Justice Peter McClellan AM,
Chair, Royal Commission into Institutional
Responses to Child Sexual Abuse
GPO Box 5283, SYDNEY, NSW, 2001

Dear Justice McClellan,

6 November 2013

Inquiry into Handling of Child Abuse by Religious and other Organisations -
COIN Submission No 7

The RCC’s Towards Healing, Melbourne Response & Financial Arrangements

COIN refers to the RCC’s currently operating private initiatives to settle claims by
victims of clergy sexual abuse, ie, the “Melbourne Response”, operating in the archdiocese of
Melbourne, and “Towards Healing”, operating in other dioceses in Victoria, and around
Australia (“MR” and “TH”).

COIN confines this submission to one aspect only of MR and TH: the imposition by MR of a
cap, currently set at $75,000, on compensation to victims arising from complaints concerning
sexual abuse by priests. TH has, by contrast, imposed no such cap, a situation which highlights
the unjust and random nature of these two internal church structures, especially in the context
of the Church’s financial arrangements in Australia, including its tax deductibility status.
Although (as in the USA) details are not readily available to COIN, it may be confidently assumed
that the Church enjoys significant wealth, in various forms, in Victoria alone, probably
amounting to several hundred million dollars. Nationwide, that wealth would certainly amount
to billions of dollars.

Here, COIN assumes that the Committee will receive many submissions about the MR
and TH and thus COIN does not detail here many criticisms received by it from victims about
many aspects of these private church processes. COIN assumes that those victims will advise
the Committee of their experiences with MR and TH.

Objection in Principle: COIN considers these two internal processes objectionable in
principle; points to their lack of accountability; and refers to and adopts the conclusion of
Cummins J in his recently released report Protecting Victoria’s Vulnerable Children:

“...the fundamental is that the processing of crimes against children should be the
subject of state process. The Melbourne Response is a private initiative. Its processes
and procedures are not public. Second, if children come before it, there is no public
scrutiny of its processes including whether the scrupulous care exercised by the
criminal courts to ensure victims are not confronted personally by their abusers in the

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hearing, is or is not followed. Third, there is no public knowledge whether the consent
given by children to the process is informed consent as contemplated by the law. "1

COIN agrees and submits that the Committee should thoroughly investigate all aspects
of the MR and TH; and that if these processes are to continue at all, they (1) must not be
administered as an alternative to the criminal justice system; and (2) must be made fully
accountable to the government and the public including all financial aspects, subject only to
confidentiality wishes, if any, of victims.

RCC Financial Arrangements: by way of background information, COIN attaches an
article ‘Earthly Concerns’, The Economist (August 18 2012) pp 19-22. This article describes a
very worrying propensity in US Dioceses to reject financial accountability, shift assets to avoid
paying compensation, seek bankruptcy for dubious reasons, corrupt internal financial practices,
and disentitle, unfairly, its own priests from their benefits upon retirement.

Questions arise whether the RCC in Australia:

(1) should be made financially accountable and transparent to the public: and; (2) can
justify on financial grounds, especially given its significant assets, the abovementioned
grossly inadequate cap of $75,000 (previously $50,000) imposed in relation to
settlements provided to victims in MR.

According to The Age newspaper:2

“Until recently, the typical compensation amount offered by the Catholic Church to
clients [of Dr Vivian Waller, solicitor] was $10,000-$20,000. Most accepted these paltry
sums, because the alternative – suing the church through the courts – was almost
impossible...Now, Waller says, the church’s compensation offers under Towards
Healing, which has no cap, are more likely to be $100,000-$200,000. But she’s far from
satisfied that it can be trusted to deal in-house with all victims fairly, honestly and with
compassion.”

COIN submits that the Commission should examine and report upon, as falling within its
Terms of Reference:

(i) All assets held by all RCC Australian dioceses or other associated church entities,
however described or held, but including assets in the nature of real property, financial
investments, cash deposits, property held in statutory or other trust entities (see COIN
submission no 1 dated 16/08/2013) and like wealth;

(ii) the “tax deductible” charitable status of the RCC or its related entities in so far as
Church finances are subsidised by the Australian taxpayer, and the financial position of
the Church generally, and/or of those agencies or entities have an impact upon the ability
of the RCC generally, and of any particular diocese, to pay full and proper compensation
to victims of clergy sexual assault, including any suggestion that the current $75,000 cap
is driven by RCC financial imperatives;

(iii) If that examination reveals unacceptable practices reflective of the situation in the USA,
as described, for example, by the attached Economist article, recommend that all
Australian governments take appropriate action, especially in relation to taxation
arrangements;

(iv) Recommend that, if the MR and TH are to continue in some form, the abovementioned MR cap of $75,000 lump sum compensation (and any equivalent TH cap) be abandoned either voluntarily by the RCC, or, if necessary, prohibited by legislation as leading to grossly inequitable and unjust results for victims;

(v) Recommend that, as in Ireland, a government controlled Compensation Board be established to provide fair and just compensation to victims of RCC sexual abuse; and that all costs of such a Board, including establishment, staffing, administration and payment of compensation, be met entirely by, or substantially by, the RCC;

(vi) Recommend further examination of all RCC finances in Australia by appropriate bodies (eg. The Australian Taxation Office) if considered appropriate.

Dr Bryan Keon-Cohen AM QC
President, COIN

Briefing The Catholic church in America

Earthly concerns

BOSTON, NEW YORK AND SAN DIEGO

The Catholic church is as big as any company in America. Bankruptcy cases have shed some light on its finances and their mismanagement.

Of all the organisations that serve America's poor, few do more good work than the Catholic church: its schools and hospitals provide a lifeline for millions. Yet even taking these virtues into account, the finances of the Catholic church in America are an unholy mess. The sins involved in its book-keeping are not as vivid or grotesque as those on display in the various sexual-abuse cases that have cost the American church more than $3 billion so far; but the financial mismanagement and questionable business practices would have seen widespread resignations at the top of any other public institution.

The sexual-abuse scandals of the past 20 years have brought shame to the church around the world. In America they have also brought financial strains. By studying court documents in bankruptcy cases, examining public records, requesting documents from local, state and federal governments, as well as talking to priests and bishops confidentially, The Economist has sought to quantify the damage. The picture that emerges is not flattering. The church's finances look poorly coordinated considering (or perhaps because of) their complexity. The management of money is often sloppy. And some parts of the church have indulged in unglamorous financial contortions in some cases—it is alleged—both to divert funds away from uses intended by donors and to frustrate creditors with legitimate claims, including its own nuns and priests. The dioceses that have filed for bankruptcy may not be typical of the church as a whole. But given the overall lack of openness there is no way of knowing to what extent they are outliers.

Thousands of claims for damages following sexual-abuse cases, which typically cost the church over $2m per victim, according to lawyers involved, have led to a liquidity crisis. This seems to have encouraged a pre-existing trend towards replacing dollars from the faithful with publicly raised debt as a way of financing church business. The church is also increasingly keen to defend its access to public health-care subsidies while claiming a right not to provide certain medical services to which it objects, such as contraception. This increased reliance on taxpayers has not been matched by increased openness and accountability. The church, like other religious groups in America, is not subject to the same disclosure requirements as other non-profits or private entities.

Little is known about the Catholic church's finances outside America. JPMorgan Chase recently closed the Vatican Bank's accounts under pressure from the US Treasury. The Holy See has also struggled to get itself placed on lists of jurisdictions that are deemed to have strong anti-money laundering controls. This may reflect bad organisation rather than a concerted attempt to hide anything, though documents leaked by Pope Benedict XVI's former butler to an Italian journalist suggest that maladministration in the Vatican goes beyond mere negligence.

But America, not least thanks to its bankruptcy procedures, offers a slightly clearer window on the church's finances. And America is so important to the church that it merits particular examination.

Only three countries—Brazil, Mexico and the Philippines—have larger Catholic populations than America, and nowhere has a larger Catholic minority. Almost 100m Americans, a third of the nation, have been baptised into the faith and 25m identify themselves as Catholic. Discrimination against the Catholic minority, and strong leadership from Rome, encouraged American Catholics to create a sort of parallel society in the 19th and 20th centuries, with the result that there are now over 6,800 Catholic schools (45% of the national total); 550 hospitals; 2,000 plus a similar number of smaller health facilities; and 244 colleges and universities. Many of these institutions are known for excellence: seven of the leading 25 part-time law school programmes in America are Catholic (five are run by Jesuits). A quarter of the 100 top-ranked hospitals are Catholic. All these institutions are subject to the oversight of a bishop or a religious order.

The Economist estimates that annual spending by the church and entities owned by the church was around $70 billion in 2010 (the church does not release such figures). We think 57% of this goes on health-care networks, followed by 28% on
colleges, with parish and diocesan day-to-day operations accounting for just 6% and national charitable activities just 2% (see chart). In total, Catholic institutions employ over 115,000 people, reckons Fred Gluck, a former McKinsey managing partner and co-founder of the National Leadership Roundtable on Church Management, a lay organisation seeking to improve the way the church is run. For purposes of secular comparison, in 2010 General Electric's revenue was $50 billion and Walmart employed roughly 2.1 million people.

The church is the largest single charitable organisation in the country. Catholic Charities USA, its main charity, and its subsidiaries employ over 65,000 paid staff and serve over 4.5 million people. These organisations distributed $4.7 billion to the poor in 2010, of which 62% came from local, state, and federal government agencies. The American church may account for as much as 60% of the global institution's wealth. Little surprise, then, that it is the biggest contributor to head offices (of Germany, Italy and France). Everything from renovations to St Peter's Basilica in Rome to the Pontifical Gregorian University, the church's version of West Point, is largely paid for with American money.

Where that money comes from is hard to say (the church does not release numbers on this either). Some of it is from the offerings of the faithful. Anecdotal evidence suggests that America's Catholics give about $10 per week on average. Assuming that one-third attend church regularly, that would put the annual offertory income at around $3 billion. More comes from elite groups of large donors such as the Papal Foundation, based in Pennsylvania, whose 138 members pledge to donate at least $1 million annually, and Legatus, a group of more than 2,000 Catholic business leaders that was founded by Tom Monaghan of Domino's Pizza.

There is also income from investments. Timothy Dolan, the president of the United States Conference of Catholic Bishops (USCCB) and Cardinal Archbishop of New York & a "corporation sole", means a legal entity consisting of a single incorporated office, occupied by a single person, is believed to be Manhattan's largest landowner, if one includes the parishes and organisations that come under its jurisdiction. Another source of revenue is local and federal government, which bankrolls the Medicare and Medicaid of patients in Catholic hospitals, the cost of educating pupils in Catholic schools and loans to students attending Catholic universities.

Wages and salaries

The molestation and rape of children by priests in America has resulted in more than $3.5 billion of settlements over the past years, $1.3 billion of that in California. The total is likely to increase as more states follow California and Delaware in relaxing the statute of limitations on these crimes, most of which were reported long after they happened. For an organisation with revenues of $70 billion that might seem manageable. But settlements are made by individual dioceses and religious orders, whose pockets are less deep than those of the church as a whole.

The fact that far fewer Catholics are answering the call to become nuns, monks and priests (the minor seminaries, once the first step of the recruitment process, are almost empty) adds to the pressure. It saves some current costs, but reduces in Milwaukee) to declare bankruptcy, as well as the American arm of the Irish Christian Brothers in Regional Church of the Jesuits. More of America's 196 dioceses could be forced to do the same. Efforts are under way in the legislatures of Arizona, Illinois, New York, Florida, Wisconsin, Minnesota, Colorado, Pennsylvania, Ohio and California (again) to extend statutes of limitations, according to Jeff Anderson, a lawyer who represents many victims of abuse. If any of these efforts succeeds, the expectation among lawyers like Mr Anderson is that some of the affected dioceses would seek Chapter 11 protection while they attempt to settle the cases. (Troubled dioceses generally settle suits just before the bishop is due in court.) The diocese of Honolulu could be the next to go bankrupt. In May it was hit by a pair of new lawsuits after the extension of Hawaii's statute of limitations for victims of abuse.

Various sources say that Cardinal Dolan and other New York bishops are spending a substantial amount—estimates range from $300,000 a year to well over $5m—on lobbying the state assembly to keep the current statute of limitations in place. His office will not comment on these estimates. This is in addition to the soft lobbying of lawmakers by those with pultits at their disposal. The USCCB, the highest Catholic body in America, also lobbies the federal government on the issue. In April the California Catholic Conference, an organisation that brings the state's bishops together, sent a letter to California's Assembly opposing a bill that would extend the statute and require more rigorous background checks on church workers.

Some dioceses have, in effect, raided priests' pension funds to cover settlements and other losses. The church regularly collects money in the name of priests' retirement. But in the dioceses that have gone bust, lawyers and judges confirm that those funds are commingled with other investments, which makes them easily diverted to other uses. Under Cardinal Bernard Law, the archdiocese of Boston contributed nothing to its clergy retirement fund between 1986 and 2002, despite receiving an estimated $70m-90m in Easter and Christmas offerings that many parishioners believed would benefit retired priests.

Church officials denied the money it had collected was improperly diverted. By 2008 the unfunded liability had reached $114m; Joseph D'Arrigo, a benefits specialist, was brought in to turn things round. In 2010 the retirement fund was turned into an independent trust to ensure it could not be used for other purposes—a first for an American diocese, reckons Mr D'Arrigo.

The retirement funds for Wilmington, Delaware, were largely lost when it settled sex-abuse claims for $77m in February 2011. Those funds had been tossed into a pooled investment account that also con-
prized parish investments and funds for cemeteries and the education of seminarians. The Eastern United States province of the Passionists, a missionary order, has diverted retirement funds to cover operating expenses. In a bid to stave off bankruptcy it has sold off property, including a 14-acre piece of New York waterfront, and made an unorthodox investment in a Broadway show, "Leap of Faith". It flopped.

In public companies, this type of thing would attract regulatory scrutiny. In the church, retirement is still largely in the gift of the bishop. Retirement plans for priests are typically set up as diocesan trusts rather than proper pension funds with structured benefits. They do not fall under the Employee Retirement Income Security Act of 1974, the law that establishes standards for plan trustees and remedies for beneficiaries, including access to federal courts. Priests thus have no recourse to law if they are hard done by. Nor, as a matter of course, can they take their pensions with them if they leave for another diocese.

Richard Vega, who recently stepped down as president of the National Federation of Priests' Councils, estimates that 75-80% of clergy pension schemes in America are underfunded. He says that only a small minority of priests will have set aside enough of their net average salary of $25,000 a year to cover themselves. Others will be less fortunate.

The clergy and its creditors

The principle of separation between church and state in America means that religious groups are not required to file tax returns, list their assets or disclose basic facts about their finances. Some dioceses do publish accounts, but these tend to provide an incomplete picture. Though lawyers for dioceses facing bankruptcy have fought to keep most financially sensitive documents sealed, the process has forced the church to let in unaccustomed light.

The documents that have been disclosed reveal that some bishops in the bankrupt dioceses presented the diocesan funds of parishes, schools, hospitals and retirement accounts as separate when they were really simply book-keeping entries in the same pooled investment account. Thus, the diocese of San Diego, for instance, reported to the bankruptcy court that it had over 500 accounts. But these were merely entries in a "Parish, School, Diocesan Leans Trust Account", maintained in a single bank account at Union Bank of California.

Such pooling saves on administrative costs and allows dioceses to use a surplus in one area to cover shortfalls in another, often a legitimate course of action. But it has presented problems when it comes to working out which assets belong to whom in bankruptcy proceedings.

The vast majority of parishes that commingled their funds with those dioceses now in bankruptcy lost all their investments. In some cases they were misled into believing that the money would be kept separate from the main diocesan funds, and thus safe in the event of bankruptcy. The judge in the Wilmington bankruptcy, Christopher Sontchi, said parishes that had suffered this fate had grounds to sue the diocese for breach of fiduciary duty. None has—but that is hardly surprising, given that the bishop and the chancellor of the diocese sit on the five-member board of trustees of each parish.

Some parishes were much more careful than others in ensuring their funds were handled properly. According to a document in "The Economist's" possession, a parish priest in Wilmington wrote to the diocese: "Find enclosed a cheque for $1,000,000 to be invested in [the parish of] St Thomas's name in the diocesan account. It is my understanding that if the need arises, this will always be available for parish use. If this is not the case, please return it and I will put it under my mattress for safe keeping." The diocese cashed the cheque, apparently depositing it in a general cash account. The parish lost the money when the diocese struck a sexual abuse settlement. By contrast St Ann's parish, also in the Wilmington diocese, wired its deposits directly into a segregated investment account at Mellon Bank rather than to the diocesan cash account at Citizens Bank. Its trustees also insisted on drafting a special agreement stipulating that funds provided to the diocese were held in trust.

Plaintiffs' lawyers have raised questions about financial transfers in dioceses threatened with bankruptcy. These tend to go the other way—moving money out of diocesan accounts and into parish accounts, trusts of various sorts and any other receptacle at hand. According to an independent report commissioned by a bankruptcy judge, at one point priests in San Diego were taking cash out of accounts and putting it in safes in the rectories because they wanted to keep it out of reach of plaintiffs. Nobody knew how a priest, monk or nun in order to spend their professional life as a financial manager, so no doubt part of this money shuffling is down to innocent incompetence. But the church does shift between considering all assets as part of a single pool when that suits, and claiming that funds have always been separate and ring-fenced when they are exposed to claims.

Creditors in the Milwaukee bankruptcy case, which is still in progress, have questioned the motives behind a $35m transfer to a trust and a $55.6m transfer from archdiocese coffers to a fund for cemeteries. Cardinal Dolan, who was Archbishop of Milwaukee at the time, authorised both transactions. The creditors think the movement of such large amounts had more to do with shielding cash from sexual-abuse victims than with the maintenance of graves, calling the manoeuvre fraudulent. Cardinal Dolan's office responded to questions about these allegations by pointing to blog posts in which he described them as "baloney" and defended the transfers as "virtuous, open and in accord with the clear directives of the professionals on our finance council and outside auditors."

As "debtors in possession"—entities that have filed for bankruptcy yet retain their assets—bust dioceses have an obligation to enlarge their assets to satisfy their creditors. On the contrary, "we have seen a consistent tactic of Catholic bishops to shrink the size of their assets, which is not only wrong morally but in violation of state and federal law," says Ken Brown of Pachulski Stang, a California law firm that has represented creditors in eight of the ten Catholic bankruptcy cases.

In a particularly striking example, the diocese of San Diego listed the value of a whole city-block in downtown San Diego at $40,000, the price at which it had been acquired in the 1940s, rather than trying to estimate the current market value, as required. Worse, it altered the forms in which assets had to be listed. The judge in the case, Louise Adler, was so vexed by this and other shenanigans on the part of the diocese that she ordered a special investigation into church finances which was led by Todd Neillson, a former pragmatic and renowned forensic accountant; the diocese ended up settling its sexual abuse cases for almost $200m. If it had not done so, the bankruptcy would have been thrown out, condemning the bishop and chancellor of the diocese, and its lawyers might have faced contempt charges.

Some assets are not listed at all. In a corporate bankruptcy, if insurance is relevant to the reason for the company's failure...
then its insurance policy has to be listed as an asset. Not so those of the Catholic Mutual Group (CMG), which stepped up its help for Catholic dioceses in the mid-1980s—a time when liability insurance became too expensive as a result of the increase in sexual-abuse claims. Since the CMG is technically not an insurance company but a voluntary religious "mutual benefit society", its policies do not have to be disclosed as assets in a bankruptcy proceeding, even though it contributes substantial funds towards settlements.

One way to reduce costs is to reduce the number of parishes. There are two ways to do this. The first is to merge one parish with another parish and combine their buildings, congregations and finances. The second, more controversial way is to "suppress" the parish, which involves the transfer of all of the assets to the bishop, who reassigns parish priests as he sees fit. The funds in the parish bank accounts are placed in the general treasury of the diocese, as are the proceeds of land sales, none of which is subject to disclosure. Faced with shortfalls in Boston (where he was a temporary administrator) and later in Cleveland, Bishop Richard Lennon suppressed dozens of parishes as part of a reorganisation plan for each of the two archdioceses: given the pervasive commingling of accounts, some of the money thus accumulated could have gone to pay operating expenses and, at least in Boston, court settlements.

The parishioners were unimpressed. Some heckled the bishop when he visited their parish to celebrate mass. One of the Boston parishes, St Frances Cabrini in Scituate, Massachusetts, has been occupied for the past eight years by parishioners who have refused to accept its closure. They have a roster chart to ensure at least one person is at the church at any time, so that the archdiocese can't change the locks. Some parishes have filed appeals to Rome. In an unusual move in March, the Vatican reversed the closing of 13 of the parishes that Bishop Lennon had suppressed.

As well as questionable financial management, the church also suffers from fraud and embezzlement, according to Jason Berry, an expert in Catholic finance and author of "Tender Unto Rome: The Secret Life of Money in the Catholic Church". In March the former chief financial officer of the archdiocese of Philadelphia was arrested and charged with embezzling more than $900,000 between 2005 and 2010. Hundreds of priests have been disciplined for taking more than a little "walking-around money" from the collection basket.

In the corporate world, those who witnessed such malfeasance might alert a higher authority. But priests make unlikely whistle-blowers. It is often hard for them to imagine a life outside holy orders, which could be their fate if they alienated the bishop who has a hold over their salary, pension and private life. Would-be whistle-blowers will also be aware that local and federal authorities are loth to investigate mainstream religious groups for fear of the political consequences. Assistant United States attorneys in two different federal districts have pushed the FBI to investigate concealment, coercion and financial mismanagement in parts of the church but have got nowhere.

The taxpayer as good Samaritan
Growing financial pressures have encouraged the church to replace donations from the faithful with debt. According to figures from the Municipal Securities Rulemaking Board over the past decade, state and local authorities have issued municipal bonds for the benefit of at least 50 dioceses in almost 30 states to pay for the expansion and renovation of facilities that would previously have been largely paid for through donations. Overall church muni debt has increased by an estimated 80% over that period. At least 736 muni bond issues are currently outstanding.

California is the biggest borrower. Although funding for religious groups is prohibited under the state's constitution, a series of court rulings has opened the door to bond issues. Catholic groups have raised at least $2 billion through muni bonds over the past decade. Of that, some $9 billion went to hospitals. In one case, in San Jose, the money went to buy chancery offices for the bishop.

The dioceses back their bonds with letters of credit from banks. Among the most active guarantors are Allied Irish Banks (AIB), US Bancorp and Wells Fargo. None of the banks was prepared to discuss the financial terms of these contracts.

Muni bonds are generally tax-free for investors, so the cost of borrowing is lower than it would be for a taxable investment. In other words, the church enjoys a subsidy more commonly associated with local governments and public-sector projects. If the church has issued more debt in part to meet the financial strains caused by the scandals, then the American taxpayer has indirectly helped mitigate the church's losses from its settlements. Taxpayers may end up on the hook for other costs, too. For example, settlement of the hundreds of possible abuse cases in New York might cause the closure of Catholic schools across the city.

It is not wrong for churches to issue bonds. But, like many other aspects of the Catholic church's finances, this should be more transparent. It is quite possible that church finances are taken as a whole, not as bad as the details coming out in bankruptcy cases suggest. Dioceses and religious orders that go bankrupt cannot be assumed to be representative. If so, then showing better management in the rest of the church would do a lot to allay concern. And increased openness might have the added benefit of bringing in the acumen of a knowledgeable and concerned lay.

Some influential Catholics are keen to see better management and more openness and accountability. Leon Panetta, America's defence secretary, called for outside oversight of church finances when he was a director of the National Leadership Roundtable on Church Management, a position he relinquished in 2009 to become director of the CIA. Faced with competition from other churches and disgrace from the behaviour of some of its priests, there has never been a more important time to listen to such calls, and to invite in the help and scrutiny that the church's finances seem so clearly to need. 

Manhattan's largest landowner