

AD HOC COMMITTEE ON DIOCESAN AUDITS

Report to the Body of Bishops

Most Rev. Daniel F. Walsh, Chairman

November 12, 2007

The original assignment given to the Ad Hoc Committee on Diocesan Audits was to develop what later became the Resolution on Diocesan Financial Reporting, in which we as bishops attest to our metropolitan archbishop that we have a functioning diocesan finance council, in compliance with the Code of Canon Law. This system has been in use for 6 years.

Serving with me on the Committee are Archbishop Daniel Pilarczyk, Archbishop John Vlazny, Bishop David Fellhauer and Bishop Donald Trautman.

Last year the Committee was asked to consider how the use of either internal or external reviews and audits of parishes would enhance the transparency and accountability of Church finances and the good stewardship of pastors and administrators. The Administrative Committee has asked me to address this with the body today.

A year ago the body asked the Executive Committee of the Diocesan Fiscal Management Conference (DFMC) to prepare a position paper on the value of parish audits for the ad hoc committee to study. The DFMC, which is composed of the fiscal officers and their colleagues in diocesan offices, has existed to support professional diocesan fiscal management for 38 years. Bishop Donald Trautman has been their Episcopal Moderator for the last 25 years.

While the vast majority of our pastors, parish finance council and staff does excellent work in managing very limited resources to the maximum advantage, we have all seen reports of occasional financial mismanagement in parishes. While some parish bookkeeping is minimal, there have been cases in which large amounts of money have been diverted from the intended purpose by those with criminal intentions. While acknowledging that the Conference and the Committee have no authority or oversight of parishes, we are concerned that these reports denigrate the good work done in many dioceses which have instituted policies, procedures,

safeguards and internal audits which manifest responsible stewardship by the Bishops and the pastors.

Canon 1287 states that:

“§1. Both clerical and lay administrators of any ecclesiastical goods whatsoever which have not been legitimately exempted from the governing power of the diocesan bishop are bound by their office to present the local ordinary with an annual report, which in turn he is to present to the finance council for its consideration; any contrary custom is reprobated.

§2. Administrators are to render an account to the faithful concerning the goods offered by the faithful to the Church, according to norms to be determined by particular law.”

The DFMC’s report has also been provided to the USCCB Accounting Practices Committee. “The APC wholeheartedly endorses the general concept of recommending an internal audit function within each (arch) diocese”. The APC made several other suggestions and refinements which our committee would like to take into consideration.

The National Leadership Roundtable on Church Management has also submitted a draft concerning Standards for Excellence with eight guiding principles and 55 standards.

I’d like to highlight six of the DFMC’s observations and recommendations:

- Parishes contain the most significant assets within any (arch) diocese. Strong systems of internal controls will reduce the risk of fraud, misuse, waste or embezzlement. An internal audit department would help ensure parishes are following appropriate business practices, civil regulation and diocesan requirements and procedures. The DFMC strongly supports the value and need for regular internal audits of parishes.
- An internal audit program would be a vital aid to the bishop in fulfilling this responsibility under canons 1276 and 1284. .
- Scarcity of resources may limit funds available for accounting, reporting and financial management. Inadequate staffing can make separation of duties impossible and lead to ineffectual internal controls. Organizations with ineffective internal controls are particularly vulnerable to costly mistakes or the illicit actions of the unscrupulous.

- Recognizing that most people employed by the Church consider their work as ministry, it is easy to place excessive trust in the individual. Parishes may view the imposition of internal controls as somehow impugning the integrity of the staff. This trusting environment is exactly what a dishonest employee exploits.
- Supervision, separation of duties and internal controls are ways to help honorable people remain honest. An effective internal audit program does not guarantee thefts will not occur. However, it will increase the opportunity for detection and thus serve as a significant deterrent. It will also encourage the development of stronger parish financial management, monitor adherence to federal and state laws and create a reporting mechanism to identify parishes with greater risk.
- The primary role of the internal audit function is to aid pastors in fulfilling their canonical and legal responsibilities. An effective internal audit will help safeguard the assets of a parish, ensure that recordkeeping, accounting and reporting comply with the policies of the diocese, identify areas of improvement and report findings and observations to the pastor, parish finance council and the audit or accounting committee of the diocese.

The heart of the DFMC recommendations can be summarized this way:

- **The DFMC correlates the need for internal audits of parishes as integral to the canonical requirement that parishes report to the Diocesan Bishop. The DFMC therefore recommends that all parishes submit an annual report to the Diocesan Bishop. The report should be accompanied by the parish financial statements for the fiscal year and budget for the prospective year. The DFMC recommends that such report be signed by the pastor, key employees and the members of the parish finance council. The report should include the names and professional titles of the parish finance council members, the dates the parish finance council met during the preceding fiscal year and the date(s) when the parish financial statements and budget were made available to the parishioners. The report should include an attestation that the signers affirm that the financial statements, to the best of their knowledge, accurately reflect the financial condition of the parish; that the parish finance council has reviewed and approved the financial statements and budget; that the signers have not received any credible report that has not been reported to the Diocesan Bishop or his delegate of fraud, abuse or misappropriation and that the signers have not engaged in any activity with the parish from which they or their family could personally benefit and could be considered a conflict of interest without fully disclosing the conflict of interest to the pastor and parish finance council and such conflict has been reviewed by the parish finance council.**

The DFMC recognized that not every diocese is in position to fund and staff an internal audit department. Therefore three models have been developed to illustrate how a diocese could implement elements of the internal audit program

1. It is recommended as a best practice that dioceses hire internal audit staff that report directly to an independent accounting/auditing committee and the Diocesan Bishop or his delegate. The internal audit staff should routinely visit parishes to assess financial management, internal controls and adherence to diocesan policy and directives.
2. As an alternative, a diocese could use part-time staff or outsource internal audits to independent CPA's who would report jointly to the pastor, parish finance council and the bishop. These could be performed every two to three years and or when a pastor changes.
3. At a minimum, consider recruiting retired or volunteer CPA's, accountants or auditors to visit parishes and conduct reviews of finances. In the absence of qualified volunteers, the parish finance councils could be utilized to perform basic internal control review in order to gather assurance that policies and procedures are in place and functioning.
As a Conference we model good stewardship and accountability with the active participation of our Budget and Finance Committee, our Audit Committee, our Ad Hoc Committee on Diocesan Audits, and our Accounting Practices Committee which is composed of professional advisors skilled in accounting and reporting. Our work is complemented by the Diocesan Fiscal Management Conference whose members assist us in exercising our responsibilities in our dioceses.

While the implementation of either internal or external parish audits is strongly encouraged, it is unlikely audits could be mandated by the Conference. Their importance can be stressed and more detailed models might be developed as a logical extension of the canonical requirement that the bishop provide the parish financial reports to the finance council in each diocese.

I would like to express our gratitude to the Diocesan Fiscal Management Conference for their assistance in this project, and for what their members do to assist us everyday in our diocesan administration.

This concludes our committee's report.

(Let the President invite any questions as time allows.)