

July 31, 2007 – San Diego Audit Finds Parishes Mishandled Money

By THE ASSOCIATED PRESS, The New York Times

SAN DIEGO (AP) -- A handful of parishes in the Roman Catholic Diocese of San Diego deliberately concealed or inappropriately handled about \$500,000 in funds in sometimes "purposeful attempts" to circumvent federal bankruptcy proceedings, according to an auditor's report.

The San Diego diocese filed for Chapter 11 bankruptcy Feb. 27, just hours before going to trial in more than 140 lawsuits alleging sexual abuse by priests. The filing automatically halted court proceedings in the lawsuits.

Church finances, specifically the question of how much the diocese is worth, has been hotly contested since the bankruptcy petition, which came after four years of unsuccessful settlement negotiations.

The "openly questionable activities" appear to be limited to a small number of parishes, and most pastors and lay personnel demonstrate a good faith effort to comply with church financial procedures, the report said.

Still, the 175-page report published late Monday found no overall system of accounting throughout the diocese.

"As a result (church officials) are often woefully unaware of the specific financial operations of individual parishes," the report said.

With nearly 1 million Catholics and holdings throughout San Diego County, the diocese here is by far the largest and, by all accounts, the wealthiest of the five U.S. dioceses to have filed for Chapter 11 bankruptcy protection under the shadow of civil claims over sexual abuse.

U.S. Bankruptcy Judge Louise DeCarl Adler ordered the examination of the diocese's finances in April.

"This is the most Byzantine accounting system I've ever seen," she said at the time. "I am mystified."

The report, compiled by financial expert R. Todd Neilson, marks the first time a diocese under federal bankruptcy protection has been subjected to such outside financial review. Lawyers will be able to question Neilson at a hearing scheduled for Aug. 23.

The diocese said in a statement sent by its in-house counsel, Micheal Webb, that the problems Neilson identified had already been corrected or were being addressed.

"When even the most sophisticated enterprises are subjected to the scrutiny of rigorous audits, things are identified that could or should be improved. Given that our diocese and the parishes are not businesses, it is not surprising that Mr. Neilson found some room for improvement," the statement said.

Attorneys for the alleged victims have repeatedly accused the diocese of not being forthcoming about its finances, while the diocese has argued it simply does not know its net worth.

According to the auditor's report, the 98 parishes in the diocese maintain more than 900 accounts.

Among his findings, Neilson said three parishes "engaged in openly questionable activities."

Neilson said Our Lady of Guadalupe Parish, Calexico, for example, set in motion a series of transactions that deliberately concealed nearly \$50,000 from the bankruptcy court. He said the church engaged in a "purposeful attempt ... to evade the direction of the Court to report all cash available."

Neilson also scolded St. Mary of El Centro Parish for parceling a \$300,000 donation into six separate cashier checks as a "purposeful attempt ... to circumvent the intent and direction of the Court request on transparency in the recognition of financial cash balances by all of the parishes.

"It is especially unfortunate that just eight days after the Debtor's bankruptcy the pastor and the Parish Finance Council would engage in such deliberately misleading behavior," Neilson wrote.

The auditor found the finances of Our Lady of Mt. Carmel San Ysidro Parish "perplexing."

He said the parish has maintained it is one of the poorest in the diocese, yet holds \$1.2 million in parish local bank accounts. Neilson said that sum is only exceeded by one other parish in the diocese.

That is "certainly not indicative of an impoverished parish unable to pay their obligations to the Debtor," the report said.

The diocese cooperated with the independent audit.

Earlier this month, the Archdiocese of Los Angeles agreed to pay \$660 million to settle abuse claims in the largest payout yet. Cardinal Roger Mahony has said the settlement will not have an impact on local ministries and that no parish properties or schools will be sold to cover the \$250 million the archdiocese will pay outright.