

Report From Villanova University Study

Professors Robert West and Charles Zech of Villanova University's Center for the Study of Church Management conducted a survey of diocesan CFO's in the summer of 2005. The survey was supported by a grant from the Louisville Institute. It was sent to the CFO's of 177 Latin rite dioceses. A total of 78 usable responses (44 percent return rate) were received. The findings from the survey can be grouped into the following categories:

Characteristics of Dioceses Responding

A third of the responding dioceses had chancery budgets of under \$5 million, while the budgets for 14 percent of the dioceses exceeded \$20 million.

Two-thirds of the responding dioceses were organized as a corporation sole

Diocesan Finance Councils

All of the responding dioceses had a Diocesan Finance Council

Virtually all of the dioceses had at least one CPA on their DFC. Other relevant business professionals include bankers, brokers, insurance agents, and real estate managers.

When asked how active their DFC (or one of its committees) was in reviewing the diocesan budget, three-fourths indicated that it was involved or very involved

27 percent of the DFC's met monthly and 70 percent met quarterly

22 percent of the DFC's reviewed financial statements monthly and 49 percent quarterly. The others reviewed them either semi-annually or annually

Only 55 percent of the dioceses had conflict of interest guidelines for the members of their DFC's

CFO Background

90% had finance (27%) or accounting (63%) backgrounds

Average tenure was 12 years with a range from 1 to 30 years

Audits

The external auditor was selected by the DFC in 56 percent of the cases; by the bishop in 28 percent of the dioceses, and 12 percent of the time by the CFO. In the other four percent of the dioceses the selection of the auditor was a joint decision.

The time in which a diocese had been with its current auditor ranged from less than one year to 30 years, with a

median of 9 years

Among those receiving the audit management letters were the bishop (in 23 percent of the dioceses), the CFO (in a third of the dioceses); and the DFC (64 percent of the dioceses).

Over the three-year period 2002-2004, the number of recommendations received in the audit management letter ranged from zero (in 21 percent of the dioceses) to 74 (in one diocese), with a median of four. The average number of comments trended downward (in 2002 was 3.0, 2.65 in 2003, and 2.5 in 2004).

Diocesan Budgets

When asked which measure was most important in evaluating the financial effectiveness of their diocese, 58 percent of CFO's responded "meets budget expectations" while 22 percent indicated that a balanced budget was most important

When asked to rate their ability to collect the data that they need in a cost-effective manner, 86 percent indicated that it was very good or excellent (44 percent)

The number of budget deficits that the diocese had incurred during the preceding five fiscal years ranged from zero (in a third of the dioceses) to five (in seven percent), with a median of one. For the largest dioceses (budget > \$20 million), the mean was 2.8 deficits for the past five years.

Risk

The CFO's were asked to rank the greatest financial risk faced by their diocese. The greatest risk was that of potential litigation (ranked first by 36 percent of the CFO's) followed closely by concerns over parish finances and controls (34 percent)

Parish Audits

The frequency with which internal parish audits are performed ranged from annually (three percent of the dioceses) to "seldom or never" (21 percent), with a median of every 4 years. The most frequent response was that audits are conducted when there is a change in key personnel (i.e., pastor or bookkeeper)

Of those dioceses that audit their parish finances, 42 percent use an outside accounting firm

Parishes submit financial data to the chancery annually in 65 percent of the dioceses, quarterly in 16 percent, and monthly in 17 percent of the dioceses

Nearly three-fourths of the dioceses reported that some parishes had loans in arrears, with more than a quarter of the dioceses (27 percent) reporting more than \$1 million worth of parish loans in arrears

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CONTINUED FROM PAGE 21**High School Audits**

Of those dioceses that have diocesan high schools, these schools are audited annually in 63 percent of the dioceses, while 17 percent of the dioceses report that they never audit their high schools

In those dioceses that audit their high schools, an outside accounting firm is employed 59 percent of the time

In those dioceses having diocesan high schools, financial data is reported to the chancery on an annual basis in 53 percent of the cases and monthly in 30 percent of the dioceses

Forty-four percent of the responding dioceses reported having high school loans in arrears, with nine percent of the dioceses reporting more than \$1 million in high school loans in arrears

Fraud/Theft/Embezzlements

Only 39 percent of the dioceses reported have a formal written fraud policy (i.e., a response plan when a possible theft is reported to the diocese)

Of the dioceses responding, 85 percent had experienced a theft in the previous five years. In 93 percent of the dioceses experiencing theft police reports were filed, and in 91 per-

cent insurance claims were filed.

The most likely individual to detect a theft or embezzlement was a parish priest (43 percent), followed by a parish book-keeper or internal auditor (each 25 percent of the time) and the parish finance council (23 percent). Thefts were detected by external auditors in only six percent of the dioceses (respondents could select more than one option).†

Robert N. West is Professor Accountancy in the Department of Economics at Villanova University (PA). He currently instructs the courses Computer Applications in Accounting; Financial Accounting; Undergraduate and Graduate Managerial Accounting; Undergraduate and Graduate Accounting Information System; and Auditing. He has Management Education in Accounting and Finance for companies such as Philips Lighting, ComEd, and Standard Register, and is also a Villanova EMBA instructor. Mr. West is the leader of redesign of the technologically oriented Introductory Financial Accounting course. He received the Mary Pickford Foundation Teaching Excellence Award - University of Southern California, 1986 and 1985. Some of his personal interests include sports, board games, and coaching youth sports, as well as being a church choir member and pre-cana instructor.

Dr. Charles Zech is Professor of Economics in the Department of Economics at Villanova University (PA). His areas of expertise include the economics of business strategy and the economics of religious organizations. His formal education includes a Bachelor of Arts degree from St. Thomas University (MN), Master of Arts and Doctor of Philosophy degrees from Notre Dame University (IN). The subject of his doctoral dissertation was "Regressivity and the Property Tax: Alleviation and Tradeoffs." During his professional career, Dr. Zech has been an instructor at Notre Dame University, an assistant professor at Benedictine College. Since 1974 he has held various positions at Villanova University culminating in his position of Professor of Economics, in which department he served as chair from 1984 – 1991. He has been honored a number of times, in 1978 as the Distinguished Undergraduate Teacher by the Christian and Mary Lindback Foundation. In 1990 he received the Villanova Outstanding Faculty Research Award.

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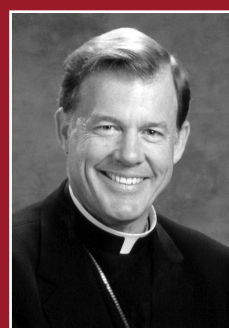
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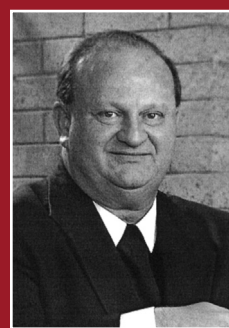
Welcome and Keynote to Open 37th Annual Conference

Bishop John C. Wester, Auxiliary Bishop of the Archdiocese of San Francisco, will welcome Diocesan Fiscal Management Conference (DFMC) members, guests and exhibitors to the 37th annual meeting to be held in the Hyatt Regency Hotel Embarcadero, September 24, 2006. Bishop Wester will bring the greetings of newly appointed **Archbishop George H. Niederauer**. Archbishop Niederauer is scheduled to celebrate the main conference liturgy and deliver the homily at the Monday evening official Cathedral liturgy. The keynote session will begin at 5:30 p.m., preceded by a high tea with the exhibitors from 2:00 – 4:00 p.m.

The centerpiece of the opening session will be the keynote address entitled “Faith and Finance – Strengthening the Church Through Collaboration” which will be delivered by **Brother Louis DeThomasis, FSC**, Chancellor, Saint



**Bishop
John C. Wester**
Archdiocese of
San Francisco



**Brother Louis
DeThomasis, FSC**
Chancellor, SMU of
Minneapolis, MN

Mary's University of Minnesota. In preparing this address Brother Louis noted that the “faith” of the Church has always cherished at the center of its mission the plight of the poor and the oppressed. In today's global society this need has not diminished. Unfortunately, it has only gotten more complex and dire for the majority of people on our globe. It takes faith, finance and collaboration if we are to be faithful to the Church's mission in the modern world.

Bishop John C. Wester was ordained a priest for the Archdiocese of San

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