

In this newsletter to the Pastors of the Diocese of Buffalo, the Internal Audit Department offers advice on how to reduce overall financial and administrative risk to your parish in regards to Auxiliary Organizations.

Auxiliary Organizations – How to Manage the Financial Risk?

Auxiliary Organizations are the lifeblood of many ministries. They are invaluable to the Parish, but present many challenges as well. The Pastor is ultimately responsible for these organizations, and therefore needs to exercise a certain level of control and oversight.

Below, is a list of internal controls which the Parish is required or encouraged to establish over auxiliary organizations.

- All organizations bank accounts must use the Parish EIN. All bank statements must be mailed directly to the Parish and include images of all canceled checks and if possible deposit tickets.
- The Pastor is required to open all bank statements, review for reasonableness, and initial. In particular, the Pastor should review the paid check detail and question any unusual activity.
- A copy of each months' bank statement and digital images should be made and given to the Parish business manager/bookkeeper who should review the activity for tax implications (such as paying an employee a bonus and/or 1099 form issuance) and proper accountability.
- The organization's treasurer and president are authorized signers and responsible for the normal check writing and signing responsibilities. The Pastor **must** also be an authorized signer on all organization's bank account. This allows the Pastor to obtain any necessary banking records and access the funds if necessary.
- The bank statement should be reconciled to the check register monthly by another officer of the organization (non-check signer, i.e. vice president, secretary). Additionally, the reconciler should ensure supporting documentation was retained for all deposits and all paid invoice/receipts.
- Many organizations hold activities and fund-raisers, these events should follow the same procedures as outlined in the Parish Fund-Raising Event newsletter, including preparing a fund-raiser report. Additionally, all NYS Raffle Regulations must also be adhered to.

- Organizations should submit at least quarterly, a financial report to the Pastor detailing the organizations receipt and disbursement activity (see sample). Additionally, fund-raisers/activities report(s) should be included.
- The Pastor should review the documents; any unusual activity should be questioned and if needed additional information should be provided to the Pastor. Once the review is completed the Pastor should sign the quarterly report. The reports should be maintained in the Parish office with the organizations bank statement copies.
- At the end of the fiscal year, all organizations should bring their detail account records to the Parish office for proper storage. All organizations' records should be maintained for seven years, per the Parish record retention schedule.

What are the Top Three Risks a Parish and its Pastor may face?

1. The Pastor may find himself in a struggle over control of funds with the members of the organization. In particular, they could potentially open or close accounts, transfer money, disburse funds, etc., without the knowledge or approval of the Pastor. To avoid the conflict or misunderstandings that may occur between the auxiliary organizations and the Pastor, we recommend that the Parish Finance Council develop a written protocol with the auxiliary organizations that lays out the expectations surrounding check signing, record keeping, quarterly reporting, decision making and appropriate uses of funds.
2. A lack of oversight of the activity conducted by the organization may enable an individual (either knowingly or unknowingly) to conduct illegal, unethical, or other activity not in-line with the mission of the Church. The members of these organizations executing financial transactions may not be familiar with Diocesan requirements/recommendations, IRS regulations, and other applicable laws and regulations.
3. A lack of coordination with the Parish in regards to actions planned by the organization that may conflict with actions planned by the Parish. For example, an organization pays bonuses to employees and fails to inform the Business Administrator, auxiliary organization may purchase assets or make charitable donations, without the Pastor's knowledge or approval.

Summary

We recognize that it is sometimes difficult for the Parish and its Pastor to have control over the various aspects of auxiliary organizations. We find this is an issue at many of the Parishes we visit each year. However, it is critical the Pastor, Business Manager and Parish Finance Council have oversight of the various activities of auxiliary organizations, and in particular, of the financial transactions. If these organizations use the EIN of the Parish, then the bank account and all assets of the auxiliary organizations belong to the Parish. Therefore, the Pastor and Parish will likely be held to account should any inappropriate activity occur within those organizations.

We recommend you share this information with your trustees and finance council / committee and document, in a memorandum, your auxiliary organization procedures and communicate these to affected individuals during a periodic training session.

Next topic will discuss Scrip issues.

Organization: _____

Fund Raiser: _____

Date: _____

RECEIPTS:

<u>Deposit Date</u>	<u>Source</u>	<u>Amount</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
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_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
	Total Receipts	-

DISBURSEMENTS:

<u>Date</u>	<u>Check #</u>	<u>Payee</u>	<u>Purpose</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
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_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
			Total Expenses
			Surplus/(Deficit)
			\$ -

Chairperson: _____

Treasurer: _____

President: _____