



White Paper **Fidelity and Fiduciary** **Stewardship**

Preventing Fraud in Your Diocese, Parishes, Schools, and Ministries

**Prepared at the Request and in Collaboration with the
BPIC Risk Control Committee
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Chair

Bob Ryan, Archdiocese of St. Louis

Members

Denise McKenzie, Diocese of Fresno
Marta Romero, Diocese of Las Cruces
Ana Jarosz, Diocese of Palm Beach

Prepared by

Amanda Weller, Gallagher Bassett
Risk Control Consulting Services

Funded by

Brit Insurance Services USA, Inc.

Introduction

Employee dishonesty, embezzlement, and fraud can affect all facets of operations and ministries with parishes, agencies and their dioceses. Fraudulent actions encompass much more than “hands” getting into the collection plate. There is no organization immune to this growing problem; therefore, one of the first actions that need to be taken to deter fraud is to recognize and accept the fact that the risk is real and relevant.

Countless articles have been written on this topic and the conclusions are similar: fraud may be easier to commit in nonprofit organizations due to ineffective internal controls, inadequate financial training, little or no supervision of employees, the absence of adequate checks and balances, and unawareness of the diocese, parish, school or ministry as to its vulnerability to this crime.

It is estimated that the cost of fraud within charitable entities totals more than 40 billion dollars¹ each year. This excessive amount of loss affects parishes and agencies within a diocese on a deep level. To begin with, limited resources already exist to carry out the mission of ministry and charity. Then, to make matters worse, when a fraudulent act occurs within a parish, oftentimes the financial support of parishioners and donors is reduced because the trust they originally placed in the parish or agency has been lost with the fraudulent act.

To counteract the negative and damaging consequences of fraudulent acts, dioceses, parishes, schools and ministries must make it part of their overall mission to call for good stewardship in relation to fidelity and fiduciary responsibilities.

Overview of the Problem

Fraud is an all-inclusive term defined as any intentional act *committed* to secure an unfair or *unlawful* gain. Most agencies and parishes manage under the misconception that all people are honest. It is important to be aware of and recognize the warning signs of fraud, but first you have to know what to look for. Examples of fraudulent acts include reporting and taking payment for personal related expenses such as travel, payments, extra/false wages; charges for items not related to the parish; and false vendor/contractor related expenses. To better understand why people commit fraudulent acts, let us take a look at the Fraud Triangle Theory. This theory integrates three specific components that make up the elements of fraud.

The Fraud Triangle

The Fraud Triangle Theory was first presented by Donald R. Cressey, an American penologist, sociologist, and criminologist who made many contributions to the study of criminology, the sociology of criminal law, and white-collar crime.² Mr. Cressey suggests that three conditions must be present for fraud to occur:

1. Financial Pressure
2. Opportunity
3. Rationalization

Source: www.philadelphiafed.org/.../fraudtriangle.jpg



1 Janet Greenlee, Mary Fischer, Teresa P. Gordon and Elizabeth Keating, “An Investigation of Fraud in Nonprofit Organizations: Occurrences and Deterrents.”
2 Ronald L. Akers and Ross L. Matsueda, “Donald R. Cressey: An Intellectual Portrait of a Criminologist.”
Sociological Inquiry, 59:4 (October 1989)

1. Financial Pressure

Pressure is a major factor that causes an individual to commit fraud. Pressure is a vast category that can include triggers such as personal financial trouble, living beyond one's financial means, personal addictions to alcohol, drugs, gambling, etc., and unforeseen expenses. Quite often, the condition of pressure comes from a significant financial need or worry. The individual often sees this need and/or problem as personal and keeps it a secret from his or her peers and managers. However, in some cases fraud is committed solely out of greed on behalf of the individual.

2. Opportunity

Opportunity is the ability to commit fraud. Opportunity can be created by a number of factors, including weak internal controls, lack of oversight/management, and/or using the access granted by one's authority or position within the organization (e.g., serving the organization as a finance director, controller, bookkeeper, etc.). If proper procedures are not established and enforced to detect fraud, the individual's activities can go undetected and the resultant fraud can be rampant. **However, keep in mind that out of all the factors within the Fraud Triangle, an organization has the most control over the Opportunity component.** To minimize the risk of fraudulent actions, it is imperative that organizations review, produce, implement, and enforce internal controls that not only remove opportunity, but also detect fraud as soon as it occurs. This proactive approach can be accomplished by using a system of internal assessments, checks and balances.

3. Rationalization

Rationalization is a key component in most fraud cases. Rationalization consists of the individual reconciling, or rationalizing the execution of fraudulent acts under the common belief of trust. Some common rationalizations include:

- The individual believes committing fraud is necessary to save a family member or loved one.
- The individual believes he or she will lose everything – family, home, car, etc., if he or she doesn't take the money.
- The individual believes that there is no other option to solving his or her situation.
- The individual labels the theft as "borrowing," and intends to pay the stolen money back at some point.
- The individual, because of job dissatisfaction (environment, salary, management style, inadequate health benefits, etc.), believes that he or she is owed some type of retribution.
- The individual is unable to understand or does not care about the consequences of his or her actions.

In the simplest terms, rationalization removes any remaining barriers and allows the individual to commit fraud. This is often the most difficult element to control.

Putting the Fraud Triangle Theory to Work—Education and Internal Resources

An understanding of each component within the Fraud Triangle Theory is an important step that can be taken to mitigate risk. Communicating policies and procedures for detecting and preventing fraudulent behavior internally to staff members and volunteers is another essential element to preventing fraud.

Employees should be aware of pressures and how they relate to the overall risk of fraud. A strong sense of ethics and pride among employees promotes a positive working environment. Also, by creating and implementing strong internal controls, an organization is more likely to circumvent situations where employees are able to commit fraud unchallenged. Moreover, sound processes that detect fraud are also very valuable. Just like safety, mitigating the risk of fraud and neutralizing the elements of the Fraud Triangle should be a part of the everyday culture of the dioceses, parishes, and agencies.

In addition, it is important to be aware of the traits frequently demonstrated by an individual who is committing fraud. Some of the “red flags” to watch for include individuals who:

- Are experiencing personal financial problems, divorce, illness.
- Are unhappy with their job.
- Live above their present income level.
- Purchase large-ticket items.
- Are very dedicated to their job, working long hours and never taking vacations.
- Have access to or control/knowledge of internal systems and documents.
- Have gambling, drinking, drug or other addiction problems.
- Are overly eager to please their supervisors.
- Boast that they are protecting the parish or agency’s assets.

None of these “red flags” in isolation signals fraud; a combination present over a period of time may be cause for concern.

Protecting Dioceses, Parishes, Schools, and Ministries From the Risk

Best practices and assessments need to be put into place to reduce the opportunity for risk of fraud or embezzlement. The APC (Accounting Practices Committee of the United States Conference of Catholic Bishops) thoroughly studied the issues and challenges that parishes face. The following are recommendations based on their findings:

- The APC supports the extreme importance of a well-run parish finance council in regard to proper parish governance and internal controls. The APC recommends that, annually, each parish send a letter to the diocesan bishop containing the following information:
 - » The names and professional titles of the members on the parish finance council.
 - » The dates on which the parish finance council has met during the preceding fiscal year and since the end of the fiscal year.
 - » The dates on which the approved (i.e., by the parish finance council) parish financial statements/budgets were made available to the parishioners during the preceding fiscal year and since the end of the fiscal year. A copy of the financial statements/budgets should be provided to the bishop.
 - » A statement signed by the parish priest and the finance council members that they have met, developed, and discussed the financial statements and budget of the parish.
- The APC also recommends that diocesan training be provided to the parish finance council members relative to their roles and responsibilities.

- The APC recommends that diocesan policies be created/exist for conflicts of interest, whistleblower, and fraud (including prosecution in all cases). These policies must be applicable in each area of the diocese.
- The APC recommends that each parish complete an annual internal control questionnaire and that a proper review and follow-up be made by qualified diocesan personnel.
- The APC recommends that a parish best practices manual be developed.
- The APC recommends that financial training be integrated into current seminarian programs (and/or ongoing faith formation programs) such that students will be better prepared to handle these eventualities.

COSO Internal Control Framework

COSO (Committee of Sponsoring Organizations of the Treadway Commission) is a voluntary private sector organization, formed in 1985, whose mission is to “provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.”

The manual, *Internal Control: Integrated Framework*, prepared by the Committee of Sponsoring Organizations (COSO) published by AICPA, incorporates five components for internal control. The five components are briefly discussed below:

1. Control Environment

The core of any organization is its people – their individual attributes, including integrity, ethical values, and competence – and the environment in which they operate. They are the engine that drives the entity and the foundation of which everything rests. This is also referred to as the “tone at the top.”

2. Risk Assessment

An organization must be aware of and deal with the risks it faces. It must set objectives and establish mechanisms to identify, analyze, and manage the risks to achieving those objectives. The risk assessment process should anticipate the various ways that fraud and misconduct could strike the organization and impact its ability to meet its objectives. The risks that are identified should drive the control activities that are implemented.

3. Control Activities

Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to the achievement of the entity’s objectives are effectively carried out. These control activities should directly address the risks identified in the risk assessment.

4. Ongoing Monitoring

The entire process must be monitored, and modification made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

5. Information and Communications

Surrounding these activities are information and communication systems. These enable the organization's people to capture and exchange the information needed to conduct, manage, and control its operations.

Methods for detection or deterrence can be shown with examples of some ways misappropriation had been detected in some instances:

- Anonymous tip by an employee, supplier, vendor, contractor, parishioner
- Internal audit
- External audit
- Surprise audit
- Internal controls revision
- Periodic control review
- Hotline for whistleblowers
- Job rotation
- Written and communicated anti-fraud policy
- Fraud training for employees
- Fraud training for employers

Conclusion

Learning that a trusted supervisor, coworker or volunteer has committed fraud can be emotionally devastating for staff and the broader faith community. The impact of fraudulent crimes can be financially devastating to the diocese, its parishes, schools, and ministries as resources are diverted from their intended purposes. If there are poor internal controls and recordkeeping, the exposure becomes even greater because there may not be sufficient proof of the total amount of money that was actually taken. In such instances this may preclude filing a claim for the full amount of the loss. Having a heightened sense of awareness concerning fidelity and fiduciary responsibilities, educating staff and volunteers to their responsibilities, and reducing the opportunity for individual to commit acts of theft can help the diocese, parishes, schools, and ministries to be effective good stewards of the Church's resources.

Exhibits

Lessons Learned Document for Money Theft
Sample Fraud Policy
Internal Control Best Practices Sample
Internal Control Questionnaire/Assessment Sample

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Edward J. McMillian, CPA, *Preventing Fraud in Nonprofit Organizations*, 2006

ACFE's 2008 "Report to the Nation"

www.Coso.org/aboutus.htm

For Information on Fraud/Identity Theft:

Free FACTA (Fair and Accurate Transactions Act) training program is available at no cost – visit gallagherpost.com.



Lessons Learned Document for Money Theft

Introduction

This Lessons Learned document is intended to show examples of real situations that have occurred within the BPIC membership and describe the solutions that have been put into place. The loss amounts include all expenses, deductibles, reserve amounts and amount of loss (a/k/a ground-up loss). The following should be taken into consideration:

- Learning that a trusted supervisor, coworker, or volunteer has committed fraud can be emotionally devastating for staff and the broader faith community.
- The impact of fraudulent crimes can be financially devastating to a diocese, parish, school, or ministry of the BPIC membership as well.
- As a result of lax internal controls (which can be improved, often at little or no cost), the documented claim amount may not be able to reflect the full extent of the loss.
- Any deductibles that have been incurred represent dollars not available for ministry.
- Future premium costs may also be higher as a result of the increase in claims dollars spent, which would further diminish funds available for ministry.

Incident: Business Manager – 22-Year Employee

Taking Cash Monies and Added Pay Benefit

The employee would routinely take cash money from various areas. Sometimes the employee would count the collections and take a portion of the money. The employee’s job task was also to make the deposits and take them to the bank. The employee would change the deposit amount to reflect the cash that the employee took. The employee took money from the bingo revenue. The employee also took capital fund donations that were given. Payroll was also adjusted to calculate on 24 pay periods, but the employee would pay out 26 times per year. This way the employee paid himself and the other parish employees additionally every year.

Documented Claim Amount: \$171,000		Estimated Total Loss: \$200,000 Undocumented Financial Loss: \$29,000
Successes	Shortcomings	Diocese Solutions
The business manger took some time off and the Parish noticed irregularities. Once the Parish looked further into these irregularities, a forensic accountant was hired and found many areas of theft. The business manager is being prosecuted and the Parish may see some restitution.	The Pastor was too far removed from the everyday business process. The forensic accountant had to recreate many records. The cost for this was substantial for the accountant’s fees. Also, all areas of loss could not be proven. The controls, rotation of job duties, and separation of job duties were not in place.	The organization of records and files has been improved. Controls have been put into place. Job rotation and checks and balances have been instituted.

Incident: Pastoral Associate Supplementing Gambling Debts

The employee was in charge of all money handling. The employee had a gambling problem. To supplement the gambling losses, the employee took cash money from every source possible.

Documented Claim Amount: \$130,500		Estimated Total Loss: \$130,500
Successes	Shortcomings	Diocese Solutions
Upon taking a closer look at the cash flow, the Parish found irregularities. The employee was prosecuted and found guilty. Some restitution has been received; however, the payments are not regular.	The controls that were in place were not followed. One person was handling all the money.	Controls that have been put into place are being followed. Two people count cash collections on a rotating basis. There is a rotation of people taking deposits to the bank.

Incident: Volunteer in Charge of the Books for the School Takes Cash Money, Writes Checks and Has Checks Written to the Volunteer

The volunteer has two children in the Parish school and offered to take care of the books. The more access the volunteer had to the books, the greater the impression made to employees that the volunteer was in charge. The volunteer was self-proclaimed as the single point of contact for issues related to the books. The volunteer started to write checks as a fee for services. The volunteer also hired a custodial company, but instead of paying the custodial company, checks were issued in the name of the volunteer. The volunteer also had an outside nonprofit organization write checks in the volunteer's name. Cash handling was also an issue with what was collected vs. what was deposited.

Documented Claim Amount: \$175,000		Estimated Total Loss: \$190,000 Undocumented Financial Loss: \$15,000
Successes	Shortcomings	Diocese Solutions
The outside nonprofit organization was asked to see where the checks were being deposited. This started the process of finding irregularities and identifying the theft. A forensic accountant was hired to find the areas of concern.	Due to the condition of the record-keeping, the forensic accountant had a difficult time proving the case against the volunteer and finding proof of how much was actually taken. This has resulted in more costs to the parish.	<p>This Diocese has taken a very proactive approach by having the parish pay a \$10,000 deductible on claims of this nature.</p> <p>The diocese is also looking into implementing a cap on these types of claims. The idea is to have the parishes take a proactive role.</p> <p>Quickbooks is a mandatory program that must be used for all accounting.</p> <p>Rotation of duties has been implemented.</p>

Incident: Parish Employee Establishes "Off the Books" Account

The account the Parish employee opened was a personal account opened in the Parish's name. Certain Parish funds were directed to that account. The employee withdrew the funds for personal use.

Documented Claim Amount: \$80,000		Estimated Total Loss: \$80,000
Successes	Shortcomings	Diocese Solutions
An internal audit discovered the "off the books" account and misappropriation of funds during a routine parish financial review.	Use of "off the books" accounting.	<p>No "off the books" accounts should be established.</p> <p>Parish policy stipulates the proper titling of all bank accounts and forbids any accounts being titled in the name of cleric, layperson or corporation.</p> <p>All accounts and investments must be recorded on the parish's accounting system.</p> <p>The pastor should open all bank statements and review all checks for propriety and authenticity of signature.</p>

Incident: Bookkeeper – 23-Year Employee Using Credit Cards, Payroll Checks, Check Withdrawals and Cash Theft

The employee was using a Home Depot credit card for personal expenses. These credit card purchases were used to make repairs on the individual’s home. Payroll checks were issued to the employee’s family members who never worked for the Parish. With check withdrawals and cash theft, funds were also used to buy the employee a new car. The employee did confess to using the credit card for personal use, but also tried to rationalize the other theft by saying it was a loan to the employee and family members.

Documented Claim Amount: \$642,000		Estimated Total Loss: \$642,000
Successes	Shortcomings	Diocese Solutions
During a parish audit discrepancies were noticed. Upon further investigation many areas of concern were found. The former employee has started to pay restitution and may serve prison time.	Audits were not conducted in the past. Checks and balances were not used. There were no controls established for cash collections.	Checks and balances are now in place. Audits are completed on a regular basis. There is a new lock box for the cash donations. The counting and recording process has been improved.

Incident: Bookkeeper – Bookkeeper Takes Cash Monies and Makes Personal Charges on a Credit Card Over a Period 11 Years

Over an 11-year period, the employee diverted offering cash from the collection plate, took money from petty cash and removed money from a festival that was held every year. There were personal charges on a credit card that were also found. It was estimated on average that the employee was taking \$2,000 a week.

Documented Claim Amount: \$675,000		Estimated Total Loss: \$1,015,000 Undocumented Financial Loss: \$340,000
Successes	Shortcomings	Diocese Solutions
Structured audits were started and uncovered irregularities. The forensic accountant hired found more areas of concern. Some restitution from the employee has been received. The State’s Attorney’s office prosecuted and the employee received time in prison.	Proving how much was actually taken was difficult. Audit standards should have been in place to detect irregularities.	Structured audits have been made mandatory. Checks and balances have been improved with guidelines implemented. Limits with the carriers have been reviewed.



Sample Fraud Policy

Following is the Fraud Policy of a large centralized diocese. It includes a Parish Internal Control Questionnaire. These samples may be helpful to your diocese in developing its own policy or best practices on fraud and internal controls. Legal counsel or other appropriate personnel should review the document before implementation.

Background

The **(Your Diocese)** fraud policy is established to facilitate the development of controls that will aid in the detection and prevention of fraud against the diocese. It is the intent of **(Your Diocese)** to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conduct of investigations.

Scope of Policy

This policy applies to any irregularity, or suspected irregularity, involving employees as well as committee members, consultants, vendors, contractors, outside agencies doing business with employees of such agencies, and/or any other parties with a relationship.

Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the diocese.

Policy

Parish management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her benefit. Each employee of the Parish should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Actions Constituting Fraud

The terms defalcation, misappropriation, and other fiscal irregularities refer to, but are not limited to:

- Any dishonest or fraudulent act
- Misappropriation of funds, securities, supplies, or other assets
- Impropriety in the handling or reporting of money or financial transactions
- Profiteering as a result of insider knowledge of parish activities
- Disclosing confidential and proprietary information to outside parties
- Disclosing to other persons securities activities engaged in or contemplated by the parish
- Accepting or seeking anything of material value from contractors, vendors, or persons providing services/materials. Exception: Gifts less than \$50 in value.
- Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment; and/or
- Any similar or related irregularity

Other Irregularities

Irregularities concerning an employee's moral, ethical, or behavioral conduct should be resolved by Parish management.

If there is any question as to whether an action constitutes fraud, contact the Director of _____ for guidance.

Investigation Responsibilities

The _____ has the primary responsibility for the investigation of all suspected fraudulent acts as defined in the policy. If the investigation substantiates that fraudulent activities have occurred, the _____ will issue reports to appropriate designated personnel and, if appropriate, to the Diocese.

Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with legal counsel and Parish management.

Confidentiality

The _____ treats all information received confidentially. Any employee who suspects dishonest or fraudulent activity will notify the _____ immediately, and *should not attempt to personally conduct investigations or interviews/interrogations* related to any suspected fraudulent act (see **REPORTING PROCEDURE** section below).

Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons subsequently found innocent of wrongful conduct as well as to protect the Parish from potential civil liability.

Authorization for Investigating Suspected Fraud

Members of the investigation team will have:

- Free and unrestricted access to all Parish records and premises, whether owned or rented; and
- The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of their investigation.

Reporting Procedures

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusation or alerting suspected individuals that an investigation is under way.

An employee who discovers or suspects fraudulent activity will *contact* the _____ *immediately*. The employee or other complainant may remain anonymous. All inquiries concerning the activity under investigation from the suspected individual, his or her attorney or representative, or any other inquirer should be directed to the _____ or the Legal Department. No information concerning the status of an investigation will be given out. The proper response to any inquiries is: "I am not at liberty to discuss this matter." *Under no circumstances* should any reference be made to "the allegation," "the crime," "the fraud," "the forgery," "the misappropriation," or any other specific reference.

The reporting individual should be informed of the following:

- Do not contact the suspected individual in an effort to determine facts or demand restitution.
- Do not discuss the case, facts, suspicions, or allegations with *anyone* unless specifically asked to do so by the Legal Department or _____ .

Termination

If an investigation results in a recommendation to terminate an individual, the recommendations will be reviewed for approval by the designated representatives from the Legal Department and, if necessary, by outside counsel, before any such action is taken. The decision to terminate an employee is made by the employee's Parish management. Should the _____ believe the management decision is inappropriate for the facts presented, the facts will be presented to the Diocese for a decision.

Administration

The _____ is responsible for the administration, revision, interpretation, and application of this policy. The policy will be reviewed annually and revised as needed.

Approval

Parish Pastor

Date

“Internal control” is a process that is designed to help a parish:

1. Operate effectively and efficiently.
2. Provide reliable financial information.
3. Comply with applicable laws and regulations.

A good system of internal controls can provide reasonable, but not absolute, assurance that these goals are met. The process will vary from parish to parish depending on the size of the parish and its staff. As controls are reevaluated, the parish finance council should recommend to the pastor only those controls where the expected benefit exceeds the associated cost.

The Archdiocese of (your diocese) has implemented this best practice to ensure internal controls are being followed.

Anyone suspecting misappropriation of parish resources is encouraged to call the Financial Misconduct Hotline at XXX-XXX-XXXX or report through the Archdiocesan website.

Parish finance councils are encouraged to complete the Internal Control Questionnaire annually. For each “no” answer, the parish is encouraged to prepare an attachment to the questionnaire that either explains the answer or identifies a corrective plan of action, name(s) of the person(s) responsible for the corrective plan, and a timetable for completion of the plan. (Not all items in the questionnaire may be appropriate in all circumstances or for all parishes.)

The questionnaire and the attachment should be signed by the pastor and the chair of the finance council after completion, and retained in the parish files. Copies can be mailed to the internal auditor for review and comments.

If there are any questions about the questionnaire or this process, call the Risk Manager at XXX-XXX-XXXX.

Archdiocese of _____
 Parish Internal Control Questionnaire

 Parish Name _____
 Parish # _____

GENERAL INFORMATION		YES	NO
1.	Are ALL activities of the parish and school recorded in QuickBooks? If no, please explain: _____ _____		
2.	Does the parish use ServantKeeper software to record contributions? If no, please explain: _____ _____		
3.	Does the Parish or school have a website? If no, please explain: _____ _____		
4.	How does the parish ensure that the website contains appropriate and accurate information? _____ _____		
5.	Does the parish have a Finance Council? If no, please explain: _____ _____		
6.	Are the responsibilities of the parish Finance Council documented in writing? If no, please explain: _____ _____		
7.	Does the Finance Council meet at least quarterly? If no, please explain: _____ _____		
8.	Are written minutes kept of the Finance Council meetings? If no, please explain: _____ _____		
9.	Are all bank accounts in the name of the parish? If no, please explain: _____ _____		
10.	Do all bank accounts contain the parish federal employer identification number (FEIN)? If no, please explain: _____ _____		
11.	Has a letter been written to the parish banks indicating new accounts can only be set-up with an authorized letter from the Pastor and using the address of the parish? If no, please explain: _____ _____		
12.	Does the Pastor receive the unopened bank statements directly from the bank for all accounts for review prior to forwarding the statements to the appropriate individual? If no, please explain: _____ _____		

Archdiocese of _____ Parish Name _____
 Parish Internal Control Questionnaire Parish # _____

GENERAL INFORMATION		YES	NO
13.	Is direct deposit offered at the parish/school? If no, please explain: _____ _____		
14.	If direct deposit is offered, please describe the process for recording the individual net pay and banking account information for the various banks during each payroll. _____ _____		
15.	Are 941's completed timely? If no, please explain: _____ _____		
16.	Are IRS notices discussed timely with the pastor, the Finance Council, and the Archdiocesan Internal Auditor? If no, please explain: _____ _____		
17.	Are mass stipends properly excluded from the financial statements? If no, please explain: _____ _____		
18.	Does the parish prepare a balanced, annual budget? If no, please explain: _____ _____		
19.	Is there a follow-up of key budget variances? If no, please explain: _____ _____		
20.	Do journal entries provide clear and thorough explanations of the transactions? If no, please explain: _____ _____		
21.	Are journal entries approved by someone other than the person who prepared the journal entry? If no, please explain: _____ _____		
22.	Are spending approval limits specified in writing? If no, please explain: _____ _____		
23.	Do written parish policies exist for acceptable business practices? If no, please explain: _____ _____		
24.	Do written parish policies exist for conflicts of interest? If no, please explain: _____ _____		

Archdiocese of _____
Parish Internal Control Questionnaire

Parish Name _____
Parish # _____

GENERAL INFORMATION	YES	NO
25. Does a written record retention policy exist? If no, please explain: _____ _____		
26. Are records retained and available to meet regulatory, Archdiocesan, and other requirements? If no, please explain: _____ _____		
27. Are critical data files stored off-site to assure continuity of processing and safeguarding of files? If no, please explain: _____ _____		
28. Are important and valuable documents (e.g., blank checks, accounting records, back-up disks, sacramental records) kept in a secure and fireproof location? If no, please explain: _____ _____		
29. Describe how the computers, magnetic media (e.g., CD, disk), inventory, and manual records will be protected in the event of an accident or catastrophe. _____ _____		

Archdiocese of _____
 Parish Internal Control Questionnaire

Parish Name _____
 Parish # _____

MONTH-END PROCEDURES	YES	NO
1. Are ALL of the following reports prepared monthly: balance sheet, profit & loss statement for all classes, and budget versus actual? If no, please explain: _____		
2. Does someone other than the bookkeeper (e.g., pastor, business manager) review monthly the three reports listed above? If no, please explain: _____		
3. Does the Finance Council review monthly the three reports listed above? If no, please explain: _____		
4. Are monthly bank statements received for all cash account balances recorded in QuickBooks? If no, please explain: _____		
5. Are ALL bank statements issues by the bank as of month-end? If no, please explain: _____		
6. Are bank statements reconciled promptly upon receipt as of the month-end date? If no, please explain: _____		
7. Do the printed bank reconciliations contain a detailed listing of the deposits in transit and outstanding checks? If no, please explain: _____		
8. Are the register balances shown on the bank reconciliations compared to the reported cash balances in the QuickBooks financial statements, as of month-end? If no, please explain: _____		
9. Are reconciliations reviewed for old (i.e., 90 days or more past issuance/receipt date) outstanding items? If no, please explain: _____		
10. Are either the physical cancelled checks or photocopies of the cancelled checks reviewed every month for ALL bank accounts? If no, please explain: _____		
11. Does a qualified member of the Finance Council review ALL bank reconciliations? If no, please explain: _____		

Archdiocese of _____
Parish Internal Control Questionnaire

Parish Name _____
Parish # _____

MONTH-END PROCEDURES	YES	NO
12. Are asset and liability account balances reconciled to the accounting records monthly? If no, please explain: _____ _____		
13. Are all QuickBooks balances for the _____ Archdiocesan Fund accounts reconciled to the _____ Archdiocesan Fund every month? If no, please explain: _____ _____		
14. Are the Together We're Better (TWB) certificates/scripts/coupons counted as of month-end every month? If no, please explain: _____ _____		
15. Are the month-end inventory TWB counts reconciled monthly to the inventory balances recorded in QuickBooks? If no, please explain: _____ _____		
16. Are all files in QuickBooks, ServantKeeper, and other critical systems backed up at least monthly and stored off-site? If no, please explain: _____ _____		

Archdiocese of _____
 Parish Internal Control Questionnaire

Parish Name _____
 Parish # _____

PERSONNEL	YES	NO
1. Do all employees with responsibilities for financial accounting, deposit preparation, or payment of invoices take vacation each year? If no, please explain: _____ _____		
2. Are all parish/school-directed workers (e.g., teachers, PSR teachers, phone sitters, playground monitors, organist, housekeeper) considered employees AND included in the QuickBooks payroll system? If no, please explain: _____ _____		
3. Are individual employment files maintained for each employee? If no, please explain: _____ _____		
4. Are employment applications maintained for all employees? If no, please explain: _____ _____		
5. Do the employee files contain a Performance Review that was completed within the last 12 months? If no, please explain: _____ _____		
6. Are the current job descriptions and responsibilities for non teaching employees documented in writing? If no, please explain: _____ _____		
7. Does the bookkeeper and/or business manager have the experience and education necessary for fulfilling their job responsibilities? If no, please explain: _____ _____		
8. Are the most current W-4 forms maintained for all employees? If no, please explain: _____ _____		
9. Is a Request for Child Abuse or Neglect/Criminal Record Form maintained for all applicable employees? If no, please explain: _____ _____		
10. Are records containing medical information on an employee kept in a separate and secure file? If no, please explain: _____ _____		
12. Is an emergency notification form maintained for all employees? If no, please explain: _____ _____		

Archdiocese of _____
Parish Internal Control Questionnaire

Parish Name _____
Parish # _____

PERSONNEL	YES	NO
13. Does the Pastor approve in writing all changes in employee payroll information for new hires, terminations/resignations, and rate changes? If no, please explain: _____ _____		
14. Are all initial contracts and salary adjustments for teachers and principals sent timely (within 30 days) to the Education Office? If no, please explain: _____ _____		
15. Are time and attendance records, including hours worked, overtime, vacation and sick leave, and special benefits maintained, reviewed, and approved by authorized non accounting personnel? If no, please explain: _____ _____		
16. Do all employees with responsibilities for financial accounting, deposit preparation, or payment of invoices take vacation each year? If no, please explain: _____ _____		
17. Are payroll taxes and retirement payments paid by the required due dates? If no, please explain: _____ _____		
18. Does the parish issue a 1099 to ANY independent contractor or visiting priest paid \$600 or more during the calendar year? If no, please explain: _____ _____		
19. Is the parish contributing 5% of gross pay to the retirements plan for ALL "qualified" lay employees? Note: "Qualified" – staff working 1,000 or more hours during the 365 day period of teachers with at least a ½-time contract and over one year of service. If no, please explain: _____ _____		
20. Are all eligible employees enrolled properly in the Self-Funded Employee Benefit Plan (Health Insurance) if they elected coverage? If no, please explain: _____ _____		
21. Are all eligible employees enrolled properly in the Long Term Disability Plan? If no, please explain: _____ _____		

Archdiocese of _____
 Parish Internal Control Questionnaire

Parish Name _____
 Parish # _____

ORGANIZATION ACCOUNTS	YES	NO
1. Are ALL of the organization accounts (e.g., Athletics Association, Men's Club, Quilters) recorded in QuickBooks? If no, please explain: _____ _____		
2. Do ALL the organization accounts contain the federal employer identification number (FEIN) of the parish? If no, please explain: _____ _____		
3. Is the pastor included as an authorized signer on ALL organization accounts? If no, please explain: _____ _____		
4. Is the listing of authorized signers updated with the banks when changes occur? If no, please explain: _____ _____		
5. Are the bank statements for ALL the organization accounts mailed directly to the parish? If no, please explain: _____ _____		
6. Does the pastor receive the unopened bank statements for ALL organization accounts, prior to forwarding them to the appropriate individuals? If no, please explain: _____ _____		
7. Are ALL of the organization bank statements issued as a month-end? If no, please explain: _____ _____		
8. Are the balances of the organization cash accounts in QuickBooks reconciled to the bank statements every month? If no, please explain: _____ _____		
9. Are the revenues and expenses of the organizations recorded monthly in QuickBooks? If no, please explain: _____ _____		

Archdiocese of _____
Parish Internal Control Questionnaire

Parish Name _____
Parish # _____

OFFERTORY COLLECTIONS	YES	NO
1. Are offertory collections placed in a safe or locked location as soon as practical, following each mass? If no, please explain: _____ _____		
2. Is each mass collection kept in a separate marked bag? If no, please explain: _____ _____		
3. Are tamper-evident, sealed bags used until the count team arrives? If no, please explain: _____ _____		
4. Is access to the vault, drop box, etc. restricted to only a select few? If no, please explain: _____ _____		
5. Are count teams comprised of at least two individuals? If no, please explain: _____ _____		
6. Are two or more count teams used in counting the offertory collections? If no, please explain: _____ _____		
7. Are count team members rotated among different teams? If no, please explain: _____ _____		
8. Are ALL count teams members that are on the same team independent (i.e., not related or married to each other)? If no, please explain: _____ _____		
9. Are members of the parish staff excluded from the count teams? If no, please explain: _____ _____		
10. Are all checks immediately endorsed for deposit during count procedures/ If no, please explain: _____ _____		
11. Is an offertory collection report compiled during each count and signed in INK by ALL count team members? If no, please explain: _____ _____		
12. Are ServantKeeper reports compared to the count sheets, deposit clips, and QuickBooks? If no, please explain: _____ _____		

Archdiocese of _____
 Parish Internal Control Questionnaire

Parish Name _____
 Parish # _____

OFFERTORY COLLECTIONS	YES	NO
13. Are ALL offertory collection items counted by the count teams before deposited in the bank? If no, please explain: _____ _____		
14. Is the deposit taken to the bank by one of the counters or priests? If no, please explain: _____ _____		
15. Is the offertory collection deposit made timely (i.e. Monday following the count)? If no, please explain: _____ _____		
16. Is a copy of the counters' sheet, deposit slip, and deposit receipt placed together in a parish file? If no, please explain: _____ _____		
17. Does the deposit include ALL monies from the offertory collections? If no, please explain: _____ _____		
18. Is the removal of monies from the offertory collections prohibited? If no, please explain: _____ _____		
19. Are offertory collections deposited separately from other deposits? If no, please explain: _____ _____		
20. Are periodic parishioner reports printed and reconciled to check deposit information? If no, please explain: _____ _____		
21. Does an independent person compare the signed count sheet to the bank statement? If no, please explain: _____ _____		
22. Does the pastor review and initial the counters' sheet information? If no, please explain: _____ _____		
23. Are annual contribution statements prepared by individuals other than those who count or deposit the collections? If no, please explain: _____ _____		
24. Are annual contribution statements MAILED to ALL contributors? If no, please explain: _____ _____		

Archdiocese of _____
Parish Internal Control Questionnaire

Parish Name _____
Parish # _____

OFFERTORY COLLECTIONS		YES	NO
25.	Do the donors' contribution statements separate the electronic gifts from the non-electronic gifts? If no, please explain: _____ _____		
26.	Are copies of tax substantiation letters and statements maintained in a separate file? If no, please explain: _____ _____		
27.	Are any copies of donors' checks shredded immediately after they have been recorded? If no, please explain: _____ _____		
28.	Is the parish processing electronic gifts (e.g., debit or credit card donations, ACHs) using a third party vendor or in-house resource? If using a third party vendor, please provide the name of the vendor. _____		
29.	Is a report that lists the electronic gifts reviewed periodically? If no, please explain: _____ _____		
30.	How are donors' sensitive information (e.g., bank account number, credit card number) secured? If no, please explain: _____ _____		

Archdiocese of _____
 Parish Internal Control Questionnaire

Parish Name _____
 Parish # _____

DISBURSEMENTS		YES	NO
1.	Are only priests or deacons authorized to sign checks for parish bank accounts? If no, please explain: _____ _____		
2.	Are rubber stamps or other facsimile signatures prohibited? If no, please explain: _____ _____		
3.	Is the signing of blank checks before use prohibited? If no, please explain: _____ _____		
4.	Are checks made payable to cash prohibited? If no, please explain: _____ _____		
5.	Are invoices approved for payment by the Pastor or his designee before checks are prepared? If no, please explain: _____ _____		
6.	Is adequate supporting documentation (e.g., original receipts, invoices, payroll register, mileage logs) examined by check signers prior to issuance of checks? If no, please explain: _____ _____		
7.	Are invoices defaced or marked "paid" with check # and date (or a carbon copy of the check attached to the invoice) to prevent reuse? If no, please explain: _____ _____		
8.	Are checks pre-numbered and imprinted with the parish name and account number? If no, please explain: _____ _____		
9.	Are continuous check numbers used and accounted for, then agreed to the internal computer (QuickBooks) generated numbers? If no, please explain: _____ _____		
10.	Does someone other than the bookkeeper or check signer mail the checks? If no, please explain: _____ _____		
11.	Are voided checks defaced by removing the signature portion? If no, please explain: _____ _____		
12.	Are voided checks retained in order to maintain proper sequential integrity? If no, please explain: _____ _____		

Archdiocese of _____
Parish Internal Control Questionnaire

Parish Name _____
Parish # _____

DISBURSEMENTS	YES	NO
13. Are the priests or school principal, where applicable, the only authorized user of parish credit cards (e.g., Visa, MasterCard, Lowes, Office Depot)? If no, please explain: _____ _____		
14. Does the parish have LESS than five (5) credit cards (Visa, Office Depot, Lowes, Schnucks)? If no, please explain: _____ _____		
15. Are the credit card charges reviewed by the Pastor? If no, please explain: _____ _____		
16. Are employees and volunteers prohibited from making personal charges on parish credit cards? If no, please explain: _____ _____		
17. Are ALL outstanding credit card balances paid in full each month? If no, please explain: _____ _____		
18. Does the parish obtain approval from the Archbishop for all capital expenditures (i.e., repairs, improvements, new construction) that are 3% or more of fiscal year-end revenues? If no, please explain: _____ _____		
19. With the exception of minor petty cash items, are all disbursements made by check or Automatic Clearing House (ACH)? If no, please explain: _____ _____		
20. How does the parish ensure that all online bill payments are expenses of the parish and not individuals or other organizations? _____ _____		

Archdiocese of _____
 Parish Internal Control Questionnaire

Parish Name _____
 Parish # _____

TUITION & FEES FOR SERVICES		YES	NO
1.	Does the parish have a school? If no, please explain: _____ _____		
2.	Does the school record tuition using the accrual or cash basis of accounting? _____		
3.	If accrual basis of accounting is used for tuition, when are the tuition invoices recorded (invoice date in QuickBooks)? _____ _____		
4.	If accrual basis of accounting for tuition is not used, please describe how tuition receivables and revenues are recorded? _____ _____		
5.	Are tuition revenues recognized evenly over a 12-month or 10-month period (accrual basis of accounting) If no, please explain: _____ _____		
6.	Is the parish recording gross tuition charged? If no, please explain: _____ _____		
7.	Is QuickBooks used to track individual tuition amounts? If no, please explain: _____ _____		
8.	Are checks received for tuition and other fees immediately endorsed for deposit when received? If no, please explain: _____ _____		
9.	Are tuition and fees for services recorded and deposited weekly? If no, please explain: _____ _____		
10.	Are tuition and fee receipts that are received in the offertory collections reconciled separately from offertory collections? If no, please explain: _____ _____		
11.	Does the parish use F.A.C.T.S. or SMART to collect tuition from school families? If no, please explain: _____ _____		
12.	Are tuition and fee collections initiated within 30 days of the due date? If no, please explain: _____ _____		

Archdiocese of _____
Parish Internal Control Questionnaire

Parish Name _____
Parish # _____

TUITION & FEES FOR SERVICES	YES	NO
13. Is the aging and collectability of tuition and fees reviewed periodically by the parish finance council and the Pastor? If no, please explain: _____ _____		
14. Are all adjustments for tuition, other receivables, or free tuition arrangements approved by the Pastor? If no, please explain: _____ _____		
15. Are contra-revenue (i.e. has a debit balance and reduces new tuition revenue) accounts used to record the awarding of grants, scholarships, and other tuition reductions? If no, please explain: _____ _____		
16. Are tuition and fees received compared periodically with tuition and fee estimates? If no, please explain: _____ _____		
17. Does the school/parish prohibit using the profits generated from the sales of scripts (e.g., TWB certificates, coupons) as a tuition-reduction method? If no, please explain: _____ _____		

Archdiocese of _____
 Parish Internal Control Questionnaire

Parish Name _____
 Parish # _____

CAFETERIA RECEIPTS		YES	NO
1.	Does the school have a cafeteria? If no, please explain: _____ _____		
2.	Are tickets issued for children purchasing lunches? If no, please explain: _____ _____		
3.	Is the number of meals served compared to daily cafeteria revenues? If no, please explain: _____ _____		
4.	Are sales of inventory items (i.e., milk) compared to beginning and ending counts? If no, please explain: _____ _____		
5.	Are daily deposits made of all cafeteria funds received? If no, please explain: _____ _____		
6.	Are the cafeteria receipts included in the parish financial statements? If no, please explain: _____ _____		
7.	Does the cafeteria maintain a separate bank account? If no, please explain: _____ _____		
8.	Do cafeteria personnel only use checks (not cash) for purchases? If no, please explain: _____ _____		
9.	Is cafeteria payroll processed by the parish bookkeeper? If no, please explain: _____ _____		
10.	Are cafeteria bills paid through the parish accounts payable system? If no, please explain: _____ _____		
11.	Does the cafeteria participate in government subsidized milk/lunch programs? If no, please explain: _____ _____		
12.	Is the amount that is collected from the vending machine compared to the product refilled in the vending machine? If no, please explain: _____ _____		

Archdiocese of _____
 Parish Internal Control Questionnaire

Parish Name _____
 Parish # _____

OTHER REVENUES		YES	NO
1.	Is the mail opened by an individual other than the bookkeeper? If no, please explain: _____ _____		
2.	Are checks immediately endorsed for deposit to the parish bank account? If no, please explain: _____ _____		
3.	Is a record of all mail receipts of cash or checks prepared? If no, please explain: _____ _____		
4.	Is a copy of the list for mail receipts of cash or checks given to the bookkeeper with the checks for depositing? If no, please explain: _____ _____		
5.	Does someone at month-end compare the daily receipt lists with the deposits posted on the bank statement? If no, please explain: _____ _____		
6.	Are bank deposits made frequently and intact? If no, please explain: _____ _____		
This FINAL page should be signed and dated by the pastor and president of the Finance Council after it has been electronically submitted. Please mail a copy to: <i>address</i> _____ _____ _____			



Episcopal Moderator

Diocese of Springfield in Illinois
Most Reverend Thomas J. Paprocki, J.C.D.

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Diocese of Tulsa
Thomas Schadle, Chair

Program Team

Arthur J. Gallagher & Co.
The Gallagher Centre
Two Pierce Place
Itasca, IL 60143-3141
Toll-Free: 877-325-BPIC (2742)

Peter A. Persuitti
BPIC Administrator
Gallagher Religious Practice Group
peter_persuitti@ajg.com

Sheryl Anderson, CPCU, ARM
Captive Director
Artex Risk Solutions, Inc.
sheryl_anderson@artexrisk.com

www.bpicmembers.org



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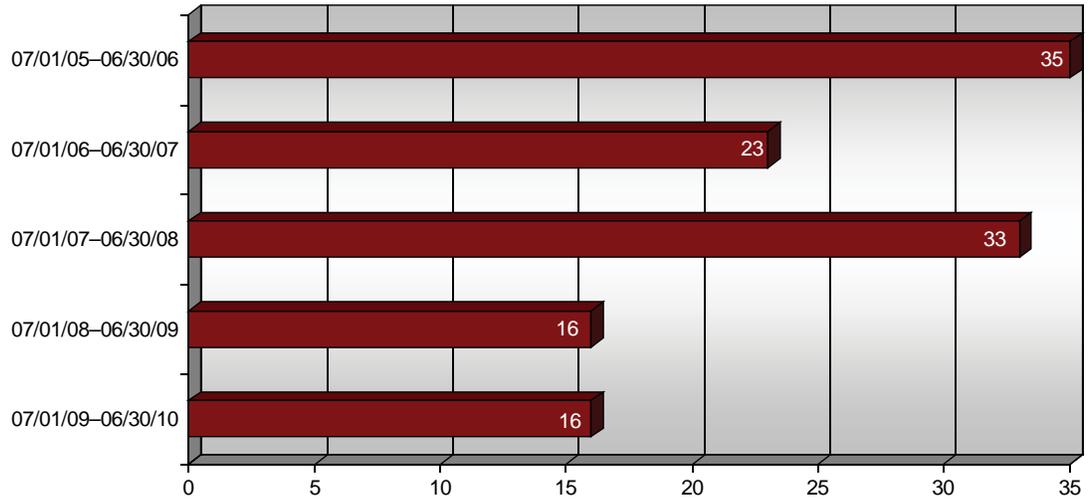
Money and Securities Loss Summary

07/01/2005 – 06/30/2010
Valued as of 7/28/2010

Prepared by

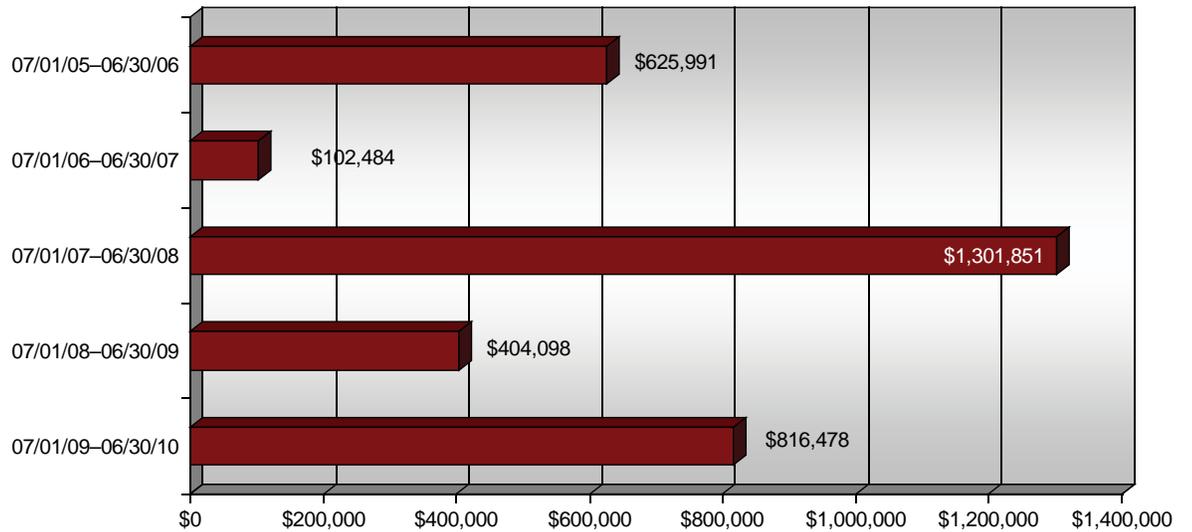
Gallagher Bassett Services, Risk Control Consulting Services

Money Securities – Frequency of Claims



*Notes: The frequency of claims has decreased almost 50% in the last two years (2008-09 & 2009-10) when comparing the average of the other three years shown.

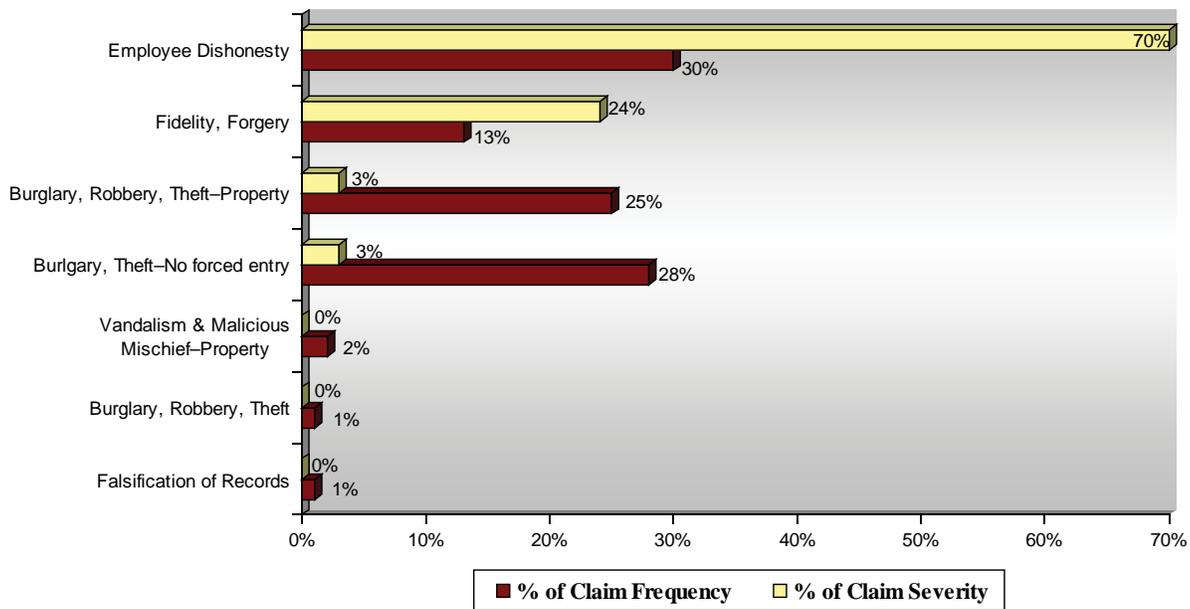
Money Securities – Severity



*Notes: Even though the frequency of claims has decreased almost 50% in the last two years, the severity of the claims is showing an increase. The average cost of a claim for the 2009-10 year is \$51,030. The total cost of claims for the 5 years reflected is \$3,250,902. The total experience of the severity shown is from ground up.

Loss Summary

Money Securities – Source of Loss



*Notes: When reviewing all theft claims, Fidelity/Forgery and Employee Dishonesty are the leaders with 43% of the frequency and 94% of the severity.



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Catherine Macina

Archdiocese of St. Louis
Robert Ryan

Diocese of Tucson
John Shaheen

Diocese of Tulsa
Thomas Schadle, Chair

Program Team

Arthur J. Gallagher & Co.
The Gallagher Centre
Two Pierce Place
Itasca, IL 60143-3141
Toll-Free: 877-325-BPIC (2742)

Peter A. Persuitti
BPIC Administrator
Gallagher Religious Practice Group
peter_persuitti@ajg.com

Sheryl Anderson, CPCU, ARM
Captive Director
Artex Risk Solutions, Inc.
sheryl_anderson@artextrisk.com

www.bpicmembers.org