



DIOCESE OF OWENSBORO

Internal Control Best Practices (Revised June 2026)

Internal Controls

By implementing and monitoring a well-designed internal control system, parishes can help to ensure the protection of parish assets. The procedures listed below detail normal controls that should be in place within a parish.

Income and Cash

Bank Accounts

- All parish funds should flow through the operating account. The only exception is that charitable gaming funds must be in a separate checking account because of government policies.
- Limit the number of bank accounts (Operating account, Building Fund account, Cemetery Fund if applicable, and School Account if applicable)
- Any and all checking, savings, and investment accounts, using the parish Tax ID number, must be included in the general ledger and be a part of the year-end diocesan financial reports.
- Bank accounts must be opened in the name of the parish.
- The mailing address for the bank accounts should never be a personal address. Bank statements should be mailed to the parish office and should have a month-end closing date.
- Surplus funds (excess of three months of operating cash) should be transferred to the Diocesan Deposit and Loan Account.
- Entities within the parish such as OCIA, youth group, men's or women's groups, altar society, etc. should not have a separate checking account from the parish.
- Mass stipend funds should not be comingled with parish accounts or the personal account of the priest. These funds may be handled under the parish regular operating account as long as the Mass stipend transactions can be recorded and reported separately from the regular parish operating activity in a mass stipend payable account (liability). Proper records should be kept and include date when stipend was received, intention and name of giver, amount and number of masses, date when Mass is to be said, and name of priest who officiates the Mass. Mass stipends in excess of one year should be sent to the Diocese for distribution to other parishes.

Bank Statements

- Bank Statements should be opened and reviewed by someone other than the bookkeeper or business manager. It is recommended that the pastor open, review and initial the bank statement monthly. If the bank statement is sent electronically, the business manager or bookkeeper should print the statement and give it to the Pastor before reconciling.
- All online banking users shall have unique login credentials. Multi-factor authentication (MFA) must be enabled whenever available. Bank transaction alerts should be enabled for ACH activity, wire transfers, transactions exceeding established thresholds, and changes to user access permissions when available.

- It is recommended that parishes and schools enroll in Positive Pay and ACH Positive Pay, when available through their financial institution, to reduce the risk of check fraud and unauthorized electronic payment transactions.
- Unsolicited requests to verify banking information, fraudulent transactions, etc. must be verified using previously established contact information.
- Monthly all the bank statements should be reconciled and balanced to the general ledger. This should occur within 15 days after receiving the bank statement.
- The bank statement should be reconciled by someone other than a check signer, using the bank statement ending date as the “cut-off” date. At least quarterly, it is recommended that someone from the finance committee compare the bank reconciliation to the general ledger.
- Completed bank reconciliations should be signed by the preparer and signed by the Pastor, Finance chairperson, or other appropriate reviewer.
- All electronic ACH fund transfers must be pre-authorized by the Pastor.
- All bank statements and the bank reconciliations, including cleared and outstanding transactions listing, should be retained and filed.

Check Signers

- The Pastor, the Associate Pastor, or a finance committee member should be the only authorized check signers. The business manager or bookkeeper with access to the accounting system should not have signature authority.
- Checks over \$10,000 that are for an extraordinary expenditure require the written approval of the Bishop. The >\$10,000 Expenditure Form can be found on the Diocesan website. Any approved projects that incur overages of 10% or more should be reported to the Diocese.
- Under no circumstances should blank checks be signed for future payments.
- A rubber-stamped signature should not be utilized.

Handling of Money other than Offertory Collections

- All money received should be handled in a safe manner. This includes money from collections, bingo, Mass stipends, church picnics, fish fry, scrip, etc.
- Cash is never left unattended.
- A list of cash and checks (Daily Receipts Log) is made at the time the mail is opened and the checks are stamped for “deposit only.”
- Daily receipts should be stored in a safe or secure location and counted by the count team with the weekend collections.
- Deposits should be made as soon as feasible.
- Cash should not be removed from the offertory collections for any purpose.
- Diocesan special collections and payments should be recorded in a separate general ledger account (liability) on the balance sheet. All other parish special collections should be recorded as income with the expense flowing through the income statement.
- The use of P2P (peer-to-peer) apps such as Venmo, PayPal, Zelle, Stripe, Square, and similar P2P technologies are not encouraged. If such apps are deemed necessary to receive payments, disbursements via P2P apps are not allowed, the following apply:
 - Accounts must be set up in the parish name using the parish EIN and banking information. Personal information should *never* be used.
 - Account must be added as a “cash” account in the accounting software system
 - Account use should be limited to a specific period of time or event.
 - Monthly statements must be printed, reviewed, signed, and dated by the pastor just like the parish bank account process.

- P2P accounts should be reconciled monthly and retained on file.

Loans/Advance to Employees

- Loans or advances should not be made by the parish.

Petty Cash

- Parish expenditures should most always be paid with a check.
- A petty cash fund is discouraged but can be set up with a \$100.00 limit to be used for small dollar purchases.
- The petty cash fund should only be used for situations where immediate payment is essential.
- Petty cash is set up by writing a check to the custodian of the fund, with a note on the check indicating petty cash.
- Petty cash is a balance sheet item.
- The petty cash is an imprest fund, which means the petty cash balance plus the receipts are always the same amount.
- One person should be in charge of petty cash. It should always be locked in a secure location.
- Petty Cash receipts should always reflect an approval signature and the reason for expenditure.
- Replenishment of petty cash should be supported with proper receipts and reconciliation. The check written should be coded to the appropriate expense accounts.
- Periodically the petty cash should be reviewed by the Pastor or finance committee member.
- Stipends or any type of compensation should not be paid through petty cash.

Receipt of Income

- The Diocese of Owensboro is exempt from federal income tax under the IRS code section (501)(c)(3). The IRS issues an annual letter which establishes Catholic entities listed in the most recent Official Catholic Directory as being exempt from federal income tax. The most current listing is available through the Office of Administration located at the McRaith Catholic Center.
- If documentation is required to validate a tax-exempt status, a copy of the first page of the most recent Directory with a copy of the page that shows your particular parish, and a recent copy of the IRS letter ruling should be provided.
- Income received from activities not related to the primary purpose of the parish may be considered Unrelated Business Income. All fundraising activities must relate to the educational or charitable purpose of the Diocese. Use of the parish federal identification number must be strictly limited.

Offertory Collections

Collection Process:

- It is required that Tamper Proof Bags be used for Offertory Collections.
- Tamper Proof Bags can be purchased at an office supply store.
- A Tamper Proof Control Log should be created for each Mass, which includes the time of the Mass, bag #, and a place for the ushers to sign and date. This log should be prepared by the business manager or bookkeeper.

- The business manager or bookkeeper should place a supply of Tamper Proof Bags in the designated area in the parish prior to each week's services. Access to the bags should be limited to the ushers and the bags should be labeled by the business manager or bookkeeper as to the Mass time.
- The bag numbers should be recorded on the Tamper Proof Control Log designating a specific bag number for each collection at each Mass. The business manager or bookkeeper will keep a copy of the control log and place the original control logs with the bags.
- During or immediately after Mass, the ushers will take the collection from the altar and place all the contents into a Tamper Proof Bag; the bag is sealed and signed by the ushers.
- The Tamper Proof Bag is then placed in a safe or secure location. It is recommended that collections be deposited by the next business day.

Counting Day:

- Tamper Proof Bags are brought from a secure location. At least two non-related people "Counting Team" are always present during the counting process. There should be a rotation of counting teams.
- Before opening the bags, the number on the bags should be compared to the numbers on the control sheet and the paper strip liners by the counting team. The bags should be opened by the counting team with scissors and should not be ripped open. After each bag is opened, a member of the counting team will sign off on the control log. The counters are to make sure the bags have not been altered. If the bags have been altered, the Pastor should be notified. The control log will then be given to the business manager or bookkeeper.
- From the open bags, the counting team will put aside any miscellaneous envelopes and any non-collection items. The only items remaining should be collection envelopes, loose cash and checks.
- ***The Counting Team will then start to complete the Parish Collection Count Sheet***
- **Loose cash:** Separate bills into stacks by denomination, count the cash/coins twice and log the count onto the Parish Collection Count Sheet.
- **Open the envelopes:** Separate the envelopes with cash and the envelopes with checks.
- **Envelopes with cash:**
 - Write the amount of cash on the face of the envelope.
 - Cash in the envelope should stay with the envelope.
 - A second person compares the cash in the envelope with the amount written on the envelopes.
 - Separate the cash from the envelopes.
 - Count the cash.
 - Total the amounts written on the envelopes and compare it to the total of the cash.
 - Log the count onto the Parish Collection Count Sheet.
 - Set the cash and envelopes aside.
- **Envelopes with checks:**
 - Write the amount of the check and the check number on the face of each envelope.
 - Separate the envelopes and the checks into two piles but keep in the same order in each pile.
 - Total the amount of the checks using an adding machine tape.
 - Total the amount written on the envelopes with an adding machine tape.

- Make sure the totals from the envelopes and the checks are the same. If they don't agree, compare the adding machines tapes.
- Stamp the checks with deposit only.
- Log the count onto the Parish Collection Count Sheet.
- Set the checks and envelopes aside.

➤ **Loose Checks:**

- Make a list which includes name, check # and check amount or photocopy the loose checks.
- Stamp the checks with deposit only.
- Log the count onto the Parish Collection Count Sheet.

➤ **Prepare Deposit Slip and Complete Parish Collection Count Sheet:**

- The Counting Team is to prepare the deposit, deposit slip and place all funds in a bag to transport to the bank. The deposit slip should be compared to the Parish Collection Count Sheet and these totals must agree. The Counting team should sign the Parish Collection Count Sheet. The deposit should be made that day, preferably by the count team, and a bank deposit ticket should be given to the business manager or bookkeeper.
- No cash, currency or checks are to be removed from the collection by anyone for any purpose. All cash and checks must be deposited and should not be used to pay bills or other expenses.
- The Counting Team should also give the business manager or bookkeeper the Parish Collection Count Sheet and a copy of the deposit slip.
- Parishes/Schools may utilize Remote Deposit Capture (RDC) scanners to deposit checks electronically into approved bank accounts. The following controls shall apply:
 - Access to the RDC scanners and related banking software shall be limited to authorized personnel only. Banking credentials shall be safeguarded to prevent unauthorized use.
 - Checks should be scanned and deposited as soon as practical after the count team has counted.
 - A deposit report generated by the RDC system shall immediately be reviewed and reconciled to the supporting checks and count sheet.
 - Original checks shall be securely retained for a minimum of 30 days after the deposit and then destroyed using a secure method such as shredding.
- The empty collection envelopes along with the count sheet are used to key the amounts given into the church donor contribution program (Diocese preferred program: Camino. Contact the Diocese Internal Audit Dept. for more information). Loose collections and mass stipends should also be posted in the donation program. The donation posting report is printed and it is reconciled to the bank deposit ticket, deposit slip, Parish Collection Count Sheet and the general ledger. The donation report, the bank deposit ticket, the deposit slip and the Parish Collection Count Report are retained and filed in the parish records. Parish collection envelopes are retained until October 15th of the following year.
- Parishes are required to provide parishioners with annual contribution statements which detail the amount contributed. The IRS requires that an individual should receive a receipt from an organization in order to take a charitable contribution for individual's gifts of \$250 or more. Non-cash contributions are normally deductible however it is the responsibility of the taxpayer to request an acknowledgement of non-cash contributions worth more than

\$250. This acknowledgment should describe the gift of the contribution. Non-cash contribution amounts can be entered into donation program.

➤ **Electronic Donations:**

- The Parish may accept electronic donations through approved online giving platforms. Electronic donations shall be processed and recorded in a timely manner to ensure accurate financial records and donor contribution tracking.
- Donations received through electronic giving platforms shall be recorded in the parish accounting system and in the donor contribution program weekly.
- Any fees withheld by the electronic giving provider shall be properly recorded in an expense account.
- Supporting reports from the electronic giving platform shall be retained according to the Diocese Retention Schedule.
- The individual responsible for recording electronic donations should not be solely responsible for reconciling the related bank account.
- Electronic giving program access shall be restricted to authorized personnel, and login credentials should be safeguarded.

Disbursements

All purchases must be properly approved; there must be evidence of a receipt and an original invoice must support the payment.

Accounts Payable Checks

- All invoices shall be reviewed for accuracy and proper approval. If applicable a packing slip should be attached to the invoice indicating a good has been received.
- Any request to change a vendor's banking information, mailing address, or payment instructions must be independently verified using previously established contact information. Email requests alone are not sufficient authorization.
- The business manager or bookkeeper should assign a general ledger account number to the invoice before posting the invoice in the accounting system. The account number should be written on the invoice.
- The parish should use a computer-generated check for disbursements. If possible, a parish should use a three-part check.
- Once a check is written the original invoice should be stamped paid with the date and check # identified or a check stub should be attached to the original invoice if using a three-part check.
- The Pastor should review and initial invoices at the time that the checks are signed. There should be careful examination of the supporting documentation by the check signer. Supporting documentation includes a proper original invoice, evidence the goods or services were received and evidence that the purchase transaction was properly authorized.
- The Pastor, the Associate Pastor, or a finance committee member should be the only authorized check signers.
- Checks should never be written to cash.

- If there is a mistake on the check, it should be marked void across the front of check, void the check in the accounting program, and retain the voided check in a voided check file. Voided checks should not be destroyed.
- The stack of unused checks should be safeguarded in a locked safe or file cabinet.
- All checks should be properly and timely mailed directly to the payee.
- The invoice and all supporting documentation should be filed by check order #, by month, or by vendor.
- If checks are needed immediately there should be a process in place to ensure that the disbursement is recorded accurately and timely into the accounting system.

Credit Cards

- The preferred payment method is through vendor invoices and parish checks. This method allows for budget compliance and ensures that the parish gets certain discounts and does not pay sales tax. However, in some cases, this is not feasible, and a credit card may be necessary.
- The number of credit cards maintained at a parish should be kept to a minimum.
- The use of debit cards is not permitted under any circumstances.
- Credit card limits should be reasonable based on the operational needs and spending requirements of the parish/school. As a general guideline, the Diocese recommends a credit limit of no more than \$5,000.
- Cash advance options are not allowed.
- A parish credit card should not be used for personal use.
- For internet purchases, care should be taken to purchase only from secure and reputable sites.
- For every credit card transaction, a receipt must be obtained. The receipt must contain a detailed breakdown of what items were purchased. The signed receipt must include a written description of the purpose and the appropriate general ledger accounting code (if known). The receipts must be returned to the bookkeeper, business manager or Pastor. If the receipt is not detailed, a Check Request Form should be completed and attached to the receipt.
- Cardholders should make every effort to ensure that purchases do not include sales tax. Tax-exempt certificates are available via the parish business Manager or bookkeeper. Sales tax may be paid for minimal expenditures from one-time vendors who refuse the exemption, but sales tax should not be paid where purchases are for more substantial expenditures or are repetitively incurred.
- The parish may either maintain centralized custody of credit cards or issue individual cards to designated employees whose duties require them. Assigned cardholders must comply with established spending limits, receipt requirements, monthly review procedures, and transaction monitoring controls.
- For centralized custody of credit cards, a log should be maintained to record when the credit card is removed from the storage location. Each log entry should indicate the date the card is checked out, the name of the person checking out the card, the initials of the person checking out the card, the initials of the person who released the card to be checked out, the date the card was returned and the initials of the person receiving the card when returned. A log should be maintained for each individual credit card along with the original receipt for the purchase.
- Credit cards at each site should be stored in a secure location, such as a lockable cabinet. Access to this storage location should be limited. The business manager, bookkeeper or the Pastor should be the only individuals with access to the credit card storage location.
- All receipts from credit cards should be reconciled and attached to the monthly credit card statement.
- Credit card balances should be paid in full, monthly, with no carryover.

SCRIP Cards

- SCRIP card purchases and activity should be logged. (see illustration below)
- Each SCRIP card log should show the SCRIP card purchased and list any purchases made against the SCRIP card. All receipts should be attached to the log.

SCRIP Vendor:				
Date Purchased:				
Face Value:				
Date	Description	Account	Amount	Balance

Expense Reimbursements

- In general, all purchases should be paid directly from the operating cash account.
- All requests are to be submitted and processed timely and in the fiscal year incurred.
- Purchases made by individuals must be pre-approved prior to the purchase and a Check Request Form should be completed.
- The original invoice or the written receipt for the purchases with proper approval must be presented for payment. The receipt must contain the purpose for the expenditure.
- Payments to individuals for the business use of their automobile must be documented. Reimbursement must be made at the IRS established rate. The individual is required to submit supporting documentation noting the date, purpose, destination and total business miles. The Diocese of Owensboro Travel Voucher form can be completed to show the documentation.
- The payment must be written to the individual making the purchase.

Fundraising Activities

- Fundraising events generate a significant amount of additional funds needed by the parish to meet financial needs. It is important that each parish takes special care to ensure the adequate safeguarding and monitoring of these funds.
- Certain fundraising events may require prior approval of licensing with a state or local agency and in addition certain events may require the submission of activity reports with state or local agencies. See the KY Department of Charitable Gaming website for more information regarding Gaming licensing and training. See the KY Alcohol, Beverage, Control website for information regarding liquor licensing.
- The financial activity for special fundraising events should be monitored separately but included in the parish accounting records. All purchases and expenses for fundraising activities should be paid for by check. Cash generated from the fundraiser should not be used to pay for fund raising expenses.
- All money received should be handled in a safe manner and always counted by a team of at least two unrelated people. This includes money from raffles, , bingo, , church picnics, fish fries, , etc. Care should be taken to ensure all Gaming revenue is deposited into the Gaming account in accordance with gaming regulations.
- Cash should never be left unattended.
- Proceeds from the fundraiser accompanied by a fundraiser tracking sheet should be submitted to the business manager or bookkeeper at the conclusion of the fundraiser. The worksheet should detail the income and expense generated by the fundraiser. (see Diocesan website for fundraising tracking sheet).
- Deposits should be made as soon as feasible.
- Effective January 1, 2023, non-profits are now required to collect and remit sales tax for certain sales of services (i.e., rental, recreational fees) to non-tax-exempt entities (HB 8). More

information on HB 8 and Form 10A104, to update or cancel KY tax accounts, can be found at the Kentucky Revenue Cabinet website.

- Keeping accurate records of income and expenses generated by a fundraiser will provide valuable information for future fundraisers as well as ensure the Pastor and the parish that the event was handled in responsible manner. All fundraising tracking sheets should be presented to the finance committee or the parish council for review.

Personnel/Payroll

Personnel Administration

- Personnel administration includes interviewing candidates, checking references, and hiring qualified employees. This process then produces personnel records and wage information. One of the most important internal controls in personnel administration involves the authorization of initial and periodic changes in pay rates.
- New or prospective employees must be screened, which includes completing all Diocesan background checks, checking employee references, and checking with former employers.
- Changes in an employee's wages or payroll deductions must be authorized and documented in the employee's personnel file. Any request to change an employee's banking information, mailing address, or payment instructions must be independently verified using previously established contact information. Email requests alone are not sufficient authorization.
- Vacations, sick leave, days off, etc. should be tracked using the Employee Accountability Report following proper policy and procedure.
- Personnel files should include the following: Signed acknowledgment of the employee policy handbook, employee application, W-4, K-4, direct deposit information, current benefit retirement and health forms, job description, current memo of understanding (MOU), time off requests, I-9s, etc., (I-9s should be filed in a separate folder)
- The current health insurance deduction, the federal withholding W-4 form, and the state withholding K-4 form must agree to the employee's records in Paycor.
- Employees who work 20 hours or more per week (30 hours or more per week effective 01/01/27) should be enrolled in the diocesan retirement plan and are eligible for all employee benefits.
- Individuals that perform services for the parish and related entities are considered to be employees unless in general they perform the same service for other customers. If the individual performs services for other customers, then they are independent contractors and are subject to the IRS Form 1099 reporting.
- A 1099-NEC, 1099-MISC, or W-2G should be issued to all independent contractors, and for certain gaming winnings when total payments for the calendar year exceed \$2,000 or more (effective beginning tax year 2026). Independent contractors are required to complete an IRS form W-9 prior to payment, and it should be kept in the parish files. The parish should require that the independent contractor submit an invoice as evidence of work performed or service provided.

Payroll

- Time and attendance records (timesheet) should be maintained to enable the business manager or bookkeeper to process payroll for all hourly and salaried staff.
- Payroll is to be processed in the Paycor payroll system according to the determined parish pay dates. Pre-payment for time that has not been worked yet is not allowed.

- Kentucky employers are required to pay hourly employees via a regular payday, scheduled at minimum, semimonthly.
- Per the Priests' Policy, each priest is to be paid monthly, at or near the end of the month.
- Additional payments to employees, such as a bonus or a Christmas gift, are taxable income and required to be paid through Paycor.
- The Paycor payroll journal report and the Paycor cash requirement report should be approved and initialed by the Pastor.
- Payroll processed through Paycor is to be paid to the employees by direct deposit.
- Any manual payroll checks should be approved by the pastor.
- Payroll journal entries from Paycor should be recorded into the accounting system.
- Paycor quarterly and yearly payroll reports should be downloaded and either printed, saved to the cloud, or saved to an external flash drive and kept in a secure location.

Other Items

- The Parish should prepare a balanced annual budget which is approved first by the Finance Council and then the Parish Council.
- Parish financial statements should be prepared, reviewed, and approved monthly (or at minimum quarterly by the Finance and Parish Council.
- Minutes should be taken at the Finance Council and Parish Council meetings. Approval of the monthly financial statements, annual budget and major financial expenditures should be specifically documented in the minutes. Finance and Parish Council minutes should be signed by the Pastor and the respective chairperson upon approval. It is recommended that minutes be kept in the parish office, preferably in a separate binder for each council. An agenda will not suffice as proper minutes.
- Software backups of the financial software should be performed regularly. Backups should be stored offsite unless using a web-based program.
- Passwords management:
 - Require strong passwords using passphrases. Passphrases should consist of four or more unrelated words, connected with punctuation or spaces, and mixed with uppercase and lowercase letters
 - Require multi-factor authentication (MFA/2FA) where available.
 - Prohibit sharing credentials.
 - Change passwords upon suspected compromise, staff termination, role changes involving shared accounts, or vendor security incidents.
 - Routine periodic password changes are not required unless mandated by the application or service provider.
- It is recommended that a listing of all furniture and equipment with a value of greater than \$1,000, including donated items, be maintained with a copy stored offsite.
- Diocesan special collections, mass stipends, and payroll liabilities should be coded to liability accounts.
- Income and expenses should not be netted. All income should be recorded in income accounts, and all expenses should be recorded in expense accounts.
- Accounts Receivable should be used to record reimbursements of shared expenses between multiple parishes.
- Gifts should not be run through the parish financials; this jeopardizes the tax-exempt status of the parish. Gifts should be made payable directly to the person receiving the gift, resulting in a non-taxable gift to the recipient. Doing otherwise, running gifts through the parish results in taxable income to the recipient. These types of gifts are not tax deductible by the donor.

- Bequests are income to the parish and are assessed at a reduced rate of 10% at the time of receipt. If not paid at the time of receipt, bequests are assessed at the regular rate.
- The acceptable Diocesan Chart of Accounts can be found on the Diocesan website under Parish Financial Reports webpage. The Diocese preferred accounting program is QuickBooks, please reach out to the Internal Audit department for information on joining the Diocese QB platform.
- Use of proper general ledger accounts ensures an accurate budget for future years.
- Journal entries should not be recorded to the fund balance; only the net income (loss) should be posted to fund balance at year end.
- Electronic records are acceptable if maintained securely, backed up appropriately, and retained in accordance with the Diocesan Records Retention Schedule. The Diocesan Archives Retention Schedule can be located on the Diocesan website.
- Special Event Insurance Coverage is required and can be obtained by the Diocesan Office of Administration for any non-parish event, i.e.: wedding receptions, charity fundraisers, etc.
- New construction/major renovation projects must follow the Diocesan Building Projects Policy (revised 04/30/21) (see Diocesan website).
- Notify Catholic Mutual of all new building construction so all properties in the parish are properly insured.
- Fraud Reporting - Suspected fraud, theft, embezzlement, misuse of parish assets, financial irregularities, or cybersecurity incidents shall be reported immediately to the Pastor and Diocese.