

**Knights of Columbus Council 15706**  
**Policy for Internal Controls over Money Collections**

Internal Controls over Money Collections

As Financial Secretary of the Knights of Columbus Council 15706 I am responsible for the internal controls of the Council. That would entail installing systems and procedures to ensure that there is a proper accounting for all monies collected for reporting, tax and government compliance requirements. In a manual environment, the only way to have any assurance that all monies that are collected are reported is by pre-numbered cash receipt documents. This is a time tested and widely accepted procedure. Many, many businesses from small restaurants to small retailers use this method to ensure all money is collected and accurately reported especially when they don't have cash registers or other electronic recording devices to record the receipt of cash and provide a receipt to the customer for their records.

The use of the receipts, especially the two part receipts that I have provided enable the ability to control the receipts whether the customer paid by cash, credit card or check since each medium of payment is designated on the receipt making it possible to reconcile the payments to the credit card reports, the cash and checks on hand while also providing a source and paper trail to resolve any discrepancies. This also provides the payer with a record of their payment which they may desire when the payment may be in advance for wreathes or some other item or possibly a charitable contribution (although these will be mitigated under the revised tax law – TCJA. It would also provide us with a permanent record of who paid to resolve any questions.

Why are these controls important? First, there have been many occasions when funds have been embezzled from businesses, churches, nonprofits etc. because they did not have proper internal controls and procedures in place. Next, in the case of an audit by the IRS or state they will check to determine if the proper internal controls are in place to ensure the adequacy of the accounting records especially over receipts. The proper IRS reporting for (990N, 990EZ, 990) depends on the threshold of receipts and the nature of those receipts. While it is likely that we will be less than the \$50K threshold for the simple 990N it would be prudent to have the proper procedures in place in the event of an audit so we can substantiate that we have reported all sales or receipts. With regard to state audits, we need to be proactive because we may not be in compliance with Tennessee State Sales Tax Laws which I will discuss below.

While there were some issues in the past using pre-numbered cash receipt documents or books, it was mainly an implementation issue. This can be resolve with a little training and coaching which I would be happy to provide. The use of pre-numbered receipt books will provide more control than a manual log as well as providing more information for both KofC and the payee. If the payee does not want his copy of the receipt, he can throw it away. Completing a receipt may take slightly more time but I am sure it can be done in most case so as not to delay the transaction process (i.e. when people are waiting in a line etc.).

**Sales and Use Taxes**

Purchases

While the Knights of Columbus is a tax-exempt non-profit under IRS 501(c)(8) fraternal benefit organization, it is only exempt from sales tax for purchases of items for its use, consumption and donation (i.e. give away). In order to make tax exempt purchases, a Tennessee Sales Tax exemption certificate must be provided to the TN seller and the purchase must be made with KofC funds (i.e. cash or checks or credit/debit cards of KofC).

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Purchases cannot be made by brother's funds and then reimbursed to the brother; otherwise, sales tax must be paid. We have not been taking advantage of making tax exempt purchases so I have completed and will submit an application for "Sales and Use Tax Exemption for Exempt Organizations and Institutions".

Sales

Sales made by the Knights of Columbus are not taxable if the following conditions are met:

Casual sales can only be held two times per year for less than 30 days each. If a sales period exceeds 30 days or there are more than two 30 day sales periods then sales for the ENTIRE YEAR are taxable and a sales tax registration must be obtained and sales taxes must be collected and reported and paid to the state. Taxable sales include tangible personal property (i.e. wreathes) as well as prepared food (i.e. baked fish, candy etc.). The record keeping requirements under Tenn. Code Ann. §§ 67-6-523, 67-1-113 must include a daily record of all cash and credit sales including those under a finance or installment plan..." A pre-numbered cash receipts book is the most cost effective way to meet this compliance requirement. The cash receipts book clearly documents the date, amount of sale, buyer and item sold. Since it is pre-numbered all receipts can be accounted for which provides proof that all sales have been recorded whether by check, cash or credit card. This is another reason to have pre-numbered cash receipts (i.e. sales are clearly documented). If we happen to exceed the exempt sales requirements, the receipt book will provide the information necessary to go back and calculate the sales tax liability using a spreadsheet and remit it to the state. Certainly there are other methods to capture and record sales such as a POS (point of sale) cash register coupled with a credit card reader/processor or a receipt printer integrated with a credit card processor but both of these are significantly more expensive than a pre-numbered receipt book especially if more than one event in more than one location is occurring, and are more cumbersome to use than receipt books especially if the operators change frequently which is likely in the KofC. However, these automated alternatives may provide better reports than manual receipts but would likely still require data entry into a spreadsheet to calculate sales tax liability if the sales tax was not entered upon the sale.

In conclusion, internal controls are not an option. Some methods are more cost-effective than others but they must be implemented consistently. The organization cannot be confused regarding how controls are going to be applied for each different event and situation. Brothers must be trained one way and expected to follow the established procedures each and every time. I am not advocating using the receipt books when we are not selling something. For example, if we have a donation jar out for donations for the Stations of the Cross dinner or movie nights but I would require their use if we are selling fish dinners or wreathes etc.

Prepared by: Henry J. Davis, Financial Secretary  
Knights of Columbus Council 15706

Attachment: Supreme Treasurer letter, dated 2/3/20, Approval of implementing procedures as an addendum to the Credit/Debit Card Policies and Procedures provided by the Supreme Office.

Implementing Procedures:

Procedure for use of Credit Card  
Procedure for Council Sales

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Revision 0, 9/29/18

Revision 1, 9/6/19

Revision 2, 2/3/20

**ATTACHMENT**

RONALD F. SCHWARZ  
SUPREME TREASURER

TEL.: (203) 752-4594  
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**KNIGHTS OF COLUMBUS**  
1 COLUMBUS PLAZA  
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February 3, 2020

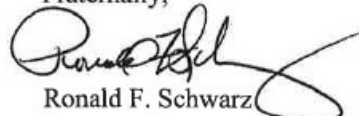
Jim Kois, Treasurer  
All Saints Council 15706  
8205 Landstone Way  
Knoxville, TN 37923  
(865) 693-3107

Dear Brother Kois,

Thank you for forwarding me a copy of the Credit/Debit Card Procedures for Knights of Columbus Council 15706. I have had the opportunity to review the documents in full. I am granting my approval of these procedures as an addendum to the Credit/Debit Card Policies and Procedures provided to you by the Supreme Office.

If you have any additional questions or concerns, please feel free to contact me.

Fraternally,

  
Ronald F. Schwarz  
Supreme Treasurer