

Dan Rather Reports

Episode Number: 522

Episode Title: Spiritually Bankrupt

Description: The Catholic Church faces hundreds of lawsuits in the wake of the sex abuse scandal. Dioceses across the country have filed for bankruptcy, but our investigation suggests the church has hid considerable assets to avoid paying damages to victims.

RATHER (ON CAMERA)

GOOD EVENING FROM NEW YORK. THE ROMAN CATHOLIC CHURCH IS ONE OF THE WORLD'S WEALTHIEST INSTITUTIONS...AND ONE OF THE MOST SECRETIVE. NO ONE KNOWS FOR SURE THE EXTENT OF THE CHURCH'S VAST RICHES. BUT THAT SECRECY IS NOW BEING TESTED BY THE EVERWIDENING PRIEST ABUSE SCANDAL.

IN RECENT YEARS, REVELATIONS HAVE SURFACED THAT HUNDREDS OF PRIESTS HAD SEXUALLY ABUSED CHILDREN... AND BISHOPS HAD FAILED TO REPORT THEM. ACROSS THE UNITED STATES, PRIEST ABUSE VICTIMS—NOW ADULTS-- ARE LINING UP TO SUE THEIR DIOCESE FOR DAMAGES. BUT THE CHURCH IS GOING TO EXTRAORDINARY LENGTHS TO PROTECT ITS ASSETS, WITH A STRATEGY THAT IS SPREADING FROM CHURCH TO CHURCH...DIOCESE TO DIOCESE, ACROSS THE NATION. AND THAT STRATEGY IS...BANKRUPTCY. DIOCESES ARE CLAIMING, TIME AND AGAIN, THAT THEY ARE BROKE, NOT ABLE TO PAY THE VICTIMS WHO WERE MOLESTED AS CHILDREN. AND THAT'S NOT ALL ATTORNEYS FOR ABUSE VICTIMS HAVE FOUND THE DIOCESES THAT CLAIM TO BE BROKE ARE ANYTHING BUT. IN FACT, WEALTHY CHURCHES, THEY SAY, ARE MOVING MONEY, HIDING CASH AND NOT REPORTING MILLIONS IN ASSETS... ANYTHING TO AVOID PAYING DAMAGES TO THE VICTIMS.

RATHER (VOICE OVER)

THE VATICAN...IT'S THE SEAT OF UNTOLD POWER, WEALTH AND INFLUENCE. VATICAN CITY MAY BE THE SMALLEST NATION ON EARTH, BUT ITS REACH STRETCHES ACROSS THE GLOBE, TO THOUSANDS OF PARISHES, CHARITIES AND SCHOOLS...AND A BILLION CATHOLIC FAITHFUL.

BUT THE SEX ABUSE SCANDAL HAS SHAKEN THE VATICAN'S VERY FOUNDATION. AND IT HAS CAST A LONG SHADOW OVER THE SHORT TENURE OF THE CHURCH'S CURRENT LEADER, POPE BENEDICT THE SIXTEENTH. IN EARLY JUNE, THE POPE CALLED THOUSANDS OF CLERGY FROM AROUND THE WORLD TO THE VATICAN TO CELEBRATE THE END OF WHAT HE HAD DECLARED THE YEAR OF PRIESTS. BUT THERE WAS LITTLE TO CELEBRATE. NEW ALLEGATIONS OF PRIEST CHILD ABUSE HAD JUST SURFACED IN SOME OF THE WORLD'S MOST CATHOLIC COUNTRIES. AND

THE MEDIA – AND MUCH OF THE CATHOLIC WORLD – WAS FOCUSED ON HOW THE POPE WOULD ADDRESS THIS EVER-EXPANDING SCANDAL.

RADIO BROADCAST

...allegations of hundreds of new cases of child sex abuse...

RATHER (VOICE OVER)

POPE BENEDICT FINALLY ANSWERED THAT QUESTION ON THE LAST DAY OF THE GATHERING. HE ISSUED HIS FIRST APOLOGY FROM ST. PETER'S SQUARE, AND PROMISED TO CHANGE THE WAY THE CHURCH HANDLED ABUSE ALLEGATIONS. BUT FOR MANY, HIS VOWS WERE TOO LITTLE TOO LATE.

JOHN MANLY

They operate in a way that you would expect Bernard Madoff to operate, not how you would expect Christ to operate.

RATHER (VOICE OVER)

MEET JOHN MANLY. FROM THIS NONDESCRIPT OFFICE BUILDING, THE SOUTHERN CALIFORNIA LAWYER HAS BEEN FIGHTING A PITCHED BATTLE WITH ONE OF THE LARGEST INSTITUTIONS IN THE WESTERN WORLD.

RATHER

Well, how did you get into taking on the Catholic Church?

MANLY

In a lotta ways, I think I'm the last person that should be doin' this. I was raised Catholic. I had a -- I went to Catholic school my whole life. I went to Catholic military school. I went to a Catholic high school and a year of Catholic college. I had a Jesuit spiritual director. I considered the priesthood myself. And I'm not a -- I certainly was not a paragon of virtue but I tried really hard and I believed it deeply.

RATHER (VOICE OVER)

BUT HIS RELATIONSHIP WITH THE CHURCH TOOK A SHARP TURN MORE THAN 10 YEARS AGO, WHEN A PRIEST ABUSE VICTIM SOUGHT HIS HELP. THE VICTIM WOULD BE THE FIRST OF MANY.

MANLY

In the last 12 years, I've met and represented hundreds of people from Alaska to New York to Delaware and southern California, all of whom tell the same story, that they were raped and/or abused-- in the most violent and egregious way possible as a child. And that when the church learned of it, they did nothing.

RATHER (VOICE OVER)

MANLY FOUND THAT WHILE THE CHURCH LEADERSHIP WAS PROMISING TO MAKE PEACE WITH THE VICTIMS, IN COURT AND BEHIND THE SCENES,

IT WAS DOING JUST THE OPPOSITE.

MANLY

When the church defends these cases, they don't defend it in a way that's consistent with their own theology and beliefs. They defend it in a way where the victim is under attack, the family is under attack and all the values that they say they believe in really go out the window.

RATHER (VOICE OVER)

TAKE THE CASE OF SAN DIEGO, DOWN THE INTERSTATE FROM MANLY'S NEWPORT BEACH OFFICE. IT'S A DIOCESE WITH ABOUT 100 PARISHES, A MILLION CATHOLICS AND ONE OF THE WORST RECORDS IN THE COUNTRY OF SEXUAL ABUSE BY PRIESTS.

THE DEPTH OF THE PROBLEM BECAME CLEAR IN 2003, WHEN THE STATE OF CALIFORNIA BRIEFLY WAIVED ITS STATUTE OF LIMITATIONS ON CASES OF SEX ABUSE. THE COURT SYSTEM WAS HIT WITH AN ONSLAUGHT OF LAWSUITS FILED BY VICTIMS WHO HAD BEEN TOO AFRAID, TOO ASHAMED, OR DISCOURAGED BY CHURCH OFFICIALS TO SPEAK UP AS CHILDREN. CHURCH BRASS RESPONDED WITH DRASTIC ACTION: IN 2007, SAN DIEGO BECAME THE FIFTH DIOCESE IN THE UNITED STATES TO FILE FOR BANKRUPTCY IN THE WAKE OF THE ABUSE SCANDAL.

RATHER

Well now, take me through what happened with the San Diego diocese when they filed for bankruptcy.

MANLY

Sure, the San Diego-- had about a 160 claims-- involving various priests ranging from the late '50s through the 2000's. They litigated the case in state court-- challenged the statute, deposed the victims, and essentially, on the eve of the first trial, filed for bankruptcy.

RATHER

Which goes to federal court.

MANLY

Which goes to federal bankruptcy court. And what happened is at the first hearing it became very clear that they were minimizing their assets.

RATHER (VOICE OVER)

ACCORDING TO MANLY, THE DIOCESE SPECIFICALLY HID ASSETS SO THEY WOULDN'T BE EXPOSED TO FUTURE DAMAGE PAYOUTS TO VICTIMS. UNDER BANKRUPTCY LAW, THE DEBTORS -- IN THIS CASE THE DIOCESE -- ARE REQUIRED TO PROVIDE THE COURT A COMPLETE LIST OF EVERYTHING THEY OWN, AND HOW MUCH THE PROPERTY IS WORTH.

MANLY

The diocese owned, probably at the time, several billion dollars worth of real property. And they listed their property in the bankruptcy schedules as being worth the book value, in other words, what they paid for it. Well, the diocese has been around since the-- the 1800's. So, you had-- a building listed that was worth five million dollars, and they would list it for \$150,000 which is what they paid for it originally.

RATHER (VOICE OVER)

BUT THAT WAS JUST THE START OF IT. THERE WERE MILLIONS OF DOLLARS WORTH OF PROPERTIES SIMPLY MISSING FROM THE OFFICIAL LIST OF ASSETS THE CHURCH HAD PRESENTED THE COURT -- EVERYTHING FROM PUBLIC PARKING LOTS TO COMMERCIAL BUILDINGS TO OPEN LAND -- SOME INVESTMENT PROPERTIES THAT HAD NOTHING TO DO WITH THE CHURCH'S RELIGIOUS OPERATIONS. THE DIOCESE LATER CLAIMED THAT THESE MISSING PROPERTIES WERE SEPARATELY OWNED BY ITS PARISHES, AND SHOULD BE EXEMPT FROM LIABILITY. BUT FOR MANY, THIS DIDN'T FLY. PLAINTIFFS LAWYERS SAID ONLY THE DIOCESE -- NOT ITS PARISHES -- HOLDS THE AUTHORITY TO SELL PARISH PROPERTIES. AND THEY SAY THE DIOCESE COULD HAVE -- SHOULD HAVE -- DONE JUST THAT TO RAISE ENOUGH MONEY TO AVOID BANKRUPTCY.

BUT OF ALL THESE MISSING ASSETS, THE MOST NOTABLE WAS THIS 14-ACRE BLUFF-TOP LOT, OFF A BUSY THOROUGHFARE, WITH WIDE OCEAN VIEWS.

RATHER

It's beautiful up here.

PATRICK WALL

Oh, it's gorgeous.

RATHER (VOICE OVER)

PATRICK WALL, WHO WORKS WITH ATTORNEY JOHN MANLY, BROUGHT US TO SEE THE LOT, WHERE CONSTRUCTION IS UNDERWAY ON MORE THAN 500 CONDOMINIUMS.

RATHER

Well, tell us where we are and why it's important for us to be here?

WALL

We're across the street from the University of San Diego owned by the diocese, and this used to be the high school, the University of San Diego high school owned by the diocese and run by the diocese as well. This particular property was one of those "oops" in their filing of bankruptcy -- "oops" meaning that when they went ahead and filed bankruptcy they forgot that they owned this and they forgot that they needed to include that.

RATHER

As one of their assets?

WALL

-- as one of their major assets in this filing.

RATHER

When you say they forgot, is that or is it not they "forgot" in quotation marks?

WALL

They forgot, in quotations marks. I like to make the joke that you know, Grandma McDonough down at the chancellor's office, when she was putting together the bankruptcy filing she just forgot to include it -- it was just a mishap.

RATHER (VOICE OVER)

ACTUALLY, DIOCESE LAWYERS FIRST CLAIMED THE PROPERTY WAS OWNED BY A SEPARATE CHURCH CORPORATION. THEN, SHORTLY AFTER, SAID THE OMISSION HAD BEEN A QUOTE-"OVERSIGHT." PATRICK WALL SAYS THE CHURCH'S BEHAVIOR WAS TYPICAL OF AN INSTITUTION WITH A HISTORY OF COVER UPS -- FIRST, SEX ABUSE BY PRIESTS, NOW, CHURCH MONEY. AND THIS IS COMING FROM SOMEONE WHO SHOULD KNOW. WALL IS A FORMER BENEDICTINE MONK AND FOR A WHILE, HELD THE UNENVIABLE TASK OF SERVING AS, WHAT HE CALLS, A PRIEST ABUSE "FIXER." HIS JOB WAS KEEPING CASES OF SEX ABUSE IN HIS DIOCESE BELOW THE RADAR.

WALL

At first, I was a loyal soldier. I was a loyal priest, a company man. I thought these were complete anomalies; it was really not in -- in my worldview that we had a number of guys who were in ministry, ordained, sexually abusing kids for decades and then as I came to find out for centuries and for millennia. And at that point at the age of 33, after my 5th assignment, after numerous cases, and after some soul searching I had to leave.

RATHER (VOICE OVER)

WALL EVENTUALLY JOINED UP WITH MANLY, WORKING AS AN EXPERT IN CATHOLIC LAW, KNOWN AS CANON, AND PROVIDING AN INSIGHT INTO THE SECRET AND ARCANE INNER WORKINGS OF THE ROMAN CATHOLIC CHURCH.

RATHER

Well, have you seen evidence that parishes, dioceses, are hiding money?

WALL

Oh yeah, even in the middle of the bankruptcy.

RATHER

Well you can't do it in the middle of a bankruptcy.

WALL

Well, you're not supposed to do it. You -- they do it, they absolutely will move money. They will create corporations, and they'll -- they'll do all kinds of things if the -- the court doesn't come down on them, and that's why we've had, a couple very interesting bankruptcies where the court has slammed the church for basically fraudulently filing a -- a bankruptcy, even though they have the assets to pay the survivors.

RATHER

Has that actually happened?

WALL

Yeah, here in San Diego.

RATHER (VOICE OVER)

WHICH BRINGS US BACK TO THIS HILLTOP PROPERTY. WHILE THE DIOCESE WAS CLAIMING IN COURT THAT IT DID NOT OWN THE LOT, IT ALSO WAS IN THE PROCESS OF SELLING IT TO A DEVELOPER -- AND FOR QUITE A BIT OF MONEY. \$65 MILLION, TO BE EXACT.

ERIC VAN WECHEL, SAN DIEGO DEVELOPER

We're gonna circle around the front. This is as if you're viewing the project from Linda Vista Road...

RATHER (VOICE OVER)

THIS SAN DIEGO PUBLIC PLANNING BOARD MEETING ABOUT THIS VERY PROPERTY TOOK PLACE JUST A FEW WEEKS AFTER THE DIOCESE HAD FILED FOR BANKRUPTCY.

DIANE MURBACH, PROJECT MANAGER

...a proposed 2.2 acre public park.

RATHER (VOICE OVER)

IT WAS WELL-ATTENDED AND DISCUSSION DRAGGED ON FOR NEARLY TWO HOURS.

COMMISSIONER DENNIS OTSUJI

I can probably get you -- give you a lot of details on it but, basically, I'm gonna be supporting this project.

RATHER (VOICE OVER)

BUT THERE WAS ONE REAL ESTATE DEVELOPER WHO HAD A PARTICULAR INTEREST IN THE SALE.

DON MACLEAN

The reason I knew about that site is because I am a developer and in the development community that site was being offered to developers as a -- as a land sell for development of you know, condominiums or apartments.

RATHER (VOICE OVER)

THAT'S DON MACLEAN WHO LIVES IN THE HILLS OUTSIDE SAN DIEGO.

RATHER

Were you born in California?

MACLEAN

I was, in San Diego.

RATHER (VOICE OVER)

AS A BUILDER, HE KEEPS A KEEN EYE ON BIG PROPERTIES THAT HIT THE MARKET, LIKE THE \$65 MILLION LOT. BUT IT WAS SOMETHING MUCH MORE PERSONAL THAT GRABBED HIS ATTENTION IN THIS CASE. MACLEAN IS ALSO A PRIEST ABUSE VICTIM. HE WAS MOLESTED BY TWO PRIESTS WHEN HE WAS A 10-YEAR-OLD ALTAR BOY, AND WAS AMONG THE DOZENS OF VICTIMS WHO SUED THE CHURCH WHEN THE STATUTE OF LIMITATIONS WAS LIFTED.

RATHER

What was your major motivation?

MACLEAN

My major motivation was to get justice for that ten year old child in -- inside of me. It wasn't about money; it's never been about money. It was about getting an apology.

RATHER

I want to ask this gently but I'm gonna ask it directly. You know there are people who say, "Oh, when they say it's not about the money, it's about the money."

MACLEAN

It's not about the money. You know, your childhood is stolen -- part of you is gone, that can't replace. And those virtues that you want to believe in are gone. You can't replace that with money.

RATHER (VOICE OVER)

WHEN MACLEAN HEARD ABOUT THE 14-ACRE PROPERTY MISSING FROM THE CHURCH'S SCHEDULE OF ASSETS, HE WAS SERVING ON THE CREDITORS' COMMITTEE -- A GROUP ROUTINELY APPOINTED BY THE COURT TO KEEP THOSE FILING FOR BANKRUPTCY HONEST IN THEIR CLAIMS.

RATHER

When the diocese declared bankruptcy, what was your reaction?

MACLEAN

I felt like uh -- I felt like we were being victimized all over again.

RATHER

Well, let me get this straight, you looked at this and said, "Well, I know the church has this asset."

MACLEAN

Mm-hmm.

RATHER

--Which is where their high school was but it's now being made available for development --

MACLEAN

Right.

RATHER

--a mall, condominiums or something and you said, "Well, it's not in there."

MACLEAN

It's not on the schedule. And -- and so it --it piqued the question in me, and I'm like why isn't it on the schedule?

MANLY

If you or I did what the Diocese of San Diego did in that bankruptcy, we'd be charged with bankruptcy fraud, and we'd probably be in prison. The whole strategy here of the church is 1) minimize the assets, 2) get rid of the plaintiffs, and 3) do-- most importantly, from their standpoint, deny people access to the documents that will show what we did.

RATHER (VOICE OVER)

AGAIN, DIOCESE OFFICIALS CLAIMED THE LOT HAD BEEN OWNED BY A SEPARATE CHURCH CORPORATION, NOT THE DIOCESE ITSELF. BUT THE FEDERAL BANKRUPTCY JUDGE HANDLING THE CASE, LOUISE DECARL ADLER, WASN'T AMUSED. SHE HIRED A FORENSIC ACCOUNTANT -- A FORMER SPECIAL AGENT WITH THE FBI -- TO SEE IF THE CHURCH HAD FAILED TO DISCLOSE OTHER ASSETS. AND WHAT THAT INVESTIGATOR FOUND WAS QUITE INTERESTING: IN THIS REPORT, HE USES THE WORD "BYZANTINE" TO DESCRIBE ACCOUNTING PRACTICES THAT WOULD MAKE A CPA'S HEAD SPIN -- ASSETS SCATTERED ACROSS A TANGLE OF MORE THAN 900 PARISH BANK ACCOUNTS AND ANOTHER SEVERAL HUNDRED SEPARATE DIOCESE ACCOUNTS.

MANLY

There was cash that was taken from parishes and hidden. And what happened in San Diego through the bankruptcy process is it was discovered that there was a systemic effort by the bishop and the diocese to minimize or hide its assets, so much so that the judge threatened to throw out the diocese lawyer and dismiss the bankruptcy.

RATHER (VOICE OVER)

THE INVESTIGATOR ALSO FOUND EVIDENCE THAT SOME PARISHES WERE DELIBERATELY TRYING TO HIDE MONEY FROM CREDITORS. ONE OF THE MORE SHOCKING AND LEAST SOPHISTICATED CASES OF ASSET HIDING OCCURRED, ACCORDING TO A COURT REPORT, IN CALEXICO, CALIFORNIA. THIS QUIET BORDER TOWN IS ABOUT A TWO-HOUR DRIVE SOUTHEAST OF SAN DIEGO, BUT STILL PART OF THE DIOCESE. ACCORDING TO THE INVESTIGATOR'S REPORT, REV. GERARDO FERNANDEZ, PASTOR OF OUR LADY OF GUADALUPE CHURCH, ATTEMPTED TO STASH \$40-THOUSAND OF CHURCH MONEY IN A PARISH SAFE JUST BEFORE THE DIOCESE DECLARED BANKRUPTCY.

WE WANTED TO GIVE REV. FERNANDEZ AN OPPORTUNITY TO EXPLAIN WHY HE WITHDREW SO MUCH MONEY JUST DAYS BEFORE THE BANKRUPTCY FILING. OUR PRODUCER/REPORTER ANDREW GLAZER CAUGHT UP WITH HIM AFTER A RECENT MASS. FERNANDEZ TOLD US HE SPEAKS ENGLISH, BUT INSISTED ON CONDUCTING THE INTERVIEW IN SPANISH.

ANDREW GLAZER (TRANSLATED FROM SPANISH)

Excuse me, but the investigator's report says that a few days before Chapter 11, you took out 40 thousand dollars from various banks that belonged to the church and you put it in that safe. Can you explain this?

REV. GERARDO FERNANDEZ (TRANSLATED FROM SPANISH)

I would rather not talk about this and want to talk about it with those who are in the diocese with me, okay.

GLAZER (TRANSLATED FROM SPANISH)

But you do not have any comment on the report by the judge who said that you took out 40 thousand dollar...

FERNANDEZ (TRANSLATED FROM SPANISH)

No, no. I think it was all a misunderstanding that's all, because everything is cleared --- the finances within the parish and with the diocese. Everything is cleared.

RATHER (VOICE OVER)

NOT ACCORDING TO THE INDEPENDENT REPORT PREPARED FOR THE JUDGE. IT SAYS PASTOR FERNANDEZ ONLY RETURNED THE MONEY TO THE PARISH BANK ACCOUNT AFTER HE REALIZED HE HAD BEEN CAUGHT.

THE INVESTIGATOR'S REPORT DETAILED OTHER SIMILAR CASES THAT MANY SAW AS AN ORCHESTRATED PATTERN: LIKE THE PASTOR OF THIS PARISH, WHO ALLEGEDLY STASHED NEARLY 300 THOUSAND DOLLARS IN A PARISH SAFE SHORTLY BEFORE THE BANKRUPTCY FILING... OR THIS PARISH, WHICH SENT \$70-THOUSAND DOLLARS TO A CHURCH IN COLOMBIA.

WE CALLED THE SAN DIEGO DIOCESE FOR COMMENT, BUT ITS SPOKESMAN DECLINED. IN AN EMAILED STATEMENT, HE WROTE, "THE DIOCESE OF SAN DIEGO DOES NOT GRANT MEDIA INTERVIEWS OR RESPOND TO INQUIRIES REGARDING VICTIMS OF ABUSE AND/OR LEGAL MATTERS..." UNQUOTE.

MACLEAN

You know one of the comments that came from one of the bankruptcy attorneys is that - he works with a lot of bankruptcies - said, "These guys make Enron look like altar boys." Pardon the pun.

RATHER

He said that?

MCLEAN

He did.

RATHER

Said it makes Enron look like altar boys?

MCLEAN

The meaning of that statement was these guys were so over the top in trying to hide assets that you know when you compared them to the guys from the Enron bankruptcy and there was -- they weren't even on the same page.

RATHER (VOICE OVER)

IT WAS ONLY WHEN IT BECAME CLEAR THAT JUDGE ADLER WAS ABOUT TO THROW OUT THE BANKRUPTCY CLAIM THAT THE DIOCESE AGREED TO A NEARLY \$200 MILLION SETTLEMENT WITH VICTIMS.

BUT THE BAD WILL BETWEEN THE COURT AND THE DIOCESE DIDN'T STOP THERE. JUST BEFORE APPEARING BEFORE JUDGE ADLER TO ANNOUNCE THE SETTLEMENT, THE DIOCESE SENT OUT THIS FUNDRAISING REQUEST. A LETTER SIGNED BY BISHOP ROBERT BROM SEEKING DONATIONS FROM PARISHIONERS TO HELP THE DIOCESE STAY AFLOAT AFTER THE SETTLEMENT. JUDGE ADLER, A CATHOLIC HERSELF, HAPPENED TO RECEIVE ONE OF THE LETTERS FROM HER FORMER PARISH. KNOWING THE DIOCESE COULD EASILY RAISE MONEY BY SELLING SOME OF ITS VAST NUMBER OF PROPERTIES, JUDGE ADLER MADE HER FEELINGS QUITE

CLEAR.

RATHER (ON CAMERA)

THE JUDGE FIRED A PARTING SHOT AT THE DIOCESE. SHE TOOK CHURCH OFFICIALS TO TASK FOR BEING QUOTE-“DISINGENUOUS” IN HOW THEY DISCLOSED DIOCESE FINANCES TO PARISHIONERS. THE JUDGE’S STRONG REBUKE SENT A LOUD MESSAGE THROUGHOUT THE NATION’S CHURCH HIERARCHY.

MANLY

You heard all this stuff about, "This is a financial disaster, and we're gonna have to close schools, parishes, soup kitchens-- you know, people are gonna be on the street." They settled the cases, and none of that happened. And what il-- what that's illustrative of is they're just not tellin' the truth. This is an institution that is so cash heavy, and has so much money; you couldn't really bankrupt them if you wanted to. This is about minimizing exposure, and controlling information, nothing else.

RATHER (ON CAMERA)

JOHN MANLY SAYS THE SAN DIEGO DIOCESE WASN'T UNIQUE IN USING BANKRUPTCY TO AVOID SELLING OFF VALUABLE REAL ESTATE HOLDINGS. SINCE 2004, SIX OTHER DIOCESES FACING SEX ABUSE LAWSUITS HAVE ALSO FILED FOR BANKRUPTCY -- PORTLAND, OREGON; FAIRBANKS, ALASKA; SPOKANE, WASHINGTON; TUCSON, ARIZONA; DAVENPORT, IOWA AND WILMINGTON, DELAWARE. THAT PART OF OUR INVESTIGATION, WHEN WE RETURN.

RATHER (VOICE OVER)

DAVENPORT, IOWA. FAR FROM THE SANDY BEACHES AND ROLLING HILLS OF SOUTHERN CALIFORNIA BUT THE ROMAN CATHOLIC DIOCESE HERE SEEMED TO BE READING FROM THE SAME PLAYBOOK AS THEIR BRETHREN IN SAN DIEGO. THE DAVENPORT DIOCESE IS MUCH SMALLER -- ABOUT 100-THOUSAND CATHOLICS LIVE SPREAD OUT OVER SEVERAL COUNTIES. BUT LIKE SAN DIEGO, DAVENPORT ALSO WAS HIT PARTICULARLY HARD BY PREDATOR PRIESTS. ACCORDING TO THE WEB SITE, BISHOPACCOUNTABILITY.ORG, WHICH TRACKS PRIEST ABUSE ALLEGATIONS NATIONWIDE, MORE THAN 30 ACCUSED PERPETRATORS PREYED ON CHILDREN IN DAVENPORT. BETWEEN 2004 AND 2006, THE DIOCESE WOUND UP PAYING MORE THAN \$10 MILLION IN DAMAGES TO VICTIMS.

VANESSA VAN HYFTE, REPORTER FOR WQAD

It was a landmark case. A victim of clergy abuse, Mike Uhde, sued the Davenport diocese and won - one and a half million dollars. That was three weeks ago. Today the diocese says it doesn't have the money.

RATHER (VOICE OVER)

ON OCT. 10, 2006, THE DIOCESE FILED FOR BANKRUPTCY PROTECTION. THE FILING FROZE MORE THAN 20 OTHER CASES FROM GOING FORWARD IN STATE COURT.

VAN HYFTE

Uhde says his case was never about the money, it was all about the truth, and in that respect, he says, he lost.

MICHAEL UHDE, PRIEST ABUSE VICTIM

There are people still running the diocese that - that made these decisions that they would rather protect the secrets and the hierarchy than the victims.

RATHER (VOICE OVER)

LAWYERS FOR ABUSE VICTIMS SAY THIS BANKRUPTCY FILING, LIKE THE OTHERS, WAS IN BAD FAITH...THEY SAY THE DIOCESE HAD PLENTY OF ASSETS -- AND WAS IN FACT MAKING AN EFFORT IN THE DAYS LEADING UP TO THE FILING TO JETTISON MONEY INSTEAD OF ALLOWING IT TO FALL INTO THE HANDS OF VICTIMS.

THE ALLEGATION WAS BASED ON THIS DOCUMENT: THE SO-CALLED "STATEMENT OF FINANCIAL AFFAIRS," -- A STANDARD FORM FILLED OUT BY COMPANIES DECLARING BANKRUPTCY THAT DETAILS SPENDING IN THE WEEKS LEADING UP TO THE CHAPTER 11 FILING.

OUR EXAMINATION OF THE RECORDS REVEALS THE DIOCESE DID, IN FACT, SEEM TO BE SPENDING QUITE A LOT OF MONEY -- ESPECIALLY, ON OCT. 9, 2006 -- THE EXACT DAY BEFORE IT FILED FOR CHAPTER 11. ACCORDING TO THE RECORDS, THE DIOCESE ON THAT DAY WENT ON A MORE THAN \$150-THOUSAND SPENDING SPREE -- SPENDING THAT INCLUDED A SUDDEN BOUT OF GENEROSITY: 50-THOUSAND DOLLARS FOR AN UNNAMED CHURCH IN LATIN AMERICA... A THOUSAND DOLLARS FOR A PARISH HERE... 750 DOLLARS FOR A PARISH THERE... 663 DOLLARS TO THE U-S CONFERENCE OF CATHOLIC BISHOPS FOR 50 COPIES OF THE CATECHISM. ATTORNEY JOHN MANLY, WHO WAS NOT INVOLVED IN THE DAVENPORT CASE, SAYS THE CHURCH REGULARLY FINDS WAYS TO EXPLOIT FEDERAL BANKRUPTCY LAW.

MANLY

Chapter 11 was not designed to protect organizations who've engaged in criminal conduct, or basically, protecting criminal conduct, specifically child rape. It was designed to give companies who make bad business decisions a new start. Here, what you have is, they're using the federal bankruptcy statutes to essentially shield themselves from liability of current victims, but worse, getting a discharge to prevent anybody who comes in later from getting any type of recovery. Anyone who believes the Catholic church is really bran-- bankrupt-- needs to get a gut check and a mind check because they're not bankrupt.

RATHER (VOICE OVER)

BUT OF THE MORE THAN \$400-THOUSAND DOLLARS OF PAYMENTS CHALLENGED BY VICTIMS' LAWYERS, A FEW STOOD OUT. ONE INVOLVED ADVANCED PAYMENTS TO SEMINARIES FOR THE EDUCATION OF DIOCESE PRIESTS... A \$20-THOUSAND PAYMENT TO A SEMINARY IN MISSOURI THE DAY BEFORE THE BANKRUPTCY, AND ANOTHER \$118-THOUSAND TO ANOTHER SEMINARY IN ILLINOIS JUST A FEW WEEKS EARLIER. WHAT MADE THESE PAYMENTS UNUSUAL IS THAT ACCORDING TO COURT PAPERS, IT WAS THE FIRST TIME THE DIOCESE HAD PAID TUITION TO SEMINARIES BEFORE EVEN RECEIVING A BILL. THIS MEMO TO THE UNIVERSITY OF ST. MARY OF THE LAKE REFERS TO A DAVENPORT DIOCESE OFFICIAL WHO QUOTE "WANTED AN INVOICE ASAP" FOR THE TUITION OF FIVE SEMINARIANS. AND THEY GOT IT. AND THEN THERE WAS THE CURIOUS CASE OF THE PRE-PAID FUNERAL...ON AUGUST 16, 2006 -- A FEW WEEKS BEFORE THE BANKRUPTCY FILING -- THE DIOCESE SPENT ALMOST \$20-THOUSAND ON THE FUNERAL FOR ITS VERY-MUCH ALIVE BISHOP WILLIAM FRANKLIN. IN A STATEMENT, A SPOKESMAN FOR THE DIOCESE TOLD US THAT, QUOTE, "... EXPENSES PAID BEFORE THE BANKRUPTCY WERE PART OF NORMAL BUSINESS." UNQUOTE. THE DIOCESE OF DAVENPORT DENIED DOING ANYTHING WRONG. BUT IN DECEMBER 2007, THE DIOCESE REACHED A \$37 MILLION SETTLEMENT WITH VICTIMS.

BISHOP W. FRANCIS MALOOLY

The decision to file for Chapter 11 reorganization was a painful one and one that I had hoped I would never have to make.

RATHER (VOICE OVER)

IN 2009, THE DIOCESE OF WILMINGTON DELAWARE BECAME THE LATEST TO FILE FOR BANKRUPTCY AFTER MORE THAN 130 SEX ABUSE LAWSUITS WERE FILED. DELAWARE, LIKE CALIFORNIA, BRIEFLY LIFTED ITS STATUTE OF LIMITATIONS TO ALLOW LONG-SILENT VICTIMS TO SEEK JUSTICE.

MALOOLY

This is a moral obligation on our part. Our equally significant moral obligation is to continue the charitable, educational, and spiritual missions of this diocese.

RATHER (VOICE OVER)

BUT AGAIN, THE VICTIMS HAD TO WAIT FOR THEIR DAY IN COURT, AS BANKRUPTCY PROCEEDINGS BEGAN.

LAWYER

This sham filing is the latest sad chapter in the diocese's decades long cover-up.

MALOOLY

The advantage with this is it has a neutral party trying to decide how to fairly take care of

our claimants and our creditors.

JIM HOLMAN

Seeing the church, which deals with the sexual abuse crisis in many ways like a corporation would deal with a-- a slip and fall outside of the corporate headquarters, is really appalling. When you see it from the inside, it's, it's, it's a true nightmare.

RATHER (VOICE OVER)

JIM HOLMAN KNOWS WHAT HE'S TALKING ABOUT. HE'S AN ESTABLISHED BANKRUPTCY ATTORNEY AT A PROMINENT PHILADELPHIA LAW FIRM BUT HE'S ALSO A VICTIM OF SEX ABUSE, MOLESTED AS A CATHOLIC SCHOOL STUDENT IN WILMINGTON. AND HE SAYS THE CHURCH HAS AN OBLIGATION TO BEHAVE DIFFERENTLY.

HOLMAN

I know what legal strategy is. I know what the typical business organization needs to do in order to get through a crisis situation, or a tough time or a you know, mass liability. But in this case, when you're talking about an institution that professes to stand for something else, it just doesn't work.

RATHER (VOICE OVER)

ATTORNEY JOHN MANLY IS REPRESENTING HOLMAN AND OTHER VICTIMS WHO SUED THE WILMINGTON DIOCESE.

MANLY

The Diocese of Wilmington has spent almost five million dollars according to its own testimony as of about a year ago to defend itself in these cases. And-- you know, the great irony there if they'd just done the right thing when these cases first came forward, in some instances, 30 years ago, they wouldn't have to spend anything.

RATHER (VOICE OVER)

MANLY SAYS AN EXCHANGE HE HAD WITH A DIOCESE OFFICIAL EARLY IN THE BANKRUPTCY MADE IT CLEAR THAT THE CHURCH CARED MORE ABOUT PROTECTING ITS MONEY THAN MAKING AMENDS WITH VICTIMS. AT A MEETING AT THIS WILMINGTON HOTEL, WHERE CAMERAS WERE NOT ALLOWED, MANLY SQUARED OFF AGAINST THE CHURCH.

RATHER

From the official transcript, read what happened in that room.

MANLY

Sure.

MANLY (READING FROM TRANSCRIPT AND MEETING)

Monsignor, can you tell me what the net worth of the Diocese of Wilmington is please?

**REVEREND MONSIGNOR J. THOMAS CINI, VICAR GENERAL FOR
ADMINISTRATION, DIOCESE OF WILMINGTON**

Joe, you want me to...?

MANLY

No, Monsignor, I'm asking you, sir.

CINI

The net worth?

MANLY

Yeah, the net worth of the diocese.

CINI

I think our, our, our petition says it's between fifty and a hundred million dollars.

MANLY (MEETING AND TRANSCRIPT)

Okay. So your sworn testimony here today is that net worth of the Diocese of Wilmington is 50 to \$100 million. Is that correct? Monsignor Cini, "yes."

RATHER (VOICE OVER)

THE MONSIGNOR REFUSED TO PROVIDE A MORE SPECIFIC ESTIMATE OF THE DIOCESE'S WEALTH... SO MANLY MOVED ON TO THE DIOCESE'S CHIEF FINANCIAL OFFICER.

**JOSEPH CORSINI, CHIEF FINANCIAL OFFICER OF THE DIOCESE OF
WILMINGTON**

You're, you're asking a very complicated question.

MANLY

No, I'm asking the CFO of the Diocese of Wilmington what your net worth is. Certainly you can answer that. Go ahead.

DORSEY (DIOCESE LAWYER)

You can answer any way you like, Mr. Corsini.

CORSINI

Net worth is the difference between assets and liabilities.

MANLY

That's right.

MANLY (ON CAMERA)

And the room was packed by people who had been raped as - as kids watching this. And he looked out in the audience, and he said,

CORSINI

I see a roomful of liabilities, so I don't know how to estimate how much that is.

MANLY

You see a roomful of liabilities, is that how you see these folks?

CORSINI

No, I apologize for that statement. That was, that was inappropriate.

MANLY (ON CAMERA)

"I have a roomful of liabilities here, how do I value that?" And I think for-- you know, and-- and-- you know, a few minutes later, he apologized, but I think for me, it was a window into the soul of the hierarchy. Because that's how they think about these kids.

RATHER (VOICE OVER)

JIM HOLMAN, LIKE OTHER VICTIMS IN THE ROOM, WAS SURPRISED AND DISAPPOINTED BY THE OFF-HAND REMARK.

HOLMAN

It's an understandable reaction if you're dealing with a widget factory. It's not an understandable attitude when you're dealing with this kind of-- I would say really civic wound. It's not just the victims, it's the entire community. I think if, instead, the move had been to go to the people of the church and say, "We've done wrong in this diocese and we need your help so that we can make things better," it could've changed the entire tone of this.

RATHER (VOICE OVER)

AROUND THIS SAME TIME, THE DIOCESE FILED A MOTION IN COURT THAT ANGERED VICTIMS EVEN FURTHER: THE DIOCESE ASKED PERMISSION TO KEEP PAYING PENSIONS TO SIX CONFIRMED PEDOPHILE PRIESTS. THE DIOCESE SAID THE PRIESTS WERE OLD AND POOR, AND THAT IT WAS THE CHURCH'S DUTY TO TAKE CARE OF THEM.

RATHER

On the one hand, it seems the compassionate, if you will, Christian thing to do. On the other hand, they're paying them pension money-- and resisting paying victims money.

MANLY

Yeah. I gotta tell you, for-- for a survivor who frequently-- who are destitute, because of what happened to 'em, to hear that their perpetrator is being paid by the diocese, and getting three squares a day, living in a nice apartment, and having no financial worries, that-- that's just hard to reconcile.

RATHER (VOICE OVER)

THE DIOCESE EVENTUALLY WITHDREW ITS MOTION. BUT THAT WAS JUST THE BEGINNING OF WHAT TURNED OUT TO BE A CONTENTIOUS

BANKRUPTCY TRIAL. MANLY SAYS THAT, LIKE SAN DIEGO AND DAVENPORT, THE DIOCESE OF WILMINGTON WAS TRYING TO MINIMIZE ITS ASSETS -- HIDE THEIR TRUE WEALTH.

MANLY

They didn't list their real property at its actual value. They listed it at book value. And I think if you asked them if they trying to minimize their assets, they'll say no, but you have a diocese that owns-- and controls dozens of parishes that says they own three pieces of property. It doesn't pass the sniff test.

RATHER (VOICE OVER)

MANLY IS REFERRING TO ONE OF THE MAIN STICKING POINTS IN THE TRIAL: WHAT EXACTLY DOES THE DIOCESE OWN? THE DIOCESE OF WILMINGTON HAS ARGUED THAT EACH OF ITS PARISHES, SCHOOLS, CHARITIES AND OTHER ENTITIES HAVE COMPLETELY SEPARATE FINANCES FROM THE DIOCESES. EACH OF THEM IS IN FACT REGISTERED AS A SEPARATE CORPORATION. BUT CANON LAW EXPERT PATRICK WALL SAYS THE DIOCESE ULTIMATELY HAS CONTROL OF ALL CHURCH MONEY WITHIN ITS BOUNDARIES AND THAT CLAIMING OTHERWISE IS SIMPLY A LEGAL MANEUVER TO MINIMIZE THE POOL OF ASSETS EXPOSED TO ABUSE LITIGATION.

WALL

Yeah, they will create its own different parish corporations and then the pastors will go and take all the cash that's in the parish and move it into the new corporation. And so when the filing happens there's no cash in any of the parishes. It's in a separate corporation, without the same name.

RATHER (VOICE OVER)

WALL SAYS THEY'RE SEPARATE IN NAME ONLY. CORPORATIONS HAVE BOARDS OF DIRECTORS, AND IF YOU LOOK AT WHO'S ON THE BOARD OF DIRECTORS AT MOST OF THE DIFFERENT CHURCH ENTITIES - THE PARISHES, SCHOOLS, CEMETERIES, AND SO FORTH, IT'S THE SAME CAST OF CHARACTERS: THE BISHOP OF THE DIOCESE, THE VICAR AND THE PARISH PRIEST.

RATHER

And what you've laid out here, correct me if I'm wrong as we go along here, that while the church officials argue that these are independent and autonomous corporations, that the board of directors -- how do I say this gently, that the fix is in, that 3 of the 5 on the board of directors, they are -- what'd you say the archbishop?

WALL

The vicar general.

RATHER

Vicar general.

WALL

And then pastor that the vic-- that the archbishop appoints.

RATHER

So in every instance, if it comes down to it, 3 of the 5 votes carries.

WALL

Always.

RATHER (VOICE OVER)

AGAIN, OUR REPEATED REQUESTS FOR AN INTERVIEW WITH THE DIOCESE OF WILMINGTON WERE DECLINED. OUR INVESTIGATION FOUND THAT THIS TECHNIQUE FOR PROTECTING ASSETS HAS CAUGHT ON. WHILE WILMINGTON HAS HAD THIS FINANCIAL STRUCTURE FOR QUITE SOME TIME, WE FOUND THAT SINCE THE START OF THE CHURCH ABUSE SCANDAL, MORE THAN TWO-DOZEN OTHER DIOCESES ACROSS THE COUNTRY HAVE QUIETLY RESTRUCTURED TO FORM SEPARATE PARISH CORPORATIONS. WHILE CORPORATE FILINGS ARE PUBLIC DOCUMENTS, WE FOUND IN REPORTING THIS STORY THAT SEVERAL DIOCESES WEREN'T EAGER TO DISCUSS THEIR FINANCIAL STRUCTURE... SEVERAL REFUSED TO COMMENT, AND THE DIOCESE OF ORLANDO POSTED THIS MESSAGE ON ITS WEB SITE WARNING CHURCH PERSONNEL TO AVOID TALKING TO US. WALL SAYS THIS DIVIDED CORPORATE-STYLE STRUCTURE HAS AN ADDED BENEFIT FOR THE DIOCESE. BY HAVING ASSETS SCATTERED ACROSS DIFFERENT CORPORATIONS, IT MAKES IT NEARLY IMPOSSIBLE FOR CREDITORS TO GET A CLEAR TALLY.

RATHER

Well, rightly or wrong this kind of maneuvering is gonna strike a lot of people as a fairly sophisticated version of the old shell game.

WALL

Yeah.

RATHER

Too strong?

WALL

No. That's exactly what happened, it's -- it's really that simple. It's simply a shell game the diocese will engage in in order to protect its assets.

RATHER (VOICE OVER)

THE DIOCESE OF WILMINGTON CERTAINLY WOULDN'T CALL IT A SHELL GAME...BUT IN 2007, THE DIOCESE HAD ITS VARIOUS CHURCH ENTITIES FORM STATUTORY TRUSTS TO EVEN FURTHER PROTECT THEM FROM LIABILITY. IN THE BANKRUPTCY CASE, THE DIOCESE ACKNOWLEDGED THE CREATION OF THESE TRUSTS WAS MOTIVATED BY CONCERNS OVER THE NUMBER OF SEX ABUSE LAWSUITS FILED IN STATE COURT. THE QUESTION THAT HAS LOOMED OVER THIS ENTIRE PROCESS IS, WHAT ROLE, IF ANY, HAS THE HIERARCHY OF THE CHURCH PLAYED? MORE SPECIFICALLY, THE U.S. CONFERENCE OF CATHOLIC BISHOPS --THE OFFICIAL LEADERSHIP BODY OF THE ROMAN CATHOLIC CHURCH IN THIS COUNTRY WHOSE MEMBERS ANSWER DIRECTLY TO THE POPE. ATTEMPTS BY VICTIMS TO HOLD THE VATICAN AND THE POPE ACCOUNTABLE HAVEN'T GONE FAR -- THE UNITED STATES RECOGNIZES THE VATICAN AS ITS OWN NATION, AND THUS ITS LEADERSHIP HAS THE BENEFIT OF SOVEREIGN IMMUNITY STATUS.

RATHER

Have you found any credible evidence, that they're getting advice, counsel, instructions, from higher ups in the church hierarchy?

MANLY

Oh, sure. This-- this strategy, we believe, was developed out of the National Conference of Catholic Bishops, specifically the General Counsel's Office. You can't file bankruptcy, as a diocese, without permission from the Holy See. The idea that the bishop makes this decision on his own is nonsensical. It's all approved from Rome, all the way down.

RATHER (VOICE OVER)

HE SAYS FINDING A PAPER TRAIL CONNECTING THE DIOCESES TO THE CHURCH HIERARCHY IS ALMOST IMPOSSIBLE -- THE CHURCH FAMOUSLY GUARDS ITS SECRETS. BUT TESTIMONY BY THE WILMINGTON DIOCESE'S CHIEF FINANCIAL OFFICER IN THE BANKRUPTCY LITIGATION REVEALS DIOCESE LAWYERS HAD GOTTEN SOME GUIDANCE FROM HIGHER UP -- THE CONFERENCE OF CATHOLIC BISHOPS. WE TRIED TO REACH THE CONFERENCE OF CATHOLIC BISHOPS BY TELEPHONE AND EMAIL, BUT NONE OF OUR MESSAGES WERE RETURNED.

RATHER

What about the argument-- of the Central Church, the Vatican and, for that matter, the pope.

MANLY

Uh-huh (AFFIRMATIVE).

RATHER

In-- in essence, saying, "Listen, if we don't defend ourselves with the best legal tools and maneuvers at hand, you're talking about destroying the-- the Holy Roman Catholic Church on a worldwide basis." And their argument goes, "You do that, we won't be able to help orphans, widows, poor children, in places like Sudan and-- it-- just destroy the church., and that's why we have to fight with every means at our disposal."

MANLY

See, the-- the-- the problem with that is, is that's not what they teach. I was taught, growin' up, and I had some very good priests as teachers, that the church isn't a building, it's not the Vatican, it's not a gold chalice, it's not-- a-- a-- an expensive piece of art. It's the faith. Nobody wants to kill the Catholic church, I don't. But there's an unwillingness and a hubris and an arrogance to their defense. And it's n-- it-- and-- and they're really not worried about the church surviving. What they're worried about is the hierarchical and patriarchal system that has imposed-- horrible evil on children surviving. That's what they're trying to protect. And the-- the pope has direct responsibility for this. He was in charge, over the last 25 years, he's the one who was supposed to monitor priests, and pull 'em out of ministry. And he did not a damn thing to protect kids. And that's a shame.

ON CAMERA CLOSE

IT'S IMPORTANT TO NOTE THAT LAWYERS REPRESENTING BOTH THE CHURCH AND VICTIMS HAVE MADE GOOD MONEY IN THESE DISPUTES. AND SO HAS AT LEAST ONE PUBLIC RELATIONS FIRM. AFTER FILING FOR BANKRUPTCY, THE DIOCESE OF WILMINGTON RETAINED LOS ANGELES-BASED SITRICK AND COMPANY FOR ONE HUNDRED THOUSAND DOLLARS.

THE FIRM SPECIALIZES IN QUOTE "CRISIS MANAGEMENT" -- AND ITS CLIENTS HAVE INCLUDED EMBATTLED HEIRESS PARIS HILTON, CONVICTED DOG FIGHTING QUARTERBACK MICHAEL VICK... AND THE LOS ANGELES ARCHDIOCESE. NOW WHEN WE RETURN, WE SHIFT GEARS AND TAKE YOU TO THE CARIBBEAN WHERE A MODERN-DAY RUM WAR HAS BROKEN OUT OVER MILLIONS OF YOUR TAX DOLLARS. SO STICK HERE WITH US.