



CATHOLIC DIOCESE
— OF YOUNGSTOWN —

**FINANCIAL
PROCEDURES AND CONTROLS
MANUAL**

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INTRODUCTION AND DEFINITIONS

This document is designed to provide financial guidelines to assist pastors/administrators/parish leaders and bookkeepers in the financial administration of diocesan entities. It provides procedures that will assist in safeguarding the entity's assets through uniform methods and procedures.

Definitions

To maintain concise and consistent language, please refer to the following definitions for use throughout this manual.

Bishop

Reference to the person or title of *Bishop* refers to the Bishop of the Roman Catholic Diocese of Youngstown unless otherwise indicated.

Diocesan entity

Because the Bishop oversees other entities besides parishes, *diocesan entity* is used to refer to – but is not limited to – any parish, school, cemetery and social service organization within the diocese.

Diocese or diocesan

Use of the words *diocese* or *diocesan* refers to the Roman Catholic Diocese of Youngstown unless otherwise indicated.

Pastor/administrator/parish leader

Diocesan entities can be overseen by individuals other than a pastor, so administrator and parish leader are included in order to encompass others who may be the head of a diocesan entity, as appointed by the Bishop.

Financial personnel

Use of financial personnel refers to business managers and entity bookkeepers unless otherwise indicated.

Contacts

Throughout this manual when it is stated to contact an individual or the Diocesan Financial Services Office please refer to the **Quick Reference Contract Listing** located on the DOY website.

Should vs. must

Throughout this manual, *should* is used to indicate a practice endorsed by the diocese, and *must* is used to indicate a practice required by local, state, federal or canon law.

SECTION 1: PERSONNEL AND RESPONSIBILITIES

To be effective, internal control policies and procedures should be properly followed by personnel, regardless of responsibility level. People, not policies, determine whether a system will function properly. People at different levels have different backgrounds, technical skills, needs, and priorities. Therefore, it is important that they be properly trained in their responsibilities and limits of authority.

Roles of diocesan entity personnel

Pastor/administrator

The pastor/administrator is the head of the diocesan entity. Canon 532 notes that he or she is to ensure that the parish goods are administered in accordance with Canon 1281-1288. As part of that responsibility he or she must ensure integrity, ethics, competence, and other factors of a positive control environment through the internal control system.

Parish finance council

A parish finance council is required under Canon law. Members should be objective and competent. Membership on the finance council should be diverse with respect to areas of technical competence, covering areas such as accounting, financing activities, real estate, construction, insurance, and investments. Please refer to the **Parish Finance Council Guidelines** located on the DOY website..

The finance council is to cooperate with the pastor/administrator by giving advice. The pastor/administrator should listen to expert opinions and advice from those with backgrounds very different from his or her own, in order to make the most informed decision he or she can. The relationship between council members and the pastor/administrator is intended to be a productive one – so that the right choices about matters affecting the parish are made. The finance council should have a significant role in monitoring the internal control function of a diocesan entity in providing direction, guidance, and oversight to the pastor/administrator.

Employees

All employees should be made aware of internal control policies and procedures upon hiring.

Volunteers

Volunteers involved within the diocesan entity should be made aware of control consciousness. Personnel who volunteer should understand the business implications of their activities. While the diocesan entity is grateful for their volunteerism, there may be occasions when accepting their help would be inappropriate because of personal conflicts of interest.

Personnel dishonesty

The following suggestions may help in deterring employee dishonesty. They apply to volunteers as well as paid employees upon hiring or transferring to a position with financial responsibilities:

- Require annual vacations to help ensure that any fraud requiring their constant attention would be discovered during their absence. This requires cross-training to ensure work continues during such absences.
- Bond or secure fidelity insurance on those in positions of trust. A fidelity bond is insurance that protects from losses resulting from dishonesty. The Diocese provides fidelity insurance for all diocesan entities.
- Conduct a credit check screening.
- Establish and educate personnel on potential conflicts-of-interest to prevent potential abuse. Please refer to the **Sample Conflict of Interest Statement** located on the DOY website.
- Know your personnel. Watch for signs that an employee is spending more than their salary would seem to allow and report it to your pastor/administrator.
- Investigate all employees adequately before their employment as part of the hiring process.

Job responsibilities and segregation of duties

Employees should know their job responsibilities as well as their coworkers' responsibilities. Diocesan entities should establish an organizational chart to more clearly define responsibility lines. Having a clear segregation of duties is of the highest importance when managing internal controls. The system should provide for an appropriate segregation of duties between the custody of and the accountability for assets. This segregation should preclude any one person from performing all aspects of a function.

Custody of assets should be separated from the record-keeping of those assets. Authorizing transactions should be segregated from recording the transactions. Generally, involving more people in the accounting system reduces the potential for fraud, unless, of course, there is collusion. In situations where this is impractical due to financial constraints, a responsible officer, finance council member, or trustee who is not involved in the daily recordkeeping should oversee the accounting activities.

SECTION 2: STEPS TO SOUND FINANCIAL MANAGEMENT

Recommended standards for good financial management include:

- Establish a qualified and active parish finance council. Please refer to the **Parish Finance Council Guidelines** located on the DOY website.
- Establish a clear and defined chart of accounts. The chart of accounts should include enough account level detail to sufficiently complete the annual parish financial report.
- Establish budgets including periodic comparisons of budget to actual operating results. The pastor/administrator should insist that their financial personnel have an adequate system of planning and control. There should be mechanisms in place to ensure that the diocesan entity can meet unexpected financial obligations and has the resources to take advantage of unexpected opportunities that may arise. This can be accomplished through the adoption of an annual budget. Proper planning includes preparation of periodic cash-flow forecasts that will identify excess cash that should be placed in reasonably safe long-term investment vehicles. Quarterly budget-to-actual reports should be prepared by the financial managers and monitored by the pastor/administrator so that appropriate action can be taken if the actual results of operations vary materially from the budget. Furthermore, at a minimum the diocesan entity should report operating results versus budgeted amounts to the finance council on a quarterly basis so that they are aware of unusual variances from budget and can plan for future operations of the diocesan entity.
- Establish accounting procedures for processing transactions including collecting and recording cash receipts, procurement and cash disbursement procedures, and employee hiring and payroll practices. See **Sections 3, 4, 5, 6, and 7** for guidance on processing of transaction. Some diocesan entities have limited staff. In a two or three person office, segregation of duties among the office staff is imperative for internal control purposes. See **Internal Control Segregation of Duties Guidelines below**.
- Proper reporting including preparation of financial reports that are published in the entity publications including church bulletins or newsletters so that the information is available to entity participants including church parishioners. Please refer to the **Guidelines for Completing Annual Parish Financial Reports** located on the DOY website.

INTERNAL CONTROL SEGREGATION OF DUTIES GUIDELINES

Two (2) person office

Bookkeeper	Pastor, finance council, or designated person
<ul style="list-style-type: none"> • Record accounts receivable entries • Mail checks • Write checks • Record general ledger entries • Reconcile bank statements • Record credits/debits in accounting records • Receive cash • Disburse petty cash • Authorize check requests • Authorize invoices for payment 	<ul style="list-style-type: none"> • Sign checks • Complete deposit slips • Perform interbank transfers • Reconcile petty cash • Process vendor invoices • Review bank reconciliations • Review list of outstanding accounts receivable • Approve all accounts receivable discounts, write-offs, or adjustments

Three (3) person office

Bookkeeper	Office manager	Pastor or finance council
<ul style="list-style-type: none"> • Record accounts receivable entries • Reconcile petty cash • Write checks • Record general ledger entries • Reconcile bank statements • Record credits/debits in accounting records • Authorize check requests 	<ul style="list-style-type: none"> • Process vendor invoices • Receive cash • Mail checks • Authorize invoices for payment • Authorize purchase orders • Disburse petty cash 	<ul style="list-style-type: none"> • Sign checks • Complete deposit slips • Perform interbank transfers • Review bank reconciliations • Review list of outstanding accounts receivable • Approve all accounts receivable discounts, write-offs, or adjustments

SECTION 3: GENERAL ACCOUNTING PROCEDURES AND CONTROLS

Suitable documents and accounting records

Accounting records and documents should be maintained to provide an audit trail. These records must be kept for a sufficient period of time as required by laws and regulations. Please refer to the **Record Retention Guidelines**, located on the DOY website.

One major objective of the internal accounting control system is to provide reasonable assurance that the financial records reflect all financial transactions that have occurred. The recording of all transactions should be accurate as to quantity and dollar amount and recorded in the proper accounting period.

The supporting documentation should be:

- simple and easy to use to reduce error
- numbered to keep physical control over the documents
- as few in number as possible to minimize confusion
- designed to ensure that they are properly completed

Bank accounts

The number of bank accounts should be strictly limited to those absolutely required. Having fewer accounts increases internal control and minimizes the opportunity for errors or wrongdoing.

The finance council should approve the opening and closing of all bank accounts, including accounts for auxiliary organizations. All accounts should be opened in the name of the diocesan entity, never an individual. For auxiliary organizations, the bank account should be in the diocesan entity name and then the name of the organization. The mailing address for all accounts should be the diocesan entity's address.

Authorized check signers should be limited. The pastor/administrator must be a signer on all Parish and School bank accounts. A second person, preferably a neighboring priest or dean must be a signer on all bank accounts. The diocesan entity financial personnel should never be a signer on bank accounts. For auxiliary organizations the pastor/administrator should always be a signer on the account along with the organization's president or treasurer. Checks in excess of a certain dollar amount (e.g., \$2,500) should require the signature of two responsible individuals. Facsimile signatures should be prohibited unless controlled by a check-signing machine with a numerical sequence counter. No signature stamps should be allowed.

Bank statements should be reconciled to the accounting records each month in a timely manner. This includes all diocesan entity accounts, including auxiliary accounts and investment accounts. This is essential to determine if any unauthorized checks were issued or receipts stolen. The statement should be reconciled by someone other than the check signer(s). Bank statements should be opened by the pastor or administrator. They are to be reviewed and initialed and passed on to the bookkeeper for reconciliation who will then have the statement reviewed and initialed by a finance council member. The actual reconciliation should be compared with the financial statements by a separate responsible individual (e.g., finance council member) on a monthly basis. This is particularly important when bank statements are downloaded from the bank's website.

Disbursement checks outstanding for more than sixty (60) days should be investigated and resolved. All ACH and wire transfers should be pre-authorized by two (2) responsible individuals.

Physical control over assets and accounting records

The safeguarding of assets is an important aspect of a system of internal control. Accounting records can be protected by physical barriers, such as locked rooms or drawers accessible only to select individuals. The safeguarding of assets, however, is much more than just establishing physical control. The system should also provide documentation authorizing the movement of assets into or out of an organization.

In addition to accounting records, all physical assets should be properly secured. For example, furniture and equipment should be numbered and inventoried.

An important subset of physical controls is security for the information system. It is crucial that access to computer equipment and the computer software necessary to process accounting information be controlled. Computer files should be backed up and stored off-site and fireproof safes should be used to store important documents. Given the rapid changes being made in this information age, pastors/administrators/parish leaders should be aware of the importance of emphasizing controls over the use of its information technology.

Independent verification of performance

Procedures to reconcile actual transactions with transactions that have been recorded are another element of internal control. The taking of a physical inventory (e.g. Script, Fair Trade goods) and bank account reconciliation to the general ledger are two methods for such activity.

No person can objectively evaluate his or her own performance effectively, and no person can record large numbers of transactions with perfect accuracy. Supervisors should periodically assess the performance of his or her subordinates to help ensure that any accounting and internal control system is properly functioning. This assessment should be in writing and signed.

Methods for reporting income and expenses

Cash basis

A system of accounting that recognizes revenues when they are received, and expenses when they are paid. Cash basis accounting does not deal with accounts receivable or accounts payable, and only recognizes transactions actually paid for. This accounting system is easiest and perhaps best for diocesan entities that have few receivables and that pay monthly bills within thirty (30) days of receipt.

Accrual basis

The accounting method under which revenues are recognized when earned (rather than when the cash is received), and expenses when incurred (rather than at the time of payment). This accounting system is recommended for diocesan entities that allow payments of revenue over time such as school tuition.

The assets and/or liabilities are affected at the time that the revenues are earned or expense incurred by either:

- an increase in cash if the revenue was paid in cash (Cash basis)
- an increase in accounts receivable if the service was performed on credit (Accrual basis)
- a decrease in unearned revenues if the service was paid in advance of when performed (Accrual basis)
- a decrease in cash if expense was paid at the time the expense was incurred (Cash basis)
- an increase in accounts payable if the expense will be paid in the future (Accrual basis)
- a decrease in prepaid expenses if the expense was paid for in advance (Accrual basis)

SECTION 4: PROCEDURES AND CONTROLS FOR PROCESSING REVENUES, CASH RECEIPTS, AND TRACKING ACCOUNTS RECEIVABLE

Controls over revenues

- Billing invoices should be pre-numbered to make sure they are all accounted for. There should also be physical control over invoices so that they are not improperly used.
- Restricted donations must be recorded as restricted and used only for the restricted purpose imposed by the donor. A record must be kept of the use of the restricted funds to verify they were used for the donor's intended purpose.
- Endowed funds received must be recorded as an endowment. If the endowment is permanently restricted, only then may the investment income be expended for diocesan entity's use.
- All bequests and trusts in which the diocesan entity is a beneficiary must be handled in accordance with Canonical and diocesan requirements for the acceptance and receipt of such gifts.
- Custodial accounts and amounts received for others should be adequately segregated in the activity records and transmitted to the ultimate recipient within 30 days of the collection. Whenever possible, amounts reported by contributors (e.g. entities forwarding special collections) should be reconciled or compared with amounts ultimately disbursed to the agency.

Controls over cash receipts

- Offertory collections are a major source of income for parishes. The parish should establish procedures for offertory collections at Masses to ensure the security of these funds. The implemented procedures should be documented and consistently followed, and should include offertory count sheets. Please refer to the **Recommended Offertory Collection Procedures** and **Offertory Collection Log** located on the DOY website.
- When the diocesan entity's mail is opened, a list of cash and checks received should be prepared and checks should be restrictively endorsed. The person opening the mail and preparing the list should be independent of the accounting function. An independent person should periodically compare the list to the cash receipts journal record and the bank validated deposit slips.
- Cash and check receipts should be deposited intact daily and no funds removed from the deposit. If deposits cannot be made on a daily basis, then funds should be secured in a safe.
- Tamper resistant bags are to be used at all Masses and for all fundraising events with the appropriate tracking numbers of each bag kept on file.
- All handling of cash should be segregated from the maintenance of receivable records.
- Funds received for Mass stipends must be recorded separately from other funds, and a record kept of all Masses said in accordance with Canonical and diocesan requirements. Mass stipends are not parish income, but the parish shall hold these monies in trust for the individual priest who says the Mass for a period of no longer than one (1) year. Internal revenue service guidelines require that parishes include the amount of stipends paid to their priests in their W-2. A Form 1099 must be submitted for other priests receiving \$600 or more annually.

Controls over accounts receivable

- "NSF" checks should be followed up with immediately, resolved, and adjusted as necessary.
- Periodically, the detail of the accounts receivable and/or pledges receivable subsidiary records should be compared with the control account and reconciled by an independent person. Account balances should be periodically confirmed by the debtor.
- All adjustments, discounts, allowances, and bad debt write offs should have specific approval processes. Additionally, a record of all adjustments should be maintained and periodically reviewed by the finance council to minimize the danger of collections being received and not recorded.
- The accounts receivable listing should be aged regularly and the delinquent accounts periodically reviewed by the pastor/administrator.

SECTION 5: PROCEDURES AND CONTROLS FOR PROCESSING PURCHASES, CASH DISBURSEMENTS, AND TRACKING ACCOUNTS PAYABLE

Controls over purchasing and receiving goods and services

- Request for goods or services are the starting point for the cycle. Proper authorization for acquisitions is an essential part of the function to ensure that goods or services purchased are for an authorized purpose. This could prevent the purchase of excessive or unnecessary items. It is essential, therefore, that purchasing authority be established. Certain expenditures of a diocesan entity require the permission of the Bishop. See **Section 6** for discussion of these items. The individual authorized to approve purchases should be separate from those handling the actual disbursement function.
- Before an acquisition is approved, financial personnel should check to see if budget dollars are available to support the purchase.
- Only after the acquisition request has been approved may the order be initiated to purchase the goods or services. Diocesan entities are exempt from sales tax and should provide the vendor with a sales tax exemption certificate along with a copy of the group exemption. Please refer to the **How to Obtain a Copy of the Group Tax Exemption** and **Ohio Department of Taxation Sales and Use Tax Blanket Exemption Certificate** located on the DOY website.
- Receipt of goods or services from the vendor is a critical point in the cycle, because it is the point when the associated liability is usually first recognized. The individual receiving the goods should document their examination of the description, quantity, and condition of the items received by initialing the receiving document or invoice.

Controls over tracking accounts payable

- Proper recognition of the liability for the receipt of goods and services requires accurate and prompt recording. Accounts payable disbursements personnel are responsible for verifying the accuracy of the account coding and for recording them in the accounts payable register or system. They should check the extensions and footings for accuracy.
- Accounts payable/notes payable procedures are related to the procedures for cash disbursements. The control concern is to ensure that all liabilities are properly recorded and ultimately paid for. For disbursements that are not normally accompanied by an invoice (e.g. payment on a note), the authorization should come from the pastor/administrator.

Controls over credit card and charge account purchases

- A diocesan entity credit card agreement should be signed and kept on file for each employee that is an authorized credit card or charge account user. All payments made to any credit card or charge account should be supported by approved receipts and other documentation. Please refer to the **Sample Credit Card and/or Charge Account User Agreement** located on the DOY website.
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Controls over cash disbursements

- The most important controls in the cash disbursement function by financial personnel include verifying that the cash disbursement is for a proper diocesan entity purchase/service. Checks should be drawn according to procedures prescribing adequate supporting documentation. To ensure that disbursements are supported by invoices that have been properly authorized, this documentation should include at least each the following:
 - A proper original invoice
 - Evidence that the goods or services were received
 - Evidence that the purchase was properly authorized
 - No checks can be made out to "Cash"
- There should be separation of responsibilities for signing the checks and performing the cash disbursements function, and careful examination of the supporting documentation by the check signer. Check signers should never have maintenance access to the accounting records.
- All cash disbursements should be made with pre-numbered checks, with the exception of petty cash. Using checks for all major cash payments ensures that the disbursement is authorized and there is a permanent record of payment. Pre-numbered checks prevent the issuance of a check that is not recorded in the cash disbursement journal. Additionally, pre-signed checks should never be allowed.
- Disbursements that are made using electronic banking should be supported by the same documentation as disbursements made by check. Additionally, the transaction or confirmation number should be noted with the date of the payment on the invoice being paid.
- If a mistake is made when preparing a check, the check should be voided before preparing a new one. The voided check should be altered to prevent its use, retained to make sure all pre-numbered checks are accounted for, and filed with other checks for a permanent record. The stock of unused checks should be safeguarded and regularly inventoried.
- It is important to have a method of canceling the supporting documents to prevent their reuse as support for another check at a later time. A recommended method is to use a "PAID" stamp for the supporting document that includes the number of the account the disbursement is charged to and the check number.
- All checks should be mailed promptly and directly to the payee. The person mailing the check should be independent of those requesting, writing, and signing it.
- All designated collections should be remitted to the diocese within thirty (30) days of the collections.
- If a petty cash fund is used, it should not exceed \$500, and there should be one custodian that controls the fund. The petty cash fund should only be replenished when properly approved vouchers or detailed receipts are presented justifying all expenditures (e.g. date, purpose, person making purchase, authorization for purchase). Checks to replenish petty cash should be made payable to the diocesan entity or staff member, not to cash.
- IRS Form W-9 must be kept on file for all vendors and Form 1099 must be issued annually in accordance with federal laws.

SECTION 6: PROCEDURES FOR CAPITAL AND OTHER MAJOR EXPENDITURES

For capital or other major expenditures, a competitive bidding process should be established as such:

1. Any expenditure in excess of \$10,000 requires three (3) written competitive bids.
2. Bids should be submitted to the finance council.
3. The following factors should be considered in reviewing bids and awarding contracts:
 - a. Cost – All financing arrangements must be reviewed by the Financial Services Office and appropriate documents must be signed by the Bishop or his designee.
 - b. Cash equaling one half of the total project cost must be available before the project can begin.
 - c. Bidder's previous record of performance.
 - d. Timeliness of response and delivery.
 - e. All contracts must contain insurance and Hold Harmless clauses or a separate agreement must be signed.
 - f. If project cost exceeds \$100,000 you must be in compliance with the Diocesan Union Labor Contract Policy for Renovations and New Construction or request an exemption before the project begins.
 - g. All contracts must be reviewed by the Financial Services Office, Diocesan legal counsel, and possibly be signed by the Bishop or his designee.
 - h. References

All expenditures, including major ones, should first be reviewed and approved by the pastor/administrator/parish leader and finance council. Certain expenditures require the additional permission of both the diocesan Chief Financial Officer (CFO), and the Bishop or the Vicar General, who acts on behalf of the Bishop.

The expenditures requiring additional permissions include:

- Purchase of land, regardless of the amount
- Purchase or construction of buildings, regardless of the amount
- Additions/renovations to existing buildings over \$10,000
- Purchase of furniture, equipment and vehicles in excess of \$10,000
- A request for permission to spend is done through submission of a permission to spend form to the Diocesan Financial Services Office for approval prior to the expenditures being initiated. Please refer to the **DOY School Permission to Spend Form** and **DOY Parish Permission to Spend Form** located on the DOY website.

Purchase or sale of property and lease negotiations

All diocesan real estate is held in Trust under the name of "The Roman Catholic Diocese of Youngstown" with the Bishop as Trustee. The Diocesan Financial Services Office serves as a liaison to the Bishop for all property transactions. Because of this, the Chief Financial Officer (CFO) has to be informed early in the discussion phase of any property transactions.

All property listing agreements, purchase contracts, leases, deeds, etc. must be approved by the CFO before they are forwarded on to the Bishop for his signature. The CFO does possess a Power of Attorney for the Bishop, which can be executed by the CFO after consultation with the Bishop in order to expedite transactions in the case of the Bishop's absence.

It is appropriate to utilize legal counsel at the diocesan entity level to draft and review real estate documents with the understanding that final review will be done by diocesan legal counsel before final review by the CFO. Diocesan legal counsel will bill the diocesan entity separately for services rendered pertaining to such transactions.

Upkeep of property

It is important to properly maintain all diocesan property. Proper maintenance reduces many liability issues, which decreases negative impact on annual insurance premiums and legal costs. Property that is currently in use should be kept in appropriate working order and good physical appearance. It is the responsibility of each pastor/administrator to assure that all locations are safe, clean and well maintained. This includes the church, rectory, school, social hall, convent, associated grounds etc. as it pertains to the particular diocesan entity.

In situations when buildings are no longer utilized, proper attention should be given to winterizing, securing against vandalism and theft, and consideration of demolition, sale, or alternative use. Please contact the Diocesan Director of Property Management with any questions regarding this issue. It is imperative that considerations be given as to the cost of infrequently utilized or closed facilities when discussions are held with finance councils or other diocesan entity groups regarding how to best utilize associated financial resources.

Utility cost reduction plans

It is not the policy of the diocese to endorse one particular energy consultant; however, the diocese has utilized the services of Telco Pros Inc. for energy, telephone, and equipment lease reviews (for tax exempt status). Cost and rate reductions have been achieved in each of the above categories based upon these reviews. Several diocesan entities including parishes and diocesan high schools have utilized this company for various services. To date, no complaints have been received regarding this firm.

The firm contact information is:

Telco Pros Inc. – Chuck Valenches

Office phone: 216-453-2516

Cell phone: 216-650-5735

Fax number: 216-803-9898

Property and liability insurance allocation method

The property and liability insurance allocation method uses the following factors in premium calculations:

- A fee of \$200 per claim is added to all entities processing claims in the previous three (3) fiscal years.
- Ten (10) percent of total claim dollars processed in the previous three (3) fiscal years, by an entity, is added to that entity's allocation calculation.
- Any entity that owns a vehicle will be charged \$756 per vehicle and \$900 per bus. All vehicles owned are listed separately on the monthly billing invoice sent via email from Benefit Allocation Systems (BAS). Review this list of vehicles and e-mail any changes in ownership to the Diocesan Financial Services office immediately upon disposal or acquisition of vehicles.
- The first two (2) revisions are added to the portion of the formula that takes into account a maximum or minimum increase or decrease in allocation. The last revision is a direct add-on amount to the allocation.

Property and liability insurance claim process contact person

Diocese of Youngstown
Special Project Accountant
Mterlecki@youngstowndiocese.org
330-744-8451 ext. 260

SECTION 7: PROCEDURES FOR HIRING, PAYROLL, AND EMPLOYEE BENEFITS

Employee salaries, wages, employer paid taxes and benefits are typically the largest expenditure for most diocesan entities. A diocesan entity should have documented procedures for hiring, payroll and employee benefits administration.

Importance of employee handbook and recommended policies

The diocesan entity is a distinct canonical or civil legal entity that employs its own personnel. The autonomy of the diocesan entity and the authority of the pastor/administrator must be respected and preserved. The handbook is not a contract, expressed or implied. It is intended to give employees a description of working conditions, policies, and benefits of employment in the diocesan entity. It is intended to promote fairness and equity among employees by providing a written statement of policies, and to ensure that employees have a clear knowledge of these policies. A signed acknowledgement form for the handbook should be kept in each employee's personnel file.

The responsibility for implementation of and adherence to the policies contained in the handbook rests with the pastor/administrator.

Determination if an individual qualifies as a sub-contractor or employee

When determining if an individual qualifies as an independent contractor or employee, the main test is the degree or extent of the right to direct and control that individual and the service they are providing.

In doing this you should look at the following:

- Behavior: Does the entity control what the individual does and how the job is performed?
- Financial: How is the individual paid (e.g. hourly or contracted amount), are expenses incurred by the individual reimbursed, and who provides tools and supplies used for the job they are performing?
- Type of relationship: Is there a written contract and will the relationship with the individual continue for an ongoing basis?

The IRS penalty for classifying an employee as an independent contractor is that the entity may be held liable for employment taxes and fines.

Required documentation for sub-contractors

- All vendors should be sent a letter requesting they complete an IRS form W-9. Please refer to the **Sample Letter to Send to Vendors Requesting Completion of a W-9 Form** located on the DOY website.

For independent contractors you should keep a file that includes the following:

- IRS Form W-9 Please refer to the **W-9 Request for Taxpayer Identification Number and Certification** located on the DOY website.
- Certificate of Liability Insurance
- Certificate of Workers Compensation Insurance

A 1099 for annual payments, in excess of \$600, made to independent contractors must be provided to the recipient and a copy of the 1099 and Form 1096 must be sent to the IRS by January 31st of each year for the following independent contractors:

- Individuals
- Partnerships
- Non-profits
- Corporations only for legal fees paid to lawyers and payments for any medical services

Required documentation for employee personnel files

A personnel file should be maintained for each active diocesan entity employee.

That file should contain the following:

- Employment application
- Diploma (Credentials if applicable)
- sick leave taken and accrued
- Safe environment acknowledgement and verification
- BCI/FBI background check (copy)
- Performance evaluations
- W-4 form
- Employment Eligibility Verification form I-9 (keep in a separate binder)
- * Resume'
- * Salary information
- * Vacation record
- * Virtus training certificate
- * Warning letters
- * References

These records are *confidential* and should be made available only to diocesan entity representatives with a legitimate right to know, unless their disclosure is compelled by some legal action. Employees and former employees have the right to inspect their own personnel files. The diocesan entity has the right to require that the request be in writing and has a stated number of working days to comply with the request. Several items likely to be in a personnel file are specifically excluded from mandatory inspection in many states:

- investigation of criminal offenses
- reference letters
- test documents
- materials dealing with staff management planning
- personal information concerning another employee that could, if released, be an invasion of privacy
- records relating to a pending legal claim that would be discoverable in court

- A checklist should be used to insure all employee personnel files contain the required documentation. Please refer to the **New Hire Reporting Checklist** located on the DOY website.

Safe Environment Policy

In order to protect young children and vulnerable adults, the diocese has implemented a Safe Environment Policy. This policy and other safe environment resources are available under the Resources section of the diocesan website, www.doy.org.

Standardized payroll

Compensation and payroll reporting is one of the most complicated and unique financial aspects of Catholic diocesan entities. The diocese selected Paylocity for standardized payroll processing. Paylocity is a national provider of payroll and employer outsourcing services. The pastor/administrator identifies the individuals they want to have access to Paylocity.

- **Paylocity Access requests:**
The diocesan entity bookkeepers are the designated administrative users for payroll and benefits in Paylocity for their location. The pastor/administrator have viewing and report writing access for their location(s). The pastor/administrator may request additional users or revocation of user via email to one of the Paylocity multi-company administrators in the Financial Services Department.

Items reported as compensation

- Hourly or salary wages paid for services performed
- Bonuses, cash gifts, and gift certificates paid to employees, no matter how small the amount
- The cash equivalent value of a gift of an item that has a value over \$25
- The imputed cost of employer-provided life insurance in excess of \$50,000 using the IRS tables provided in Internal Revenue Code 79
- Stipends paid to clergy
- Other cash allowances paid without required documentation or invoices (e.g. fuel for priests' personal vehicle, clothing, and vehicle expenses such as repairs and maintenance)

All payments made to employees should be made through the payroll system.

Employee benefit database

The diocese has selected BSwift Benefits to manage the employee benefit database. All benefit-eligible employees are setup with a record in BSwift Benefits.

Electronic data interchange (EDI) feeds are completed on a nightly basis from Paylocity to BSwift Benefits and BSwift Benefits to Paylocity to keep employee records up-to-date.

It is imperative that all of the following information in Paylocity be kept current so that our database has the most up-to-date information on employees:

- Legal name as shown on individuals social security card and driver's license
- Address
- Social security number
- Date of birth
- Gender
- Marital status
- Home or mobile phone number
- Personal E-mail address
- Hire date
- Annual salary

Priest payroll and benefits

There are unique circumstances related to priests' payroll including:

- Priests are considered employees for federal, state, and local income tax purposes and receive a W-2.
- Priests are self-employed for social security and Medicare tax purposes. There is no withholding of social security or Medicare tax from their wages. The diocesan entity is not required to pay employers portion of social security or Medicare tax on priests' wages.
- Priests who live in a rectory receive tax free housing.
- Meals provided to a priest are an income tax-free benefit if they are consumed on the premises of the parish or rectory and the supplies purchased must be supported by proper documentation. They are tax-free because the priest is considered "on call" when on the parish grounds.

The diocese determines the priests' salaries and benefits annually, effective July 1 of each year. Salary levels are based upon a priest's year of ordination. The annual Diocese of Youngstown Priest's Salary Scale and a listing of the diocesan approved benefits is sent to the pastor/administrator and e-mailed to the bookkeepers on an annual basis.

Priest benefits

Priests receive various fringe benefits set by the Bishop. The fringe benefits are tax-free and include:

- Monthly contribution to the priest retirement fund
- Healthcare insurance, including medical, basic dental, and vision. A priest can upgrade to enhanced dental but is individually responsible for the cost
- Workers compensation insurance
- Funding of continuing education costs at a maximum amount determined annually by diocese
- Funding of retreat costs at a maximum determined annually by diocese
- Reimbursement of job related expenses at a maximum determined annually by diocese

In addition, priests have the option to take advantage of the following additional benefits:

- Joining the diocesan 403(b) plan; however, there is no match in funds from the diocese. Contact the Employee Benefits Coordinator at the Financial Services Office.
- Purchasing voluntary life insurance at ordination or during open enrollment; contact the Employee Benefits Coordinator at the Financial Services Office.
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Lay employee salary and benefits

The diocese has three classifications for lay employees: Full-Time, Part-Time, and Seasonal/Temporary. The following defines each employee classification which in turn determines their benefit eligibility.

- Full-time employee works at least 20 hours per week and a minimum of 1,000 hours per year
- Part-time employee works less than 20 hours per week and less than 1,000 hours per year
- Seasonal/temporary employee works intermittently during the year

All newly-hired employees must be provided a Summary of Employee Benefits listing, and must return a signed copy of the form to the bookkeeper to verify their receipt. This form should be placed in the employees personnel file. Please refer to the **Full-Time Employee Definition and Summary of Employee Benefits**, **Part-Time Employee Definition and Summary of Employee Benefits** and **Seasonal Employee Definition and Summary of Employee Benefits** located on the DOY website.

SECTION 8: PARISH DIOCESAN ASSESSMENTS

Each Catholic diocese assesses a fee to all parishes within the diocese called a cathedraticum. Within the Diocese of Youngstown, this is called a diocesan assessment (DA). The DA provides the resources for the operation of the diocesan central offices.

The DA is calculated based on the information submitted in the annual parish financial report for the fiscal year of July 1 to June 30. The DA is billed over a twelve (12) month period in equal installments. The diocese has contracted with Benefit Allocations Systems, LLC (BAS) to bill and collect these assessments.

The diocese uses previous year's operating results to calculate the DA. For example, the DA billed for the fiscal year ending July 1, 2018 to June 30, 2019 uses the operating results for the fiscal year ended July 1, 2016 to June 30, 2017. The reason for this is that the parishes are not required to report actual operating results until three (3) months after the fiscal year end. Therefore, when the DA assessment calculation is determined for the period starting July 1, 2018 the operating results for the year ended June 30, 2018 are not available.

Calculation

The DA is calculated at 8.5% of adjusted parish operating income.

The adjusted parish income is calculated as:

- Total Operating Income
- Less Partnership through Mission / CRS office
- Less Other Designated Collection
- Less Approved Building Fund, Capital Campaign and Debt Reduction
- Less Restricted Bequests, Gifts, Etc.
- Less CCD and Adult Education Expenses
- Less Catholic Echo Expenses
- Less Stewardship Expenses
- Less High School Quota
- Less Interest Payments on Operating Loans
- Less Interest Payments Building Fund and Debt Reduction
- Less Principal Payments Operating Loans

The High School Quota is calculated as a percentage of the adjusted parish income.

The parish operating income is adjusted as:

- Total Operating Income
- Less Partnership through Mission / CRS office
- Less Other Designated Collections
- Less Approved Building Fund, Capital Campaign and Debt Reduction
- Less Restricted Bequests, Gifts, Etc.
- Less Interest Payments Building Fund and Debt Reduction

DOY Report Forms on website

Guidelines for completing annual parish financial report	PDF
Quick reference contact listing	PDF
Parish finance council guidelines	PDF
Parish finance council appointment letter template	Word document
Sample conflict of interest statement	fillable PDF
Record retention guidelines	PDF
Offertory collection procedures	PDF
How to obtain a copy of the Ohio State Sales & Use tax exemption	PDF
Sample credit card and/or charge account user agreement	fillable PDF
Permission to spend form for schools	fillable PDF
Permission to spend form for Parish	fillable PDF
Permission to spend form for Entities	fillable PDF
Sample letter to send vendors requesting completion of W-9 form	Word document
W-9 Request for Taxpayer Identification Number and Certification	PDF
New hire reporting checklist	PDF
Employee definition and summary of employee benefits for Full-time employees	PDF
Employee definition and summary of employee benefits for Part-time employees (20-29hrs)	PDF
Employee definition and summary of employee benefits for Part-time employees (under 20hrs)	PDF
Employee definition and summary of employee benefits for Seasonal employees	PDF
Employee evaluation template (short form)	fillable PDF
