

GUIDELINES FOR SECURING A CHURCH'S FINANCIAL OPERATIONS

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Introduction

Two separate guidelines entitled “Usher/Collector’s Guidelines” and “Collection Counting Guidelines” are also available for download at ChurchSecurity.info and detail the manner in which Sunday collection funds must be handled in order to ensure that every dollar placed in the collection is, in fact, properly deposited in the parish bank account. While that goal is arguably the most important aspect of any church’s financial operations, it would, in the long run, be of little value if someone were subsequently able to access those properly deposited funds and convert them for their own personal use. The theft of collection funds prior to their deposit in the parish account constitutes the most direct method of theft. Thefts that occur following that bank deposit require a more “sophisticated” approach but are as potentially devastating (if not more so) from a monetary standpoint.

Before we examine the various areas of a parish’s financial operations an embezzler is most likely to exploit, it might be helpful to review what the U. S. Conference of Catholic Bishops (USCCB) and its fiscal watchdog, the Diocesan Fiscal Management Conference (DFMC) have done to assist parishes in the formidable task of protecting the Church’s revenue against theft and misappropriation.

In 1992, the U. S. Catholic Conference (USCC, now USCCB) Accounting Practices Committee began a project to study and propose better *diocesan* internal financial controls. Three years later, a booklet entitled *Diocesan Internal Controls: A Framework* was unanimously approved by the Board of the DFMC, by the NCCB/USCC Committee on Budget and Finance and, in September 1995, by the USCC Administrative Board. Included in the foreword of that booklet was a caveat stating it was written to address concerns at the diocesan level and does not specifically deal with issues at the parish level.

If followed in its entirety, that booklet would bring a virtual end to the potential for embezzlement at the diocesan level. In addition, many of its recommendations were readily adaptable to financial operations at the parish level and, if implemented, would have gone a long way toward ending the incidence of *post-deposit* embezzlement at that level as well. I emphasize “post-deposit” because the booklet’s scant coverage of the Sunday collections meant the Church’s principal source of revenue would remain every bit as vulnerable as it was then and, unfortunately, remains even today. While the booklet stated that its recommendations may be useful at the parish level, it was left to each diocese to decide which (if any) of the guidelines should be distilled from the booklet and applied at the parish level.

Fortunately, the need for more substantive and detailed guidance for dissemination to the parish level became apparent to the USCCB sometime after the dawn of the 21st Century, and a more detailed and comprehensive issuance was developed. Today (April 2020) that issuance is in the form of a 190-page document entitled **DIOCESAN FINANCIAL MANAGEMENT - A GUIDE TO BEST PRACTICES**. In spite of its overall length, however, less than 400 words were devoted to the protection of the Church’s primary source of income: the Sunday collections. Hence the continuing need for the two documents referenced in the first paragraph of this document.

Where to Begin

The key to achieving a secure financial operation rests in the separation of responsibilities and duties to create a system of checks and balances in which no one person has total control over or access to the organization’s funds. The only element that will necessarily vary is the degree to which those duties and responsibilities can be separated; a large parish, due to its larger and more specialized staff, is able to establish a more complex separation, but the basic principles remain the same for all. In the absence of detailed guidelines issued by their diocese, it is incumbent upon each parish to determine the maximum extent to which the various financial duties and responsibilities can be separated (based upon the parish’s size and structure) and to then proceed to implement that separation.

While they are not presented in extreme detail and are not purported to be *the final word* on the topic of financial assets security, followed *religiously* (pun intended), these guidelines will surely minimize the chance that any would-be embezzler will be successful in his or her pursuit. While far less frequent, the pastor or other responsible person must also take into account the fact that some embezzlements involve a conspiracy between two or more individuals working in concert with each other.

HANDLING INVOICES FOR GOODS OR SERVICES

The following guidelines are recommended for the handling of invoices received from outside vendors.

Most typically, an invoice is received by U.S. mail and is opened by the parish Secretary or other receiving individual. Once it is determined to be an invoice, it should be referred to the person responsible for maintaining the purchasing records, whether Business Manager or Accountant; with few exceptions, that person is also responsible for preparing and recording disbursements. After checking the invoice against their records relating to approved orders for goods and/or services to ensure that the dollar amount is correct and that established purchasing procedures were followed, that individual should refer the invoice to the person (plant maintenance manager, choir director, religious education director, etc.) responsible for the area to which it relates. The exception to this step would be where an invoice, annotated to denote the goods or services were received, is already on file.

The person responsible for the area to which the invoice relates must verify that the goods and/or services were, in fact, received and that the charges are correct. If correct, the responsible person annotates the invoice to reflect receipt, signs and dates same, and returns it to the person responsible for maintaining the purchasing records. It should be noted here that, occasionally, the person who received the goods and the person who is responsible for maintaining the purchasing records will be one and the same, due to the fact that what was purchased relates to their area of responsibility. In those instances, it is appropriate for that person to certify receipt as described above; it will be up to the person who signs the check issued in payment of that invoice to ensure that the invoice is legitimate and in keeping with what might be expected for that area.

If all is in order, the Business Manager or Accountant prepares the disbursement record, mailing envelope and check to be signed by the Pastor or designated person, and forwards the check, invoice return (if any), receipted invoice *and* mailing envelope to the pastor or designee for review, signature and mailing. NOTE: Except where unavoidable, the person signing the check should not be the person who certified receipt of the goods and/or services *or* the person who prepares disbursement checks and/or maintains disbursement records.

The pastor or person authorized to sign disbursement checks must examine the invoice to verify the dollar amount and the fact that the receiving person is in agreement and so indicated on the invoice. He/she then signs the check (facsimile or rubber stamp signatures should never be used), places it in the mailing envelope with the invoice return (if any), seals the envelope and personally places it in the mail or refers it for mailing by his secretary or other designee who should not be the person who receipted for the goods *or* the person who prepared the disbursement check or maintains the disbursement records. The receipted invoice and all other supporting papers are returned for filing by the person who maintains the purchasing and disbursement records.

The secretary or other designee will ensure that any disbursement mailing pieces referred by the pastor or his/her designee are, *in fact*, placed into the mails. This may be accomplished by the secretary or designee placing the mailing pieces in the custody of a USPS employee or by personally carrying them to the post office or placing them in an authorized USPS collection box. If other designated persons (*not* the person who receipted for the goods *or* the person who prepared the disbursement check) normally handle disposition of the outgoing mail, the above described mailing duties may be performed by them.

BANK STATEMENTS

For any embezzler who steals by means of a scheme involving the issuance of checks drawn on the parish account - either as direct payments to the embezzler and/or his or her accomplice(s), or in payment for goods or services which they convert to personal use - the monthly bank statement represents their Achilles' heel. Consequently, the embezzler will make every effort to control the bank statement and keep it from being reviewed by anyone who might perform a critical, in-depth review and discover the scheme.

In light of the above, it is imperative that the monthly bank statement be first seen and balanced by the pastor or his/her designee who should not be the person who prepares disbursement checks or maintains disbursement records. Further, the bank statement must come to the pastor or designee unopened; one element of this type of embezzlement involves the removal and destruction of those canceled checks that would constitute evidence of the scheme. Once the "unopened" rule has been set, the designated reviewer's receipt of an opened envelope (or one that appears to have been opened and resealed) should set off *alarms* in the mind of the recipient, and that bank statement should be given an especially thorough review.

Ordinarily, the pastor or designee should sort the checks into numerical order and then examine each check (front and back) to detect inconsistencies. A check payable to a person or firm the reviewer is not familiar with, for example, or a check bearing an endorsement that does not "fit" the payee profile - a business name on the front and a personal signature on the back with no rubber stamp that would indicate the check was being deposited into a business account - or a check payable to a familiar name (individual or business) in an amount that seems out of the ordinary. Any one of the above examples as well as other unusual circumstances noted by the reviewer should form the basis for a look at the supporting documentation which formed the basis for the payment; ordinarily, that documentation will be in the custody of the person who prepares disbursement checks and/or maintains the disbursement records. In most instances, of course, a review of the supporting documentation (usually an annotated purchasing invoice) will disclose that the disbursement was legitimate. Bear in mind, however, the purpose of this procedure is to identify those instances in which all is not well; it is an essential element of a pastor's program to both deter and detect embezzlements that might otherwise occur.

Once the critical review of the canceled checks has been completed, the reviewer should then proceed to balance the statement against the parish records to determine that the two are in agreement. This process will necessitate that the reviewer obtain the parish checkbook and/or check registry to *check off* the returned checks and prepare a list of outstanding checks, i.e., checks that have been written but have yet to appear on and be returned with a bank statement. When examining the checkbook/registry, be alert to detect breaks in the numerical sequence of checks issued; all checks should be accounted for. Office copies of bank deposit slips should be checked against the deposits listed on the bank statement; be sure to examine the statement for "missing" deposits, i.e., regular deposits (the Sunday collection, for example) that don't appear on the statement. That, of course, would be a sign that deposits are being diverted. In the same vein, examine the statement for withdrawals or funds transfers that could represent a scheme to siphon funds from the account; in that regard, bear in mind that bank employees have been known to conduct such schemes.

If the parish also maintains one or more savings accounts, those monthly statements must also be handled in accordance with the above guidelines; the only difference, of course, is that the guidelines relating to returned checks and issued check records will not apply. Done regularly and properly, the bank statement review procedure constitutes a very powerful deterrent for those who might otherwise be inclined to avail themselves of parish funds by covertly accessing and misusing one or more of the parish bank accounts.

CREDIT CARDS

If a parish has procured one or more credit cards to facilitate the purchase of goods and services, it is imperative that strict guidelines be established to control their use. These guidelines should include a clear definition of what types of purchases are permissible and what types are forbidden. Generally speaking, the same guidelines that apply to the purchase of goods and services, e.g., advance approval of purchases exceeding a predefined limit, verification of receipt of goods, etc., should also apply to credit card purchases. They should not be viewed or treated as a means of getting around restrictions that apply to non-credit card purchases. All authorized credit card users should be required to route all purchase receipts to the person responsible for verifying purchases, processing the monthly credit card statement and authorizing its payment. In that regard, each monthly statement should, following its verification, be paid in full; the practice of carrying a balance forward from one month to the next on a parish credit card is inappropriate and a sign of poor management.

PETTY CASH FUNDS

The purpose of a Petty Cash Fund is to reimburse employees for small, unforeseen purchases that must be made on short notice to meet an immediate need. It is expected that, with proper planning, larger purchases will be foreseen and paid for by check in accordance with guidelines contained elsewhere in this document. In emergencies, purchases which exceed the available Petty Cash reserve should also be paid for by check; increasing a Petty Cash Fund in order to be in a position to cover large, unanticipated “emergency” purchases is inadvisable from both an internal and external security standpoint.

Petty Cash funds in small organizations are often highly vulnerable to misappropriation or covert theft. For this reason, it is best if the fund does not contain a large amount of cash at any given time. In the average parish, the Petty Cash fund should never contain more than \$100 or so and should only be replenished when the balance gets below \$25 or so. When that occurs, the fund should be replenished by check drawn on the parish account. Under no circumstances should the Petty Cash fund be replenished by removing cash from the Sunday collection; that is a recipe for disaster insofar as security over Sunday collection funds is concerned.

The best way to establish a Petty Cash Fund is to place a fixed amount of money in the custody of the parish secretary or other designee who is most likely to be accessible on a day-to-day basis. The fund should be placed in a lockable container to which only the designee has a key. A duplicate key should be stored in a sealed, dated and witnessed envelope in a separate locked container for use only in emergencies.

When purchases are made from Petty Cash, the withdrawal of cash should be counterbalanced by the placement of a purchase receipt in the lockbox. The receipt should be dated and identify the item(s) purchased; it should also be annotated with the name of the individual who made the purchase. To avoid the use of personal funds, the purchasing employee may be given a cash advance as long as he or she receipts for the advance. At any given time, the cash and receipts should total \$100 or whatever amount was initially entrusted to the Petty Cash custodian.

When the Petty Cash Fund goes below \$25 or some other predetermined figure, a check in the amount of the accumulated receipts should be drawn on the parish account, cashed, and the proceeds placed in the lockbox. At the same time, the person in charge of disbursement records should take custody of the accumulated receipts; they constitute the supporting documentation for the check issued to replenish the fund.

The Petty Cash Fund should be audited periodically on an unannounced basis; the audit should be conducted by the accountant or person who maintains the disbursement records, and should be performed in the presence of the person to whom the Petty Cash Fund has been entrusted. It is recommended the audit be performed at least semiannually.

PERSONNEL

Typically, everyone reports directly to the pastor although, in some instances, certain managerial responsibilities might be delegated to the associate pastor or deacon - the Director of Religious Education, for example. Smaller parishes, however, may only possess a secretary, a custodian and, perhaps, a deacon and/or Director of Religious Education. In such cases, and in the absence of any qualified volunteers within the parish, it will be necessary for the pastor to assume some of the duties and responsibilities the preceding guidelines indicated should be performed by other persons. In the very smallest parishes - a mission church, for example - all of the duties might have to be performed by the pastor.

Regarding the mention of volunteers, it goes without saying that the average parish is made up of individuals whose education and employment probably cover the broad spectrum of the business, blue-collar and professional communities. More often than not, many of them are only too happy to give of their time and talent to assist the parish wherever and whenever needed. In the smaller parishes, therefore, it is not only acceptable but often a good idea to tap into those resources to whatever extent is necessary to establish an appropriate separation of duties and responsibilities. It must be remembered, however, that the pastor is ultimately responsible for ensuring that the duties and responsibilities are separated to the maximum extent feasible, and that all personnel (including any volunteers who might have been recruited) are operating in complete conformity with the guidelines.

The smaller the parish, the narrower the separation of duties, the greater the chance for financial mischief. And when pastors, because of the size of their parish, find they must perform all of the financial duties, it is only their diligence, innate honesty and the grace of God that ensure the integrity of the parish's financial operations.

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