



CATHOLIC DIOCESE OF CLEVELAND

Financial Policy & Procedure Statement F - 1

CASH DISBURSEMENTS



CASH DISBURSEMENTS

Every parish makes disbursements on a regular basis. These disbursements range from a few dollars to several thousand dollars.

While the majority of all disbursements are correctly recorded in the accounting records, cash disbursements typically lack the necessary internal controls to ensure 100 percent of the cash disbursements are legitimate and properly recorded.

Cash disbursements can be divided into four areas:

1. Petty cash
2. Normal Operating Expenses
3. Payroll
4. Extraordinary Disbursements

PETTY CASH

The parish petty cash fund should be maintained on an imprest basis. This means the fund begins at a certain amount, and at any point in time, the receipts in the fund when added to the cash on hand should equal the pre-determined amount of petty cash. When the fund drops below a specified level, a check is written to replenish the fund. This check should be allocated among pre-determined accounts.

The procedures for petty cash outlined below would create the ideal situation. Every effort should be taken to maintain these standards. The finance committee should assist the pastor in implementing these guidelines:

1. Access to petty cash should be limited to one or two employees. This responsibility should be reviewed annually and the responsibility should be periodically rotated among office staff.
2. The petty cash fund should be kept in a locked cash box with the keys to the box available only to the petty cash custodian and the pastor.
3. Petty cash funds should remain segregated from other parish cash receipts.
4. The finance committee and/or the pastor should set a limit on the dollar of petty cash disbursements. For example, if the limit is set at \$50.00, then no petty cash transaction should exceed this amount.
5. The petty cash custodian should be independent of the employee who handles cash receipts. The cash receipts person should not have access to petty cash.

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6. Disbursements from petty cash should be accompanied by a voucher. The voucher, at a minimum, should contain the date of the transaction, the dollar amount of the transaction, the vendor to which the petty cash was disbursed, the account number to be charged, and the signature of the employee receiving the petty cash. The voucher should be completed in ink. Any cash register receipts of invoices should be attached to the voucher and put into the petty cash box.
7. Employees are prohibited from taking a personal loan, of any amount, from the petty cash fund.
8. A review of the vouchers presented for reimbursement should be made by someone independent of the petty cash function.
9. All vouchers and attached supporting documentation should be stamped "PAID" at the time the reimbursement check is issued. The stamping of the documentation prevents a voucher from inadvertently being presented for payment a second time.
10. A surprise petty cash count should be made periodically. A surprise count, at a minimum, should be performed quarterly. The following example illustrates a sample petty cash count:

Total amount of petty cash fund \$100.00

Cash in Box	\$40.00
Vouchers Total	\$60.00

Actual amount of Petty Cash Fund \$100.00

The total and the actual must agree without exception. Any difference must be reported by the person performing the surprise count to the pastor immediately.

11. No personal funds of any employee, at any time, should ever be commingled with parish funds. This also applies to petty cash. The cashing of personal checks from the petty cash fund is strictly prohibited.

NORMAL OPERATING EXPENSES

Most normal operating expenses are paid by check to the vendors. This area of cash disbursements has three areas of control:

1. Preparation and authorization of transaction
2. Security concerns
3. Payment of transaction

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Preparation and Authorization of Transaction

- All requests for payment should be accompanied by a voucher. The use of pre-numbered vouchers is encouraged.
- When a bill requires payment, a voucher should be prepared. The person preparing the voucher should not approve the voucher. The voucher should be attached to the invoice presented for payment.
- Receipt of goods or services should be verified prior to the preparation of the voucher. The examination of the purchase order, receiving report and vendor invoice should be performed prior to the preparation of the voucher.
- Prepared vouchers with invoices attached should be presented to the pastor or other designated accounting personnel for approval. It is recommended a limit be set by the finance committee as to the amount of a voucher requiring a second approval. For example if a limit of \$500.00 is set by the finance committee, the authorized accounting personnel could approve a voucher up to this amount. An expenditure greater than \$500.00 would require the signature of both the pastor and accounting personnel. A sample voucher is included at the end of this section.
- Once the necessary signatures are obtained, the bookkeeper should now give the voucher to an individual authorized to prepare the check necessary for payment of the invoice. No check should be prepared for an invoice without an attached approved voucher. Once the checks are written, the check, approved voucher, and invoice should be presented to an authorized signer of parish or school checks. It should be noted, the person preparing the checks for disbursement should not have the ability to sign the checks.
- All payments should be made from original vendor invoices only. Payments should not be processed from statements of account received from vendors.

Security Concerns

- All disbursement checks should be pre-numbered and used in sequential order.
- The disbursement checks should be kept in a secure location with limited access. An unlocked desk drawer is not considered to be a secure location. The only personnel with access to blank checks should be those authorized to prepare checks for disbursement and the pastor.
- All checks should be signed in ink. Signature stamps are not allowed, as well as digitized signatures printed on laser produced checks.
- A dollar limit should be established by the finance committee requiring a second signature on checks.
- All checks should be made payable to vendors. No checks should be made payable to cash or bearer, with the exception of a check issued to reimburse the petty cash fund.

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Payroll Checks

All payroll checks should be distributed in sealed envelopes. Once the payroll person has sealed the envelope, no one except the employee should open it.

Payroll checks should be distributed on the pay date. Holding checks after the scheduled pay date is not advisable. Checks may be distributed at the end of the workday. No employee should be given a check of another employee. It is recommended that you secure an employee's signature on a payroll log sheet to certify the employee received their check.

If an employee misplaces a check or it is stolen, a stop payment should be placed on the check IMMEDIATELY. Passing on any related bank fee to the employee is permissible. A replacement check should not be issued until the stop payment order is placed on the original check.

EXTRAORDINARY DISBURSEMENTS

Occasionally, a parish will have a transaction classified as extraordinary. A transaction should be classified as extraordinary if the following conditions are met:

1. Material in nature,
2. Of a character significantly different from the typical or customary business activities,
3. Not expected to recur frequently,
4. Not normally considered in evaluating the ordinary operating results of an enterprise.

Generally, payment of contractors for building improvements and major projects would be classified as extraordinary.

Approval of payments of this nature should flow through the pastor and/or the finance committee. If the amount is large, it is recommended that you send the payment certified mail with "Return Receipt Requested".

It is important to pay contractors according to the terms of the contract. Any deviations from the contract should be discussed with Attorney Andrej N. Lah in the Diocesan Finance Office.

Extraordinary disbursements should not be paid in full without approval of the pastor. Payment in full may be requested by the contractor and the job may not be completed or satisfactory. Consultation with Attorney Andrej N. Lah in the Diocesan Finance Office should be made prior to completing the contract with payment in full. If a construction project has a percentage hold back associated with it, the release of the final hold back amount should be discussed with Attorney Andrej N. Lah of the Diocesan Finance Office.

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ALLOCATION OF PAYROLL AND RELATED COSTS



ALLOCATION OF PAYROLL AND RELATED COSTS

In most organizations, including parishes and schools, payroll and related employee costs represent a major share of the total cost of operations. Payroll taxes (employer's share of FICA and Medicare, unemployment, and worker's compensation) and fringe benefits (hospitalization and pension) must also be considered even though the employee does not receive an actual direct payment. It is important that when budgeting and reporting, parishes and schools consider total employee costs and not just salaries.

In preparing the Parish Financial Operations Handbook, we have provided the basic information parishes and schools should have to manage their resources and meet their informational needs. We have also provided the flexibility to have parishes and schools decide on how much detailed information they want.

ALLOCATION OF SALARIES

The distribution of GROSS salaries to the various accounts is not difficult. In most cases an employee's salary will be charged to only one account. For example, the pastor's salary is normally charged to account 2001.01 - Clergy. However, suppose the bookkeeper maintains records for the parish and school. In this event, the bookkeeper's salary should be allocated to account 2001.05 - Office salaries (Parish) and account 5001.04 -Secretary and Bookkeeper - Lay (Elementary School).

When determining amounts to be allocated for employees who provide services to more than one area within the parish or school, the parish may elect to use the percentage of time worked method. The assessment of how much time is spent in each area is the key to the distribution of the salary AND the related costs. If the bookkeeper spends 75% of the time on parish duties and 25% of the time on school duties, then the salary should be charged 75% to account 2001.05 Office Salaries (Parish) and 25% to account 5001.04 Secretary and Bookkeeper -Lay (Elementary School).

ALLOCATION OF PAYROLL TAXES AND FRINGE BENEFITS

Many different costs fall into this category. Hospitalization, pension, unemployment (school only), workers' compensation and the employer's share of FICA and Medicare taxes are the most common. Each of these costs are accounted for individually. Billings are received for pension, hospitalization and workers' compensation costs. Each pay period Social Security and Medicare costs are calculated to meet federal reporting requirements. Quarterly, unemployment taxes are determined for the school. There is no need to lump these costs into one general category since the specific costs are known at a certain point in time.

The Parish Financial Operations Handbook provides various ways to allocate these costs. Some methods are complicated and precise and other methods, while not 100% accurate, may provide sufficient information to Parish Finance Councils and others involved in decision-making.

Allocation percentage of these costs MUST be the same percentages used in allocating the salary costs. Never use a salary account without the corresponding payroll tax/fringe benefit costs account.

Various methods of allocating payroll taxes and fringe benefits are discussed as follows:

1. The best method to record payroll taxes and fringe benefits is to allocate payments to the sub-account to which they apply at the time payments are made. A parish may allocate

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payroll taxes and fringe benefits paid for specific individuals directly to the respective parish or elementary school sub-account to which they apply. For example, using the same employees discussed above (Pastor and bookkeeper), when health insurance is paid to the Diocese, the Pastor's health insurance payments would be charged to sub-account 2002.03 - Health Insurance Parish. The bookkeeper's health insurance payments would be charged to sub-accounts 2002.03 Health Insurance Parish Administration and 5002.03 Health Insurance School Administration using the same allocation percentages used for distributing the bookkeeper's salary costs (75% to account 2002.03 and 25% to account 5002.03).

- Another method of allocating costs is to charge payments to the respective sub-accounts shown under "Parish Administration". At the end of an accounting period - say quarterly - the individual sub-accounts would be analyzed and allocated to the appropriate parish and school sub-accounts on the same basis of the allocation of salaries or other compensation paid for that period. For example, payroll taxes are usually paid at least monthly to the Internal Revenue Service. For ease of administration, a parish may charge all of the employer's share of payroll taxes to sub-account 2002.01 (Payroll taxes) under the Parish Administration cost center when the taxes are paid. At the time the parish prepares a financial report, the payroll taxes charged to this account during the period would be re-allocated to the following parish and school sub-accounts, as appropriate:

PARISH

2002.01	Payroll taxes - Administration
2102.01	Payroll taxes - Celebrating
2202.01	Payroll taxes - Caring
2302.01	Payroll taxes - Teaching
2402.01	Payroll taxes - Evangelizing
2502.01	Payroll taxes - Participating
2602.01	Payroll taxes - Plant operation

ELEMENTARY SCHOOL

5002.01	Payroll taxes - Administration
5102.01	Payroll taxes - Instructional
5202.01	Payroll taxes - Library
5302.01	Payroll taxes - Student services
5402.01	Payroll taxes - Food programs
5502.01	Payroll taxes - Student transportation
5602.01	Payroll taxes - Latch-key program
5702.01	Payroll taxes - Pre-school program
5802.01	Payroll taxes - Plant operation
5902.01	Payroll taxes - Faculty residence

While it would be unusual for all of the above accounts to be used at a parish, the principle involved here is that the cost of payroll taxes and fringe benefits "follow" the salaries and other compensation for individuals employed by the parish and school.

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3. Rather than using sub-accounts for each type of payroll tax or fringe benefit, the parish may elect to charge all payments for the parish and school payroll taxes and fringe benefits to one control account such as "Parish Administration - Payroll Taxes and Fringe Benefits" - account 2002. At the end of a reporting period this account would be analyzed and the amounts reallocated to the pertinent control accounts on the basis of salaries and other compensation paid for each cost center. Again, while not entirely accurate, the parish would have data for budget and reporting purposes. We do not recommend this method because as stated earlier, the individual costs are known at the time payment is made and there is no need to lump these costs into one account. A detailed analysis would have to be performed and this would result in duplicate work for the bookkeeper.
4. Some parishes may believe it is unnecessary to have payroll taxes and fringe benefits broken down into so much detail and would be comfortable with having only the TOTAL payroll taxes and fringe benefits for the cost centers recorded. In this event, allocations would be made only to the respective control accounts for each cost center as payments are made. The sub-accounts would not be used at all in this scenario.



Materiality (dollar amount) must be considered when allocations are made. It is unnecessary to allocate small amounts of payroll and related costs to each cost center. If the church organist, for example, spends 95% of the time at Sunday Liturgies and choir practices and 5% of the time helping with school programs, it may be considered unnecessary to allocate any part of the salary or payroll costs to the school.

If the parish/school uses a payroll processing firm (ADP, Paychecks, Ceridian, Control Data, etc.), the firm may be able to provide an allocation report for salary and related tax costs for each pay period. Several parishes use ADP and have this report prepared each pay period.

To assist and provide some guidance to simplify the allocation process, two detailed examples follow.

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EXAMPLE ONE

St. John parish manually prepares its payroll twice a month. Parish employees include the Pastor and priests, a housekeeper, office staff, an organist who also teaches at the school 50% of the time, a Religious Education Director and staff, and a maintenance crew that maintains the parish and school. School employees include the principal, teachers, office staff and pre-school aides.

St. John's decides they do not need a lot of detail in sub-accounts. The Pastor and Finance Council are interested only in the control account data and estimates are perfectly acceptable for their needs. The Finance Council would like these payroll costs and fringe benefits allocated quarterly.

When processing payroll, the bookkeeper charges the employer's share of payroll taxes (FICA and Medicare) to 2002.01 - FICA and Medicare. When the Health Benefits invoice is received from the Diocese, the bookkeeper charges it to 2002.03 - Health Insurance. Worker's Compensation costs are charged to 2002.02. The cost of the pension plan is charged to 2002.05 - Pension Expense - Lay. The journal entries would appear as follows:

Gross payroll and related withholding liabilities for the first quarter's payroll (as illustrated in Worksheet #1 shown below):

2001.01	Clergy	\$ 2,000.00
2001.06	Housekeeper	500.00
2101.02	Organist (50%)	250.00
2301.01	Religious Education Director and staff	1,000.00
2601.01	Parish plant maintenance (75%)	750.00
5001.02	Principal	1,000.00
5001.04	School office staff	500.00
5101.02	Lay teachers	21,500.00
5301.02	Student Services - Organist (50%)	250.00
5701.02	Pre-school aides	500.00
5801.02	School plant maintenance (25%)	250.00
0101.01	Cash	<18,500.00>
0303.01	FICA and Medicare tax W/H	<2,000.00>
0303.02	Federal income tax W/H	<5,000.00>
0303.03	State income tax W/H	<2,500.00>
0303.04	Municipal income tax W/H	<500.00>

To record employer's share of FICA and Medicare taxes:

2002.01	FICA and Medicare Costs	\$2,000.00
0303.01	FICA and Medicare	<2000.00>

To record payment to the Diocese for Health Insurance and Pension Expense for six months:

2002.03	Health Insurance (Parish Admin)	\$20,000.00
2002.04	Pension Expense (Parish Admin)	5,000.00
0101.01	Cash	<25,000.00>

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To record payment for Worker's Compensation costs:

2002.02	Worker's Compensation	\$7,200.00
0101.01	Cash	<7,200.00>

The bookkeeper must allocate payroll taxes (e.g., FICA, Medicare, unemployment) and fringe benefits (e.g., health insurance and pension) to the proper cost center for the Finance Council meeting. An easy way to do this would be to prepare a worksheet using estimates for payroll taxes and fringe benefits (the Finance Council and the Pastor have said estimates are acceptable). The bookkeeper prepares Worksheet #2 to accomplish this allocation. The bookkeeper has determined that payroll taxes and fringe benefits are about 20% of the payroll costs. It is unnecessary to separately allocate FICA, Health Insurance, etc. The following journal entry (from worksheet #2) will easily allocate payroll taxes and fringe benefits. Control accounts can be used to simplify the allocation, as illustrated below:

2102.00	P/R Taxes and Fringe Benefits-Organist	\$300.00
2302.00	P/R Taxes and Fringe Benefits-Rel Ed	1,200.00
2602.00	P/R Taxes and Fringe Benefits-Maint Parish	900.00
5002.00	P/R Taxes and Fringe Benefits-Principal	1,200.00
5102.00	P/R Taxes and Fringe Benefits-Teachers	25,800.00
5002.00	P/R Taxes and Fringe Benefits-Office	600.00
5302.00	P/R Taxes and Fringe Benefits-Student Serv	300.00
5702.00	P/R Taxes and Fringe Benefits-Pre-School	600.00
5802.00	P/R Taxes and Fringe Benefits-Maint School	300.00
2002.00	Allocation of P/R Costs	<31,200.00>

In the example, the Payroll Taxes and Fringe Benefits are not shown individually in the sub-accounts as illustrated in the Chart of Accounts. Teacher's Health Insurance cost, for example, would not show up anywhere. Instead, there is an estimate of all payroll taxes and fringe benefits in one control account. However, estimates are acceptable to the Finance Council and Pastor, as well as the Diocese.

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EXAMPLE TWO

The facts are the same as example one except the Finance Council and the Pastor want more detailed information on the Payroll Costs. They would like to see each cost (i.e. Health Insurance) properly charged to each sub-account for each cost center.

If the costs are not allocated at the time the invoice is paid, it is necessary to complete a worksheet for each cost and allocate each cost out of the original cost center to which it was charged. This is time consuming and detailed work and the Pastor and Finance Council should be made aware of the extra effort involved.

If costs are allocated at the time they are incurred or paid, it will simplify the process. For example, when the bookkeeper receives the Health Insurance invoice from the Diocese, he/she will immediately analyze the bill and charge each sub-account for its share of the cost. This is not difficult to do since the invoice is broken down by individual. FICA and Medicare can easily be allocated using the annual FICA and Medicare tax rate.

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ALLOCATION OF GROSS PAYROLL - WORKSHEET 1



	ACCOUNT NUMBER	GROSS PAYROLL # 1
Pastor and Priests	2001.01	\$2,000.00
Housekeeper	2001.06	500.00
Organist (50%)	2101.02	250.00
Rel Ed Director and Staff	2301.10	1,000.00
Parish Maintenance (75%)	2601.01	750.00
Principal	5001.02	1,000.00
School Office Staff	5001.04	500.00
Lay Teachers	5101.02	21,500.00
Student Services Organists (50%)	5301.02	250.00
Pre-School Aides	5701.02	500.00
School Maintenance (25%)	5801.02	250.00
Total Gross Payroll		<u>\$28,500.00</u>

The organist's salary is allocated 50% to parish and 50% to Student Services.

The maintenance crew's salaries are allocated 75% to parish and 25% to school.

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ALLOCATION OF GROSS PAYROLL - WORKSHEET 2



	ACCOUNT NUMBER	GROSS PAYROLL # 1	QUARTERLY PAYROLL	20% FRINGES
Pastor and Priests	2001.01	\$2,000.00	\$12,000.00	\$2,400.00
Housekeeper	2001.06	500.00	3,000.00	600.00
Organist (50%)	2101.02	250.00	1,500.00	300.00
Rel Ed Director and Staff	2301.10	1,000.00	6,000.00	1,200.00
Parish Maintenance (75%)	2601.01	750.00	4,500.00	900.00
Principal	5001.02	1,000.00	6,000.00	1,200.00
School Office Staff	5001.04	500.00	3,000.00	600.00
Lay Teachers	5101.02	21,500.00	129,000.00	25,800.00
Student Services Organists (50%)	5301.02	250.00	1,500.00	300.00
Pre-School Aides	5701.02	500.00	3,000.00	600.00
School Maintenance (25%)	5801.02	250.00	1,500.00	300.00
Total Gross Payroll		<u>\$28,500.00</u>	<u>\$171,000.00</u>	<u>\$34,200.00</u>

The organist's salary is allocated 50% to parish and 50% to Student Services.

The maintenance crew's salaries are allocated 75% to parish and 25% to school.

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