

December 7, 2020

REF - Church of the Annunciation Internal Audit Report - Performed on September 1, 2020

Archdiocese of Louisville  
Finance Office - Chief Financial Officer (Robert Cecil)  
Pastoral Center  
3940 Poplar Level Road  
Louisville, KY 40213-1464

Dear Lana and Robert,

Enclosed, you will find responses with actions taken to reference report.

I sincerely appreciate your time and effort conducting the audit.

The audit identified areas that attention and is very educational to myself and my staff to our Finance Committee and to our Parish Council.

Hopefully, with the time and effort by myself, staff and Finance Committee these areas will not appear in our next audit.

Respectfully Submitted,

Father David G. Sanchez  
Pastor

Mr. Larry Rogers  
Chair, Finance Council

Mr. Robert Rothenburger  
Chair, Parish Council

Enclosure As Stated



ARCHDIOCESE  
OF LOUISVILLE

November 9, 2020

Reverend David Sanchez  
Church of the Annunciation  
105 Main Street  
Shelbyville, KY 40065

Dear Father Sanchez,

Enclosed is the final Internal Audit Report for Church of the Annunciation.

Please know Lana and I are grateful for the time and cooperation you and your staff made available to us during the review. I want to again say thanks to you for taking the time to share your experience and perspectives with me since I am new to the role and discuss the audit process from your perspective.

The audit focus is on your processes, controls and transparency around cash activities. It is to be expected that some areas will be performing better than others. The audit report is a tool to facilitate discussions about how to improve and should not be considered the end as the need to improve is always ongoing.

Remember to think of this as a tool to improve and not a pass-fail test. I encourage and welcome you to reach out for any needed explanations. If you want further discussions and assistance around ways to improve your procedures, processes, system usage, reporting, or just want a discuss, please ask as we would be glad to assist. Please submit your audit responses in writing to me no later than December 10, 2020.

Sincerely,

Robert Cecil  
Chief Financial Officer

cc: Audit Report Distribution List

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**Finance Office**

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# **ARCHDIOCESE OF LOUISVILLE**

## **AUDIT REPORT**

**Church of the Annunciation**

**November 9, 2020**

**Distribution:**

**Archbishop Joseph E. Kurtz  
Reverend David Sanchez  
Mark Elmore, Bookkeeper  
Shirley Green, Business Manager  
Rod Rothenburger, Parish Council Chairperson  
Larry Rogers, Finance Council Chairperson  
Brian Reynolds, Chancellor  
Robert Cecil, Chief Financial Officer  
Rebecca Walter, Controller  
Lana Glover, Internal Auditor  
Finance Office File**

## Church of the Annunciation

### Internal Audit Report

*Performed on September 1, 2020*

#### ***Introduction***

The Church of the Annunciation of the Blessed Virgin Mary in Shelbyville was consecrated by the Most Reverend Bishop Martin John Spalding on the Feast of the Holy Angels, October 2, 1860. Revered David Sanchez has been Pastor since August 2020. The parish currently has 471 registered families.

<b>Parish</b>	<b>FY ending 6/30/2020</b>
Total Income	\$ 1,466,299*
Total Expenses	\$ 698,498
Net Income	\$ 767,801
Total Collections	\$ 483,440
Total Payroll/Benefits Cost	\$ 263,624
Payroll/Benefits % of Total Collections	55%
Recommended Guideline Percentage	< 50%

*\*includes ACC Capital campaign income of \$778,904.*

<b>Five Year Collection Trend</b>		
<b>FYE</b>	<b>Total Collections</b>	<b>From Previous Year (+/-)</b>
6/30/2020	\$483,440	5%
6/30/2019	\$462,387	2%
6/30/2018	\$452,604	6%
6/30/2017	\$427,191	3%
6/30/2016	\$415,089	3%
6/30/2015	\$402,910	

#### ***Objectives***

The Internal Auditor of the Archdiocese of Louisville Finance Department has completed an examination of the business practices and internal controls at Annunciation for the period of December 2019 through June 2020. The review objectives were:

- Evaluation of the business records and internal controls of the parish.



- Ensure that Archdiocesan policies and procedures are followed, as outlined in the Archdiocese of Louisville Financial Policies and Procedures Manual.

### **Transparency Evaluation**

<b>Area</b>	<b>Effective</b>	<b>Opportunity for Improvement</b>	<b>Lack of Transparency</b>	<b>Comments</b>
<b>Collections Reporting</b>		✓		Collections are reported weekly in the bulletin with budgeted numbers. Suggest adding YTD amounts.
<b>Finance &amp; Parish Council Meeting Minutes</b>			✓	Meeting minutes are not detailed. Minutes are not made available to parishioners.
<b>Financial Reporting</b>		✓		Financial reports are provided to parishioners annually. Recommend quarterly reports.
<b>Internal Audit Committee Communications</b>			✓	The parish does not have an Audit Committee
<b>Accountability Report</b>			✓	No annual Accountability Report distributed to parishioners.

**There were no effective areas identified. With charges being made, hopefully all areas will fall in effective areas.**

### ***Significant Findings and Recommendations***

### **FINANCIAL OVERVIEW**

The parish has a Parish Council and Finance Council that meet regularly. The parish uses PDS Church Office and PDS Ledger and follows the recommended chart of accounts and accounting

practices. Passwords are changed every six weeks, and backups are performed nightly with additional copies stored offsite.

**Findings:**

- 1) Finance Council meeting minutes are not informative and detailed. There is no record of the Council reviewing bank statements, bank reconciliations, imprest accounts and charitable gaming reports.
- 2) The parish does not have an audit committee.
- 3) There was no Accountability Report published and presented to parishioners.

**Recommendations:**

- 1) It is recommended that the Pastor select a Secretary of the Finance Council responsible for recording minutes of meetings. These minutes should be detailed and informative and, once complete, be forwarded to the Pastor for approval and distribution to other Finance Council members. Copies should be maintained in a permanent file in the parish office.

**Secretary of the Finance Committee has been appointed and minutes will be detailed and informative and, once complete, be forwarded to the Pastor for approval and distribution to other Finance Council members. Copies will be maintained in a permanent file in the parish office. Copy will be placed on Parish Website.**

The Finance Council needs to ensure review of monthly parish financials, bank statements and reconciliations for all bank accounts and charitable gaming reports. These reviews should be documented in the meeting minutes.

**Finance Committee member will reconcile bank statements and charitable gaming reports and document in Finance Committee meeting minutes.**

- 2) An internal review by the parish audit committee should be undertaken annually as soon as possible after the annual financial report has been completed. A written report should be prepared, which briefly summarizes the procedure the committee followed, and its findings and recommendations. The report should be reviewed with the Pastor, who should communicate the recommendations to the finance committee. Additionally, the

report should be submitted to the Archdiocese Finance Department. We recommend a joint audit committee be formed with St. John Chrysostom parish.

**Member of the Finance Committee will be the chairperson of the Audit Committee and conduct an Internal Audit scheduled earlier spring 2021 and provide a written report to the Pastor for review; who will communicate findings with Finance Committee members and submit to the Archdiocese Finance Department. There will be a joint audit committee be formed with St. John Chrysostom parish.**

- 3) All parishes are required to provide their parishioners with a Parish Accountability Report. A complete report, including balance sheet, income statements, budgets, and ministry/sacramental information, should be provided no less than annually. Parishes are also required to submit a copy of this report with the year-end Pastoral Center Report.

**Chairperson of the Finance Committee and other Finance Committee members will prepare Parish Accountability Report no later than December 15, 2020 with copies to parishioners and include a copy of Pastoral Center Report.**

### **SEPARATION OF DUTIES**

The parish staff consists of a full-time Business Manager and a part-time Bookkeeper.

#### **Findings:**

- 1) The Bookkeeper prepares checks and journal entries, opens the bank statements, and performs the bank reconciliations.
- 2) The Bookkeeper prepares and processes payroll in the Paycor system and is the only employee with access to make changes in Paycor.

#### **Recommendations:**

- 1) The bank statement should be opened and reviewed by the Pastor. After reviewing, it should be initialed by the Pastor. If possible, the parish bank account should not be reconciled by the Bookkeeper. However, if limited staff makes it necessary for the Bookkeeper to prepare the bank reconciliation, it is highly recommended that the Finance Council review it and document the review in their meeting minutes.



**Pastor will open and review bank statements and annotate review by initials and date. Bank statements will be reconciled by paid Bookkeeper and a member (non-paid status) of the Finance Committee. Review will be addressed in Finance Committee meetings.**

- 2) We recommend that the Pastor review, initial, and date payroll reports before and subsequently after transmission. Any changes to the employee record in Paycor included, but not limited to, pay rate, job title, address change, need to be approved by the Pastor.

**Pastor will review, initial and date payroll reports before submission of payroll reports. Any changes will approved by Pastor with initials and date prior to submission.**

### **JOURNAL ENTRIES**

#### **Finding:**

- 1) Journal entries are not being approved.

#### **Recommendation:**

- 1) Journal entries need to be approved by the Pastor each month.

**Journal entries will be approved by Pastor with review, initials and dates going forward.**

### **BALANCE SHEET**

#### **Finding:**

- 1) Fixed assets are not being depreciated.

#### **Recommendation:**

- 1) Fixed assets need to be depreciated according to the schedule in the Archdiocese *Financial Policies & Procedures Manual*. Please contact Parish Liaison for assistance in catching up on past depreciation in PDS Ledger.



**Fixed assets will be depreciated according to the schedule in the Archdiocese Financial Policies & Procedures Manual. Bookkeeper will contact Parish Liaison for assistance in catching up on past depreciation in PDS Ledger.**

### **COLLECTIONS & OTHER RECEIPTS**

All parish deposits are being appropriately recorded and made on a timely basis. Tamper-proof bags are being used before and after the count. The count teams are rotating, and members are not related. The parish uses Vanco for online collections. Annual contribution statements are sent to parishioners. Collections are being reported to parishioners via the weekly bulletin. Mass intentions are maintained in a special book and recorded appropriately. A receipt is given for cash brought into the parish office.

#### **Finding:**

- 1) Count teams only had one counter on three collections sampled during the audit review.

#### **Recommendation:**

- 1) Count teams must always consist of two or more non-related individuals. Money should never be counted by only one individual.

**Count teams will consist of two or more non-related individuals.**

### **DISBURSEMENTS**

The parish has a general checking account with a current balance of \$35,312.32. The Pastor and Business Manager are signers on the bank accounts. They plan to add the Finance Council Chairperson to the account once they are elected to the Finance Council.

#### **Findings:**

- 1) There were two outstanding checks from 2018 & 2019 in the bank reconciliation reviewed during the audit.
- 2) Bank accounts are not reconciled promptly.

- 3) There were five checks over \$5,000 found in the sample with only one signature.
- 4) Checks not signed by the Pastor only contained one signature.

**Recommendations:**

- 1) Research any outstanding items over six months old. Write-off or void and re-issue the checks on the general ledger.

**Research on outstanding checks over six months old is complete. Write-offs or voids and re-issue of the checks on the general ledger has been completed.**

- 2) It is recommended that the bank reconciliations be completed by the 7<sup>th</sup> business day after the statement ending date.

**Reconciliation of bank statements will be completed no later than 7th business days after receipt of statements.**

- 3) Checks over \$5,000 must have two signatures, one being the Pastor.

**Checks over \$5,000.00 will have two signatures with one being the Pastor.**

- 4) Checks written in the Pastor's absence must have the signatures of two authorized individuals. (See *Financial Policies & Procedures Manual*, page 32).

**In absence of Pastor, there will be two signatures of authorized individuals. Finance Committee Chairperson has been elected and will be add as signer on bank accounts.**

**CREDIT CARDS**

The parish has two credit cards: Walmart & Kroger and one charge account: Lowe's. They are used by CCD, Youth Group, Altar Society, and the Business Manager. No personal charges or

late fees were noted on the credit card/charge account statements reviewed. The statements and payments are reviewed by the Business Manager and the Pastor.

**Findings:**

- 1) Several receipts were missing for one of the Walmart statements sampled during the audit review.
- 2) Credit cards are kept in a desk drawer of the Business Manager. This drawer is not locked.

**Recommendations:**

- 1) All original receipts for charges to the parish credit card must be submitted by the card user in a timely fashion. These receipts must be attached and reconciled to the billing statement.

**Credit Card statements will be reconciled with vendor receipts attached to statements. Original credit card receipts will be attached to credit card statements. Finance Committee member will reconcile credit card statement with vendor receipts.**

- 2) Credit cards must be kept in a locked drawer or preferably, a safe when not in use.

**Credit cards will be kept in a locked drawer or safe when not in use.**

**IMPREST ACCOUNTS**

The parish has one imprest account: Men's Club. The Pastor has requested that this account be closed or transferred to the operating bank account of the parish. They previously had an imprest account for ACTS, which was closed on August 5, 2020, due to little or no activity. Parish organizations prepare an annual budget that is approved by the Finance Council.

**SPECIAL COLLECTIONS & ASSESSMENTS**



Assessments paid to the Archdiocese are current. Special Collections are current and submitted in accordance with Financial Policy.

### **SAVINGS & INVESTMENTS**

The parish has one Archdiocesan savings account with a current balance of \$107,596. Interest is recorded monthly.

### **LOANS**

The parish has a line of credit with the Archdiocese for a construction loan in the amount of \$550,000. Two draws have been made on the line of credit totaling \$321,000. The loan is for the construction of their new activity center on parish property. The parish also received a PPP Loan in the amount of \$47,600, which will be converted to grant income once forgiven by the bank and SBA.

**Parish Bookkeeper is in the process of completing the Paycheck Protecting Program (PPP) Loan Forgiveness Application Form 3508S.**

### **PARISH PROPERTY**

There is a current inventory list of all valuables, furnishings, and equipment. The parish maintains a list of all individuals who have keys to the premises.

#### **Findings:**

- 1) Certificates of insurance were not found for service providers to the parish.
- 2) No lease agreements were found for Discovery Zone and Centro Latino's use of parish facilities.

#### **Recommendations:**

- 1) Any outside contractor providing a service to the parish must provide a certificate of statutory Workers' Compensation and Liability Coverage prior to any work being authorized. Examples include pest control, garbage collection, and electricians.

**Outside contractors/vendors who provide a service to the parish will provide a certificate of statutory Workers' Compensation and Liability Coverage prior to any**

**work being authorized. Examples are office cleaners, lawn mowing, snow removal, pest control, garbage collection, and electricians.**

- 2) Create a lease or usage agreement for the rental use of the parish facilities by the businesses. Once developed, send the document to the Chief Financial Officer at the Pastor Center for his review and approval before using. A sample facility usage/indemnity agreement can be found in the *Appendices* of the *Financial Policies and Procedure Manual* or on the Archdiocese website.

**Lease Usage agreements have been created for the rental use of the parish facilities by the businesses. Copies of documents were provided the Chief Financial Officer at the Pastoral Center awaiting review and approval before using. Lease Usage Agreement format was in accordance with the Appendices of the Financial Policies and Procedure Manual.**

### **PERSONNEL & PAYROLL**

All personnel and payroll records are safeguarded in a locked file cabinet. All I-9s are kept in a separate folder.

#### **Findings:**

- 1) Timesheets for one of the employees tested were missing.
- 2) Employee files tested lacked proper documentation.
- 3) The parish is recording administrative payroll reimbursements received from St. John Chrysostom as grant income (1513.10).

#### **Recommendations:**

- 1) Each parish employee must submit timesheets before each pay period. Employee timesheets should include time worked, employee's signature, and Pastor's signature of approval.

**Timesheets for identified employee have been recreated for records.**

2) Employee files should be reviewed periodically. Essential documents, as stated under *Personnel Files* in the *Financial Policies and Procedures Manual*, should be obtained and stored in the files.

**Employee payroll files will be maintained for essential documents as stated under Personnel Files in the Financial Policies and Procedures Manual and reviewed periodically.**

3) The reimbursement for administrative payroll costs should be recorded as an offset to payroll costs.

**Bookkeeper will ensure administrative payroll costs will be recorded as an offset to payroll costs.**

### **CHARITABLE GAMING & FUNDRAISING**

The charitable gaming tax and reporting records follow Kentucky Revised Statute Chapter 238 (KRS 238) and 829 KAR Chapter 1. The charitable gaming licenses had valid dates for events. The parish has a summer picnic and fish fries every year as fundraisers for the parish. They held their picnic in September 2019. Due to COVID-19, the parish held only three fish fries during Lent in 2020.

Respectfully Submitted,



Robert Cecil  
Chief Financial Officer



Lana Glover  
Parish Liaison & Internal Auditor



### *Scope of Audit*

#### **Interviewed:**

- Pastor
- Business Manager
- Bookkeeper

#### **Tested:**

- Cash disbursements, payment authorizations and check preparation/signature
- Payroll and personnel record keeping
- Certificates of insurance for service providers

#### **Reviewed:**

- Minutes of Finance & Parish Councils
- Financial statements of the parish
- Cash handling procedures
- Bank account reconciliations
- Separation of duties
- Cash disbursement procedures
- Personnel and payroll
- Savings accounts
- Parish property record keeping
- Key access controls
- Charitable gaming records