

ERIC ALAN WHEELER

November 1, 2005

The Most Blessed **HERMAN**
Archbishop of Washington and New York
Metropolitan of All-America and Canada
P.O. Box 675
Syosset, NY 11791-0675

Your Beatitude, Metropolitan **HERMAN**:

It was my hope that the enclosed letter and report would have initiated a call on behalf of the Holy Synod during its Fall Session to re-institute an **independent** audit of the financial statements of the Orthodox Church in America – something not done since December 31, 1996. However, upon reviewing the Statutes of the Church, I took note that the Metropolitan Council examines all financial reports of the Church and provides for the allocation of the general Church funds. I therefore felt it appropriate to forward the information provided the Holy Synod, along with an article entitled **Accountability Matters**, to members of the Metropolitan Council in preparation for its November meeting.

From my earliest days at seminary, I took to heart St. Paul's charge to "Let all things be done decently and in order." (*1 Corinthians 14:40*) I have always understood good order to apply to all aspects of our life in the Church and not just to our liturgical and ceremonial functions. During the time I served the church as Treasurer, I labored to bring about good order to the management of the church's financial resources understanding that funds were entrusted to our care to advance the mission of the Orthodox Church in America.

To this day, the absence of an unqualified audit of the church's financial records causes me great concern, especially given the past history of financial mismanagement. With this letter, I am humbly requesting that you seek the concurrence of the Metropolitan Council in re-instituting an **independent** audit of the finances of the Orthodox Church in America for the sake of good order.

Vladyka, please understand that the compiled report, balance sheet and income statement prepared by Kosen & Hosteley is nothing more than a compiled financial statement based upon information provided by the very people handling the finances of the Church. If management decides not to forward certain financial information to Kosen & Hosteley because of mismanagement of church funds, or worse yet, fraud, the very governing bodies responsible for the financial integrity of the Orthodox Church in

America will never receive a clear picture of the financial health of the Church. I would even venture to say that if Gregory Hostely was asked whether or not the reports presented to the Metropolitan Council are adequate or befitting a national church with an annual budget of 3 million dollars, he would say no, and I propose that you request that the internal auditors of the church verify this.

The purpose of an independent audit is to verify that what the people handling the finances of the Church are reporting to the governing bodies (All-American Council, Holy Synod and Metropolitan Council) is in fact true –that’s why they call it **independent**. It also **independently** verifies that the funds being reported on paper are in fact backed up by actual cash values and securities. An **independent** audit further verifies that the management of the finances is in keeping with generally accepted accounting procedures. It also provides assurances to the countless number of faithful Orthodox Christians that their financial stewardship is in fact being used to support the work of the Orthodox Church in America.

While the Metropolitan Council will review and adopt the operating budget of the Orthodox Church in America for the 2006-year at the upcoming meeting, it must also be understood that the review of the cash flow budget is only one small aspect of being stewards of the funds entrusted to the care of the Church. Without the benefit of an independent audit -- *a current independent audit* -- and its accompanying managerial reports and comments, there are a number of questions, which may go unanswered for the body responsible for the financial integrity of the Church.

Based upon the Treasurer’s Report to the 14th All-American Council one has to question how the 1.8 million dollar deficit was funded.

- *What part of the general fund balance of the church was used to fund the deficit over the years?*
- *What is the principal balance of the outstanding loan if indeed a loan was taken out?*
- *Is the unrestricted general fund balance of the church currently a negative number, borrowing from special appeal and endowment funds to fund operating expenses?*

As posted in the Report of the Treasurer to the 14th AAC, one of the goals of the Fair Share Resolution stipulated: “*Debt elimination by annual reductions must become a line item in the annual budget of The Orthodox Church in America.*” The resolution adopted at the All-American Council provides for approximately **\$600,000** in additional annual assessment income beginning in 2006 to assist in **Funding the Vision**.

- *If a loan or line of credit was secured to cover the total or partial amount of the deficit, what provisions are being placed in the 2006 budget to provide for its repayment?*
- *If there is an intention to repay the existing deficit, or the loan that was taken out to fund the deficit, does this mean that the increase in assessments of 1.8 million dollars over the next triennium intended to **Fund the Vision** was really intended to **Fund the Deficit**?*

During the time I served as Treasurer, Metropolitan Theodosius and Father Kondratyck maintained so-called discretionary accounts disproportionate to the annual operating budget of the Church. The reason that an unqualified audit could not be produced for the Orthodox Church in America for the periods ending December 31, 1997 and 1998 was because of the refusal to include these funds in the financial reports of the Church. Asking the parishes of the Church to increase annual assessments by **\$600,000** in the coming year when off-books accounts may be carrying a balance equal to or exceeding this figure would not seem appropriate or ethical. An independent audit would not permit funds to be maintained off-books, requiring the Officers of the Church to provide written confirmation that all funds have been presented for review.

- *Are bank accounts being maintained by the Orthodox Church in America that are not being reported to the Holy Synod and the Metropolitan Council in its financial reports?*
- *If discretionary accounts are being maintained what are the current balances of these funds?*

If past performance is any indication of present practice, one has to question if any part of the Temporarily Restricted (*Special Appeals*) and Endowment Funds were invaded to cover any part of the deficit. Without an independent audit, one does not have independent verification that the funds are being used for their designated purposes.

- *Are funds for the Special Appeals segregated and protected from invasion by the operating account?*
- *Are procedures followed to adequately record the distribution of Special Appeal Funds so that they are distributed for their intended purposes?*
- *What provision are being placed in the 2006 budget to repay the Charity, Seminary and Mission Funds and other Special Appeal funds if in fact they have been invaded to provide for the 1.8 million dollar deficit?*

During the time I served as Treasurer, Special Appeal Balances, Temporarily Restricted Funds and Endowment Funds were maintained in an investment account. An independent audit would provide a reporting of these investment accounts on the balance sheet and statement of cash flow and provide recommendations on its management.

- *If these Funds are still being maintained in an investment account, what is the current value of the investment account?*
- *Are the Endowment Funds secure in the manner in which they are being invested?*
- *Is the total of the investment account equal to the reported value of the designated funds (special appeals) and endowment accounts?*
- *Has the performance of the investment account been keeping pace with the various financial indices?*
- *Does a Finance Committee review the performance and asset allocation on a regular basis?*
- *Does a Finance Committee exist?*

The Orthodox Church in America currently maintains a number of Charitable Trusts for individuals. An independent audit would be able to provide advice whether the benefactors are receiving the full benefit of their contribution and whether the Church is complying with the complicated federal laws governing Charitable Trusts.

- *What is the current value of the Charitable Trusts entrusted to the care of the Church?*
- *How and where are the Charitable Trusts being maintained?*
- *What is the future financial benefit for the Orthodox Church in America for each of the Charitable Remainder Trusts?*
- *Is the Church complying with federal law governing the distribution funds?*

It is currently understood that the church is experiencing cash flow difficulties, recently reporting that expenses have been trimmed by \$250,000. With a triennial deficit of almost 2 million dollars one has to question the financial management skills of those in charge of church funds. An independent audit provides indicators on future performance based on past history and would be able to warn against potential deficit spending before it begins to occur.

- *Are the financial reports provided the governing bodies adequate to keep those having a fiduciary responsibility for the funds of the church aware of its financial health?*
- *Are the current actual revenue and expenses presented alongside the **2006** budget based on a cash basis or an accrual basis?*
- *If the current operating expense/revenue report is being presented on a cash basis, what is the total amount of accounts payable as of this date?*

- *Has a year to date operating report of revenue and expenses been presented at all in relationship to the proposed 2006 operating budget?*
- *What is the current indebtedness of the Orthodox Church in America factoring in the deficit for the 2005 operating budget, external loans owed financial institutions, operating funds borrowed from the special appeals and endowment accounts and loans owed to staff members of the chancery?*

The answers to the above listed questions may be able to be provided by the staff at the chancery, but the current model of financial accountability recommends that the answers be provided directly to the governing bodies of the church without being filtered by the very people ministering the funds. This provides for a system of checks and balances required today in our post Enron financial environment.

Given the previous lack of response to my request to re-institute an **independent** audit leads me to conclude that some members of the Holy Synod chose to attack the messenger and not listen to the message. It is my hope that the Metropolitan Council will look at the re-institution of an **independent** audit as a means to begin the healing of the tarnished financial image of the Orthodox Church in America and not address issues pertaining to the messenger. As far as the messenger is concerned, please understand that I stand ready to provide you with more complete information on the issues I have raised if you need further clarification. I repeat once again that a terrible injustice has been done over the past years to the clergy and faithful who have taken to heart the call to support the work of the Orthodox Church in America. They deserve a better system of financial accountability than they have been receiving. Unfortunately, the church finds itself in debt due to financial mismanagement and not because of the pressing needs to function as an autocephalous Church. The institution of a real **independent** audit is the first step towards giving the faithful a reason to continue to financially support the work of the Central Church Administration of The Orthodox Church in America.

May God Bless your upcoming meeting with fruitful results.

In Christ,

Protodeacon Eric A. Wheeler

cc: Holy Synod of Bishops
Metropolitan Council
Audit Committee
Konsen & Hostalley, LLP