



## Diocese of Springfield in Illinois

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Office for Finances

May 1<sup>st</sup>, 2007

Rev. Charles Edwards

Church of the Little Flower

800 Stevenson Dr.

Springfield, Illinois 62703

Dear Father Edwards:

Recommendations were presented to you to increase the reliability and accuracy of the financial records and to protect the assets of both Little Flower Church and School. At the close of the fieldwork, you were given three months to enforce or implement the recommendations presented to you. The following is a summary of this progress:

- 71 of the 89 items were completed during the three months given. This totals an 80% of a possible 100%. The Diocese would like to congratulate you on this progress.
- The items that still need to be completed to successfully finish all recommendations are in the attachment following.

The cooperation you and your staff has given the Diocese during this review process is appreciated and we hope that you will continue to enhance the assets of the parish and the school in the future by completing all the recommendations initially presented to you.

Also included are answers to the two questions you presented to me while reviewing the recommendations. If you have any other questions or concerns about these please let Janet or myself know.

Sincerely,

*Michelle A. Cowan*

Michelle A. Cowan  
Parish Financial Coordinator

## **Internal Control Recommendations for Little Flower Parish & School Springfield, Illinois**

### **COMPLIANCE WITH LAWS:**

#### **Personnel:**

- Current forms W-4 & IL-W4 should be obtained for all employees. These should be updated each year.
- Perform yearly performance reviews and keep in employees' files. This should be done for all employees.
- Employees' bonuses/gifts of \$25 or more need to be included in employees' income. Bonuses of \$25 or more are taxable and includable in federal, state, and social security wages. Bonuses should be shown as such on employees' W-2s and included in the totals submitted on quarterly 941s.

### **COMPLIANCE WITH THE DIOCESE:**

#### **Administration/Accounting:**

- When preparing journal entries, use a journal entry form as backup. This form should provide clear and thorough explanations for the data that will be entered into the system.
- Job descriptions should be developed for all non-teaching employees at the parish. Staff should review and sign this documentation, and it should be kept on file at the parish office.
- For all other parish accounts consider requiring the following:
  - dual signatures on all checks
  - all society's to obtain images of cleared checks from the bank
  - report financials to finance council on a monthly basis

#### **Disbursements:**

- Update the accounts payable filing system so that all invoices are in chronological order.
- The current vendor listing has a few vendors with two or three different accounts. Eliminate the duplicate vendor entries.
- There needs to be more internal control over the supply box used for the school supplies. A reconciliation of this money should be completed at least once a month and it should be in a locked area with limited access if possible.

#### **Personnel:**

- All I-9 forms should be kept together in a single file.
- Have current Emergency Notification Forms on employees.

#### **Information Technology:**

- A copy of the backup files should be stored in a secured and off-site location.
- Have the backup copy tested at least annually to be sure stored data is readable.
- Original software should also be kept in a secured and off-site location.

#### **Security:**

- Payroll and other irreplaceable records should be kept in a fire and waterproof location for security purposes.

#### **Insurance/Property:**

- A physical inventory of items at the church and rectory should be kept and updated yearly or at the change of pastors. This listing should be sent to the Insurance office at the Diocese.
- There should be a separate listing of what items in the rectory belong to the parish and what items are personnel belongings of the pastor or parish administration.

#### **Tuition & Fees for Services:**

- Uncollected tuition should be recorded on the financials at the parish as a receivable.

Father Edwards-

I talked with Janet about the two questions you had when we meet to discuss the status of the recommendations we presented to you originally. To refresh the two questions were:

1. What records/files must be in water/fire proof cabinets or safes?
2. Do you need to record outstanding tuition in QuickBooks since you have an excel spreadsheet showing the details.

1.

- All sacramental records must be in a water/fire proof cabinet or safe.
- All accounting records (for 7 years) should be kept in a water/fire proof cabinet or safe. If that is not possible, you could have Anita make a backup at the end of each fiscal year from QuickBooks on a flash/pin drive, and keep that in the water/fire proof cabinet or safe.
- All payroll records (for 7 years) should be kept in a water/fire proof cabinet or safe. If that is not possible, you could have Anita make a backup of the payroll records you have on a flash/pin drive, and keep that in the water/fire proof cabinet or safe.

Something to think about as far as the records go is: If something happened at the parish, what files/records would you have to have to continue to run the parish as if nothing had happened?

2. I talked to Janet about recording the uncollected tuition into QuickBooks. If possible, we would like to have these numbers reflected into QuickBooks. Following are examples of how you would record the tuition as an accrual basis and how you would record the tuition as a cash basis:

#### **Accrual Basis of Accounting**

The accrual basis of accounting will paint a truer picture of your company's financial position, but the bookkeeping is more cumbersome. Under the accrual basis:

- Income is recorded when services are provided, even if you do not receive any payments from your customers at that time; and,
- Expenses are recorded when you receive goods or services, even if you pay for them at a later date.

The total amount of tuition charged would be recorded as follows at the beginning of the school year:

- Initial Entry of Charged Tuition
  - DR Uncollected Tuition 06/07(New A/R Account)
  - CR Tuition 06/07(Income Account)

The total amount of tuition paid each month would be recorded as follows:

- Monthly Entry of Payments
  - DR Cash

- CR    Uncollected Tuition 06/07(New A/R Account)

**At the end of the school year the amount in the uncollected tuition 06/07(new a/r account) would equal the total amount of outstanding tuition balance. It should also match the spreadsheet that Claire prepares at the school. The balance in the tuition 06/07(income account) should total the amount that was actually billed in tuition fees.**

### **Cash Basis of Accounting**

The cash basis of accounting is the simpler of the two concepts. Its basic premises are:

- Income is recorded when you receive cash or checks from your customers; and
- Expenses are deducted when they are paid, whether by cash or check.

The total amount of tuition charged is **not recorded** on the books at the beginning of the school year:

The total amount of tuition paid each month would be recorded as follows:

- Monthly Entry of Payments
  - DR    Cash
  - CR    Tuition 06/07(Income Account)

If you would like your books to be truly accrual for FY 2007, you will need to continue to record tuition as you have been until the end of the year and then complete the following entry to update the financials. Starting next school year, you would follow the guidelines under the accrual basis of accounting above.

- To adjust the tuition at the end of this school year
  - DR    Uncollected Tuition 06/07(New A/R Account)
  - CR    Tuition 06/07(Income Account)

### **For Example**

If you have collected \$297,000 at the end of the 2006/2007 school year, but have \$300,000 in total tuition due, you would complete the following entry as of 6/2007.

- |      |  |            |
|------|--|------------|
| ○ DR | Uncollected Tuition 06/07(New A/R Account) | \$3,000.00 |
| ○ CR | Tuition 06/07(Income Account)              | \$3,000.00 |

The total amount of outstanding tuition is \$3000.00 & the total amount of tuition paid is \$297,000.

**\*\*Please note you can set up the Uncollected Tuition A/R accounts for each school year (06/07, 07/08, etc.)\*\***

### **Outstanding Tuition**

If you are recording past years outstanding you would record a similar entry.

- DR    Uncollected Tuition-Prior to 2006/2007
- CR    Tuition Revenue-Prior to 2006/2007

**Uncollectible Tuition**

To record uncollectible tuition-Write-off you would record the following entry.

- o DR    Bad Debt Expense
- o CR    Allowance for Doubtful Accounts

On your Balance Sheet, this would appear as follows:

Uncollectible A/R Tuition	XX
Allowance for Doubtful Accounts (Tuition never expected to be collected)	(X)
Net Uncollected Tuition Receivable	<hr/> X

Bad Debt Expense appears on your Income Statement

Please let Janet or myself know if you have any other questions or concerns about these.  
I hope to have your follow up letter to you sometime next week.

Thanks,

*Michelle A. Cowan*