . This report should be reconciled to the bank deposit, PDS Office Contribution report, and to the PDS ledger batch report in a timely manner.**
- **Improve the cash controls in receiving checks, cash received in office, and fund raising activities.**
- **Improve the balancing and verification between the We Share Online System and the PDS Church Office Donation system.**
- **Improve the cash controls by eliminating the multiple bank accounts and use the PDS cash ledger system to manage the cash reporting of the various interests.**

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- Establish a monthly process for reconciling all balance sheet accounts on the Ledger. This should be part of the monthly close process.
- Require the Pastor's written approval for every payroll change (increase or decrease) for employees with documentation kept in the employee file.
- To Improve the process in collecting and retaining employee payroll documentation.

Revenue

Total Revenue for Fiscal Year 2021 is \$3,744,958, (School \$2,462,142 and church \$1,282,816), which is up \$332,798 from the prior year of \$3,412,160. School revenue is down -\$124,368 and church revenue is up \$457,166. On the church side, FY 2021 included the PPP Loan Forgiveness Revenue of \$332,900 and special donations of \$ 90,168. Excluding this revenue, the year over year comparative would be less at \$34,098. For the school primary areas of lower revenue were Escape Revenue -\$45,653, Home & School -\$17,283 and School Fund Raising -\$ 16,144 were down. The parish attributes it to the Pandemic .

Expense

Total Expenses for Fiscal 2021 is \$3,519,812 compared with last year's costs of \$2,961,077, an increase in expenses of \$558,735, or higher by -18.8%. The school expenses were \$253,978 higher and the church expenses were \$304,757 higher. The increased expenses for the school were from the Heating & Air (HVAC rental, -\$47,966), Home & School Projects \$-31,696 and Equipment Purchase Expenses -\$145,009 (New HVAC \$-105,559). On the church side the expense increases were from Repairs Improvements -\$115,609 (includes roof, parking lot repair and tile flooring) and the Diocese Assessment was -\$135,000 over last year.

Net Income

Net Income for Fiscal Year 2021 was \$225,147 compared to prior year's \$451,083, a decline of \$-225,936. The net Loss from the school was \$-136,618, while the church was a gain of \$361,765.

Statement of Financial Position (Balance Sheet)

Cash, Savings, and Investment's total \$2,951,618 on June 30, 2021 a decrease of \$-175,662 from the balance as of June 30, 2020 of \$3,127,280.

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<u>2021</u>					
Net Income Statement adjusting for Restricted Revenue and Expense					
Note : Restricted revenue and expense includes Haiti collections, capital improvement (rev/exp), etc. Also includes Fund Raisers, PPP Loan Forgiveness, Special Donations/Bequests etc.					
Parish		Fiscal Year End	Fiscal Year End		
		June 2021	June 2020	Var.	%
Net Income		225,147	451,083	(225,936)	-50.1%
Restricted Revenue		(453,410)	(17,517)	(435,893)	-2488.4%
Restricted Expense		-	-	-	
Capital Improvement - Revenue		(38,775)	(25,071)	(13,704)	54.7%
Major Capital Expenditure		301,189	37,522	263,667	702.7%
Adjusted Net (loss) Income		34,151	446,017	(411,866)	-92.3%
Church		Fiscal Year End	Fiscal Year End		
		June 2021	June 2020	Var.	%
Net Income		361,765	209,354	152,411	72.8%
Restricted Revenue		(453,410)	(17,517)	(435,893)	-2488.4%
Restricted Expense		-	-	-	
Capital Improvement - Revenue		(38,775)	(25,071)	(13,704)	-54.7%
Major Capital Expenditure		131,389	19,198	112,191	584.4%
Adjusted Net (loss) Income		969	185,964	(184,995)	-99.5%
School		Fiscal Year End	Fiscal Year End		
		June 2021	June 2020	Var.	%
Net Income		(136,618)	241,729	(378,347)	-156.5%
Restricted Revenue				-	
Restricted Expense				-	
Capital Improvement - Revenue		-	-	-	
Major Capital Expenditure		169,800	18,324	151,476	826.7%
Adjusted Net (loss) Income		33,182	260,053	(226,871)	-87.2%

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Financial Records

Joanne Stallman is employed by Randolph Business Resources who is contracted to handle the accounting and financial reporting for the parish. The Accounting Service has handled the parish accounting since August 2020.

The Parish currently uses the Parish Data System (On Demand) for its general ledger activities and PrimePay/IOI for its payroll processing system. In review of the general journal entries in the system for the past fiscal year, the entries are recorded timely. The monthly bank reconciliations are processed through the PDS system and are completed in a timely manner. The records appear to present a materially accurate picture of the parish assets, liabilities, net assets, revenues, and expenses.

The financial records reflect current postings of journal entries.

Accountability

- **Finance Council Informational Handbook** – The Holy Rosary has an active finance council that meets Bi-Monthly. They currently have 6 members. They are currently not keeping meeting minutes. We are attaching the Parish Finance Council Informational Handbook, which will provide some guidelines for the finance council to consider.
 - **Recommendation** – We recommend keeping minutes of the meetings and reviewing and approving the minutes at the following meeting.
 - **Recommendation** - We recommend a member of the finance council review the bank reconciliation and credit card statement monthly. Unusual activity should be investigated, and the reconciliation summary should be signed as verification of the review. Also, as noted in the Finance Council Handbook, a month-end closing check list could be adopted, to periodically ensure the accounting tasks re completed.

Cash Receipts

- **Money Counting Process** - Internal controls should be strengthened with the following observations as to the money counting process, 1) Permanent collection summary document which is filled out by the money counters is completed in pencil
 - **Recommendation** –All records by the money counters should be written in pen as a permanent record.

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2) The deposits were reconciled by the Accounting Staff, from the collection summary report to the bank deposit and then reconciled to the ledger but were not reconciled to PDS Church Office.

- **Recommendations** - Once the money counters complete and sign the independent collection report, this should be verified to the bank deposit, church office summary report, and to the ledger batch report. All documents should be reconciled together by the Accounting Staff Member and the signature on the ledger batch report will be proof of this triple balancing system. All the pertinent information should be attached to the ledger batch report for future reference.
- **Recommendation** – Set up a Miscellaneous Loose (cash) donation account in PDS Office to enable the PDS Church Office Reports to balance to the deposit, ledger, and collection report.
- **Online Donations not Reconciled to PDS Church Office** – The online donations from WeShare are keyed into the Church Office System on a weekly basis and the money is posted into the ledger system daily but are not balanced and verified monthly to ensure the donations are keyed correctly. The amounts are verified correctly on the monthly bank reconciliation but not verified to the PDS Church Office System.
 - **Recommendation** - The WeShare online Giving report should balance into PDS office. We recommend posting the WeShare import report into PDS Office once a month and not weekly so the monthly reports will balance with the bank. This will alleviate the weekly reports causing the balancing cut-off issue with the monthly report.
- **Receiving Cash** – During our review, we noticed some inadequate controls in receiving cash/checks outside of the Sunday collection money counting process, especially in the fund raising activities and money received in the school office. During our sample testing, we found one deposit for school fund raising with no details, no support, or records of the deposit. The only supporting documentation was the bank receipt for \$1,911.62. The Church and School should implement appropriate accounting procedures to improve all forms of money handling, to avoid any sense of suspicion, and to reduce the risk of temptation.
 - **Recommendation** – We recommend the following cash procedures:

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- Preferably two persons not involved in accounting, should open the mail, denote envelopes with money and give envelopes with money to the bookkeeper(s) for recording. The amounts of money enclosed in envelopes are recorded on a summary data sheet, showing date, received from, purpose and amount. If needed, an example can be given to the parish.
- Person(s) receiving cash during office hours should give the donor an original receipt which has been prepared in duplicate. The amount, purpose and receipt number are recorded on a data sheet.
- We recommend all receipts of money be done at the Parish Office and a receipt given, or by the funds being given in the normal collection process during mass. We especially discourage employees or volunteers independently receiving cash during the week or on the weekends outside of the recommendations presented. Parishioners should be encouraged to drop their various fees/payments into the Sunday plate and clearly note the purpose in a separate/special envelope. This way, the money counters can securely handle the money and the funds can be processed efficiently. As the best practice regarding collection of all Parish revenues, we encourage online giving for fund raising events, Religious Education registration and church donations of all types.
- Cash Procedures for the fund raisers should be closely monitored. At least two (unrelated) people should work together when dealing with cash. The USCCB recommends at least three people. The summary data sheet should be summarized and signed by all persons involved. Several central credit card swipe processes that are controlled by the parish can be set up, to be available as an alternative to cash. During the fund raiser, a secure and efficient collection process should be periodically performed to account for the cash and regular night deposits completed at the bank if large amounts of cash are collected.
- **After Care Program “Escape”** The Director of the After Care Program currently collects checks and cash for the fees. She then forwards the money to the Business Office to be deposited in the bank. The program is on a system which is managed by the Director, and we have observed some weak cash controls surrounding this process. There is no separate accountability by the Business Office as to the billing and balances owed by the parents. The cash controls surrounding this process provide lessened accountability with the billing system and inadequate verification of the cash receipts. There is no estimate or budget for receipts for comparison.

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Recommendation. – We recommend all cash and checks be received at the church office by the accounting staff. The FACTS billing system (SIS) can be used to handle the billing and payments of fees for the aftercare program. Other schools in the Diocese are using this system.

Since the tracking/billing system is handled by the Director on another system, we recommend the accounting staff take a more active approach to level of receipts expected, and the balances owed or use a receivable balance on the PDS ledger system for better accountability. A comparison of amount to be received (amount times number of students) should be compared to actual receipts or an accounts receivable ledger.

Multiple Bank Accounts

- **Eliminate Multiple Bank Accounts** - Currently the Parish uses five bank checking accounts: Main Account, Sweep Account, Home & School, Athletic Association and Spirit Wear. These bank accounts are on the ledger, but the PDS system is not used to reconcile all the accounts.
 - **Recommendation** – It is highly recommended that all parish activity centers, such as oratories, CCW, schools, day cares and housing units, etc., have accounts that are incorporated into the general parish bookkeeping system, **which includes one parish checking system.** To improve the internal control and to centralize the cash disbursements and cash receipts reporting, we recommend eliminating four of the bank accounts. A lot of time is spent writing and depositing checks between accounts needlessly. We recommend managing the cash through the separate accounts on the ledger and not through separate bank accounts, which is prone to more opportunity for misuse and irregular cash controls. These five bank accounts can be rolled into one account and segregated on the general ledger. Simpler processes can be completed through journal entries instead of writing and depositing checks. All reporting can be provided on a regular basis, so the various groups can instantly know their bank balance by generating general ledger reports and receive transaction reports. These GL bank account numbers all roll into one bank statement, so the reconciliation is easy and efficient. A systematic check request system and check printing schedule can be set up in the church office/school office to be flexible and meet the financial needs of the various groups. This is also practical since all the accounts use the church EIN.

Balance Sheet – Asset and Liabilities

- **Monthly Close Process** – As part of the monthly close process, all active accounts on the balance sheet should be reconciled before the monthly financial statements are submitted. There were several accounts on the balance sheet that were not reconciled during the year or showed unreconciled differences. Some of these accounts were Health Benefits Liability, Accounts Payable, and Employee Garnishment.
 - **Recommendation** – Just as all cash / savings accounts should be reconciled to the monthly bank statements in a timely manner, all receivable, prepaid, payable /liabilities and deferred accounts should also be reconciled monthly.

Cash Disbursements

- **Invoice approval and proper documentation** – Systematic approval for disbursements was not apparent from our cash disbursement sample testing. The check signer or Manager did not sign the supporting documentation on a consistent basis.
 - **Recommendation** - All checks written must have supporting documentation. If an invoice is not available, we recommend using a check request form, showing the important details of the disbursement, or even an email from the staff person requesting the payment to be made.
 - **Recommendation** - We recommend the check signer review all attached documentation, acknowledging they have reviewed and approved the disbursement by signing or initializing the invoice or other request for payment.
 - **Recommendation** - A manager or person initiating the payment should also sign the support documentation.
 - **Recommendation** - The Bookkeeper should sign the document and should also include the GL account code upon the invoice/document.
- **Blank Check Stock** – Our goal for each of the reviews is to strengthen the internal controls, to reduce any temptation for fraud or even the potential for fraud. One area of Internal Control we would like to improve is the physical access to the account payable checks.
 - **Recommendation** - For stronger segregation of duties, the check signers and the Bookkeeper would not have access to the checks. We recommend a third employee, who does not have access to the system, keep the check stock in a secure/locked space. The Bookkeeper would produce a check register and the employee would release the correct number of checks needed to complete the

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check run. This would lessen the opportunity for misuse of the checks. The bookkeeper would track the check numbers so that the custodian did not misuse a check.

- **Check signers** Check signers should be aware of their responsibility. A check signer is an integral part of the internal controls within the accounting system. They should only sign checks for amounts they know are proper and approved expenditures for the parish (church and school). They should review the invoice and authorization for the check request. They must exercise independent judgment and make inquiries as needed before signing a check.

Credit Cards

- **Credit Card Processes**– The parish has one credit card account: CedarStone Bank Card Service. The Pastor, Business Administrator or Finance Council member does not review or sign the credit card statement when it is mailed to the office.
 - **Recommendation** – We recommend making changes to the credit card policy at the parish. Credit card statements should be originally reviewed by a person who does not have a card or a member of the Finance Council. The pastor should authorize and review the list of employees that have cards and determine the priority and needs for these cards.
 - **Observation – Credit cards in the name of the parish should be distributed sparingly, and recipients should receive written instructions for use. The pastor should approve in writing each recipient and user of a parish credit card.**
 - **Credit card purchases must be supported by receipts and a monthly expense report indicating the reason for the expenditure.**
 - **A preference is for staff to use personal cards as it encourages expense reporting for their reimbursement.**
 - **Cards in the name of a person when returned by the user should be destroyed immediately. Cards should not be given to persons responsible for paying the credit card account.**

Payroll

- **Missing Employee Personnel Folders** – During our sample testing the parish could not find the personnel documentation for four employees.
 - **Recommendation** – A complete personnel file must be kept current for every past, present, and future employee.
- **W4 Documentation** – During our sample review, there were several employees that did not have the correct W4 documentation in the personnel folder that tied back to the payroll system. This is a federal IRS requirement.
 - **Recommendation** – All employees must have a signed W4 on file to support the withholding tax in the payroll system.
- **Payroll Rate Authorization** – During our sample test review of the payroll records, there were several employee files missing payroll rate authorization forms.
 - **Recommendation** - We recommend the Accounting Staff review the payroll records and create rate documentation for the Pastor to approve/sign to support the current pay rate of each of the employees. These forms are very important and should have the employee's current salary, effective date and the Pastor's signature approving the payroll salary/hourly pay rate. We do not suspect the salaries/pay rates are incorrect, but in many instances, there is no documentation to support these rates in the IOI/PrimePay Payroll system. These documents should be kept in the employee's personnel folder and when the employee receives a change in salary, a new document should be approved and signed by the Pastor that reflects the amount of change. Entry of a change in the payroll system should be prohibited unless supported by an authorized change in payroll form.
- **Supervisor signatures on Time Sheets** During our timecard test, a few timecards for non-exempt employees were missing supervisor approval signatures.
 - **Recommendations** – All employees should sign their timecard at the end of the payroll cycle. The supervisor should acknowledge they have reviewed and approved the timecard by signing or initializing it. Consideration should be given to using an automated time system within the payroll system to improve timekeeping efficiency for the employee, supervisor, and payroll bookkeeper. We recommend converting to the PrimePay time system which can also track time off accruals. The time system can then automatically calculate and record the employee's time off, (vacations, sick time, personal time, bereavement,

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etc.). Methods for approval of the reported time by a supervisor is also available in the system and should be used as an on-line process.

- **Payroll Approval** – The Accounting Staff was processing the payroll, but the Pastor/or designated person was not approving the payroll. The designated person cannot be the person who prepares the payroll.
 - **Recommendation** – The Pastor/Designated person should approve the payroll with their signature on the detail summary report before the final processing.

Other

- **Certificate of Insurance** - The file for the certificates of insurance for the contractors and vendors who work on the parish property was not available.
 - **Recommendation** - We recommend setting up a system as described by Catholic Mutual to maintain a file of COIs to ensure the vendors and contractors have proper insurance while working on parish property.

Diocese Norms, Policies – Asset Administration and Priest Compensation Guidelines

To increase staff and Finance Council awareness of these Diocese norms and policies, attached is a summary of the “Asset Administration” guidelines and “Priest Compensation” guidelines.