

Good Parish Stewardship Starts in The Rectory

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What do we have a right to expect from parish leadership?

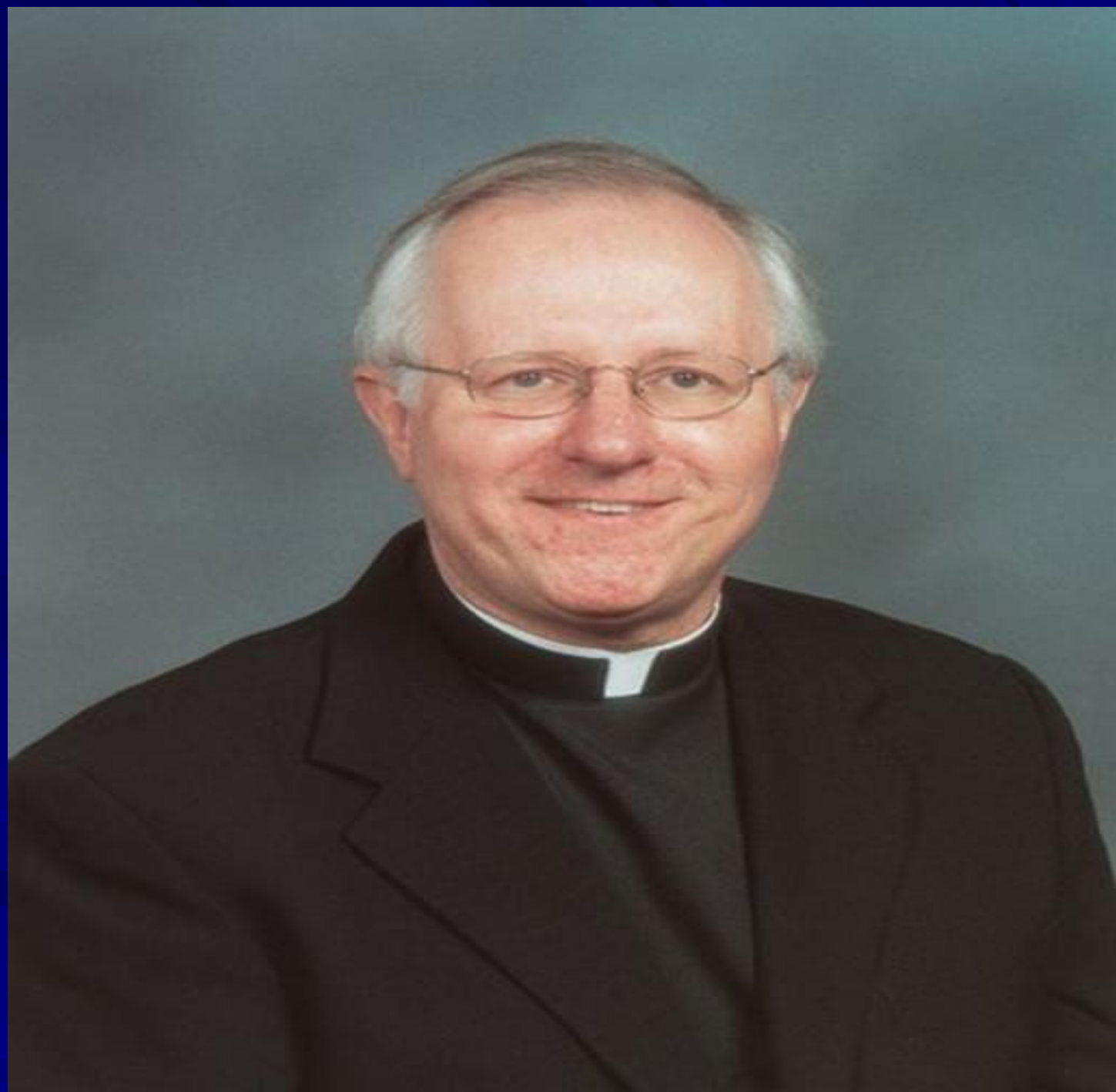
- **Sound Internal Financial Controls**
 - **Safeguard Assets**
 - **Reliable Records and Financial Reports**
 - **Promote Efficiency**
- **Transparency and Accountability**
 - **Co-Responsibility**

This is for your own protection.

**(If I were a pastor, I would insist on
strong internal financial controls
and transparency)**

**Embezzlement =
Need + Opportunity**

Some Faces of Embezzlement





Anita Guzzardi







Survey of Diocesan CFO's

- **85% of U.S. Catholic dioceses reported embezzlements within the past 5 years**
 - Churches too trusting
 - 93% of cases police report filed, 91% insurance claim filed

■ CFO's were asked to rank the greatest financial risk faced by their diocese. Potential litigation was named by 36%, concern over parish finances and controls named by 34%

■ Parishes

– The frequency with which parishes underwent internal audits ranged from “annually” (3% of dioceses) to seldom or never” (21%). The most frequent response was “when there was a change in key personnel (bookkeeper or pastor).

■ **Fraud/Embezzlement**

- **Only 39% of the dioceses have a formal written fraud policy (a response plan when a possible theft is reported to the diocese).**
- **Most likely individual to detect fraud was**
 - **Parish priest (43%)**
 - **Parish business manager (25%)**
 - **Internal auditor (25%)**
 - **Parish finance council (23%)**
 - **External auditor detected fraud in 6% of the cases.**

United States Conference of Catholic Bishops

■ **1995, the US Catholic Conference approved "Diocesan Internal Controls: A Framework."**

– **Canon 1284 of the Code of Canon Law**

- **requires Church administrators to carry out their responsibilities with the prudence of a "good householder."**
- **Individual bishops can delegate the authority, but not the responsibility, to implement sound internal financial controls.**

- The Foreword makes it clear that parishes would find the guidance contained in the document to be useful.**
- Like all USCCB recommendations, this document contains just that, recommendations. Individual dioceses are free to implement all, some, or none of them.**

- **November 2007 meeting, USCCB approved a statement by its Ad Hoc Committee on Diocesan Audits.**
 - **Annual internal audits of each parish**
 - **Annual parish financial report, signed by the pastor and all parish finance council members, to be submitted to the diocese.**
 - **Parish's financial statements for the fiscal year**
 - **Prospective budget**

- **An attestation that the signers affirm that**
 - **The financial statements, to the best of their knowledge, accurately reflect the financial condition of the parish,**
 - **The parish finance council has reviewed and approved the financial statements and the budget**
 - **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.**
- **This document clearly places parish internal financial controls within the arena of responsibility of the parish finance council.**

Parish Finance Council Survey

- **Parishes should be required to adhere to a prescribed budget process, resulting in an annual budget.**
 - **Over 90 percent of the parishes prepare an annual operating budget. Parish finance council was involved at some level in all but 2 percent of the parishes.**

■ Frequency of Financial Statements Review

- Periodic cash receipts and disbursements
 - 42% Monthly
 - 30% Quarterly
 - 7% Annually
 - 15% Never
- Year to date cash receipts and disbursements
 - 42% Monthly
 - 33% Quarterly
 - 9% Annually
 - 10% Never
- Amount of unpaid bills at end of period
 - 28% Monthly
 - 21% Quarterly
 - 7% Annually
 - 39% Never

– Amount of cash on hand

- 42% Monthly
- 32% Quarterly
- 9% Annually
- 11% Never

– Balance sheet

- 42% Monthly
- 34% Quarterly
- 12% Annually
- 6% Never

– Comparison of actual to budgeted

- 42% Monthly
- 37% Quarterly
- 9% Annually
- 7% Never

– Comparison of current to prior year

- **30% Monthly**
- **29% Quarterly**
- **25% Annually**
- **7% Never**

– Amount of debt outstanding

- **38% Monthly**
- **32% Quarterly**
- **12% Annually**
- **11% Never**

■ **Transparency and Accountability**

– **Communication of PFC Minutes to Parishioners**

- **Available on Request -- 40%**
- **Parish Bulletin – 16%**
- **Posted on Parish Grounds – 9%**
- **Parish Web Site – 3%**
- **Parish Newsletter – 2%**
- **Mailed to Homes 1%**
- **Minutes not Shared – 48%**

– Communication with Parishioners on Budget Preparation

- Ask Ministries for Budget Request -- 76%**
- Preliminary Budget Presented to PPC – 49%**
- Preliminary Budget Explained in Bulletin – 14%**
- Preliminary Budget Explained at Mass – 10%**
- Hold Open Parish Budget Hearings – 9%**
- Preliminary Budget Presented to Parish – 4%**
- Preliminary Budget Explained in Newsletter – 4%**
- Preliminary Budget Mailed to Homes – 4%**
- No Opportunity for Typical Parishioner to view Preliminary Budget – 60%**

– Communication of Parish Budget to Parishioners

- Parish Bulletin -- 38%**
- Oral Reports at Mass – 33%**
- Parish Newsletter – 19%**
- Mailed to Homes – 19%**
- Posted on Parish Grounds – 16%**
- Parish Web Site – 8%**

- Budget not Shared – 1%**

- **Establish policy and procedures manuals to ensure that similar transactions are handled in similar manners**
 - **About two-thirds of the parishes use materials provided by the diocese.**

■ The number of bank accounts should be strictly limited to allow greater control and less opportunity for error or wrongdoing

– More than 40 percent had more than one checking account (not including parochial school accounts), presumably held by individual parish organizations.

- **Authorized check signers should be very limited, and checks in large amounts should require the signature of two responsible individuals**
 - **The person most frequently authorized to sign checks is the pastor.**
 - **In 4 percent of the parishes, a parishioner who is not a staff member had the authority to sign checks.**

–A related issue concerns the number of signers required for large disbursements.

■Bad practice for internal financial control to have too many individuals with the authority to sign checks, it is also of concern when only one person's signature is needed on large checks.

■Average number of authorized check signers was 1.4. In two-thirds of the parishes only one person was authorized to sign checks, no matter how large the amount.

Segmentation of Duties

■ Bank statements should be reconciled by someone other than the check signers

- 80 percent of the parishes assigned that task to one individual.**
- The percentage of parishes in which the same individual was the sole person in the parish responsible for reconciling the bank statements and for five different routine parish financial transactions.**
 - 5 percent of the parishes, the same person had sole responsibility for both writing checks and reconciling bank statements.**

■ In about one-sixth of the parishes, the same person was solely responsible for depositing the Sunday collection and for reconciling bank statements.

■ In nearly a third of the parishes only one person deposited non-collection revenues and reconciled the bank statements.

■ 40 percent of the parishes gave one person the sole authority to both approve routine disbursements and reconcile bank statements.

■ 5 percent gave the responsibility to a single individual for both approving non-budgeted expenditures and reconciling bank statements.

- Consistent with the spirit of segmentation of duties, no one person should count the collection on a regular basis. Ideally, the parish should rely on rotating crews of counters**
- In about 5 percent of the parishes, only one individual counts the Sunday collection.**

- About 40 percent of the parishes employ a regular crew of counters with an average of about 5 members.**
- More than half the parishes utilize a system of rotating collection counting teams with an average of about four members per crew.**

- **Checks should be drawn according to procedures prescribing adequate supporting documentation**
 - **In 91% of the parishes check signers are required to be provided documentation to support each check before they are signed.**

Parish Credit Cards

- Parish credit cards should be limited to those who absolutely need them.
- The documentation supporting the credit card purchase should be required and reviewed.
- If the pastor made the purchase, the bookkeeper reviews the documentation.
- This is a high-risk area.

Affinity Fraud

Fraud schemes that prey upon members of identifiable groups, such as religious or ethnic communities, the elderly, or professional groups



Recommendations

- **Implementation in every Catholic diocese of the policies prescribed in the USCCB handbook *Diocesan Financial Issues* including**
 - Rotating offertory collection counting teams in parishes
 - Individuals who are responsible for the receipt of parish funds different from those responsible for the disbursement of funds
 - Multiple signers on checks for large amounts and for non-budgeted expenditures.

- **The establishment of fraud policies in every diocese**
- **Annual randomly scheduled internal audits of parishes supplemented by external audits conducted at least every three years**
- **Establishment of a uniform budgeting process and standardized software for all diocesan entities**

- **Open, transparent, and accountable parish budget processes**
- **Encouragement of parishioners to use electronic transfers for their parish contributions**
- **Establishment of communication channels for church workers and parishioners to report suspected irregularities or fraudulent activities while protecting their anonymity**

- **Public disclosure of the names and professions of every member of the Parish Finance Council, along with their conflict of interest guidelines**
- **At a minimum, quarterly meetings of the PFC (or one of its subcommittees) to monitor parish and school financial reports**

Summary

- **The Church is not a business, but it does have a stewardship responsibility to use its resources efficiently**
 - Sometimes this requires us to employ sound management techniques such as internal financial controls
- **At the root of the issue is that we tend to be too trusting.**
 - No one would think that a clergy member or church worker would steal from the Church
 - Therefore, we fail to implement basic internal financial control practices
 - ALL churches face this problem

QUESTIONS?