Episcopal Diocese Parish Risk Assessments – Findings and Recommendations

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Background and Perspective:

- Fraud in all types of Not-for-Profit organizations is occurring at epidemic rates (in the news weekly):
  - Little leagues
  - Fire Departments
  - Parish's of all religious denominations
  - Charitable Organizations
- The type of fraud in small organizations is almost always based on the breakdown of BASIC internal controls. You never know what pressures anyone is under:
  - Family issues
  - Addictive behavior
  - Or just inherently dishonest people who see an easy opportunity presenting itself.

Background and Perspective:

- Since 2013 I have been performing parish risk assessments of selected business and financial controls under the premise that parish's with better controls are less likely to be exposed to loss through fraudulent activities:
  - 10 assessments have been completed to date
  - (6 additional assessments currently in process)
  - Procedures established by the Diocese and general principles of internal control
  - Upon completion, weaknesses and recommendations are reviewed with the Vestry
  - Follow up on progress where significant weaknesses are noted

Principles of Internal Control:

Internal Control consists of five interrelated components:

- **Control environment** - *This sets the tone of an organization, influencing the control consciousness of its people.*
- **Risk assessment** - *Every entity faces a variety of risks from external and internal sources that are constantly changing and must be assessed*
- **Control activities** - *Control activities are the backbone of any internal control system and include approvals, reconciliations, reviews of operating performance, security of assets, and segregation of duties*
- **Information and communication** - *Pertinent information must be identified, captured and communicated*
- **Monitoring** – *The quality of the internal control system needs to be assessed over time*

- **The assessments concentrated on the control environment and control activities and noted major weaknesses throughout most parish's**

Control Environment

Assessments showed weaknesses in the control environment:

- **Policy Issues** - There are widespread long-term deviations from the Diocesan standard procedures manual.
- **Leadership Issues** - The skill level of bookkeeping personnel, vestry and finance committee involvement, and pastor oversight vary widely from parish to parish.
- **Basic** financial oversight skills necessary in a good control environment are lacking.

Control Environment – (Continued)

- Finance committees were not active in many parishes. In some parishes the Vestry served as the finance committee but were lacking in the skill to **properly** monitor finances.

- Vestry's either don't appreciate or understand the basic principles of control. They are happy to have volunteers without understanding the risks. The "we trust everybody" or "happy to have volunteers" without understanding the risks inherent in the control process is prevalent within parish culture.

- Many of the control recommendations made in previous parish internal audits have never been implemented.

Control Activities

- Include:
  - Bank reconciliations
  - Safeguarding collections
  - Investment oversight
  - Disbursement approvals
  - Ongoing review of scanned checks and payroll change reports

Parish Summary

Episcopal Diocese of Central New York

Parish Internal Control Review Summary

Parish Name	City	Report Date	Report Period	Internal Control Risk Level	Financial Stability	Reported Cash & Investments	Reported Total Revenue	Accounting System	Leadership Engagement	Banking Controls	Disbursements	Financial Reporting	Collection Process	Investments
		3/19/2014	2012	Medium	Stable	$ 482,223	$ 203,355	✗	!	✗	✗	✗	!	!
		7/23/2014	2013	Low	Stable	$ 254,303	$ 148,800	✓	✓	✓	✓	✓	✓	!
		10/9/2014	2013	Medium	Stable	$ 469,873	$ 264,511	!	✓	✗	!	✓	!	!
		5/26/2015	2014	Low	Stable	$ 6,844,519	$ 452,581	✓	✓	✗	✗	✓	✓	✓
		6/6/2015	2012	High	Stable	$ 1,167,479	$ 197,267	✗	✗	✗	✗	✗	✓	✓
		6/28/2015	2014	Medium	Stable	$ 361,844	$ 76,946	✗	✓	✗	✗	✓	✓	✓
		8/16/2015	2014	High	Stable	$ 253,551	$ 40,878	!	✗	✗	✗	✓	✗	✗
		7/21/2015	2014	High	Stable	$ 623,306	$ 206,711	✗	✗	✗	✗	✓	!	✗
		7/19/2015	2014	High	Stable	$ 346,081	$ 302,493	!	✗	✗	✗	✗	!	✗
		9/11/2015	2014	Medium	Stable	$ 1,049,120	$ 130,196	✗	✗	✗	✓	✗	!	!

A pattern of concern has emerged from the process related to the three major categories of the control environment (Leadership, Banking & Disbursements) highlighted in Red on the summary.

- In most small organizations the lack of segregation of duties is the most significant internal control weakness. The Episcopal parishes are no exception where reliance on volunteers and lack of paid staff is routine.

- Overall, parish accounting is not complex and the control environment is based on adequately safeguarding receipts, disbursements, investments and maintaining independent oversight.

The 10 parish summary shows 9 parishes with banking weaknesses:

- In one parish a husband and wife team do all the accounting with no finance committee or Vestry oversight.
- In one parish two brothers do all the accounting with no finance committee or Vestry oversight.
- Four parishes do not receive scanned checks or have online only access to the scanned checks therefore nobody independent of the person(s) executing transactions have access to the information.
- In three parishes there is no independent review of any accounting documents (including investment statements) either through the Vestry or independent finance committee.

In order to improve controls a few basic controls **must** be in place in order to create a balanced oversight approach to parish financial activities:

- Scanned check images **must** be received with the bank statement and someone in parish leadership other than the person writing the checks and reconciling the accounts MUST review bank statements including scanned check images on a monthly basis.
- Investment statements from custodians **must** be reviewed monthly by someone other than the person(s) authorized to execute investment transactions.
- The payroll register (or payroll change report) **must** be reviewed monthly
- The above functions **must** be performed by an independent finance committee or member of the vestry NOT involved in executing or reconciling financial records

+ Conclusion

- Changing the control culture in this decentralized structure is a continuous improvement process that requires an on-going commitment to training, allocation of resources and monitoring.
- The Internal control regimen was best in the Parishes where there was a collaborative effort between the clergy, vestry, and bookkeepers on all financial and control issues.
- Once the major weaknesses were presented to the vestry there appeared to be serious dialogue and enough concern to improve the control environment.

Questions