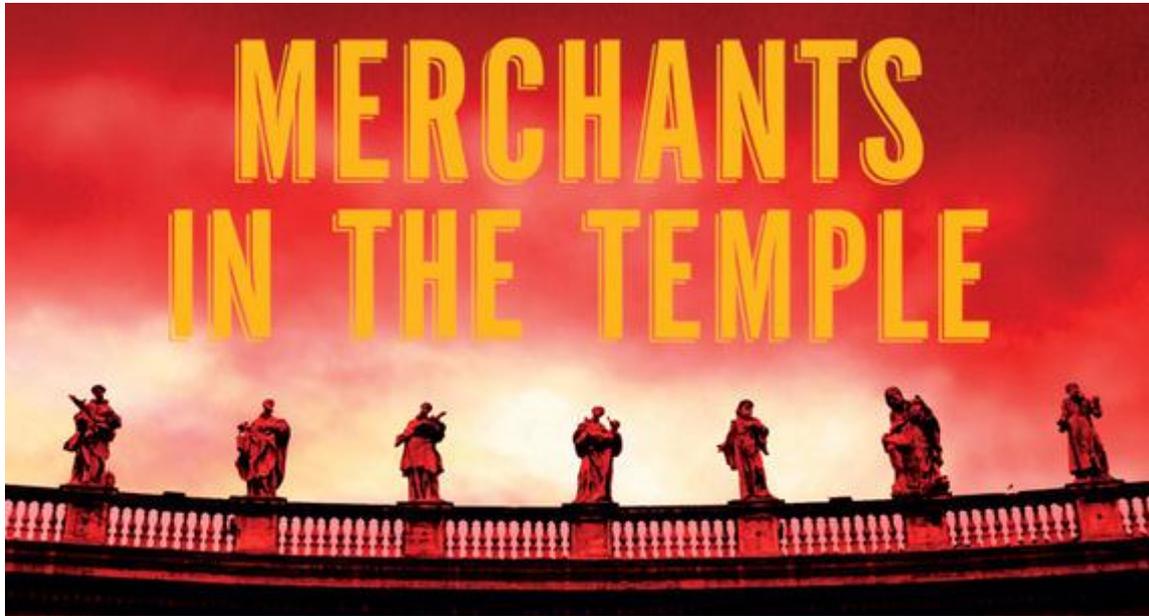


Merchants in the Temple

Posted: 11/16/2015 3:47 pm EST Updated: 11/16/2015 3:59 pm



By Gianluigi Nuzzi

Pope Francis Issues a Shocking Accusation

On July 28, 2013, a few hours after his customary religious obligations, Pope Francis prepared to go to the Apostolic Palace. As always, he checked his datebook first. "This is what I've always done. I carry it in a black briefcase. Inside is a razor, a breviary, an appointment book, and a book to read." The Pope carefully reviewed his notes. That morning he had a meeting with Archbishop Jean Louis Bruguès, the librarian and archivist of the Holy See. But his most important appointment of the day was a noon meeting scheduled to take place in one of the most inaccessible and mysterious spaces in the Palace: the Sala Bologna, on the third floor, between the papal apartment recently vacated by Benedict XVI and the quarters of the Secretariat of State. The decorations for this sumptuous dining room had been commissioned by Pope Gregory XIII (1502-1585), who wanted frescoes of immense maps and cosmic charts to convey the measure of his ambitious pontificate. Although they had originally been created for the 1575 Jubilee, they were timelier than ever today, in perfect harmony with the designs of Pope Francis. Like Gregory's, Francis's plans were also ambitious and mysterious, inspired by his wish to bring the Church into the world and to fight the Curia's secret dealings and privileges. His was a soft but steady revolution that had already triggered a war without rules or limits. Francis's enemies were powerful, duplicitous, and hypocritical.

The Pope made his entrance to what looked like a miniconclave. The cardinals were waiting for him, conversing quietly in small clusters. The tension was palpable. Cardinal

Versaldi, the President of the Prefecture, was present. Off to the side was Cardinal Giuseppe Bertello—a staunch ally of Bertone—who headed the Governorate. Domenico Calcagno, the President of APSA, was also there. All the key players who administer the money and the property of the Holy See were in attendance.

The official order of business was to approve the annual financial report for 2012, but everyone knew that a different issue would be addressed today. Immediately upon his election Pope Francis had announced his intention to reform the Curia. One month later, in April 2013, he had established a group to help him with the governance of the Church: a council of eight cardinals from five continents, created for the purpose of breaking the stranglehold that the cardinals residing in Rome had over the Vatican.

On June 24, the Pope established the Commission for Reference on the IOR, the first commission in history to review the Institute after the many scandals in which it had been embroiled. Although there was already an IOR Supervisory Commission, chaired by Cardinal Bertone, the new Pope wanted more oversight. "The Commission"—announced the Vatican press release—"will gather accurate information on the legal status and various activities of the Institute and . . . shall deliver to us promptly, upon the conclusion of its tasks, the results of its work, as well as its entire archives." In other words, Francis wanted to get a clear picture of the facts and to hear from an impartial new body that reported directly to him.

The Curia was devastated by these moves, but no one had grasped the full scope of the changes: would Pope Francis intervene only superficially, through big media announcements, or would he get to the root of the problems, eliminating the power centers and the infighting? And in these first months of his pontificate, how well did he know the secrets behind the massive circulation of money inside the Vatican?

The cardinals attending the July 3, 2013, meeting with Francis found an immediate answer in the confidential file that they each received with their name on it. Among the papers inside, the most important was a two-page letter that had been sent to the Pope one week earlier, on June 27, from five of the international auditors of the Prefecture. Two of the members expressed the auditors' concerns over the way the Vatican's finances were being managed and decided to take the risk of conveying these concerns to Francis: the loyal Santo Abril y Castelló and the President of the Prefecture, Giuseppe Versaldi. The cardinals were shocked by the letter, a document that has never before been made public. Among other things, it listed the emergency situations that had to be addressed immediately to rescue the Vatican from impending bankruptcy:

Holy Father,

. . . There is a complete absence of transparency in the bookkeeping of both the Holy See and the Governorate. This lack of transparency makes it impossible to provide a clear estimate of the actual financial status of the Vatican as a whole and of the single entities of which it consists. This also means that no one person can be considered actually responsible for financial management . . . We only know that the data

examined show a truly downward trend and we strongly suspect that the Vatican as a whole has a serious structural deficit.

The general financial management within the Vatican can be defined, in the best of cases, as inadequate. First, the budgeting and decision-making processes of both the Holy See and the Governorate are senseless, despite the existence of clear guidelines defined by the current regulations. . . . This reality seems to suggest that, at a minimum, the prevailing attitude of the Vatican is best captured by the expression, "the rules don't apply to us." Costs are out of control. This applies in particular to personnel costs but it also extends elsewhere. There are various cases of duplicate activities, where consolidation would instead guarantee significant savings and improve the management of the problems. We have not been able to identify clear guidelines to follow for investments of financial capital. This is a serious limit and it leaves too much discretion to the managers, which increases the overall level of risk. The situation that is applicable to the investments of the Holy See, Governorate, Pension Fund, Health Insurance Fund, and other funds managed by autonomous entities should be immediately improved . . . The managers must clearly shoulder their responsibilities for preparing the budgets and sticking to them in a more realistic and effective way.

We are aware that we have presented strong and sometimes severe advice and suggestions. We sincerely hope that Your Holiness realizes that our actions are inspired by our love for the Church and our sincere desire to help and to improve the temporal aspect of the Vatican. We and all our families beg for Your apostolic blessing, while confirming ourselves as the humble and devout children of Your Holiness.

After reading the letter, Agostino Vallini turned pale. He had been made a cardinal by Benedict XVI and since 2008 had served as the Vicar of the diocese of Rome. He immediately sensed the explosive potential of the documents and invoked the need for confidentiality. These papers "are under papal seal"—he hastened to recall, addressing the Pope—"and we hope they conserve . . . not for our part but, you know . . ."

Vallini's main concern was that nothing be leaked outside the Vatican walls. He was well aware of the impact that this report could have on public opinion. The elderly cardinal turned around slowly to gaze at his colleagues and observed only silence and anxiety. On the surface the reaction was placid, but there were clear undercurrents of tension, dismay, and shock.

The cardinals did not know the full extent of the Vatican's troubled economic situation. Earlier that year, during the congregations for the Conclave in March, they had received information, reports, and numbers, but they were piecemeal and disorganized. A more reassuring picture had been painted instead by the same cardinals who were in charge of the various dicasteries.

None of the members of the Curia were accustomed to the new requirement that information be transparent and openly circulated. Francis probably saw what he had

been expecting. As a good Jesuit, he would use the alarming documents he had received from the auditors to make everyone understand that from that moment on, nothing would be the same.

The Holy Father took the floor. He delivered an indictment that would last sixteen interminable minutes, using harsher words than had ever been expressed by a Pontiff to the assembly—words that were supposed to remain secret, protected by the gravity of their contents and the confidentiality demanded of all those who had access to the room. But that would not be the case. Foreseeing the risks that his innovative action would entail—sabotage, manipulations, theft, break-ins, and attempts to discredit the reformers—someone recorded the Pope's charges, word for word.

* * *

Dead silence fell over the room as the Pontiff prepared to speak, the clicking on of the recorder going unobserved. On the recording, the sound quality is perfect, and the voice of Francis unmistakable. He is calm and dry but firm and resolute. He speaks in halting but clear Italian, as befitting the Bishop of Rome, leaving long pauses between each item of his indictment.

The silences lend even greater drama to his words. It is evident that Francis wants every cardinal—including the ones who tolerated bad behavior for years—to realize that the time has come to choose sides:

We have to better clarify the finances of the Holy See and make them more transparent. What I will say is that to help, I would like to identify some elements that will definitely help you in your reflections.

First. It was universally ascertained in the general congregations [during the Conclave] that [in the Vatican] the number of employees has grown too much. This fact creates a huge waste of money that can be avoided. Cardinal Calcagno told me that in the past five years there has been a 30 percent increase in employee expenses. Something isn't right! We have to get this problem under control.

The Pontiff had already known that most of the new hiring was based on cronyism. The persons in question were employed for vague projects or hired through nepotism or personal connections. It was no accident that, in this small state, rather than have one human resources office, like a private company with thousands of employees, there were fourteen, one for each power center on the organizational chart of the Holy See. Francis denounces this in a lucid crescendo that highlights each of the most alarming situations:

Second point: the lack of transparency continues to be an issue. There are expenses for which no clear procedures were followed. According to the men who spoke with me [i.e., the auditors who wrote the report and some cardinals]—this comes out in the financial statements. In this connection, I think we have to move forward with the work of clarifying the origins of the expenses and the forms of payment. We have to create a protocol for estimates and also for the last step, payments. [We need to]

follow this protocol rigorously. One of the department heads told me: they come to me with the invoice so we have to pay . . . No, we don't. If a job was done without an estimate, without authorization, we don't pay. So who will pay? [Pope Francis simulates a dialogue with a bursar.] We don't pay. [We need to] start with a protocol and be firm: [even if] we're making this poor clerk look bad, we don't pay! God help us but we don't pay!

C-l-a-r-i-t-y. That's what's done in the most humble companies and we have to do it, too. The protocol for starting a project is the payment protocol. Before any purchase or construction job we have to request at least three different estimates to decide which one is more convenient. Let me give you an example, the library. The estimate said 100 and then 200 was paid. What happened? A little more? Alright, but was it budgeted or not? [Some say] we have to pay for it. No we don't! Let them pay . . . We don't pay! This is important for me. Discipline, please!

Francis goes on to describe the utter superficiality of Vatican bookkeeping. He's angry. Seven times he repeats, "We don't pay." For too long, in an incredibly facile and superficial manner, millions have been disbursed to pay for unbudgeted jobs that were executed without the required oversight and with ridiculously padded invoices. Many have taken advantage, pocketing even the donations of the faithful, the offerings that were supposed to go to the needy. The Pope then addresses the cardinals who lead dicasteries that over the years have mismanaged Church money, the department heads who haven't exercised the necessary oversight. His criticism of them is overt: harsh, direct, scathing, even humiliating. He emphasizes issues that any manager working in even the smallest business should know and understand.

Francis stares Secretary of State Tarciso Bertone in the face. Those who are sitting near the Pope see no signs of the friendship and indulgence that Ratzinger felt for the Italian cardinal that led him to elevate Bertone to the pinnacle of power at the Vatican. No, Francis's gaze conveys the icy admonishment of the Jesuit who came to Rome from the "ends of the Earth." These accusations are an indirect rebuke of Bertone. At the Vatican, in fact, resource management and governance are the responsibility of the Secretariat of State, which had accumulated unprecedented power under Bertone. In the unreal silence that dominates the room, the Pope delivers the final blow by raising the most embarrassing issue:

It is no exaggeration to say that most of our costs are out of control. This is a fact. We always have to check the legality and clarity of contracts with the utmost attention. Contracts can be very tricky, right? The contract might be clear but in the footnotes you find the fine print—that's what it's called, right?—which is tricky. Examine it carefully! Our suppliers should always be businesses that guarantee honesty and propose a fair market price for both products and services. And not all of them can guarantee that.

The Pope's Accusation: "Our costs are spiraling out of control"

The financial situation inherited from Ratzinger and Bertone—as described by the auditors and seconded by Francis—was a dead-end, prebankruptcy scenario. On the one hand there was total chaos in the management of resources and spending, which was spiraling out of control, with inflated costs, deceptive contracts, and dishonest suppliers dumping obsolete and overpriced products on the Vatican. On the other, cronyism and shady financial dealings prevented change and undermined the policies already adopted by Benedict. This might have been the unspoken reason for Ratzinger's decision to step down. By giving the helm of Peter's Bark to someone else, he hoped to break their grip on power and prevent a storm that might ultimately compromise the financial and the evangelical future of the Church. Francis delivered his indictment in the same room used in the dramatic days leading up to the Conclave, when there had been talk about irregularities and concerns at the meetings on the eve of the voting for the new pope—concerns that may have led Bergoglio to choose the name of Francis, the first pope in history to do so—after the saint who dedicated his life to poverty.

The Pope was not done. While condemning the items that fell under "expenses," the Holy Father reserved his greatest wrath for the handling of revenue—the donations and inheritances left by the faithful. There was a complete lack of "oversight of investments." As we shall see in the next chapter, the question is very simple: does the money left by the faithful end up in good works or is it swallowed up by the black holes in the Holy See's wasteful administration? This question demands an investigation.

So concerned was Francis that he pressed on with another disturbing example. The situation illustrated by the auditors reminded him of Argentina in the dark days of the military junta, of the *desaparecidos*, when he discovered that the Church in Buenos Aires had made some truly unholy investments:

When I was a provincial prelate, the general accountant told me about the attitude we should take toward investments. And he told us the story of how the Jesuit province of the country has a good many seminaries and made investments into a serious, honest bank. Then, when they changed accountants, the new man went to the bank to check up on things. He asked how the investments were doing: he came to find out that more than 60 percent had gone to weapons manufacturing!

Oversight of investments, ethics, and even risks, because sometimes [you are tempted by interesting proposals and people say]: since this yields high interests, then . . . Don't be so trusting, we need to have technical assessors for this. Clear guidelines are needed on how and into what investments should be made, and they must always be made with scrupulous care and the utmost attention to risks. One of you reminded me of a problem that led to our losing more than ten million with Switzerland, through a bad investment, and the money was gone. There is also a rumor that there are satellite administrations [whose investments are not reported in their financial statements]. Some dicasteries have their own money and they administer it privately.

Our books are not in order, we have to clean them up.

I don't want to add more examples that will make us even more concerned, but we are here to solve everything, my brothers, for the good of the Church. I am reminded of an elderly parish priest in Buenos Aires, a wise man who was very careful with money. He said, "If we don't know how to look after money, which you can see, how can we look after the souls of the faithful, which you can't see?"

A Scathing Critique

The Pope delivers a scathing critique of how the Church finances are managed. He does not cite anyone by first and last name but he clearly shares the international auditors' concerns. He has also been informed of the disastrous results of the investments that had been entrusted to UBS, BlackRock, and Goldman Sachs: an initial investment of 95 million euros lost half its value under their watch.

The levels of alarm rise even higher when the Pontiff—the monarch and thus the supreme religious and civic authority of the Vatican State—says that he wants to get to the bottom of the situation, going through each and every office, donation, and expense. For this purpose he will soon create a new commission to comb through the books in search of "wounds," and reorganize the Vatican State.

I'm sure that we all want to move forward together to continue the work you have been doing for so long. To help you, I have decided to set up a special commission to build on the work you have done and to find solutions to the problems. This commission will have the same profile as the one established for the IOR . . . One of you will be the coordinator or general secretary or chairman of this commission to help in a process that I am happy to see moving forward. But we must make an effort to bring it to a conclusion and say so clearly.

We are all good people, but even the Lord demands from us a management for the good of the Church and of our apostolic work . . . I suggest that at least once during these meetings [of the cardinals], to invite the auditors board, for maybe half a day, to have an exchange of information, concerns, and work . . . If you have any suggestions, I am ready to hear them. This much I can offer you, and I thank you most warmly. Are there any questions, comments?

After the Pope's words, the silence is broken, once again, by Cardinal Vallini, who is still trying to alleviate the tension. To disassociate himself from any responsibility, he makes a point of stating that he himself holds no financial posts. His outlook is optimistic: "We're moving toward reforms that were already planned," he begins, "the administrative chiefs are working hard to adapt their departments to a proper management of assets." Vallini tried to downplay the assertions in the auditors' documents and promulgated by the Pope. So who is right? Vallini continues:

The international auditors, to my way of thinking, have the right perspective for their part but only in terms of finances. They are providing suggestions and provocations that are useful, important, and we are grateful. But it is also true that the question or the dysfunctions stem from one fact—and I don't think, well at times someone might be acting in bad faith, but not ordinarily—from our lack of administrative culture . . . Then, it's true, there are parallel administrations and they have to be fought, too. Where we need to dedicate our efforts is into instilling a new management culture. But I have to say that the work being done these days, and over the past few years, is moving in this direction, and I hope that we can continue to provide even more relief to the Pope.

In other words, Cardinal Vallini believes that the prelates are suffering merely from a lack of management culture. This is the source of their mistakes and of the financial losses. And yes, there is a chance that some people might take advantage.

The Pope is quick to reply. "What Vallini says is true, the culture . . . We improvise. It's the same in Argentina, we make it up as we go, without that culture of clarity, of protocols, of method . . ."

For the moment he avoids entering into the individual problem areas. Francis doesn't want to alarm the cardinals too much. It will be up to the new commission to venture into the bottomless pit of the budgets and balance sheets, knowing that the auditors' warnings are just the tip of the iceberg.

The Auditors' Report

The board of auditors has always had the delicate task of inspecting the books and balance sheets of all the dicasteries that manage the Vatican finances. It consists of five laypeople from different European countries. It meets once every six months at the Vatican together with eight members of the Prefecture, representing the full hierarchy of the dicastery: from the President, Cardinal Giuseppe Versaldi, to the Secretary, Monsignor Lucio Ángel Vallejo Balda, to the Office Manager, Monsignor Alfredo Abbondi.

The meetings are confidential. In addition to the members, two interpreters and a stenographer attend to translate and transcribe the proceedings. Their minutes from 2010 to today read like a constant denunciation by the auditors of the waste, mismanagement, irregularities, and inefficiency that plague the Vatican, with many specific suggestions to improve the situation. For years their warnings had been ignored, and no tangible changes had been made, to the growing discomfort and frustration of the professionals who saw their every constructive criticism ignored.

On December 22, 2010, no longer knowing how to get anyone to heed their warnings, the board of auditors had sent a detailed letter to Benedict XVI, highlighting the most critical areas where action was needed—to no avail, like all the earlier proposals that had never made it past the drawing board. The significance of the fact that the auditors had now

resorted once again to writing to the Pope should not be underestimated. The accounting experts felt that the new Pope could move with greater decision and speed.

Francis had not requested the damning document. It was the auditors themselves, only a few weeks earlier, who had realized that they could no longer hesitate and that they had to give the Pope a detailed account of the financial situation. And this report would differ sharply from the optimistic, sanitized, and simplistic indications that Francis had received from the managers who had operated under Ratzinger, some of whom had every interest in painting a rosy picture, in an apparent effort to minimize their own responsibility.

On June 18, fifteen days before the secret meeting, the auditors who work with the Prefecture—laypeople motivated by a deep and sincere love of the Church, as they wrote in their private letter to the Pontiff—attended the early morning mass with the Holy Father at Casa Santa Marta. At nine o'clock that day they all met for one of the two annual meetings dedicated to examining the books of the Holy See and the Governorate.

The meeting was coordinated, as always, by Cardinal Versaldi. According to the minutes—which I was able to consult—the group had an animated discussion. The prevailing tones were pessimistic. While the auditors had expressed their concerns on previous occasions in the past, this time the broadsides were relentless, and they were all from the laypeople on the board (ten of the thirteen members), a squad of solid pragmatic professionals who had reached the conclusion that their every effort to improve things over the years had been ignored. In particular, from the documentation in my possession, the most outspoken members were Joseph Zahra from Malta, an economist; Jochen Messemer from Germany, formerly of the consulting group McKinsey & Company; Josep M. Cullell from Barcelona; Maurizio Prato from Italy, an accountant; and John F. Kyle from Canada.

The most concise, bitter assessment was from Kyle. "The efforts that have been made over the past twenty-five years have come to practically nothing." He thought it would be "advisable to have a group close to the Pope that can act more decisively and firmly and take measures against those who fail to follow instructions." In his sermon that morning Francis had reminded them—men of numbers but also of faith—that, "To be believable the Church has to be poor," and that "the Prefecture—as the supervisory body—has to address the budgetary problems more courageously." It was an explicit exhortation to act—to come out of the dark.

In the opinion of the General Accountant of the Prefecture, Stefano Fralleoni, the crisis was caused by the fact that some administrations are, "completely uninformed of the criteria for compiling financial statements, which often do not reflect reality, with estimates that come out of nowhere." The absurd dimensions of the problem became apparent when it was learned that the Prefecture itself—which is supposed to oversee the finances of the other departments—didn't even know all the departments it was supposed to supervise. "It would be necessary—the accountant underlines—to complete and update

regularly the list of all the entities that constitute the Holy See: only in this manner, in fact, could the Prefecture carry out a complete inspection of all the different realities and their operations."

During the auditors' inspection, they realized that the transparency and efficiency regulations introduced by Benedict XVI and Francis were being disregarded, from the smallest to the largest cases. Salvatore Colitta, the auditor from RB Audit Italia, gives the example of the price list for items being sold at the Vatican. "It hasn't budged in two years," he asserts, "a pen costs 50 cents although its value today should be 1.20 euros. More than 70 percent of APSA's purchases do not follow required procedures but rather emergency procedures. The phenomenon is difficult to control."

"Noncompliance with existing regulations"—Fralleoni goes back on the attack—"is another critical point, because of a practice that has never changed through a kind of inertia. Bookkeeping at the Holy See offices is not standardized, despite the existence of regulations for accounting principles approved by the Holy Father." Another example? Recently a new accounting regulation was introduced for everyone but it was discovered that, "some offices keep their own private stash that they can manage on their own, and thus they don't declare all their revenue." This is one of the points that the Pope will present to the cardinals as "satellite management," because there are offices "that often operate independently although they belong to the same institution."

When the Prefecture conducts an audit, there is always the risk that "it will be perceived as a form of interference." But audits are fundamental. "A great deal of inefficiency could be ended," Messemer concluded, "simply through more regular inspections." Instead the situation was spiraling out of control. Just look at what is happening in the real estate sector. In addition to "outrageous delays in payment"—Colitta continues—"there are self-reductions in rent: the Conciliation Auditorium cuts its own rent by approximately 50,000 euros a month, while the Vatican is still paying taxes based on the old lease." Or take the case of "strategic investments" that had actually led to major losses, such as the Governorate's purchase of stocks in an Italian bank, the Banca Popolare di Sondrio, which resulted in losses of 1,929,000 euros in a very short time.

We Cannot Turn a Blind Eye

Josep Culler from Barcelona delivered the harshest analysis:

It's true, the Prefecture can no longer afford to be so gullible, so naïve, but must set priorities and make sure the rules are followed . . . Our finances are unsustainable and completely chaotic. The Vatican has always been characterized by a kind of ambiguity, like the Kingdom of Taifa,¹³ in choosing a specific institution that would hold all the power, govern and establish priorities, and not only in terms of finances . . .

Both in Barcelona and on the outskirts of Rome there is widespread poverty, also afflicting children, and this is a troubling sign of recession. We cannot turn a blind eye

to this and keep restoring monuments. I can't believe the data that has been given to me. The real economy could never allow a situation like this. There are even doubts about earnings from our financial investments.

There are various realities at the Vatican that are unsound: the Governorate, which didn't even bother to present an annual financial report last year; *L'Osservatore Romano*; the Vatican Radio, with losses that were temporarily concealed through "financial wizardry"; the IOR, which could easily be closed and replaced by APSA. The IOR has little to offer and could be replaced by another institution. Closing it would solve many problems for the Pope and for the Church of Rome.

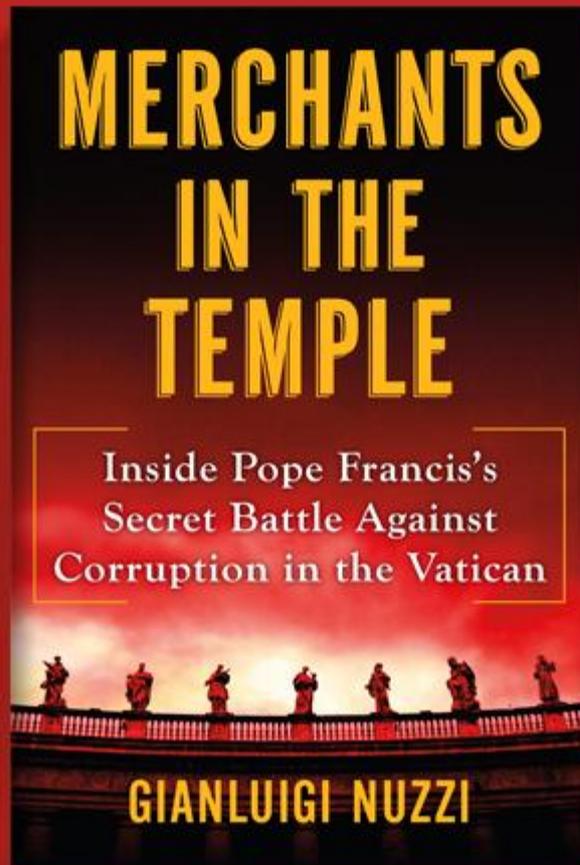
Zahra, the economist from Malta, realized that Francis had to be warned. So he tried to speed up the clock:

After a long period of status quo, the time has come to change. We're at a crossroads: we need to make a decision. The tone we should take is the one suggested by the Pope, namely firmness and courage, and the goal is to achieve greater transparency, integrity and seriousness. We have to take advantage of the fact that the Pope himself is issuing these guidelines. We can't change attitudes overnight, but we can translate what the Pope is saying into concrete actions in order to gradually achieve the goals we have set.

At the end of the meeting, Zahra, Messemer, Cullell, Kyle, and Prato came to an agreement: it was essential to warn the Pope immediately. They were the ones who signed the shocking letter to the Holy Father.

Five days later, on June 23, the Spanish Cardinal Santos Abril y Castelló entered the scene. A close friend of Francis and one of his few confidants, he was the archpriest of Santa Maria Maggiore, the majestic basilica where Jorge Bergoglio used to pray during his visits to Rome as a cardinal. Abril y Castelló was a reserved, serious, and honest cardinal, far from the scheming characters of the Curia. He had slowly won the Pope's trust by reporting deficits, irregularities and power games, starting with alleged irregularities in the restoration of the basilica where he is an archpriest.¹⁴ It was Abril y Castelló who forwarded to the Pope the concerns of the auditors. They didn't want the Holy Father to misunderstand them or put them in a bind, as had happened so many times in the past.

But not this time. This time, the fuse was lit.



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