



**SERENIC**<sup>®</sup>  
SOFTWARE

# Achieving Financial Transparency for Dioceses

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## Overview

For all organizations in the nonprofit sector, financial transparency is synonymous with survival. Dependence on donors necessitates an ongoing demonstration of where money is spent and how funded activities and programs fulfill defined mission statements. While Catholic dioceses are not required by law to be transparent and accountable, there is a definite shift towards the production of financial reports that provide a complete picture of the financial health of the entire diocese from the bishop's and archbishop's office down to the parishioner donor level.

Recent events have emphasized the importance of financial transparency. From embezzled funds to extortion, indictments have been handed down within the Catholic Church and a strong case has been built for not only increased scrutiny, but for better safeguarding of a diocese's assets.

### **Evaluate your existing financial solutions with these questions:**

1. In 2007, the USCCB recommended the use of the FASB standard financial presentation. Does your current system facilitate this type of reporting?
2. Catholic schools are being challenged by increased operational costs and an economy in which families are opting to send their children to public schools because of the cost. Have you reviewed the administrative operations of schools and parishes to find potential economies of scale by centralizing functions such as payroll processing?
3. Would centralizing each organization's fundraising activities and/or providing more detailed information on how funds are managed/spent assist in securing larger contributions from parishioners? Do you have such a centralized system in place?

Like any nonprofit group that constantly works to do more with less money and resources, it can be a daunting challenge for dioceses to provide a more holistic financial view of multiple, complex layers of the organizations in their areas of service. From schools and parishes to cemeteries, there exists a strong need for the chancery office to help each operating center succeed without adding a huge burden to its own management responsibilities.

Challenges at the organizational level include Catholic schools facing increased operational costs and a market in which many families cannot afford the expense of private schools. Nonprofits, in general, today are faced with declining donations in an uncertain economy.

## Increased Need for Financial Controls

Over the past two years especially, reports of financial scandals within the Catholic Church have flooded the media and prompted new recommendations from church governing bodies. A widely publicized 2006 survey by researchers at Villanova University found that 85 percent of Roman Catholic dioceses that responded had discovered embezzlement of church money in the last five years, with 11 percent reporting that more than \$500,000 had been stolen.<sup>(2)</sup>

The USCCB Accounting Practices Committee (APC) concluded that “the vast majority of the aforementioned frauds appear to be occurring at the parish level. At the APC meeting in January 2007, this topic was thoroughly studied and several recommendations were made to enhance the financial governance in the 19,000+ parishes.”<sup>(3)</sup> The group’s Accounting Report recommended the use of the Financial Accounting Standards Board (FASB) standard financial presentation.

Previously in 1995, the United States Conference of Catholic Bishops (USCCB) created the Diocesan Internal Controls, making the Bishop effectively responsible for the entire diocese. The forward stated that “all administrators are to perform their duties with the diligence of a good householder. The bishop can delegate the authority but not the responsibility. He has the duty to ensure that no abuses exist in the administration of church goods within the diocese.”<sup>(3)</sup>

The Villanova study suggested that whether an organization is a Fortune 500 company or a diocese, the objectives of the internal control structure remain the same:<sup>(2)</sup>

1. Provide reliable financial statements and accounting records
2. Safeguard the entity’s assets
3. Promote operational efficiency and effectiveness
4. Promote adherence to the mission of the Church or organization

# Requirements for a Financial Management System

Financial controls are actually a subset of internal controls and typically refer to segregation of duties. The right financial controls ensure that the person entering invoices to be paid, for example, is not also able to mark the checks for payment or cut the checks without someone else's involvement in the process. It is important that such processes are in place throughout a diocese, however, this becomes challenging in smaller parishes where there is only a part-time bookkeeper using a manual or moderately automated system. The financial controls need to be documented and monitored, especially if using a manual method. A computerized application through which these "duties" can be limited and the controls enforced with the system security, therefore, is an ideal solution. Dioceses might examine the economies of scale created by centralizing processes and – if possible – provide access for smaller parishes to computerized solutions that they may not be able to afford on their own.

Faced with the ultimate responsibility of the entire diocese, such a financial control system needs to possess certain attributes to ensure fiscal needs are met. Requirements for an enterprise-wide solution include:

- **Effective and efficient processes** – System should eliminate duplicate entry; automate manual processes; provide economies of scale; provide services from within the diocese finance department to all areas of the diocese (e.g., payroll). Investment is best in an application that can be rolled out and phased in over time to provide a cost-effective solution with economies of scale. A vertically-focused solution embedded within a leading mid-market application platform adds tremendous value, because it is designed to be scalable to serve diverse needs while providing a set of industry-specific functionality (e.g. chart of accounts structure and adherence to key financial reporting standards).
- **Reliable financial statements and accounting records** – Software should provide a strong audit trail and reporting tools that enable easy ad-hoc as well as management-style report generation.
- **Safeguard assets** – A solution should provide the tools to manage investments and revolving loan funds as well as physical (fixed) assets; offer an audit trail and the ability to enforce financial controls.
- **Adherence to management policy and procedures** – System should, again, provide an audit trail and financial controls, as well as automated workflow and business rules to help prove that mandated procedures are being followed.

# Benefits for Dioceses

The right financial management system should support and enhance the unique workflow processes of dioceses to help increase operational efficiency, manage cash flow and investments, and generate detailed financial reports. With one system installed across a diocese's central offices, its parishes and schools, it can expect to realize these benefits:

## Better Time Allocation

With an automated, integrated and standardized accounting system for parishes and schools, more time can be devoted to the vital ministries of the church. The system should make the administrative side of the clergy's and other leaders' work more manageable. More timely and accurate reports will be available to church leadership, finance councils, parishioners and parents of school students. An integrated database will allow information to become more accessible to the diocese to save time in gathering data.

## Cost Savings

A diocese's parishes and schools can eliminate redundant processes, save money on maintenance and no longer require expensive workaround solutions. In addition, parishes and schools will avoid the potentially catastrophic expense of losing data after a physical server problem. All data can be backed up in a centralized environment from an integrated database. By implementing a single hosted solution, a diocese can expect to eliminate the costs involved in backup management, software updates and additional IT infrastructure at the parish level.

## More Reliable Access To More Complete Information

A diocese can expect to be able to provide access to advanced technology solutions that individual parishes may not have been able to afford on their own and can expect that more information will be available in real time. In addition, by standardizing the chart of accounts and providing template report formats for parishes and schools, a chancery's office can expect to provide stronger reporting to finance councils, boards of education and the diocese.

## Time Savings

Instead of preparing consolidated reports manually, a diocese will benefit from the right solution's enterprise reporting capabilities, which can significantly reduce the time needed to communicate financial information from the parish, as well as from school leadership.

## More Accurate Data

Typically, parishes and schools produce reports for the diocese by printing their data and then manually completing paper forms or by completing online data questionnaires. With import and export capabilities, the right system can eliminate duplication of data entry and the inherent entry errors that can occur. If all entities were using the same system, the consolidation of this information would be automatic.

## Better Planning

Parishes and schools can manage their funds more effectively throughout the year with cash flow reports and budgeting tools provided by the right solution. They can use tools to determine, for example, if dollars will be available to fund a youth ministry program based on forecasts.

## Meet Financial Transparency Goals

Ultimately, the right financial management solution implemented over time can help a diocese accomplish the following goals, ensuring it is demonstrating a complete picture of its financial well being:

- Improve transparency and accountability
- Set up electronic approvals and budgetary controls
- Produce budgets and plans for detailed projects or programs
- Increase the efficiency of procurement functions
- Have instant access to critical financial data across any time frame
- Allocate expenses in real-time to increase the accuracy of data
- Manage the entire grant lifecycle

### References

- 1) "Economy Slows Charitable Giving, Fundraising in 2007," Association of Fundraising Professional's State of Fundraising Survey.
- 2) "Internal Financial Controls in the U.S. Catholic Church," Robert West, Ph.D. and Charles Zech, Ph. D., Villanova University, December 2006.
- 3) "Memore: Parish Financial Governance," Most Reverend Dennis M. Schnurr, Treasurer, USCCB, March 23, 2007.

## About Serenic Software

Serenic Software develops and delivers mission-critical ERP software solutions for public service organizations including: K-12 school districts/boards, public sector, nonprofits (NPOs), and international non-governmental organizations (NGOs). Serenic is a Gold ERP and ISV vendor and a development partner for Microsoft. Serenic public service solutions are trusted by over 1,000 organizations around the globe. You can learn more about Serenic Software at [www.serenic.com](http://www.serenic.com).

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