VATICAN FINANCE CHIEF RUNS INTO RESISTANCE

Pope trims Cardinal Pell’s powers, stalling plan to revamp accounts

BY FRANCIS X. ROCCA

VATICAN CITY—Late last year, Cardinal George Pell, the pope’s finance chief, hired PricewaterhouseCoopers to undertake a comprehensive audit of the Vatican’s finances.

On a mandate from Pope Francis to clarify the city-state’s muddled accounts, the newly powerful cardinal had been assessing and tweaking the system; already he had found a total of €1.4 billion, or about $1.6 billion, “tucked away” off the books.

Cardinal Pell wanted PwC to check that the 136 Vatican departments—each of which used its own, often loose accounting standards—were following guidelines aimed at imposing budgetary discipline.

His task was like pushing against the ancient stone walls of a basilica.

Other officials, led by Cardinal Pietro Parolin, the Secretary of State, known as the pope’s prime minister, let him know the audit wouldn’t fly. In June, the Vatican announced it had been scrapped, and soon many of Cardinal Pell’s powers were handed to others.

It was a setback for the financial overhaul, a central part of a broader revamp of the Catholic Church’s central bureaucracy, the Roman Curia, which Francis made a centerpiece of his pontificate. It was also a sign that the Vatican’s established interests have gained the pope’s support, just three years after his election as a historic, New World outsider.

Cardinal Pell, a blunt speaker, had used a vaguely worded papal mandate to reach for broad powers. He has no plans to back down. “My job is to keep pushing,” Cardinal Pell, 75 years old, said in an interview in June. “The goal is that the Vatican will be recognized inside and outside the church around the world as somebody who handles their finances properly and appropriately.”

Accounting at the Vatican has never followed unified policies. Annual reports aren’t released, different departments use different accounting principles, data are inconsistent and not comparable. Before Cardinal Pell’s appointment, a panel of cardinals charged with economic oversight met just twice a year. Budgets didn’t exist, and expenditures weren’t itemized.

When cardinals elected Pope Francis in March 2013, they gave him a mandate to revamp the Curia. The resignation of Pope Benedict XVI had occurred under a cloud of allegations at the Vatican of cronyism, inefficiency and corruption.

Complaints surfaced about €550,000 spent for a manger scene in St. Peter’s Square. Later, concern rose about the lack of oversight of hundreds of thousands of euros collected by advocates for potential saints from donors.
Pope Francis moved quickly. In early 2014, he established a new Secretariat for the Economy and named Cardinal Pell to run it. In a two-page document he seemed to hand over sweeping powers, saying the cardinal had authority over “administrative and financial structures” and his reach extended “to all that in whatsoever manner” concerned economic activity, including procurement and hiring. The cardinal would report directly to the pope.

In the cardinal, the pontiff found a rare example of a high-ranking prelate with media savvy, financial experience and a bold personality.

At a July 2014 press conference, Cardinal Pell presented himself as the financial counterpart to the Secretary of State, who had previously been unchallenged as the pope’s No. 2 official. Press accounts hailed the Australian as the Vatican’s financial “czar.”

“Our ambition is to become something of a model of financial management rather than a cause for occasional scandal,” he said at the time.

The “Vatican” refers to both the Holy See—which includes the central administration of the worldwide Catholic Church and related institutions serving the pope—and Vatican City State, the sovereign territory owned by the church inside Italy, where the pope resides.

Revenues come largely from proceeds from the Vatican Museums, its real-estate holdings, an investment portfolio and shops selling valuable tax-free products such as gasoline to Vatican employees. Dioceses around the world also send millions of dollars annually to the Vatican’s coffers. And the Vatican Bank, an independent body that is designed to provide financial services to the Catholic Church world-wide, also adds a varying amount of funds; it provided €50 million in 2014.

Despite such assets, the Holy See has long run a deficit: €26 million in 2014, the Vatican said, and an estimated €35 million or more for last year, according to Cardinal Pell. Attempts in recent years to generate more revenue—the Vatican Museums raised visitor flow by 20% over the past three years—haven’t stanchéd red ink. Cutting costs, including layoffs, is difficult, because of the traditional Italian resistance to job cuts and the pope’s concern over the “social ill” of unemployment.

The cardinal hired consultants from firms such as McKinsey & Co. to do a review of assets. That exercise turned up €1.4 billion that was “not on the balance sheet,” recalled the cardinal. The cardinal attributed the discrepancies to haphazard accounting and ad hoc policies. “I’m not saying it was being mismanaged or anything. It just was there for a rainy day,” Cardinal Pell said.

His team once received a call from a Vatican office that had tens of millions in charitable funds and wasn’t sure how to account for them, he said.

The cardinal’s office, with a core team of about eight, issued budgeting and accounting policies that required all Vatican entities to have their budgets approved by the office and account for deviations, with penalties for overruns. His office produced a consolidated budget for 2015—a first for the Vatican.

Property income

He also spotted a rich new source of revenue that could help close the deficit. The Administration of the Patrimony of the Holy See, or APSA, managed most of the Vatican’s huge real estate portfolio, valued at €1 billion or more, including thousands of commercial spaces and apartments in Rome.
Cardinal Pell said the management wasn’t satisfactory. Among the criticisms, APSA hadn’t kept up the properties or collected back rent on the real estate held by the administration of St. Peter’s Basilica, according to a person familiar with the situation. As a result, the Basilica suffered a deficit of several hundred thousand euros last year. That shortfall meant it couldn’t pay the stipends for new canons—the retired prelates who celebrate Mass there—for the next two years.

A Vatican official said many properties can’t be rented out at market rates because they would be prohibitively expensive to restore. The pope gave Cardinal Pell control of the properties managed by APSA in July 2014, along with its administrative responsibilities for procurement, payment of bills and payroll.

APSA also controlled much of the Vatican’s financial portfolio, a power it retained. Cardinal Pell started exploring ways to reorganize the Vatican’s financial investments. One idea he pursued was to outsource them to professional money managers in Luxembourg.

The real-estate move and plans for the investments raised hackles at APSA and other offices.

APSA’s president, Cardinal Domenico Calcagno, has developed a strong relationship with Francis, who over time has become more connected to insiders at the Vatican. The two frequently eat together in the dining hall at the Vatican guesthouse, where the pope lives.

Cardinal Calcagno declined to comment on Cardinal Pell’s remarks about APSA, saying only that he was “disconcerted” by the statements.

The Secretary of State also controlled extensive investments, and the powers of Cardinal Parolin over hiring and spending were under threat.

The pope started paring Cardinal Pell’s powers.

In a series of moves over about 18 months, Francis stripped Cardinal Pell of control over APSA’s real-estate holdings. He declined to approve his recommendations to reorganize the management of the financial portfolio. He wrote and made public a pointed letter making clear that all hiring and transfer of personnel required the approval of the office of Cardinal Parolin. The audit was scrapped, and in July, he took away most of the management functions—for payroll, payment and procurement services—and restored them to APSA.

“When a new administrative body is created, it always takes a while until it fits into the broader organization,” said Vatican spokesman Greg Burke. “We shouldn’t be distracted by the noise.”

**Free-market ethos**

Some Vatican officials said they believe Cardinal Pell’s freemarket ethos has been unwelcome in the Curia, particularly under a pope who has excoriated the free-market system and warned that some financial practices can lead to corruption.

In May, the Australian told a group of Catholic businessmen that “if everyone lived like St. Francis of Assisi, the economy would collapse.”

“The pope thinks the Vatican needs to be especially prudent using the levers of finance,” said Italian journalist Andrea Tornielli, co-author of “This Economy Kills,” a study of Pope Francis’ thinking on capitalism. “You can endanger the faith of millions if people start to say, ‘the Vatican speaks of purity..."
but then they go and make money from money.’ ” Cardinal Pell’s style struck some in the Curia as overbearing and aggressive, according to people familiar with the situation. Some felt the cardinal’s announcement about the huge sums he found off the books was an implicit accusation of corruption. And, in an Italian-dominated bureaucracy, some were offended when Cardinal Pell wrote that modern accounting standards were a natural priority for “Anglos,” but “one that might be much lower on the list for people in another culture, such as the Italians.” Critics also accused him of overreaching by pushing the PwC audit even after the pope appointed a new auditor general in 2015 to do annual audits.

Cardinal Pell attributed some of his setbacks to “people wanting to retain their turf, their traditional role” particularly at APSA and the Secretariat of State.

“Some people don’t like change, some people don’t like a diminished authority,” he said. “And there’s always a hypothetical possibility that you’ve got some people who have something to hide.”

Officials at APSA and the Secretariat of State declined to comment.

So far, the Secretariat of the Economy has accomplished little of what it set out to do.

“A lot of people in the Vatican are wondering why we needed to spend two years and a lot of money on high-powered consultants just to come back to square one, with Cardinal Pell’s office basically a beefed-up comptroller’s office,” said Robert Mickens, editor in chief of Global Pulse, a magazine that covers the Vatican.

Cardinal Pell cited success in identifying the off-the-book assets, and said that the Vatican is now committed to international public sector accounting standards, even if they haven’t been implemented everywhere, saying “the gains are irreversible.”

“Once you let the light in, it’s impossible to return to a situation where you’ve had large elements of the truth buried,” he said.
Cardinal George Pell’s plan to audit the Vatican’s finances was blocked. Below, the Sistine Chapel.

LORENZO PESCE FOR THE WALL STREET JOURNAL