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Caring of Ecclesiastical Goods in the Light of Canon 1276

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Caring of Ecclesiastical Goods in the Light of Canon 1276*

Elizar A. CIELO**

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** Abbreviations:

AAS	Acta Apostolicae Sedis
COSO	Committee of Sponsoring Organization
CPO	Chief professional officer
DGDC	J. OTADUY, A. VIANA, J. SEDANO (Eds.), <i>Diccionario General de Derecho Canónico</i> , Cizur Menor 2012.
USCCB	UNITED STATES CONFERENCE OF CATHOLIC BISHOPS

INTRODUCTION

The Church which goes forth is a community of missionary disciples who take the first step, who are involved and supportive, who bear fruit and rejoice”.¹ Correct administration of ecclesiastical goods is an indispensable task so that Church mission would transmit the Good News to the world and bear fruit. Is it not surprising that Pope Francis dedicates his first five apostolic letters (*issued Motu proprio*), focusing on temporal goods of the Church. This is to facilitate better coordination and control over administration of goods to guarantee that temporalities should only be used for the common good and integral human development.²

The Church is employing necessary measures to make sure that ecclesiastical goods would serve in bringing missionary activities forward. Canon 1276 grants Ordinaries to carefully supervise administration of resources belonging to public juridic persons under their care. It is a competence applied through issuance of a concrete type of norm called instructions. Instructions facilitate active supervisory power to guarantee transparent and responsible administration of Church resources.

However, instructions alone would not offer a hundred percent efficiency without an implementation practical control system. This system that would guide personnel directly involve in the administration of ecclesiastical goods as affirmed in the documents of United States Conference of Bishops referring to a system called internal control. This practical system facilitates support and collaboration of Ordinaries, administrators and personnel so that Church resources will be applied for Church mission, common good and integral human development.

I. ACTIVE SUPERVISORY COMPETENCE OF ORDINARIES

In general sense, responsible and sustainable administration of Church resources³ does not only cover acts that are directed towards conservation and

¹ FRANCIS, Apostolic exhortation: *The joy of the Gospel*, Rome 2013, no. 24.

² Cf. FRANCIS, *Motu proprio: Fidelis dispensator et prudens*, Rome 2014, 1.

³ The term “church resources” obviously refers to the properties of the church (e.g., diocese, parish or religious institute) and not to a physical person. In *CIC/17*, canon 1497, defined church properties as “ecclesiastical goods” belonging to the moral person. In *CIC*, the canonical concept is referring to temporal resources pertaining to a public juridic person. Cf. J. COMYNS, *Administration of Church Property: a Historical Synopsis and Commentary*, Cleveland 1986, 9-10 et

amelioration of ecclesiastical goods. It also involves modification of stable and movable resources through new acquisition while losing others or decreasing them to safeguard patrimonies for the service of the Church.⁴

This intricate operation in governing ecclesiastical goods and considering that the bishop is not the administrator of goods belonging to parishes manifests the necessity of constituting functional internal control enforced by diocesan norms. This system allows the auto-functions of important supervisory duties of Ordinaries with very minimal intervention.

In the light of canon 1276,⁵ we maintain to affirm the position of many authors that the power stipulated in this provision for Ordinaries (e.g., diocesan bishop or religious superior) is an active supervisory competence. It is basically carried out through promulgation of diocesan/parish manuals or timely instructions on economic administration of the diocese.⁶ The systematic application of

passim; S. WOYWOD, "The Temporal Goods of the Church", in *A Practical Commentary on the Code of Canon Law* (Revised ed.), New York 1957, 189, 202; A. PERLASCA, "Bien eclesiástico", in J. OTADUY, A. VIANA, J. SEDANO (Eds.), *Diccionario General de Derecho Canónico* (DGDC), Vol. I, Cizur Menor 2012, 689-693; See also, M. LÓPEZ ALARCÓN, "The Temporal Goods of the Church", in A. MARZOA, J. MIRAS, R. RODRÍGUEZ-OCAÑA (Eds.), *Exegetical Commentary on the Code of Canon Law*, Vol. IV/1, Montreal 2004, 31-39; A. MAIDA and N. CAFARDI, *Church Property, Church Finances and Church Related Corporations*, St. Louis 1984, 75; I. PÉREZ DE HEREDIA, *Bienes temporales de la Iglesia*, Valencia 2002, 74-76 et passim; J. SCHOUPE, *Derecho patrimonial canónico*, Pamplona 2007, 56; J. MARTÍN DE AGAR, "Bienes temporales y misión de la Iglesia", in J. CALVO (Ed.), *Manual de Derecho Canónico*, Pamplona 1991, 709-710; P. LOMBARDÍA, "Persona pública y privada en el ordenamiento canónico", in *Apollinaris* 63 (1990) 144-145.

⁴ The complexity of administration of ecclesiastical goods presupposes the necessity for assistance and guidance of Ordinaries over its administration. Considering the Church as communion, administration of ecclesiastical goods should always be acting in favor of the common good of the whole Church. In view of Church mission, independent of whatever arguments or circumstances, ecclesiastical resources are not under the absolute discretion of the owner (public juridic entity) nor the administrator. Cf. A. MOSTAZA RODRÍGUEZ, *Derecho patrimonial canónico*, Pamplona 1977, 345-357; J. SCHOUPE, *Derecho patrimonial canónico*, Pamplona 2007, 154-162; V. PAOLIS, *Los bienes temporales de la Iglesia*, Madrid 2012, 151-163; F. AZNAR GIL, *Administración de los bienes temporales de la Iglesia*, Salamanca 1993, 332-334 et passim.

⁵ The Latin text of canon 1276 states: §1) *Ordinarii est sedulo advigilare administrationi omnium bonorum, quae ad personas iuridicas publicas sibi subiectas pertinent, salvo legitimis titulis quibus eidem Ordinario potiora iura tribuantur.* §2) *Habita ratione iurium, legitimarum consuetudinum et circumstantiarum, Ordinarii, editis peculiaribus instructionibus intra fines iuris universalis et particularis, universum administrationis bonorum ecclesiasticorum negotium ordinandum curent.* Cf. AAS 75, Pars II, 219.

⁶ Diocesan legislation on economic administration has a particular and practical significance in the life of the local Church. Diocesan legislation should be consistent with universal, particular and binding concordats. Moreover, the competence of the bishop on economic matter should be exercised within the limit of the law. CONFERENZA EPISCOPALE ITALIANA, *Istruzione in materia amministrativa*, Roma 2005, 7.

diocesan economic norms is intended to guarantee efficient application of this competence for an appropriate management of ecclesiastical resources.⁷

The Holy Church, as Jesus the Lord founded it, is an organized and visible society, performing public divine worship and administration. For an orderly discharge of these duties it is essential that the Church would possess sufficient and adequate material resources.⁸ Which means that ecclesiastical properties are not an end in itself but a means to promote and fulfill spiritual mission and pastoral concerns of the Church.

However, it is equally true that mere resources alone do not guarantee a sustainable support on an overwhelming needs of Church apostolate. The Church needs efficient and well-managed resources.⁹ Hence, ecclesiastical goods need to be correctly administered so that it would maintain to serve the Church in fulfilling its proper objectives.

Like any other institution, the Church could also be prone to any fraud, abuses or negligence in the administration of ecclesiastical goods should management is inadequate.¹⁰ Considering that dioceses have virtually no external or regulatory oversight of their financial statement, risk could be now relatively higher.¹¹

⁷ Normally, ecclesiastical goods are to be managed by the one who governs the public juridic entity (c. 1279 § 1). However, Ordinaries are competent in organizing and regulating administration of Church patrimonies of all public juridic persons under their authority through legal means (c. 1276). The task of good administration is actually a duty of both Ordinary and direct administrators (c. 1284) carried out according to the norms of law. This would mean that Ordinaries have to ensure before hand that ecclesiastical patrimonies would be properly managed in order to protect it against fraud, embezzlement and inefficient use.

⁸ Cf. W. DOHENEY, *Practical Problems in Church Finance*, Milwaukee 1941, 3.

⁹ Although "The Economist" newspaper doesn't have a clear grasp of Church organizational structure, its observation written in "The Catholic Church in America: an earthly concern", finds worth reflecting regarding the responsibility and accountability of all those involve in the administration of ecclesiastical goods. The filing for bankruptcy of some dioceses in the United States as some possible consequences of a very expensive settlement on sexual abuse scandal reflects a sloppy administration and poor administrative coordination in the administration of temporal goods. Messes like these in the administration of ecclesiastical properties are detrimental not only to temporalities but above all to the mission of the Church itself. Maladministration doesn't only brought down parishes to bankruptcy but above it totally compromise the mission of the Church. Cf. THE ECONOMIST, *The Catholic Church in America*, in *Earthly Concern* (August 2012), 1-5.

¹⁰ Cf. R. WEST and C. ZECH, "Internal Financial Control in the United States Catholic Church", in *Journal of Forensic Accounting*, Vol. 9 (Villanova 2006), 129-155, 4.

¹¹ From a doctrinal perspective, the Church is highly centralized under the authority of the Pope and the College of bishops in full communion with him. However, from an administrative perspective the Church is quite decentralized with each diocese and parishes within the diocese enjoying a fair amount of autonomy. Cf. R. WEST and C. ZECH, "Internal Financial...", 129-155, 5.

In comparison to other corporations, the Church doesn't provide a financial statement to the Security and Exchange Commission and hold quarterly conference calls with outside financial analyst.¹² This absence of outside pressures would sometime lead to poor transparency and accountability of public juridic entities in the Church. And worst when they choose to keep their finances private.

It is true that dioceses in most part of the world don't have legal obligation to regularly submit their financial statements to civil authority. But this doesn't warrant administrators to commit fraud, abuses or keep their finances private.¹³ On the contrary, Church administrators are obliged from the very beginning to be transparent and faithful to their tasks carried out in the name of the Church according to the letters of the law (c. 1283 § 1, 1°).

From this understanding, it would mean that isolated cases of misadministration of Church resources are brought about not by zero outside civil pressure nor lacunae of Church law. The Code contains a number of provisions directed to guarantee good administration and financial practices.¹⁴ The problems perhaps, lie on poor application of laws. This results to non-compliance or failure to observe existing norms of good administration and perhaps due to its lack of efficient application and supervision.

The discovery of some frauds of the past years opened an opportunity of reaffirming, that the Code contains a comprehensive regulation and internal financial control mechanisms.¹⁵ These norms are founded in principles of

¹² R. WEST and C. ZECH, "Internal Financial...", 129-155, 5.

¹³ Applying the principle of transparency, administration annual reports and financial statements of public juridic entities could never become private as stipulated in canons 1284 § 2, 7° and 1287 § 2.

¹⁴ To cite some: Each diocese is required to establish a Diocesan Finance Council to be presided over by the bishop or his delegate (c. 492) final preparation of the annual diocesan budget (c. 493), examine the diocesan annual income and expense report or annual audited financial statements (c. 494), mandatory appointment of diocesan finance officer (c. 494 § 1), assist the bishop in reviewing annual reports submitted by clerical and lay administrators (c. 1287 § 1), advise the bishop on both real and financial investments (c. 1305), the mandatory establishment of a finance council or at least two counselors to assist administrators, etc.

¹⁵ The research conducted by an accounting and church management departments of Villanova University affirms the number of provisions contained in canon law directed at good management and financial practices. For example canon 1284 requires Church administrators to carry out their responsibilities with the prudence of a "good householder". However, it pointed out that as a hierarchical church, the backstop is on the bishop, who can delegate authority but not responsibility. Hence, it is imperative for the bishop to take responsibility in ensuring that an effective system of internal controls is in place. Cf. R. WEST and C. ZECH, "Internal Financial...", 129-155.

correct administration of ecclesiastical properties. These series of provisions buried in the pages of the Code has become more clarified, elaborated and find its practical form of implementation. The United States Conference of Catholic Bishop (USCCB), for example, has issued guidelines that encourage and facilitate correct diocesan goods management.¹⁶

Experiences of frauds in the Church are very minimal but it happened and its occurrence could be possible. Reading the signs of the time, operating a modern-day-Church requires highlighting administrative control mechanism embodied in canon law through an effective system of internal control.¹⁷ It is important to point out that a mere internal control not founded on the existing norms of the Church would find less effective and its implementation would result to be optional.

An internal control system has to be implemented through a decree of a competent ecclesiastical authority or mandated in the promulgated diocesan manual (see cc. 391; 29-34). This means that diocesan economic norms find its practical and systematic application through internal control. And internal control system would only gain its binding force as mandated in the promulgated diocesan norms.

An established internal regulatory system would help Ordinaries become effective in their arduous tasks assisting direct administrators to become productive and efficient in their duties. Internal control system integrates all universal, particular and local norms of correct administration. The system runs using the tools of other arts and sciences like accounting principles and financial management.

Internal control by definition deals with operation, financial management and development of better control. It is not intended to controls administrators but rather assist them to have a better control on administrative operation. In normal condition, it facilitates both administrators and the Ordinary to carry out their legal functions efficiently without unnecessary friction.

The active supervisory power of Ordinaries as a constant support to administrators would be less threatening if applied through a system. Conse-

¹⁶ The Committee on Budget and Finance of the United States Conference of Catholic Bishops (USCCB) published a document "Diocesan Financial Issues" in 2002 and updated in 2013 to address diocesan financial issues and strengthen diocesan internal control. Cf. USCCB, *Diocesan Financial Issues*, Washington 1995, 1-162.

¹⁷ Cf. R. WEST and C. ZECH, "Internal Financial...", 129-155.

quently, it would help both the Ordinary and administrators to detect problems in the course of administration and anticipate appropriate solution. And if the problem is the administrator itself, by law, the Ordinary is competent to intervene and in grave cases, he could act as direct administrator for the sake of the common good of the juridic person.¹⁸

With due consideration to principles of subsidiarity and freedom, Church internal control is not intended to compromise any right or freedom due to direct administrators. It is not intended to directly control goods' management of juridic persons. It is a practical tool¹⁹ that would offer reasonable guarantee to the Church that ecclesiastical goods would be only used for the service of her mission through better collaboration and coordination.

With canon 1276, local norms on good administration would be effectively implemented through a working internal control system. This system is pushed forward by legal provisions embodied in canon law affirmed in a diocesan manual. In this way, Ordinaries would efficiently serve not as direct controllers of ecclesiastical resources but a constant assistance to administrators for better goods management.

II. IMPLEMENTATION OF SUPERVISORY DUTIES

The supervisory faculty of Ordinaries stipulated in canon 1276 is proactive in nature. It tasked Ordinary to organize and carefully monitor administration of ecclesiastical resources of all public juridic entities under his author-

¹⁸ The competence of Ordinary for direct intervention in cases of misadministration is not founded on the abusive or corrupt practices of administrator. But rather, it is intended to protect the entity from further harm and to ensure that apostolic activities it carried out will not be disrupted. Cf. M. LÓPEZ ALARCÓN, "The Administration of Goods", in E. CAPPARRÓS, M. THERIAULT and J. THORNS (Eds.), *Code of Canon Law Annotated 2nd ed.*, Montreal 2004, 981.

¹⁹ Church internal control would be employing working instruments like professional accounting and management for efficient administration. It would offer practical solutions to any perceived risk in the administration of ecclesiastical goods to avoid or minimize its impact. It would be using commercial administration practices without commercializing administration of ecclesiastical goods. It is because the system for good management in For-Profit-Organization is the same system applicable for the Church in the administration of ecclesiastical goods. Although somehow its application would differ in approach. Cf. P. BOOTH, "Accounting in Churches: A Research Framework and Agenda", in *Accounting, Auditing and Accountability Journal*, Vol. 6, Issue 4 (1993) 37-67; J. DUNCAN, D. FLESHER and M. STOCKS, "Internal Control Systems in Churches: An Examination of the Effects of Church Size and Denomination on Systems of Internal Control", in *Accounting, Auditing and Accountability Journal*, Vol. 12, Issue 2 (Mississippi 1999) 142-163.

ity. This would mean more than periodic auditing.²⁰ Periodic auditing should be part of the practical application of the said provision but not limited to it.

The existence of frauds suggests that provisions regarding good administration and financial practices embodied in the Code needs to be applied through a practical control system. Frauds are not the result of poor detecting measures, but rather the insufficient effort of promoting good management and guiding people involved. Internal control could be installed to constantly assist people carrying all economic operations that sustain Church mission.

Practically, simple auditing seemed to be two steps behind, in terms of proactive supervision. It is because, it cannot avoid before hand possible risks and it doesn't monitor constantly should applicable principles and norms are carefully followed. Damages that would have been discover after audit because of embezzlement, would be now difficult to restore or irreversible at all.

Inadequate internal controls can hinder the management responsibilities of church officers and employees. This situation places them in a position where they may be tempted to engage in questionable activities and accounting practices.²¹ The system would primarily serve promoting responsible management to safeguard resources for the benefit of the Church. And consequently, it maintains as a passive deterring means to minimize opportunities that would lead people become negligent and dishonest.

The word in latin used in canon 1276 regarding careful supervision is “sedulo advigilare”. It could be literally mean, as bestow constant attention or to be constantly awake.²² Literally, vigilance in the administration of ecclesiastical goods is not about fault finding. But rather it tasked Ordinaries to constantly on guard to protect resources against all harm. It is a duty of bestowing careful support to administrators pointing out possible traps ahead. The supervisory power, strictly speaking, is directed neither over public juridic persons nor its respective administrators in particular. But rather, it is a supervisory competence that is after of good administration of ecclesiastical patrimonies.

²⁰ In many dioceses, like in United States, a program for regular audits of parishes has been established as practical application of canon 1276. Cf. J. RENKEN, *Church Property: A Commentary on Canon Law*, New York 2009, 171.

²¹ J. DUNCAN and M. STOCKS, “The Understanding of Internal Control by Pastors”, in *Non-Profit Management and Leadership*, vol. 14, no. 2 (Winter 2003) 213.

²² “Sedulo” is an adjective word meaning, careful, attentive and thoughtful. “Advigilare” is a present infinitive form of the verb “advigilo” which means watchful or vigilant for, watch by or at, keep guard over; bestow care or attention upon something. Cf. S. SEGURA, *Diccionario etimológico latino español*, Madrid, 20.

After more than three decades of implementation of the new Code, particularly Book V, the Church, especially the Church in the United States, found it necessary to establish an internal regulatory system. This is intended to unify and clarify good management mechanism and financial control embodied in canon law.²³ Internal control is not new but an evolution of a more effective system founded in the Code. It is envisioned to help administrators for an appropriate management of Church goods and facilitates Ordinaries in their monitoring duties.

Internal control is a system that deals with operations, development, and finances.²⁴ Which means that careful monitoring tasks of Ordinary would never invade any space of freedom pertaining to the direct administrators, nor communicate a sense of mistrust to them. On the contrary, it rather supports administrators promote and protect their autonomy by helping carry out their ordinary faculty of administration correctly. Primarily, internal control deals with administrative operation; it establishes a healthy environment (avoid any opportunity, rationalization and pressure for fraud). It offers better controls of every act of administration through policies and procedures, which would promote efficiently, correct handling of operations.

Canon 1276 is not about giving guarantee to every public juridic person to aspire building a profitable empire. But rather, it assures that spiritual mission of the Church would be sustained and that the social dimension of goods would be fulfilled.

Therefore, the fundamental foundation of internal control is the mission of the Church itself and its focus is to sustain and promote her apostolic mission. This is the reason why there must be a close coordination between internal control's objectives and the mission of the public juridic person.²⁵ Keeping in mind Church mission, a diocese could develop business objectives

²³ The alleged embezzlements (like the pastor in Bridgeport, Connecticut in 2006 who was investigated on charges that he mispent 1.4 million dollar of parish donations, those four purchasing agents for the archdiocese of New York in 2006 allegedly extorted over 2 million dollars in a kickback scheme over eight years from various food vendors, etc.) in the Catholic Church in the recent years especially in the United States challenged the American Church to come up with a better and efficient regulatory system in ensuring correct administration of goods. Cf. J. DUNCAN *et al.*, "Internal Control Systems...", 145; R. WEST and C. ZECH, "Internal financial control in the United States Catholic Church", in *Journal of Forensic Accounting*, Vol. 9 (Villanova 2006), 129-155, 2-3.

²⁴ USCCB, *Diocesan Internal Controls: a Framework*, Washington 2003, 2.

²⁵ USCCB, *Diocesan Internal Controls...*, 3.

for operating the modern-day church but in view of setting forth her mission to be get more involved in the life of those in need.

Therefore, the relationship among the objectives of a diocese, and the formulation of strategy and control mechanisms, must be properly coordinated to have an effective system of control. Considering its inherent limitations (e.g., human error, possible collusion, and intentional disregard), an effective internal control system can provide only reasonable but not absolute assurance that such goals are met.²⁶

The dynamism of realities involves in the administration of goods and the weaknesses of the people involve, suggest that Ordinaries should constantly monitor the efficiency of the system. They have to extend always their assistance to improve weak points for a better protection and application of ecclesiastical goods.

A. *Focus of Active Supervisory Power*

The legal objective of the supervisory duties of Ordinaries is to help administrators that Church principles and existing norms are observed in the administration of ecclesiastical patrimonies.²⁷ Compliance of the law is mandatory so that social functions of ecclesiastical goods will be fulfilled in justice to the donors. However, efficiency of norms is better achieved if Ordinaries extend its support to administrators.

In fulfilling the social function of Church goods, it would justify the acquisition of such resources. It guarantees the fulfillment of its finalities as intended for promoting and sustaining apostolic mission and pastoral concerns of the Church (c. 1254). Correct administration then, offers an opportunity for the lay faithful to become more involves in helping Church mission.

²⁶ Although it can't offer absolute assurance, it doesn't mean that it is useless. Internal controls will vary based upon the size of a diocese and should be established only if the costs of the controls do not exceed their potential benefits. However, scarcity of resources is not a justifiable reason to ignore placing basic internal control. Internal management like separation of duties and cross checking would not generate additional cost. With regards to post assessment like auditing, there are options depending on the need and availability of resources. At the end, frauds and misappropriation of ecclesiastical goods would cost much more for the entity than installing functional internal control. Cf. USCCB, *Diocesan Financial Issues*, Washington 2013, 4-5.

²⁷ Cf. Z. COMBALÍA, "The Administration of Temporal Goods" in A. MARZOA, J. MIRAS, and R. RODRÍGUEZ-OCAÑA (Eds.), *Exegetical Commentary on the Code of Canon Law*, Vol. IV/1, Montreal 2004, 94; M. LÓPEZ ALARCÓN, "The Administration of Goods", 984.

The task of Ordinaries and administrators to ensure good administration is a serious matter. Good administration of Church goods promotes the very mission of the Church itself: communion (promotion and sustenance of apostolic mission), justice & freedom (fulfillment of goods' social functions) and stewardship (encourage the faithful to share and cooperate in Church mission). Hence, efficient administration is essentially necessary to attain the ultimate objective of Church mission – salvation of souls.²⁸

Supportive duties of Ordinaries would suggest a constitution of an efficient system of control within the operation itself. This system functions with the help of other arts and sciences, employing their management's concepts and practical tools to ensure appropriate administration.²⁹ Therefore, the relationship among the objectives of a diocese and the formulation of strategy and control mechanisms has to be properly coordinated. This is directed for effective care and responsible management of Church resources in sustaining her needs.

In a small diocese, these relationships are usually close, since there are fewer people responsible for coordination. However, in larger dioceses where responsibilities are more divided and narrow, coordination of these relationships requires more effort for the objectives and mission to be achieved. The

²⁸ Better resources management is indispensable in serving Church mission. Hence, it is necessary that there should be a close coordination not only of internal control objectives with the mission of the Church but also of bishop and his administrators. Keeping in mind Church mission, a diocese will also develop business objectives for operating the modern-day Church that better facilitates coordination and control. Cf. USCCB, *Diocesan Internal Controls...*, 4 et passim.

²⁹ According to studies, typically, the internal control structures of churches have been quite weak. Based on surveys' estimates, 15 percent of non-profit organizations (like churches), have been, are being, or will be victimized by an unscrupulous employee or member. In the document of Flesher and Duncan (1999) found that many of the most important internal controls were generally missing in churches. In the document of Butler and Herman (1999) pointed out that pastors of local congregations are in positions somewhat similar to chief executive officers who lead other types of nonprofit organizations, with the added responsibility of responding to the religious needs of their congregations. A pastor generally serves as the chief professional officer (CPO) of a local church. In the Catholic Church, provisions on administration of ecclesiastical are much stricter. It is because pastors/administrators are under the supervision of Ordinaries. Yet, frauds and maladministration in the future could still be a possibility. These facts suggest an effective internal control. Cf. J. DUNCAN *et al.*, "Internal Control Systems...", 142-163; D. BUTLER, and R. HERMAN, "Effective Ministerial Leadership" in *Nonprofit Management and Leadership*, Vol. 9, Issue 3 (Kansas 1999) 229-239; J. GREEN, F. MADJIDI, T. DUDLEY and L. FRIEDA, "Local Unit Performance in National Non-profit Organization", in *Nonprofit Management and Leadership*, Vol. 11, Issue 4 (New Jersey 2001), 459-476.

objectives of internal control would be focused in giving reasonable guarantee on appropriate and efficient management of ecclesiastical goods.

Internal control is primarily intended not to control direct administration but rather to promote and guide correct goods management. As a consequence, it safeguards assets against waste, fraud, and inefficient use. It promotes accuracy and reliability in financial management and accounting practices. It also encourages and measures compliance with applicable existing norms. And it regularly evaluates the efficiency of operations.³⁰

A working internal control makes careful supervision functions in all economic operation of public juridic persons without direct intervention from Ordinaries. The active supervisory competence of Ordinaries serves as a constant assistance to administrators in all acts of administration. This covers different categories of goods management monitored based on the presented annual budget and updated inventories as points of reference.

Internal control, as a passive assistance extended by Ordinary to administrators, its primarily task is to promote correct and ordered administration. This way of applying supervisory competence is a proactive means and ways to protect ecclesiastical goods against damage, lost or inefficient use. That is why internal control has to be placed in all categories of goods' management.

The intention of supervisory competence then, exercised through internal control is to guarantee that norms are observed and operations are efficient. It will deter opportunities of fraud and contained abuses at once, if there is any. The intensity of control would be relative depending on the importance of the operation and the possible risk it may pose to the patrimony of a juridic person.³¹

³⁰ These common goals we have cited above are the objectives of internal control cited in diocesan internal control document of USCCB, internal control according to COSO and internal control by Duncan and others. Cf. J. DUNCAN *et al.*, "Internal Control Systems...", 144; USCCB, *Diocesan Internal Controls...*, 7; J. D'AQUILA and R. HOUMES, "Applying Concepts to Governments and Not-for-Profit organizations", in *COSO Updated Internal control and enterprise Risk Management Framework* (The CPA Journal 2014) 1-5.

³¹ That is why, by law, transaction that involves high risk requires direct intervention from Ordinaries and in some cases, the direct intervention of the Holy See is necessary (c. 1292 § 2). And in extreme cases when the entire ecclesiastical patrimony of the entity is in imminent danger because of a negligent administrator, for the sake of common good, the Ordinary has to intervene as direct administrator (c. 1279 § 1). However, the supervisory duties of Ordinary covers all types of administration involving ecclesiastical goods whose owners are under his authority to ensure that it (independent of the amount and relevance of the act) would be used for the service of the Church.

1. Categories of Acts of Administration

The intervention of Ordinaries to assist administrators in the administration of goods could be a passive one in ordinary operations. But a direct intervention is necessary when acts are beyond normal administration. The mode of assistance may vary depending on the degree of importance and amount of risk involved in every economic activity in relation to the patrimonial stability of the entity.³²

Which means that, for example, an income generated by a land or building has a lower risk and could be disposed by the administrator legally without the necessary direct intervention of Ordinary. But selling the property itself (as considered part of the stable patrimony)³³ is beyond the ordinary power of the administrator.³⁴ Hence, alienating an important property requires strict prior regulatory procedures. It needs a direct intervention of competent authorities compared to spending the income of a property.

In Book V of the Code, the three first titles that contain the norms regulating the movements of ecclesiastical goods, start with norms regarding acquisition of goods, followed by its administration and the third title regulates alienation of goods.³⁵ This structure used in Book V challenged canonists to distinguish conceptually and formally these three different operations dealing with ecclesiastical goods.

Some authors like De Paolis,³⁶ tried to separate acts of acquisition, administration and alienation. This would mean that economic management

³² Although the rigor of supervisory competence is not applied in a uniform way, it maintains to be an active faculty. Clear determination of the different acts of administration (i.e., generally, ordinary and extraordinary acts of administration) facilitate both Ordinaries and direct administrators to execute their respective duties as provided by law. However, supervisory duties cover all stages of administration to guarantee that ecclesiastical patrimonies are only used for the service of the Church. Cf. J. CARRIÓN, “De la administración de los bienes”, in A. POVEDA (dir.), *Código de Derecho Canónico*, Salamanca 1993, 566.

³³ Stable patrimony doesn't only refer to immovable properties but in general, it covers all properties that pertain to foundational endowment of the juridic entity. It comprises all that guarantee stable financial support to ensure its auto sufficiency and survival fulfilling the proper objectives of the juridic person. Cf. F. SALERNO, “Administración Extraordinaria”, in J. OTADUY, A. VIANA, J. SEDANO (Eds.), DGDC, Vol., I, Cizur Menor 2012. P. 218; J. SCHOUPPE, *Derecho patrimonial canónico*, Pamplona 2007, 156.

³⁴ Cf. F. AZNAR GIL, *La administración de los bienes temporales de la Iglesia*, Salamanca 1993..., 380.

³⁵ Cf. J. MIÑAMBRES, “Administración de bienes”, in J. OTADUY, A. VIANA, J. SEDANO (eds.), DGDC, Vol., I, Cizur Menor 2012, 205.

³⁶ De Paolis insisted that the concept of alienation is totally different from extraordinary act of administration. The acts of administration can be clearly distinguished from alienation based in the presentation of the Code itself. Because of its distinct configuration from act of adminis-

understood as conservation, amelioration and fructification of goods seems to be excluded from acquisition and alienation activities.

Practically, it would be difficult to distinguish the act of administration and act of alienation as provided in the present canonical legislation.³⁷ It is because there are also transactions that are similar to alienation, which could endanger the patrimonial stability of the juridic entity.

The law considered alienation as an act of administration strictly especial. Its object is an ecclesiastical good that pertains to what is considered part of the stable patrimony of the juridic entity, and whose alienating value surpasses the amount stipulated by the Episcopal Conference or the Holy See (in cases referred to institutes for consecrated life [c.638]).³⁸

This means that in practice, the level of control is relative depending on the importance of an act of administration. It could be based on the economic value or a particular defined operation or both of an ecclesiastical goods subject for either administration or alienation. It is because the strict application of legal concept of administration as something distinct from acquisition and alienation is difficult to establish.³⁹

In relation to the scope of supervisory task of Ordinaries in applying the necessary control procedures, some are focusing on economic value of the goods involve.⁴⁰ Theoretically, it would be impossible to establish an absolute and clear distinction of each distinct type of economic operation if not by a precise practical intervention of the competent authority, establishing limits proper to every type of administration.⁴¹

tration and not even considered extraordinary operation, the Code regulates it separately with the title "Contracts and Specially Alienation". Moreover, taking into consideration also canon 1254 § 1, it adds the verb alienate in the process of codification to emphasize with precision that alienation is not the same or part of administration of goods (Comm. 12 [1980], 386). Cf. V. DE PAOLIS, *Los bienes temporales...*, 157-158.

³⁷ Cf. J. SCHOUPE, *Derecho patrimonial...*, 154-155.

³⁸ Cf. J. MIÑAMBRES, "Administración de bienes", 205.

³⁹ The acquisition could be an act of administration or product of alienation. Administration of ecclesiastical goods could be an act of acquisition or alienation; and that sometimes alienation could be the best option to acquire the necessary goods to conserve the patrimony. The strict understanding separating acquisition as act introducing something and alienation as throwing something out of the patrimony distinct from act of administration as conservation, amelioration and fructification is in reality a false assumption. Cf. J. MIÑAMBRES, "Administración de bienes", 205.

⁴⁰ We will not be discussing in detail theoretical arguments regarding the division and relation of acquisition, administration and alienation. For further readings you may refer to famous authors regarding these matters. Cf. J. SCHOUPE, *Derecho patrimonial...*, 154-162; V. DE PAOLIS, *Los bienes temporales...*, 151-158; F. AZNAR GIL, *La administración de los bienes...*, 375-381.

⁴¹ Cf. F. AZNAR GIL, *La administración de los bienes...*, 380.

To situate the focus of supervisory support on its practical application, we will generally classify categories of ecclesiastical goods management as ordinary and extraordinary administrations. Under ordinary administration, we will include acts of great importance as its sub category and alienation or its equivalent is considered a sub category under acts of extraordinary administration.

Canon 1277 offered a practical solution urging Episcopal Conferences to define acts considered as extraordinary administration or amount limit for ordinary administration or both. Internal control covers all operations in both ordinary and extraordinary administrations ensuring that ecclesiastical goods have to be fully used for the service of the Church.

Moreover, it maintains the unitive dimension of every act of administration in view of Church mission. For example, in case of alienation, internal control facilitates to comply the necessary prior requirements, it will ensure transactions would be carried out in favor of the Church and it will make sure that proceeds will be properly spent and accounted.

a) *Acts of Ordinary Administration*

Ordinary acts of administration are routine transactions⁴² carried out according to the norms of law and by virtue of principle of subsidiarity and freedom, are under the full discretion and ordinary power of the administrator. Ordinary economic operations don't need any necessary direct intervention from the higher ecclesiastical authority.⁴³ These acts refer to daily operations of diligent administration of ecclesiastical goods to govern, conserve, ameliorate and even generate an income for the service of the Church.

Acts of ordinary management covers those operations that don't contain risk that may affect the stability of the patrimony of the juridic person.⁴⁴ Canon 1284 § 2 prescribes that ordinary act of administration has to be carried out diligently like a good householder by administrators.⁴⁵ Some primary duties indicated herein, clearly state that administrator must;

⁴² Acts of ordinary administration are routine acts but it is still different from ordinary transactions that are considered more important in relation to economic situation of the diocese and has classified it as non-routine acts. Cf. J. RENKEN, *Church Property...*, 176.

⁴³ Cf. F. AZNAR GIL, *La administración de los bienes...*, 380.

⁴⁴ Cf. J. SCHOUPE, *Derecho patrimonial...*, 157.

⁴⁵ Canon 1284 § 2 provides the practical obligations of an administrator. It has a wording similar to canon 1523 of CIC/17 but with additional details ensuring greater degree of safety for the ecclesiastical properties (Cf. Z. COMBALÍA, "The Administration of Temporal Goods", 113). The

1) Observe the precepts of both canon and civil law or those imposed by a founder, a donor, or legitimate authority, and especially be on guard so that no damage comes to the Church from the non-observance of civil laws (c. 1284 § 3).⁴⁶

2) With the consent of the ordinary, invest the money which is left over after expenses and can be usefully set aside for the purposes of the juridic person (c. 1284 § 6).⁴⁷

3) Organize correctly and protect in a suitable and proper archive the documents and records on which the property rights of the Church or the institute are based, and deposit authentic copies of them in the archive of the curia when it can be done conveniently (c. 1284 § 9).⁴⁸

enumerated obligations of administrators stipulated in this provision respond to the principles of administration of ecclesiastical patrimonies reflected in Second Vatican Council (*PO* 17) that has been introduced solely by way of example (*Comm.* 5 [1973], 98 n.25; 12 [1980], 419). Paragraph two represents the sensible and practical application of governing principles that calls for attention rather than explanation (cf. R. KENNEDY, “The Temporal Goods of the Church”, in J. BEAL, J. CORIDEN and T. GREEN, *New Commentary on the Code of Canon Law*, New Jersey 2000, 728). These obligations enumerated separately are in reality overlapping each other. The complicated reality in the actual administration of ecclesiastical goods undoubtedly needs a system that would facilitate efficient operations, ensures reliable financial management, promotes compliance of existing norms and safeguard assets. This system will have to be studied in every diocese in order to tailor an effective internal control that responds to their needs. Cf. USCCB, *Diocesan Internal Controls...*, 1-7.

⁴⁶ This norm responds to basic practical principles of legality and fidelity to the intention of the donor. Canon law protecting ecclesiastical patrimonies should have civil effectiveness within the State system but not marginal or contrary to it (J. MARTIN DE AGAR, *Bienes temporales...*, 708). The necessary fulfillment of the intention of the donor for a specific purpose (property or money) alerts administrators to be prudent and careful in accepting donations. Cf. R. KENNEDY, “The Temporal Goods...”, 728.

⁴⁷ Investment of surplus income is founded on the principle of diligence, wherein goods are protected from deflation and waste. This provision authorizes the administrator to invest surplus money in favor of the juridic person with the consent of the Ordinary (M. LÓPEZ ALARCÓN, “The Administration of Goods”, 992). Cash is a medium of exchange and in general it is not part of the fixed capital of the juridic person. On the other hand, lands and building are frequent examples of fixed assets but they are not the only examples. Surplus money of a public juridic person could be converted to fixed assets when with the permission of the Ordinary be invested in property or secure holdings such as stocks, bonds, deposit and the like. Cf. R. KENNEDY, “The Temporal Goods...”, 732.

⁴⁸ The serious duty of administrators in keeping accurate and secure records is legally obliged in this provision. Although it doesn't warn the possibility of records falsification nor provide steps to ensure accurate recording, by virtue of principle of subsidiarity, the Ordinary is obliged to place a basic system of control to increase opportunity not only on detection for any fraud but will serve as direct guides in securing responsible administration. Cf. J. RENKEN, *Church Property: A Commentary on Canon Law*, New York 2009, 173.

This provision elaborates the duties of administrators pretty well but it is not everything because exhaustive elaboration of all ordinary acts of administration would be impossible. Other provisions in the Code establish also these ordinary operations like those provided in canons 638 § 1; 1277; 1281 § 1; etc.

It is important to design a practical and effective internal management system to facilitate the application of basic norms of a diligent administration of goods. This would mean that by virtue of principle of subsidiarity, in normal ordinary administration, there would be no direct intervention from Ordinaries needed. Yet, efficient supervisory task and responsible administration of goods is still guaranteed through simple processes and procedures.

Under ordinary administration, there is an act of administration that is understood ordinary yet, considered as an act of great importance compared to simple ordinary daily operations. It requires prior formalities and is subject to the intervention of competent authorities as provided in canon 1277⁴⁹ to safeguard patrimonies against any harm.

In the codification process of canon 1277, it used the expression “*attento statu oeconomico dioecesis*”⁵⁰, which clearly suggests that acts with great importance is relative to the economic capacity of a juridic person or will vary from one diocese to the other.⁵¹ Every act of administration is important considering that a public juridic person is envisioned to fully cooperate and collaborate in the apostolic mission of the Church.⁵²

Hence, by virtue of principle stewardship, it would be necessary that diocesan bishops have to define acts of major importance and extraordinary administration in view of economic capacity of every public juridic person under his care. This would serve as clear point of reference in fulfilling respective requirements before carrying out any transaction that may under such categories.⁵³ Although, in the letters of the canon 1277, the bishop is not obliged to

⁴⁹ In the discussion regarding the notion of administration, Schoupe treated acts of major importance in the last part of his discussion after explaining ordinary and extraordinary administration although defended that it is part of ordinary administration. Moreover, the application of this concept is limited in the dioceses as provided in canon 1277, although it could also be applied in other entities like religious houses or provinces. Cf. J. SCHOUPPE, *Derecho patrimonial...*, 162.

⁵⁰ *Comm.* 12 (1980) 414.

⁵¹ A considered ordinary act for a diocese of two million Catholics could be viewed as act of major importance for a small diocese with only two hundred thousand Catholics. Cf. R. KENNEDY, “The temporal goods...”, 723.

⁵² Cf. A. MAIDA and N. CAFARDI, *Church Property, Church Finances and Church Related Corporations*, St. Louis 1984, 25.

⁵³ Cf. J. SCHOUPPE, *Derecho patrimonial...*, 162.

accept the advice from finance counsel and college of consultors, he would act invalidly if he would not seek it. And in the absence of an overriding reason, he illegally and imprudently makes decision if he simply rejects their advice as provided in canon 127 § 2, 2^o.⁵⁴

Coming with applicable norms fitted in accordance with the economic situation of the diocese would be of great help in constituting effective internal management. The application of basic norms through internal control means that the support of Ordinaries is present in the ordinary administration without the need of direct intervention. But treating a particular act of major importance in accordance with particular norms, a needed advice from other financial organs is a good guarantee (e.g., finance council of the parish).⁵⁶

b) *Extraordinary Administration*

Acts of extraordinary administration are operations that exceed the defined limit or mode of ordinary administration (c. 1281). This determination suggests to be based on the established particular and local norms or statutes of every public juridic entity in view of its economic capacity.⁵⁷ An examination of various confirmed decrees issued by different Episcopal Conferences to date shows that there are different approaches had been taken on this matter. Some use listing of categories of acts. Some use a basic sum of money

⁵⁴ Canon 127 § 2, 2^o provides that when it is established by law that in order to place acts, a superior needs the consent or counsel of certain persons or individuals: if counsel is required, the act of a superior who does not hear those persons is invalid; although not obliged to accept their opinion even if unanimous, a superior is nonetheless not to act contrary to that opinion, especially if unanimous, without a reason which is overriding in the superior's judgment. This provision does not only oblige superiors but also all those involved in their obligation in law to give to their consent or advice. Cf. A. MCGRATH, "Juridical Acts", in G. SHEEHY, R. BROWN, D. KELLY and A. MCGRATH (Eds.), *The Code of Canon Law: Letter and Spirit*, London 1995, 75.

⁵⁵ Cf. F. MORISSEY, "The Temporal Goods of the Church", in G. SHEEHY, R. BROWN, D. KELLY and A. MC GRATH (Eds.), *The Code of Canon Law: Letter and Spirit*, London 1995, 707-738, 723.

⁵⁶ The Diocese of Lingayen Dagupan, for example, the bishop clarifies the provision of the CBCP in view of the economic capacity of parishes establishing amount for ordinary administration from 1 – 4.999 dollars. Which means that within such established amount, the administrator has its full discretion to decide on what to do with the goods in accordance with the existing norms. An amount ranging from 5.000 – 19.999 dollars are acts of great importance. Such transaction needs a prior consent of the parish finance council. Transaction amounting from 20.000 dollars and above needs the approval of the bishop. Cf. ARCDIOCESE OF LINGAYEN DAGUPAN, *On Parochial board on Church temporalities*, Dagupan 2009, 1.

⁵⁷ Cf. J. SCHOUPE, *Derecho patrimonial...*, 158.

as indicative of extraordinary administration, while still others employ mixed approach.⁵⁸

Acts of extraordinary administration are matters of great concern for both of Ordinary and administrators. It is because the risk involved may seriously affect the economic stability of the ecclesiastical patrimonies of the entity. The active intervention of the Ordinary and the prior control procedures (cc. 1277; 1281) in this kind of operation, are directed towards safeguarding the stability of ecclesiastical resources of the entity in favor of Church mission (c. 1254 § 2).⁵⁹

Within this category, we have act of alienation. It is defined as a transfer of ownership of property from one person to another, e.g., by sale or gift. However, in the administration of ecclesiastical goods, alienation is not only limited to transfer of ownership but any transaction whereby the patrimonial condition of the juridic entity will be jeopardized.⁶⁰

The Code does not absolutely prohibit alienation⁶¹ in view of better administration of ecclesiastical goods. It is true that all goods acquired by the Church are intended for the service of Church apostolate and pastoral concerns (c. 1254 § 2). However, in the course of administration, in some cases,

⁵⁸ The Catholic Bishop Conference of the Philippines (CBCP) established and considered an amount as an extraordinary administration ranging from 20.000 to 100.000 dollars or its peso equivalent. However, any alienation and indebtedness of goods that constitute the stable patrimony of the Church, whenever the value is between 10.000 to 20.000 dollars, the diocesan bishop shall hear the diocesan finance council and board of consultors for a valid transaction according to the provision of canon 1277. The permission of the Holy See is necessary whenever the value of the property exceeds 100.000 dollars or its peso equivalent. Cf. F. TESTERA (ed.), *Canon Law Digests in the Philippine Church: A Text and Commentary*, Manila 1987, 11; 38. For further details, see F. AZNAR GIL, *La administración de los bienes...*, 387-395.

⁵⁹ Cf. F. AZNAR GIL, *La administración de los bienes...*, 380.

⁶⁰ Cf. F. MORISSEY, "The Temporal Goods...", "Contracts and Especially Alienation", 732. In some instances, alienation of goods is not only subject for the approval of diocesan finance committee and college of consultors. Should alienation transaction exceeds the maximum amount established by Episcopal Conference or the goods subject for alienation is given to the Church by reason of vow or that object is precious by reason of historic or artistic value, it further needs prior permission of the Holy See (cc. 638 § 3; 1292 § 2).

⁶¹ The intention of the legislator to place regulatory provisions on alienations in a specific way (cc. 1290-1298) responds to the long tradition in of which ecclesiastical goods are sacred goods. Which means what the Church had acquired is in principle is inalienable. It is because, the Church want to avoid all possibilities that ecclesiastical goods will cease to serve the Church as intended. However, in reality, the emphasis to guarantee good administration is more important than assuring the inalienability of ecclesiastical goods. Cf. J. SCHOUPE, *Derecho patrimonial...*, 158.

the best option to conserve the value of a particular good is by alienation in accordance with the norms of law.⁶²

Canon 1291 is explicitly referring to alienation of ecclesiastical goods pertaining to stable patrimony of fixed capital of a public juridic entity. Fixed capital referred as goods necessary for the survival of the entity, does not only covers lands and buildings. In today's world, money could also be part of the fixed capital if invested in property or in secure holdings such as stocks, bonds, deposits and the like, through a formal designation of a competent authority or by the directive of the donor.⁶³

The delicate operation on properties pertaining to a stable patrimony of the entity may pose repercussion, not only to economic stability of the juridic person. But above all, to the mission of the Church entrusted to a particular entity. For this reason, the provision of canon 1293 § 1 legally obliged Ordinary to ensure that such act of alienation renders better stability of ecclesiastical patrimony of the person and avoid any possible harm or losses to ecclesiastical property.⁶⁴ A systemized and well-coordinated goods management is a big help for an objective assessment if alienation has a just reason based on experts' evaluation (c. 1293 § 1, 1°-2°). Moreover, internal management assures the common good of the entity before (by efficient execution of operation in compliance with the norms) and after alienation operation (safeguarding of proceeds for either sales or investments and good financial management and accounting).

2. Practical Points of Reference of Supervisory Duties

Two of the most important reference points we believe to be useful in carrying out supervisory duties and designing efficient control are provided in the Code. Primarily, these will serve as guidelines for administrators to ensure correct appropriation of goods for the service of the Church.

First, canon 1284 § 3 provides that administrators of ecclesiastical goods should have an annual budget of income and expenditures each year. By virtue of principle of subsidiarity, its regulations and general guidelines are by law entrusted to local ecclesiastical authorities. Second, annual financial report

⁶² Cf. V. DE PAOLIS, *Los bienes temporales...*, 158.

⁶³ Cf. F. MORISSEY, "The Temporal Goods...", "Contracts and Especially Alienation", 732.

⁶⁴ Cf. *ibid.*, 735.

(c. 1284 § 2, 7°), clear, accurate and updated inventory of all assets (fixed and movable goods) indicating its corresponding descriptions and estimated value should be done (c. 1283 § 1, 2°)⁶⁵ are documents that would manifest on how goods are managed.

Supervisory duties applied through internal control, in practice, need a concrete reference point. Points of reference will serve as objects of focus in the course of careful supervision. It would also serve as a testimony on how goods are spent in view of serving the needs of the Church. In implementing supervisory tasks through internal control system, reference points would also help checking if the system is functioning well and could suggest improving weak control points of the system.

a) *Annual Budget of Income and Expenditures*

The tenor of canon 1284 § 3 literally doesn't oblige administrators to draw annual income and expenditures, although it earnestly recommends.⁶⁶ Yet, it is essentially necessary for good administration to start with a careful preparation of a balanced budget.⁶⁷

Establishing an annual budget is by law, not obligatory. Yet, by virtue of principle of diligence in view of Church mission, having an annual projection of income and expenses are not only directed towards good administration. It is intended, above all, towards fruitful apostolic mission of the Church. It would be recommended that Ordinaries should motivate all public juridic en-

⁶⁵ Considering that the power of the bishop in supervising administration of goods of parishes is jurisdictional, inventory is not a favor to the bishop but to the juridic person. Book and physical inventory are not intended to look for hidden grave abuses that could implicitly appear through the pages of inventory reports. It is not to discover questionable disappearances of assets present during the last inventory that may have been alienated invalidly and illicitly. But rather it helps track asset to become more productive rather than remain inactive, it can offer best solution to the depreciating assets, etc. Since inventories include the necessary description and location of properties, in case of necessary help, the bishop can offer a constructive assistance if it is necessary. Any alarming information seen in the inventory report will be collaborated by the result of the periodic audit report. This objectively substantiated information would help Ordinaries to improve internal control system initiating concrete steps to prudently address situations in favor of the juridic person and mission of the Church in the near future.

⁶⁶ Although it is not obliged by law, but the fact that it would give a general description of the possible obligations and duties of administrators, these provision would serve as an essential guide to determine the scope and methods of ordinary administration and therefore would practically clarify that beyond what has been planned could be considered act of extraordinary administration. Cf. Z. COMBALÍA, "The Administration of Temporal Goods", 114.

⁶⁷ Cf. F. MORISSEY, "The Temporal Goods...", 709.

tities under their care, to come up with annual budget of income and expenses for their benefit.

By virtue of principle of stewardship, a carefully drawn up and balanced budget would not only guarantee correct application of goods but also a vibrant and active Church apostolate. Budgeting⁶⁸ is not only about saving or spending Church resources efficiently. But above, all it is about investing properly so that Church may truly be in mission.⁶⁹

Annual budget and expenditures would allow administrators to set pastoral priorities and secondary concerns orderly.⁷⁰ It would also provide contingency measures if in case unexpected problem surfaces. Moreover, it can manage appropriately unused properties and surplus incomes without sacrificing the future needs of the Church.

b) *Inventories and Annual Administration Reports*

Inventory is generally understood as detailed and systematic enumeration of goods pertaining to a physical or juridic person accompanied with its descriptions and assessment value.⁷¹ Taking into consideration the provision of canon 1283 § 2, administrators are obliged to have an inventory report before realizing their functions.

An updated inventory report is an important starting point of reference to have a better supervision and assistance to ensure correct administration of goods. By a mere yearly assessment of at least accurate and updated inventories, the Ordinary could have a general perception whether economic resources of an entity is faithfully serving the needs of the Church.

Canon 1283 § 1, 2^o is a new provision that is intended to provide a clear knowledge regarding the goods that pertains to the administrator and those

⁶⁸ Budgeting is a process of allocating resources towards goals. It is one very notable way of expressing the church's story, past, present and most of all, what it wants to be in the future. Cf. B. JOHNSON, "Planning and Budgeting", in B. POWERS (Ed.), *Church Administration Handbook*, Tennessee 2008, 153.

⁶⁹ Cf. B. JOHNSON, "Planning and Budgeting", 153.

⁷⁰ The updated USCCB document on financial issues recommends that the Ordinary has to issue budgeting and financial reporting guidelines for all diocesan parishes, schools and agencies, stipulating that – budgets are to be prepared annually. The pastor and finance council are to review actual revenues and expenses against budgeted amounts on a regular basis, periodic financial reports are to be issued to the parish council and an annual financial report is to be issued to the entire parish community, and the financial reports and supporting schedules required by the diocese are to be submitted timely. Cf. USCCB, *Diocesan Financial...*, 9.

⁷¹ Cf. C. GARCIMARTÍN, "Inventario", in J. OTADUY, A. VIANA, J. SEDANO (Eds.), DGDC, Vol., IV, Cizur Menor 2012, 776.

pertain to the juridic person.⁷² Besides, when worst comes to worst (like a sudden death of an administrator, e.g., parish priest), there would be a clear basis on what properties belong to the heirs and what pertain to the Church.

In relation to careful attention over administration of ecclesiastical goods from the perspective of the Ordinary, updated and accurate inventories would reveal important information on economic situation of the juridic person. The data would serve as a point of reference for any necessary assistance or consideration in favor of the entity. On the other hand, inventory shortages, exceedingly high expenses or purchases, unexplained budget variances, etc., are obvious signs of red flags that have to be prudently addressed.⁷³

Moreover, inventories are expected to collaborate with the annual financial report or yearly administration report (c. 1284 § 2, 7°). A series of annual surplus reports, yet its ecclesiastical patrimony is depleting, would send an alarming message of immediate help. Both annual reports and inventories are by law be submitted to the competent authorities (cc. 1284 § 2, 7° and 1283 § 1, 3°).⁷⁴

With the help of modern computerized recording, inventories could accurately describe and identify the real status of goods in relation to other ecclesiastical goods. The Church maintains to insist that conserve ecclesiastical patrimony the best way possible in its original place and avoid dislocating it.⁷⁵

A. *Internal Control System*

Internal control is neither a novelty nor a revolutionary concept applied to administration of Church resources.⁷⁶ But rather it is an evolution of the

⁷² This conceptual novelty has been introduced in a document for the Congregation for the Clergy on January 11, 1971 that established an obligation to carry out an inventory of all sacred buildings and objects of historical and artistic value. Cf. J. SCHOUPE, *Derecho patrimonial...*, 189; AAS 63 (1971) 316.

⁷³ USCCB, *Diocesan Internal Controls...*, 30.

⁷⁴ This means that an Ordinary would have a reliable reference points should administrators under their authority are using ecclesiastical goods for the service of the Church or not. Administrators are legally obliged to update their inventories regularly to guarantee ecclesiastical resources from being wasted and inefficient use. Although it is true that, the administration of goods is very different to any exercise of commercial businesses prohibited to clerics (c. 286), administration of temporalities should be handled with assurance and certainty employing commercial techniques so that goods would not be wasted because negligence, losses and deterioration. Cf. I. PÉREZ DE HEREDIA, *Bienes temporales de la Iglesia*, Valencia 2002, 158-159.

⁷⁵ Cf. C. GARCIMARTÍN, "Inventario", 776.

⁷⁶ The Church is greatly responsible for the ecclesiastical resources, which have been entrusted to her. She has to guarantee better safeguarding of Church assets, exercising prudence in

long-standing measures employed by the Church to guarantee appropriate administration of ecclesiastical patrimonies in view of her mission.⁷⁷

Basic internal control is not to be emplaced because of a suspected fraud in the operation. But rather it is necessary to promote good administration of ecclesiastical resources. Consequently, it would serve as a deterring factor of any opportunities of embezzlement or negligence. It maintains to trust and protect honest employees and helps them become efficient in their tasks.⁷⁸

The revised Code of canon law, effective November 27, 1983, addresses extensively the responsibilities of bishops as administrators of the Church's temporal goods. Canon 1276 is very clear in giving Ordinaries both legal competence and obligation to carefully monitor the administration of resources of all public juridic entities under their authority. A functional internal control would facilitate the enormous works of Ordinaries in monitoring several public juridic persons under their careful supervision. In the absence of it, non-systematic implementation of supervisory duties would only create easy unintentional lapses in both responsibilities of Ordinaries and direct administrators including employees.⁷⁹

All administrators are tasked to manage their goods like a good householder as stipulated in canon 1284 paragraph 1. And paragraph 2 laid down

financial matters, accountability to those who provide monetary support and to regulatory authorities, and compliance with both canon and civil regulations. The Church is committed to the highest standards of fiscal integrity and accountability in favor of serving her apostolic mission. Hence, internal control maintains to be firmly founded on Church principles and existing norms but with the integration of business commercial practices like accounting and good financial management principles. Cf. USCCB, *Diocesan Updated Financial Issues*, Washington 2013, 1-2.

⁷⁷ A positive approach to the relation of mission with internal control ensures good management and accounting procedures. Internal control procedures have to be interpreted continually as means to an end and not an end in itself. The obligation for appropriate fiscal administration and accurate recording are observed not to run a *tight ship* but out of love, love for the mission and the God who assigns it to us. Cf. R. BACHER and M. COPPER-WHITE, *Church Administration*, Minneapolis 2007, 95.

⁷⁸ Cf. J. RENKEN, *Church Property...*, 172-173.

⁷⁹ Systematic implementation of supervisory duties through efficient internal controls can facilitate management responsibilities of church officers and employees. It will protect them to be placed in a position where they may be tempted to engage in questionable activities and accounting practices, or could subject individuals to unwarranted accusations of such activities. This scenario is first and foremost has to be avoided for it would create suspicion and discouragement of donors and faithful to cooperate in the mission of the Church. Cf. J. DUNCAN *et al.*, "Internal Control Systems...", 142.

all-important administrative operations in which administrators have to take care. Despite of these juridic guards against unnecessary losses of ecclesiastical goods, we have heard news that some dioceses had isolated experiences of frauds and mismanagement.

In the latest survey, conducted by international accounting firm KPMG Peat Marwick⁸⁰, about the top companies in the United States, determined that fraud is a significant problem for business. However, it has become painfully obvious that businesses are not the only organizations experiencing this problem. Unfortunately, even the Church could also be vulnerable to fraud and other financial mismanagement.⁸¹

Inefficient administration of ecclesiastical goods would not be only possible in affluent dioceses and parishes. Even in not rich entities, embezzlement may occur. This existing possible problem in the administration of goods calls for a careful supervisory supports and guiding procedures to ensure correct property administration. This could be realized through internal control system.⁸²

1. Basic Components of Internal Control

Internal control system is somehow dismissed as expensive or unnecessary bureaucracy without first trying to understand that control is indispensable to any organization.⁸³ Simple separation of duties, for example, is a basic implementation of internal control although it is not limited to it. Any institution that is not in control of its operation and organization would eventually cease to be effective.⁸⁴

⁸⁰ KPMG is a merge of KMG (*Klynveld Main Goerdeler*) and Peat Marwick in 1987. The joined forces in the first mega-merger of large accounting firms and formed a firm called KPMG in the US, and most of the rest of the world, and Peat Marwick McLintock in the UK. KPMG Peat Marwick is the U.S. audit, tax and advisory services firm, operates from 87 offices with more than 23,000 employees and partners throughout the U.S. Cf. www.linkedin.com/company/kpmg-us.

⁸¹ Cf. USCCB, *Diocesan Internal Controls...*, 1.

⁸² It is important to point out that establishment of internal control would serve as a link between norms and its application; it will connect every transaction (e.g., ordinary and extraordinary act) as part an organic operations to set the Church always in mission. On the other hand, it will identify points where the less or the more control is needed. After identifying these areas, it will provide concrete steps to minimize risks of grave abuses, fraudulent financial reporting and other improprieties, such as embezzlement. In short, it covers all operations of administration ecclesiastical ensuring pro-active approach on administration of ecclesiastical goods. Cf. USCCB, *Diocesan Updated Financial Issues...*, 1-5.

⁸³ Cf. J. D'AQUILA and R. HOUMES, "Applying Concepts...", 1-5.

⁸⁴ Any organization or institution is goal oriented. To pursue their goals, it has to ensure effective and productive operation, reliable financial and accounting management and norms should be

Although, internal control is usually practiced in profit seeking organizations, yet it has the same relevance to not-for-profit institutions, like the Church. This is to promote transparency and protect Church authorities and employees from unjust accusations of questionable activities.⁸⁵ It could be possible that the manner, in which managers may apply the concepts of management control, may differ in some respect. But the basic concepts of management control are the same for both for-profit and non-profit organizations.⁸⁶

Ordinaries are competent to organize and monitor over correct administration ecclesiastical goods of juridic persons under the authority. The complexity of economic operations needs not just sufficient legal provisions but also an internal control that would constantly apply careful supervision without the need of direct intervention. Application of regulatory system would guarantee correct and timely application of policies and norms.⁸⁷

The occurrence of possible fraud in the administration of ecclesiastical goods could never be a result of canonical deficiency. Most likely, mismanagement is a result of the failure to apply the existing norms and ignore means, where frauds and questionable activities can be revealed in public. Implementing internal control, like simple separation of duties, double-checking is at work. In this simple way, honesty is promoted and error would be minimized.

Nevertheless, internal control system is not a panacea.⁸⁸ In other words, it is not the universal remedy of all problems that the Church may face today against inappropriate administration of ecclesiastical goods. Despite the strength of the internal control, breakdown can occur because of irregularities perpetrated by individuals.⁸⁹

complied. These suggest that basic elements of control has to be established in every organization to prevent or detect errors and omissions and give no opportunity to personnel for fraud and similar improprieties. Cf. USCCB, *Diocesan Internal Controls...*, 1-4.

⁸⁵ Cf. J. DUNCAN *et al.*, "Internal Control Systems...", 1.

⁸⁶ Cf. R. ANTHONY and D. YOUNG, *Management Control in Nonprofit Organizations*, 5th ed., Illinois 1994, 3.

⁸⁷ Good administration of ecclesiastical properties doesn't end with the issuance or promulgation of policies and norms. It also counts on people who are entrusted to implement or to comply existing precepts. Internal control provides assistance and opportunity to give reasonable guarantee that personnel would be norms compliant and efficient. Cf. USCCB, *Diocesan Internal Controls...*, 5-7.

⁸⁸ USCCB, *Diocesan Internal Controls...*, 3.

⁸⁹ USCCB, *Diocesan Internal Controls...*, 3.

However, periodic assessment of the system and its operations would help necessary system improvements. This is to maintain a sufficient guarantee of good administration and minimize losses. The Committee of Sponsoring Organization (COSO) of the Treadway Commission⁹⁰ pointed out that internal control system is a process. This would mean that the system is a tool to an end and not an end in itself.

Internal control is geared towards achieving its objectives in separate but over-lapping categories. Its establishment will give a reasonable guarantee⁹¹ regarding the achievements of the following categories:

- a) Promote effectiveness and efficiency of operations
- b) Provide reliable financial statements and accounting records
- c) Safeguard the entity's assets
- d) Compliance with applicable laws and regulations
- e) Promote adherence to the mission of the Church or organization

Internal controls will vary based upon the size of a diocese or non-diocesan juridic entity. This means that the kind of internal control should have a cost not higher than its potential benefits. Nevertheless, any public juridic entity independent of its size and resources has to establish basic internal control system to essentially guarantee that Church assets would only be used for the needs of the Church. Thus, it would be protected from waste, fraud and inefficient use.

There are basic elements of internal control that should be part of any system. Effective internal control structures consist of three levels; control environment, accounting system and control procedures.⁹² These three levels of internal control would help to ensure a reasonable guarantee that applicable laws would be observed to attain proper objectives of the Church – sustaining and promoting her apostolic mission.

⁹⁰ COSO (Committee of Sponsoring Organization) are sponsoring entities composed of American Institute of Certified Public Accountants, Financial Executives Institute, Institute of Internal Auditors, National Association of Accountants, and the American Accounting Association. The objective of COSO is to provide internal control guidance and internal control framework that all of the constituencies could use in designing or assessing internal control systems. Cf. USCCB, *Diocesan Internal Controls...*, 3.

⁹¹ Internal control system would offer reasonable but not an absolute guarantee. Obviously, it is because it is a system that tries to protect the operation from all its possible risks. However, it could be possible that the system can be overridden. Hence, it needs to be reassessed and modified periodically in order to attain its purpose. Cf. USCCB, *Diocesan Internal Controls...*, 3.

⁹² Cf. R. WEST and C. ZECH, *Internal Financial Control...*, 129-155, 5.

a) *Control Environment*⁹³

The core of any business is its people, their individual attributes, including integrity, ethical values, and competence and the environment in which they operate.⁹⁴ Like other businesses, efficiency of internal control for appropriate administration of ecclesiastical goods lies not only on instructions manual but also on the people within the system.

Considering that people are coming from different levels, they have different backgrounds, technical skills, needs, and priorities. Hence, it is important that they should be properly trained in their responsibilities and limits of authority. These are the priorities that administrators have to focus to perform their duties with the diligence of a good householder.

However, the complexity of the tasks goods management needs to have a better-controlled environment. This is to ensure that personnel involve in the operation are doing the right thing in view of correct administration of ecclesiastical resources.⁹⁵

In diocesan level, some points to consider regarding control environment are the following:⁹⁶

- a) Clear lines of authority and accountability that emphasize the importance of internal controls.
- b) A documented code of conduct/ethical standards.⁹⁷

⁹³ COSO defines the control environment as the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. Often, control appears to be costly but control environment can be improved in small and entrepreneurial organizations at minimal additional cost, but with significant benefits. Cf. J. D'AQUILA and R. HOUMES, "Applying Concepts...", 1-5.

⁹⁴ Cf. USCCB, *Diocesan Internal Controls...*, 4.

⁹⁵ Controls are designed to help prevent putting individuals in situations where they might make errors or be tempted to engage in questionable transactions. Internal control exists to protect the individuals as much as to protect the organization. Cf. T. WOOTEN *et al.*, "Financial Control in Religious Organization" in *Nonprofit Management & Leadership*, vol. 13, no. 4 (Summer 2003) 347.

⁹⁶ The document *Internal Control: a Framework*, suggests some important points that are helpful to foregoing controls that may be employed in the context of a diocese. Cf. USCCB, *Diocesan Internal Controls...*, 5.

⁹⁷ The Ordinary has to ensure that a policy addressing ethical conduct is formalized in writing and that it is communicated to all employees and volunteers. It has to be clearly stated that all clergy, religious, lay employees and volunteers (representatives) of the diocese, its parishes (*and parish schools*), diocesan high schools and other diocesan entities must, at all times, comply with all applicable laws and regulations. The diocese will not condone the activities of those who achieve results through violation of the law or unethical or immoral business dealings. This includes any payments for illegal acts, indirect contributions, rebates, bribery and other similar types of activity. All conduct should be clearly above the minimum standards required by law and expected by the Church. Cf. USCCB, *Diocesan Financial...*, 11.

- c) A formal budget process and prompt variance analysis.
- d) A plan to attract and retain competent personnel.
- e) An effective audit committee and internal audit functions.

b) *Accounting System*

Accounting system is commonly defined as organized set of manual and computerized accounting methods procedures and control established to gather, record, classify, analyze, summarize, interpret and present accurate and timely financial data for management's decisions. The procedure for receiving and expending funds is critical to the integrity of the financial plan of the Church.⁹⁸

Handling Church money has to be governed by effective control policies aside from standard accounting procedures. Monies received should not be left in a drawer or anywhere else. It has to be deposited in the Church bank's account as soon as possible. Under no circumstances should money remain in the Church or be brought to the house of the treasurer or finance officer.⁹⁹

Purchases must be secured by purchase order system. Ordinary purchases less than established specific amount could be carried out, without the need for a prior approval. However, prior to the purchase of costly item, it must be reviewed by finance council and with the prior approval of the competent authority.¹⁰⁰

After every year of operations, the success of spiritual mission of a parish or diocese, should not be a justification on not to evaluate the annual administration ecclesiastical goods. Internal annual audit is helpful to establish in-depth information provided in the financial statement in view of improving better apostolate.

Regular audit is not primarily intended to investigate fraud and detect those culpable. But rather, it is focused to have a credible financial statement of the juridic entity, detect weakness and develop a more reliable financial

⁹⁸ Cf. W. CALDWELL, "Financial Policies and Procedures", in B. POWERS (Ed.), *Church Administration Handbook*, Tennessee 2008, 136-137.

⁹⁹ Cf. W. CALDWELL, "Financial Policies...", 136-137.

¹⁰⁰ The Code is not alien to these practical procedures intended to safeguard Church resources. The prescriptions stipulated in canon 1281 §§ 1-2 define that acts of administration that go beyond the limits and manner beyond ordinary administration need prior approval from the Ordinary. Failure to secure a prior written authorization, the administrator acts invalidly. Cf. Z. COMBALÍA, "The Administration of Temporal Goods", 104-105. See also, M. LÓPEZ ALARCÓN, "The Administration of Goods", 988.

control. It would establish a base for assets and liabilities that would be used for future audit and it assures that legal requirements are always complied.¹⁰¹

c) *Control Procedures*

Control policies and procedures must be established to ensure that management's responses to risk are effectively carried out. These policies have to be simple and doable. Basic practical control, for example is segregation of duties and participation of at least two people in every determined economic operation (e.g., collections of cash contributions should be counted by two or more people).

We want and continue to believe that those who serve the church are good and honest people. However, frauds and embezzlements in non-profit organizations is a possibility that has to be considered too. In cases of irregularities, it does not mean that personnel involved are fraudulent. But rather, perhaps, they have poor control procedures and failed to exercise good accounting principles.

According to study, Church isolated problems of embezzlement are commonly brought about by poor accounting principles and multiple obligations. And it is a failure to have at least two individuals involved and the non-submission of financial reports.¹⁰² This means that people serving the Church tried to become honest but opportunities, pressures and rationalization led some to commit some irregularities.

The implementation of efficient internal control doesn't communicate at all any mistrust to subordinate administrators or to personnel of public juridic persons. Internal control helps all involves become effective in doing their tasks. And direct administrators, through constant assistance of Ordinaries are protected to fall in unseen trap ahead.

While oftentimes, those who choose to serve the Church, think that the more functions they do, the more they serve. This can oftentimes lead to a lack of separation of duties and would open opportunities to errors and intense temptation to fraud.¹⁰³ Moreover, implementation of the check and bal-

¹⁰¹ W. CALDWELL, "Financial Policies...", 136-137.

¹⁰² Cf. R. WELCH, *Church Administration*, Tennessee 2005, 149.

¹⁰³ There are many churches allowing one person to handle all financial elements within the church. They count the offerings, make the deposit, record the offerings, paid the bills, sign the checks, reconcile the bank account and prepare the financial records. By allowing one person to perform all of these duties, you are setting them up to conceal wrongdoings. Besides, even an ac-

ance in the operations by involving more people, increase the protection of an institution against possible abuses.

Control procedures facilitate splitting up the duties between several staff members and/or volunteers in order that their works would benefit the Church. It would also lessen the pressure and opportunity that may lead to fraud and embezzlement. There should be an independent body for counting and/or confirmation of investments. It is significantly important to establish controlled access to electronic data processing operations and adequate back up (disaster recovery) emplaced.¹⁰⁴

2. Internal Control Process

Internal control is not just a system but also a process. It is not constituted as a fixed-unchangeable organic reality but rather it is a system open for review, changes and development. Regular efficiency system evaluation responds better to different challenges in the Church economic operations.

Universal, particular and local norms are pooled together (mindful of the principle of legality) to constitute a diocesan internal control applied in a particular local Church. It is intended to guarantee correct administration of ecclesiastical goods in view of addressing more pastoral needs of the Church. Internal control would serve as an effective tool for Ordinaries in giving the right assistance to their subordinate administrators. And at the same time, fulfilling their juridic task on monitoring administration of ecclesiastical goods as established in canon 1276.¹⁰⁵

Basically, the internal control of the diocese would be intended for three major aims: to protect assets (e.g., cash, investments, and property) in accordance with civil and canonical norms. Second, it is to ensure that the accounting records are accurate and complete. Above all, third, is to guarantee that administration of ecclesiastical resources benefits the Church.

cusation only of wrongdoings can already damage the reputation of the staff member/volunteer, and the Church. Cf. WHITEPAPER OVERVIEW, *Achieving financial transparency for dioceses* (Serenic Software 2014) 1-8.

¹⁰⁴ USCCB, *Diocesan Internal Controls...*, 5.

¹⁰⁵ As we have noted above, internal control system regulates economic operation of the diocese in general. However, it is also designed to identify some areas where needed elevated controls are necessary and to offer guidance to dioceses, parishes or institutions on the establishment of specific internal controls. Cf. USCCB, *Diocesan Internal Controls...*, 7.

a) *Basic Elements of Internal Control*

Our intention is not to establish a singular model of internal control system. It is because internal control structure may vary depending on the size of the institution or diocese. However, let us try to study basic elements that have to be considered in any internal control system as recommended by Diocesan Internal Control: A Framework.

i. *Honest and Capable Employees*

Irregularities that perpetrated in dioceses were often committed by employees having a great deal of trust. Internal control is being run by people and critically dependent on them who operate it. If people are dishonest or incompetent, even the finest system would find difficulty to perform properly.

Honest and capable employees can and usually function effectively, even in situations where other elements of internal control need improvements. The following suggestions may help in promoting employees honesty and apply to volunteers as well as paid employees and even administrators, to wit:¹⁰⁶

First, annual vacations of employees help ensure that any fraud requiring their constant attention would be discovered during their absence.¹⁰⁷ This requires cross-training to ensure work continues during such absences. The provision established in canon 283 § 2,¹⁰⁸ for example, brings wisdom that somehow gives advantage to the priest and the Church. While the parish priest is in vacation, escaping for a while from parish pressures, he is opening the daily economic realities of the parish to other helping priest as a simple gesture of transparency.

Second, establish and educate personnel on the conflict-of-interest policy to prevent potential abuse. The Code is very clear on this. Canon 493 § 3¹⁰⁹

¹⁰⁶ These are practical suggestions offered by USCCB documents. Cf. USCCB, *Diocesan Internal Controls...*, 20.

¹⁰⁷ USCCB, *Diocesan Internal Controls...*, 12.

¹⁰⁸ Canon 283 § 2 established that clerics are entitled, however, to a fitting and sufficient time of vacation each year as determined by universal or particular law. Second Vatican Council understands priest holiday or vacation each year as part of the so-called priest's remunerations. Particular law will determine its maximum holiday period. The Code, however, provides maximum length of holiday for some clerics like those stipulated in canons 395 § 2, 410, 427 § 1 and 429, 533 § 2, 550 § 2. The bishop has to establish proper norms to provide for the proper care of the parish during the parish priest's absence on holidays. Cf. A. McGRATH, "Christ's Faithful", in G. SHEEHY, R. BROWN, D. KELLY and A. McGRATH (Eds.), *The Canon Law: Letter and Spirit*, London 1996, 162-163.

¹⁰⁹ Can. 492 § 3 provides that persons who are related to the bishop up to the fourth degree of consanguinity or affinity are excluded from the finance council. Since financial administration

provides that finance council members should never be related to the bishop neither by reason of consanguinity nor affinity up to fourth degree. This is to prevent any possibility of suspicion and avoid opportunities of collusion and sabotage to override the system. It is a provision that can also be applied in parallel situations wherein scrupulous honesty is being demanded.

Third, Know your personnel. Watch for signs that an employee is spending more than his/her salary would seem to allow. Although, in practice this is not an easy task considering that other Church employees have other source of income besides their meager Church allowance, knowing our personnel is beneficial to the institution.

Fourth, as part of the hiring process, investigate all employees adequately before their employment. The Code did not stipulate explicitly that employees to be hired to work in the parish or diocese has to be carefully investigated. It is because prior necessary investigation is a normal standard operating procedure before hiring. This is to know if he/she is suitable or not.¹¹⁰

In the United States, in the recent survey conducted by Villanova University regarding the status of internal control of some of important dioceses, the descriptive statistics found the lack of expertise of personnel at the parish level as the number one risk factor.¹¹¹

demands and must be marked by scrupulous honesty, no member would be related to the diocesan bishop within the fourth degree of consanguinity or affinity (i.e., the bishop first cousin, grandniece, grandnephew, grand uncle or grand aunt and their spouses). Cf. J. ALESANDRO, "Internal Ordering of Particular Churches", in J. CORIDEN, T. GREEN and D. HEINTSCHEL (Eds.), *The Code of Canon Law: A Text and Commentary*, London 1985, 398.

¹¹⁰ It is an ideal procedure wherein hiring workers should undergo a necessary verification process whether or not an applicant is suited to the job. However, in poorer dioceses, hiring people to work in the parish is not a usual practice. Poorer parishes for example are not hiring jobs but asking for volunteers to make parish works done. Suitability here is not the issue but openness to voluntarily serve the Church. This reality is less expensive at first and it is economically favorable to the parish. But administrator should make sure that basic internal control is functional to guide volunteers make their work done. Otherwise, waste of resources due to unintentional negligence for lack of expertise will turn out more expensive at the end.

¹¹¹ In order to learn more about how efficient diocesan internal controls, Villanueva University, Accounting and Church Management departments sent a questionnaire to Chief Finance Officers (CFO) of all 174 U.S. Catholic dioceses. They received 78 responses for a 45% response rate. Most of their questions are related to the overall control environment of the diocese. They asked the CFO's to provide information about the oversight provided by the Diocesan Finance Council for example. They asked about internal and external audit activity, the timeliness of financial reporting and reviews, and high-level policies (e.g., fraud policy, conflict-of-interest policy) and high-level financial reporting procedures. Cf. R. WEST and C. ZECH, *Internal Financial Control...*, 129-155, 8-9.

ii. Delegation and Separation of Duties

The USCCB document on internal control suggests that employees must know what they are to do and what others are responsible for. This requires an organizational chart to clearly define responsibility lines. Job descriptions should be used to further explain proper delegation.

It is very important that there is a clear separation of duties. The system should provide for an appropriate segregation of duties between custody and accountability of assets. This matter has been well contemplated in the Code regarding the administration of ecclesiastical goods.

The diocesan bishop for example, is by law obliged to appoint a finance officer. He is to administer the goods of the dioceses under bishop's authority (c. 494 § 1).¹¹² This is to establish clear distinction between the office of the decision maker, which is the diocesan bishop and the office of the implementing officer, which is the finance officer. This is practically necessary to maintain check and balance in the administration of diocesan resources.

The segregation of duties would preclude any person from performing all aspects of a function. In general principle, custody of assets must be separated from the record keeping of those assets. Also, authorizing transactions must be segregated from recording the transactions. In the administration of ecclesiastical goods, the Ordinary has to ensure that every juridic person has its own finance council or at least two counselors that may assist the administrator in doing his or her function (c. 1280).¹¹³ The legislator promotes the help of other experts to ensure an efficient management of Church resources.

In daily parish activities, the administrator of goods, in some cases is the disbursing officer. And at the same time, he does accounting duties too. This will usually result to poor accounting measures and open opportunity to errors and abuses. The presence of the finance council is not to replace or

¹¹² Despite of the provision established in canon canon 1279 § 1, the bishop has to appoint a finance officer in the diocese as prescribed in canon 492. In the process of revision, consultants approved the phrase "ab episcopo nominetur", which means that it is obligatory to have a finance officer in every diocese. Cf. F. COCCOPALMERIO, "The Finance Committee", in A. MARZOA, J. MIRAS, and R. RODRÍGUEZ-OCAÑA (Eds.), in *Exegetical Commentary on the Code of Canon Law*, Vol. II/2, Montreal 2004, 1176.

¹¹³ The function of the committee or at least two counselors is to assist in carrying out the duties of the administrator. But since every juridic person, public or private is subject to the norms of the statutes that govern the financial affairs, the role of the committee or counselors is advisory only and not definitive with the very strong implication that the administrator would at least imprudent to act against the advice given, especially if it were unanimous. Cf. F. MORISSEY, "The Temporal Goods...", 724.

give order to the administrator. But rather, it is to help him fulfill his duties of administration effectively.¹¹⁴

The assistance of finance council in the administration of ecclesiastical resources responds to the basic internal control element regarding delegation and separation of duties. By virtue of canon 1283, the finance council will help administrator to periodically review and accordingly watch over the parish movable properties and stable assets according to the book of inventories.

Generally, involving more people in the accounting system reduces the potential for fraud, unless, of course, there is collusion. In situations where this is impractical due to financial constraints, a responsible officer, finance council member or trustee who is not involved in the daily record keeping should oversee the accounting activities.

iii. Procedures for the Processing of Transactions

In general, a basic element of internal control is proper authorization. It is imperative that the day-to-day operating authority may be delegated to the appropriate manager with specific guidelines to follow. In the administration of ecclesiastical goods, the Church established governing provisions to guarantee that every act of administration would be beneficial to the Church.

To make acts favorable to the Church, greater control is necessary. Extraordinary act, for example, that exceeds the defined limit of ordinary administration is subject to greater control to ascertain that it would be well executed in favor of the juridic person.¹¹⁵ The Episcopal Conference has juridical competence and obligation to define the minimum and maximum amount of acts of administration that would be considered extraordinary (c. 1277). The same definition would be applied, in cases like alienation or its equivalent, like leasing.¹¹⁶

The established minimum and maximum amount for extraordinary acts of a particular Episcopal Conference, is to be applied in the administration of diocesan goods (it refers to goods whose ownership belonged to the diocese) of dioceses within the territory of the Conference. However, facts confirm

¹¹⁴ The finance council is to advise administrator on the ways and means of preserving the tenure and maximizing the use of the material resources to better respond to the fulfillment of apostolic goal and pastoral concern of the juridic person through better administration and correct accounting practices. Cf. F. MORISSEY, "The Temporal Goods...", 724.

¹¹⁵ Cf. J. SCHOUPE, *Derecho patrimonial...*, 189.

¹¹⁶ Some authors affirmed that alienation by nature is different from extraordinary acts. Alienation is an independent category in respect to extraordinary administration. Cf. V. DE PAOLIS, *Los bienes temporales...*, 80-81. See also F. AZNAR GIL, *La administración de los bienes...*, 400.

that some dioceses are big and have economic advantage but some are small and impoverish.

These different economic conditions of dioceses suggest that every diocese must have particular norms, which would define ordinary and extraordinary acts within the laws of the Conference. Moreover, the bishop has to establish norms in conformity with the particular laws, regarding ordinary and extraordinary administration applied to parishes and other public juridic entities under his authority.¹¹⁷

For example, the bishop has to determine the amount that could be subject to sole discretion of the administrator (*e.g., from \$1 – \$5.000*), the amount that requires the intervention of the finance council (*e.g., from \$5.001 – \$10.000*) and the amount that needs the intervention of the finance council and the written permission of the bishop (*e.g., \$10.001 and above*).

Factual evidence confirms, that what is considered ordinary administration for a diocese could be viewed as an extraordinary one for a certain poor parish. Besides, these local norms would have to be effective if establish by brackets or classes of parishes relative to their economic capacity.

iv. Suitable Documents and Accounting Records

Accounting records and documents should be maintained to provide an audit trail. One major objective of an internal accounting control system is to provide reasonable assurance that the financial records reflect all financial transactions that have occurred.¹¹⁸ The recording of all economic operations must be correct, as to quantity and money amount, and must be made in the proper accounting period.¹¹⁹

The supporting documentation should be;

- i)* Simple and easy to use to help reduce error;
- ii)* Numbered to help keep physical control over the documents;
- iii)* As few in number as possible to minimize confusion; and
- iv)* Designed to ensure that they will be properly completed.

¹¹⁷ Regulations regarding act of extraordinary administration in reference to diocesan ecclesiastical goods are being defined by universal, particular and local norms. The general provisions of the Church define extraordinary administrative acts and require certain formalities to ascertain that such act would not be prejudicial to the juridic person concerned. For example, alienation or its equivalent as provided in canon 1291 is subject to a greater control to protect the juridic entity from any harm that such action may bring. Cf. F. AZNAR GIL, *La administración de los bienes...*, 332-386.

¹¹⁸ USCCB, *Diocesan Financial Control...*, 9.

¹¹⁹ USCCB, *Diocesan Financial Control...*, 9.

v. Independent Verification of Performance

Procedures to reconcile actual transactions with those transactions that have been recorded are another element of internal control. The taking of a physical inventory and the reconciling of a bank account to the general ledger are two methods for such activity.

No one can objectively evaluate his/her own performance effectively, and no one can record large numbers of transactions with perfect accuracy. This verified reality in accounting world suggests cross checking of records and data.¹²⁰ The practical separation of duties guarantees minimal error and offers better efficiency that facilitates correct handling of duties and deters possibilities of abuse.

C. *Management and Personnel*

Both in for-profit and not-for-profit organizations, the people are of primordial importance in view of achieving its goal.¹²¹ To ensure correct administration of ecclesiastical goods, policies and norms are not enough if Ordinaries and administrators would not execute their responsibilities according to the letters of the law.

The importance of integrity, ethical values, structure, authority, and responsibility are vital so that ecclesiastical properties would truly serve the Church as intended. However, everybody involved in the administration has to do their respective responsibilities acting within the limit of each proper competence.¹²²

In the diocese, the bishop, with the help of other personnel, plays an important role in safeguarding and ameliorating ecclesiastical resources that

¹²⁰ It is recommended to codify all financial policies and procedures for parishes, missions and schools in a manual that is available through the internet or intranet. Annual workshops for parish finance council members, parish financial staff and pastors that address timely issues pertaining to parish financial policies and procedures and civil regulations ensures efficiency. Perform parish financial reviews or internal audits designed to test the existence and effectiveness of parish internal accounting controls and compliance with diocesan policies and civil regulations. These concrete steps better help performance verification for a better administration of ecclesiastical resources. Cf. USCCB, *Diocesan Financial Issues Updated*, Washington 2013, 9.

¹²¹ According to COSO updated, the primarily task of internal control is not to avoid risk to avoid misappropriation of resources but rather to motivate its people to execute their duties efficiently. The core of any entity is its people; thus, how they operate drives the organization. Cf. J. D'AQUILA and R. HOUMES, "Applying Concepts...", 3.

¹²² Cf. J. CARRIÓN, "De la administración de los bienes", 566.

are within the reach of his faculties. Citing canon 392, the bishop has to exercise vigilance in order that abuses will not creep into ecclesiastical discipline.¹²³

1. Diocesan Bishop or His Representatives

In view of ecclesiastical communion, the bishop, as the head of the diocesan organization, would have to demonstrate the importance of internal control system. He is responsible for ensuring integrity, ethics, competence, and other factors of a positive control environment. The bishop fulfills his responsibilities by providing leadership to his senior management team, who shape the values, principles, and operating policies that are the basis for a strong internal control system.¹²⁴ He should meet periodically with his management team and review their areas of responsibility to make sure that economic operations of the diocese are being properly taken care of.

Applying principle of collaboration, the bishop or their representatives (by virtue of a written delegation), have to establish a control environment that ensures effective communications, which would set up monitoring procedures. Since internal controls deal with operations, development, and finances, the bishop is ultimately responsible for their establishment and implementation.¹²⁵

a) *Finance Officer*

Finance officer and his staffs are important in giving guarantee for a good administration of ecclesiastical patrimonies. They are of great help also in the monitoring process helping the bishop in carrying out tasks responsibly. Their activities cut across the operating plane and other activities of a diocese. They are involved in developing diocese-wide budgets and plans. They

¹²³ Canon 392 is reflected on canon 1276 as its concrete application to guarantee that ecclesiastical property has to be properly managed. Cf. J. RENKEN, *Church Property...*, 167.

¹²⁴ In world of commerce, senior management needs to exhibit and practice the organization's values because they are the role models for employees. The same practice needs to be exercised in the administration of ecclesiastical goods, credibility of Ordinaries are importantly relevant. It is legally immeasurable but it occupies an important part for an effective supervision and management of ecclesiastical goods. Cf. J. D'AQUILA and R. HOUMES, "Applying Concepts...", 4.

¹²⁵ Although the bishop will not become too involved in the details of the internal control system, he is the only person who has the power to ensure that each area of a diocese carries out its responsibility for the system. The proper tone must be set at the top of the organization, and for a diocese, this is the bishop. Cf. USCCB, *Diocesan Internal Controls...*, 2.

produce reports that analyze performance from operational, compliance, and financial perspectives.¹²⁶ The chief financial officer (CFO) and other finance officers are central to the way management exercises control.

The CFO plays a key role in setting the tone of a diocese's ethical conduct. He should be a key player when a diocese's objectives are established and strategies are decided for risk assessments and changes affecting the diocese.

b) *Finance Council*

The finance council of a diocese should have a significant role in the internal control function of a diocese and in providing direction, guidance, and oversight to the bishop. In addition to its advisory capacity, the finance council has specific rights and duties under canon law.¹²⁷

Members must be objective and competent. To be effective, the diocesan finance council should carry out its responsibilities through committees. Some of the committees may include audit committee, financial or project review committee, properties committee, investment committee, employee benefits and compensation committee, and insurance committee.¹²⁸

2. Other Diocesan Personnel

Internal control is the responsibility of all the personnel in a diocese. Examples of personnel activities include generating invoices, ordering, report-

¹²⁶ This team is crucial in drawing annual budget and financial planning as mandated in canon 1284 § 3. Having a projected annual budget of income and a target of approximate expenditures would facilitate an objective assessment of the status of the particular goods in relation to the different economic possibilities in the future; Cf. J. MIÑAMBRES, "Administración...", 207). Budgeting as an orderly presentation of expected results of a proposed plan is an economic strategy that represents a prevision of the future event. Guided by control procedures, it would serve as a decisive tool to verify whether or not the strategic planning of an entity complied with its objectives Cf. D. ZALBIDEA, "Presupuesto...", 433). The CFO provides valuable input and direction and should be an equal partner with the other functional heads in a diocese. Any attempt by management to have the CFO more narrowly focused (limited to areas of financial reporting, treasury, and internal audit) could prevent a diocese from succeeding in its business objectives. Cf. USCCB, *Diocesan Internal Controls...*, 3.

¹²⁷ In cases like acts of major importance and extraordinary administration, the consent of the finance council is a requirement for the validity of the act carried out by an authority as stipulated in canon 1277. This provision is attributed only to the bishop without any other option of possible delegation. This means, in matters like this, general and episcopal vicars have no legal competence nor has the possibility to be delegated. Cf. I. PÉREZ DE HEREDIA, *Bienes temporales...*, 141-142.

¹²⁸ Cf. USCCB, *Diocesan Internal Controls...*, 9.

ing expenses, preparing time cards or time sheets, and preparing requisitions. Personnel should generally be aware of the diocese's mission and corporate code of ethics.

a) *Internal Auditors*

The primary objective of internal auditing is to provide an evaluation and test of a diocese's controls. Internal auditors should take the following steps to appraise the internal control system:¹²⁹

- i) Review the reliability and integrity of financial and operating information.
- ii) Review compliance with diocesan policies, plans, and procedures and compliance with laws and regulations.
- iii) Review the means for safeguarding assets.
- iv) Review the means by which resources are used effectively and economically.
- v) Ascertain that operations and programs have accomplished established objectives and goals.

The functions of internal auditors may not always be fulfilled by paid staff employees but can be performed by others, in an organization or by volunteers who are trained in such functions.¹³⁰

b) *Volunteers*

Volunteers are involved in an organization. It is necessary that they should be made aware of their tasks and obligation as facilitated by internal control. Personnel who are volunteers need to understand the business implications of their activities. While the organization is grateful for their volunteerism, there may be occasions when accepting their help would be inappropriate because of the nature of Church functions or personal conflict of interest.

¹²⁹ Cf. USCCB, *Diocesan Internal Controls...*, 11.

¹³⁰ The important tasks of auditors to review different areas of concern for better ecclesiastical goods management is recommended by a USCCB document in 1995. In the recent document release by USCCB in 2013, it added an important concern in relation to the posting of annual financial report. It strongly recommends that before the audited financial statements are issued to the public, it is necessary that annual financial statements and the results of audit have to be reviewed by independent auditors. Auditors should point out significant risks and exposures, the accounting and disclosure of these risks and exposures in the annual financial statements, and plans to minimize such risks in the future. Cf. USCCB, *Diocesan Internal Controls...*, 9 et passim.

Traditionally, the educational background of some volunteers contains little or no training in business management or accounting.¹³¹ In far-flung dioceses or parishes, for example, competent collaborators are rare to find. This scenario suggests that an adequate system of internal control is vital for proper management of ecclesiastical goods. This will teach and guide people in carrying their tasks through simple process and procedures.¹³²

III. MONITORING AND AUDITING

To maintain harmonious relationship between Ordinaries and direct administrators, a standard legal monitoring and auditing procedures have to be put up.¹³³ Besides, through regular monitoring and auditing, internal control system will be improved to efficiently address better safeguarding of ecclesiastical patrimonies in view of Church mission.

A. *Different Monitoring Committees*

Monitoring is an ongoing evaluation, separate evaluations, or some combination of the two, used to ascertain if elements of internal control are present and functioning.¹³⁴ Hence, committees are important in every organization for a systematic distribution of duties and functions to facilitate an operational control system. Every organization is assisted by either paid or volunteer committees. In the diocese, certain committees may be able to help the bishop and management carry out their responsibilities. Defined and clarified focus of every committee ensures efficient economic operations.

¹³¹ Cf. J. DUNCAN *et al.*, "Internal Control Systems...", 143.

¹³² According to authors dealing internal control, the governance of nonprofit organizations is vested in some type of governing board. Members of this board are often chosen for reasons other than their ability to exercise sound judgment about the management of the nonprofit organization. The members of the board do not always know their responsibilities and are often insufficiently informed. Therefore, the decisions they make are not always optimal. These characteristics of non-profit organization indicate the need of adequate internal control system for its proper management. Cf. J. DUNCAN *et al.*, "Internal Control Systems...", 144.

¹³³ The active nature of faculties attributed to Ordinaries in canon 1276 provides that monitoring and auditing are to be carried out regularly as a normal operation intended for improving administration of ecclesiastical patrimonies. Otherwise, auditing would communicate a presumption of suspicion and mistrust should it is carried out rarely or selectively.

¹³⁴ These five components of internal control suggested by COSO and adopted in the USCCB document of 1995 are referring to control environment, risk assessment, control activities, information and communication and monitoring.

From the understanding that internal control is a process, it has to be perfected and developed over the course of time. Without regular monitoring, controls tend to weaken over time. Monitoring is an element of internal control that can be cost effective especially for smaller entrepreneurial entities like parishes. It is because effective monitoring technique if done well and in a timely manner helps in maintaining correct administration of ecclesiastical properties.¹³⁵

According to the book “Internal Control: A framework” although, committees are not that obligatory, their existence typically provides better assistance for operational efficiency. And it could offer better transparency and accountability.¹³⁶ Some of the responsibilities of these committees are described below.

a) *The Properties Committee*

This committee advises the bishop on properties acquired, held, and alienated.¹³⁷ Members should be concerned with the quality of construction on purchased property, since quality may ultimately involve future financial outlay. They could also be charged with assessing the need for a proposed project and ensuring the liturgical correctness of the project if necessary.

b) *The Project Review Committee*

It is tasked to review the financial feasibility of any construction project or property acquisition in the diocese or parish that the total project cost exceeds a specified established amount. This review should include any related

¹³⁵ The authors recommend compiling a monitoring schedule, with assigned responsibility and expected completion dates. Owners and managers might need to be trained in what to look for. Some recommendations include reviewing the following: Examine supporting documentation before signing checks, review balance sheets and profit and loss reports for unusual accounts. Cf. A. WILKINS and A. HAUN, “Reframing the Discussion on Internal Control”, in *Implications of the Updated COSO Framework for Small and Entrepreneurial Organizations* (The CPA Journal 2014) 51-49, 48.

¹³⁶ Most people employed in the Church consider their work as ministry, it is easy to place trust in the individual. This trusting environment is exactly what dishonest employees exploits. Hence, basic monitoring control promotes honesty and transparency to protect honorable people remains honest. Cf. J. RENKEN, *Church Property...*, 172-173.

¹³⁷ The bishop has to establish guidelines for new acquisitions and construction or renovation projects that address the necessary planning, financial requirements, fund raising, and construction process that would objectively guide the properties committee in doing their work. Cf. USCCB, *Diocesan Internal Controls...*, 9.

debt acquisition. To facilitate prior projects reviews and feasibility studies, it is also important to establish standard procurement procedures.¹³⁸

c) *The Employee Benefits and Insurance Committees*

The employee benefits and insurance committees are responsible with regards to compensation arrangements. Members should ensure that fiduciary responsibilities over employee benefit programs are being properly discharged. They should work with the finance officers to determine that compensation scales do not jeopardize the diocese's objectives by emphasizing short-term results at the expense of long-term performance.¹³⁹

The insurance committee should ascertain that there are proper controls over a diocese's retained and insured risk management programs. The committee is responsible for reviewing the programs with respect to cost, adequacy of coverage, and implementation of risk management activities.

d) *The Investment Committee*

This committee has to ensure that there are proper controls over the invested funds of a diocese. They should establish diocesan investment guidelines and review the adequacy of investments from financial and ethical viewpoints.¹⁴⁰ On a periodic basis, they should review the investment performance of managed funds according to diocesan guidelines and other criteria. These guidelines refers are those commonly used to evaluate the effectiveness of money managers.

¹³⁸ Constructions spend money and resources. But they are necessary to take care and facilitate the mission of the Church. However, it has to be planned and studied carefully to see to it that ecclesiastical resources will not be thrown to waste. This includes requiring competitive bids when hiring an outside vendor/contractor to carry out certain projects, perform repairs, maintenance and/or improvements to diocesan properties. Cf. USCCB, *Diocesan Internal Controls...*, 9.

¹³⁹ In relation to employee benefits and compensation, the USCCB document of 2013 recommends that every diocese has to adopt a Clergy Remuneration Policy that stipulates compensation levels for all clergy, delineates travel, housing, and meal expenses that are the responsibility of the parish, and summarizes benefit plans available to diocesan priests. Cf. USCCB, *Diocesan Financial...*, 9. See also, CONFERENZA EPISCOPALE ITALIANA, *Istruzione in materia amministrativa*, Roma 2005, 32.

¹⁴⁰ The degree of control on ecclesiastical goods invested to generate profit and protected against depreciation is a crucial responsibility of the administrator. But before hand, Ordinaries have to adopt an Investment Policy Statement and Socially Responsible Investment Guidelines that are reviewed periodically. Establish an Investment Committee with a standard charter to monitor investments and ensure compliance with the investment policy and socially responsible investment guidelines. Cf. USCCB, *Diocesan Financial...*, 8.

B. *Periodic Auditing and Evaluation*

In United States, many dioceses implement regular internal audits of parishes.¹⁴¹ Nothing would prevent if similar internal audits be implemented or mandated for all public juridic persons subject to the supervision of the Ordinary.¹⁴² Auditing concretely responds to basic principles of transparency and accountability in fulfilling purposes of ecclesiastical goods.

Catholics are now focusing on fiscal accountability as a priority in restoring trust to the Church.¹⁴³ Regular audit would help administrators setting future priorities, rectify common errors and deter opportunities of fraud, misuse, waste or embezzlement. It would basically tell us the basic of administration – what are coming in, what are coming out and where are they going.¹⁴⁴

1. The Internal Audit

Diocesan Financial Issues¹⁴⁵ document encouraged that each diocese should implement some level of internal audit. Such function is a very important component of a sound internal control environment for parishes, schools and other diocesan entities.

The primary role of the internal audit function is to aid pastors and others, in fulfilling their canonical and civil responsibilities. It is not intended as faultfinding tool. On the contrary, it is directed towards assisting admin-

¹⁴¹ Each diocese should consider adopting the oversight functions provided by an audit committee. An independent audit committee should be established, or those responsibilities should be assigned to the diocesan finance council, if the finance council consists primarily of persons who are not diocesan officials. An audit committee's primary functions include oversight of the internal control structure, evaluating the independent auditors, discussing the audit results with the independent auditors, overseeing the whistle blower and fraud policies, providing guidance in the prevention and reporting of fraud and reviewing compliance with the Code of Conduct. Members of the audit committee should have the necessary professional and technical background to deal with accounting and internal control matters. Cf. USCCB, *Diocesan Financial...*, 3.

¹⁴² Cf. J. RENKEN, *Church Property...*, 170.

¹⁴³ Polls consistently show that eight in ten Catholics rate Church financial reform as a top concern. Just as important, both conservatives and liberals agree on this issue, making it as one area of convergence in a polarized church. The issue on opening church's books involves no change in doctrine and theology, and the bishop or pastor would still have the final say on how diocesan or parish fund will be spent. Cf. D. GIBSON, "In the Bottom Line: Will the Church finances Be the Next Scandal?", in *Commonweal*, 131 (February 2004) 10.

¹⁴⁴ Cf. D. GIBSON, "In the Bottom Line...", 13.

¹⁴⁵ Diocesan Financial Issues is a document released in 2002 by USCCB of Bishops regarding correct administration of ecclesiastical patrimonies. This document had been updated in 2013. Cf. USCCB OF BISHOPS, *Diocesan Financial...*, Washington 2013, 1-162.

istrators to better manage its people and resources for an active missionary apostolate.¹⁴⁶ Moreover, it would also help Ordinaries address the needed assistance for administrators.

An effective internal audit will help safeguard the assets of a public juridic person, review recordkeeping, accounting and financial reporting of the parish. It would identify areas of improvement and report findings and observations to the pastor, parish finance council and the audit or accounting committee of the diocese. Ideally, the internal auditors serve as proactive cooperative management advisory partners to administrators.¹⁴⁷

Internal audit provides an independent review and verification that an organization is complying with laws and policies of the diocese, and is making economical and efficient use of its resources. It assists management by providing independent and objective analysis of activities and controls. It renders an objective review of policies and systems of public juridic entities emplaced and that sometimes are never tested.

Thus, an internal audit is designed to determine whether internal controls are efficient and functioning so as to safeguard assets, provide reasonable assurance that financial activities are being properly recorded, summarized and reported. And it provides reliable observation that diocesan policies and civil regulations are observed and a minimum guarantee that Church mission is moving forward.¹⁴⁸

a) *Models of Internal Audit Functions*

There are at least three suggested models or a combination thereof, that are suggested as options to achieve an effective internal audit function, depending upon the financial resources available.¹⁴⁹

First, when only minimal financial resources are available for the internal audit function, the scope of work performed could be limited to the most high-risk entities and/or activities. The determination of the frequency of audits and the scope of the work should be a function of general and specific risk analysis, considering such factors as parish size, staffing, volume of activity, history, etc.

¹⁴⁶ The updated document on financial issues addressed to all Catholic dioceses in the United States recommends to publish the annual financial report of the diocese (including financial statements and footnotes, and the report of the independent auditor) so that it would be available to all registered households. Cf. USCCB, *Diocesan Financial...*, 8.

¹⁴⁷ USCCB, *Diocesan Financial...*, 8.

¹⁴⁸ USCCB, *Diocesan Financial...*, 6.

¹⁴⁹ USCCB, *Diocesan Financial...*, 6.

It is recommended as a best practice that dioceses hire internal audit staff to routinely visit parishes to assess financial management, internal controls and adherence to diocesan policy and civil regulation.

Second, if a lack of funds prevents hiring internal audit staff, a diocese could consider outsourcing the internal audit function. This is done through contracting with independent Certified Public Accountants (CPA), to perform an internal review and agreed upon procedures that will give assurance of the adequacy of financial management. The cost of the CPA services could be shared or paid by the individual parishes.

Then, the third alternative is to consider recruiting volunteers, such as retired CPAs, accountant or auditors to visit parishes and conduct financial reviews. The diocese should establish criteria/credentials for those volunteers, and should select the volunteer auditors. Parish Finance Council members should not serve in the capacity of reviewing their own parish financial operations.¹⁵⁰

Conducting internal audits of all parishes, schools and entities on an annual basis represents a desirable goal; however, it may not be feasible in many dioceses due to financial and/or personnel constraints. A diocese can have an effective internal audit process with less frequency if a proper risk assessment process is utilized that would eventually help improve the internal control system.¹⁵¹

2. Regular Risks Assessment and Evaluations

Answering the questions of how well a diocese has designed its internal control system, and how good it has achieved the goals of effectiveness, re-

¹⁵⁰ In all of the above staffing models, the diocese should develop the work program utilized in performing internal audits. Furthermore, the individuals performing the internal audits should report to the chief fiscal officer of the diocese, as he/she typically has the best understanding of parish financial issues. This does not typically create a conflict of interest because the chief fiscal officer of the diocese does not have direct responsibility for parish, school or other entity accounting. Cf. USCCB, *Diocesan Financial...*, 6.

¹⁵¹ Regular auditing respond to the basic control procedure on separation of duties wherein no single person handles a transaction from its beginning (authorization) to end (recording in the financial statements). The efficiency and improvement of these processes could be evaluated through regular auditing. Although, basic control involves different personnel responsible for the authorization, safeguarding, and recording of transactions and in a way it is a powerful tool against error and fraud; however, Ordinaries and direct administrators should be aware that collusion – that is, when two or more individuals work together to circumvent controls is an unavoidable possibility. Regular auditing is primarily a deterrent factor rather than a fault-finding procedure. Cf. A. WILKINS and A. HAUN, “Reframing the Discussion...”, 49.

quires a risk assessment and evaluation.¹⁵² A diocese must determine whether the components of the internal control process are emplaced and are effective to achieve the three control objectives: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Remember that if the objectives are not met, assets can be lost and the perception of diocesan stewardship is seriously eroded. Risk assessment¹⁵³ means identifying the various risks a public juridic entity may encounter. It considers before hand their potential impact, and it would design cost-effective controls to mitigate such possible risks.

Supportive supervisory duties of Ordinaries and collaborative attitudes of administrators facilitate just and sustainable administration that would benefit the Church. Protection of ecclesiastical goods from any abuse is only a normal consequence of doing correct and responsible administration.

CONCLUSIONS

Ecclesiastical goods are intrinsically connected with the mission of the Church and its administration demands high credibility. As a result, supervision is inseparable with direct administration of goods. The active supervisory duties of Church authorities over administration of ecclesiastical goods offers sufficient guarantee that resources would be used to promote and sustain Church mission.

Canon 1276 regulates the active competence of Ordinaries to supervise diligently administration of goods through issuance of instructions regarding correct administration. Issuance of instructions manifests the proactive nature of such supervisory power. It is not intended to wait for errors but rather, it is a competence that tasks Ordinaries to guide and illuminate the correct path that administrators have to follow.

¹⁵² USCCB, *Diocesan Internal Controls...*, 30.

¹⁵³ Internal control is a system that evolves and has to be improving. Hence, risks assessment and evaluations are indispensable for better safeguarding of ecclesiastical goods. Risk assessment process helps the entity to be aware of and deal with the risks it faces. It must set objectives, integrated with the sales, production, marketing, financial, and other activities so that the organization is operating in concert. It also must establish mechanisms to identify, analyze, and manage the related risks. Cf. USCCB, *Diocesan Internal Controls...*, 4.

Proactive supervisory competence needs an efficient application that guarantees the autonomy and liberty of public juridic persons. This is to facilitate full responsibility and accountability of direct administrators to totally use ecclesiastical goods in bringing forward Christ mission. Proactive power could be efficiently applied through a functional internal control system. This system allows Ordinaries perform efficient hierarchical support without the need of their direct intervention. This way offers sufficient assurance and enough space of freedom to administrators in applying ecclesiastical goods for holistic human development.

Internal control system is neither a novelty nor a revolutionary way to ensure just and appropriate administration. It is rather an evolution of long-standing measures present in the Code. This system links universal, particular and diocesan norms of correct administration for practical application. Internal control is a system that serves timely application of principles and norms of responsible administration in all economic operations.

Practical application of active supervisory power through an internal control system is important. Internal control should be a system that does not rule but serve.¹⁵⁴ It is an efficient means that employs scientific tools of management and accounting measures, to facilitate responsible administration. It is not primarily intended to detect irregularities but rather it is tasks to make sure that ecclesiastical goods would be applied to serve the needs of the Church.

The complexity of its (internal control system) components is relative to economic capacity of the institution. Basically, this involves simple separation of duties – the one who disburse money should not be tasked for the accounting records. There are always at least two persons involved in every cycle of transaction to facilitate transparency in all acts of administrations.

Internal control employs the same Church principle of involving two or more people in every cycle of operation to facilitate transparency and accountability. The balance application of supportive supervision and actual administration of goods would facilitate correct application of Church resources.

In this way, internal control is emplaced to ensure transparent and responsible administration. Out of love and love for God's mission, it is a profound gratitude to every cent the faithful has entrusted to the Church. The mission of Ordinaries and administrators regarding correct administration of goods is a sacred responsibility rooted in the gospel.

¹⁵⁴ Cf. FRANCIS, Apostolic exhortation: *Evangelii gaudium*, Vatican 2013, no. 57.

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