

ORTHODOX CHURCH IN AMERICA

Final Report of the **St. Tikhon's** Investigation Committee

March 20, 2010

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Our committee has had the difficult task of investigating alleged improprieties, and making positive proposals on how to set St. Tikhon's Monastery and Bookstore on a firm financial foundation. We were charged to care for and preserve the high reputation of the monastery so that it may continue its vocation of service to the faithful believers and sincere seekers on this continent. We have accepted this charge with fear and trembling, knowing that we will all stand before the "Judgment Seat of Christ" and that our objective is to be a source of healing and stability, and not "give place to the devil". As St. Paul reminds us, "For we do not wrestle against flesh and blood, but against principalities, against powers, against the rulers of the darkness of this age, against spiritual [hosts] of wickedness in the heavenly [places]. Therefore take up the whole armor of God, that you may be able to withstand in the evil day, and having done all, to stand." (Ephesians 6:12-13)

IN MEMORIAM

*HIS EMINENCE, ARCHBISHOP JOB (OSACKY),
ARCHBISHOP OF CHICAGO AND THE MIDWEST*

(March 18, 1946 – December 18, 2009)

His Eminence, a 1970 graduate of St. Tikhon's Seminary, assisted in our investigation.

May His Memory Be Eternal!

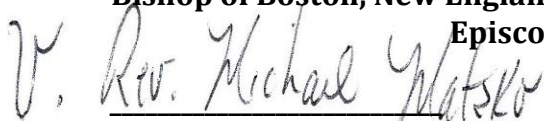
THE ST. TIKHON'S INVESTIGATION COMMITTEE

March 20, 2010

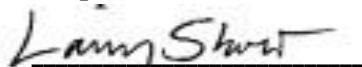
This report conveys to the Holy Synod of Bishops the findings and evaluations of our investigation of the financial, real estate, and administrative activities at the St. Tikhon's complex over the past two decades. We provide information for the whole Church to understand these activities, and recommendations for the Holy Synod and Metropolitan Council to implement for the future.



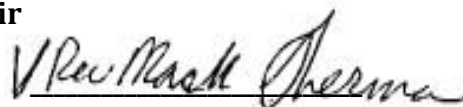
**His Grace Nikon
Bishop of Boston, New England, and the Albanian Archdiocese
Episcopal Chair**



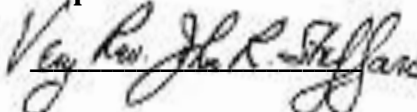
Archpriest Michael Matsko



Larry Skvir



Archpriest Mark Sherman



Archpriest John Steffaro



Priest Stephen Vernak

Disclaimer: This report contains observations, recommendations, and conclusions based on the documents and information that were available to the committee. It is possible that additional documents and information exist and will be revealed that would alter, modify, or change the observations, recommendations, and conclusions of this report.

Executive Summary

Appointment of the Committee

In early 2009, there were suggestions of financial improprieties at St. Tikhon's Monastery and Bookstore. The *Svetoch* bookstore, a satellite of St. Tikhon's Bookstore, had opened in Philadelphia in mid-2007 without formal announcement. Sharing the same facility with *Svetoch* was the *Omega Designs* jewelry store that was primarily managed by Archdeacon Alexei Klimitchev, the managing director of St. Tikhon's Bookstore. As word of the Philadelphia store began to spread among members of the Orthodox Church in America (OCA), there were questions of conflict of interest regarding Archdeacon Klimitchev. At about the same time, members of the OCA began to learn and were surprised that the St. Tikhon's Monastery property had been mortgaged.

By the end of 2008, the Philadelphia store had been closed, and Archdeacon Klimitchev had been relieved of his position with the St. Tikhon's Bookstore. A cursory review of the affairs of St. Tikhon's Bookstore was made by Priest Michael Tassos, then OCA Treasurer, in January 2009. In this cursory review, Fr. Tassos found "indications of mismanagement, conflict of interest, complete lack of accountability, and abuse of company credit cards for personal use without any system of company reimbursement or accounting."¹ Fr. Tassos recommended a more complete investigation.

As a result of Fr. Tassos' recommendations and further consideration, the Holy Synod of Bishops constituted the St. Tikhon's Investigation Committee (STIC) in May 2009 with a broad charge to conduct an investigation of the St. Tikhon's complex. The committee was given free rein to conduct interviews and review documentation, following the information wherever it led.

The committee members selected by Metropolitan Jonah were: Episcopal Chair, His Grace Nikon, Bishop of Boston, New England, and the Albanian Archdiocese; Archpriest Michael Matsko, Archpriest Mark Sherman, Larry Skvir, Archpriest John Steffaro, and Priest Stephen Vernak. Sergei Givotovsky, esq., was designated to be Legal Advisor to the STIC.

The committee met monthly at St. Tikhon's from July through November 2009, usually for 2-day meetings. In addition, the committee had a number of conference calls. In early decisions, the committee decided it could proceed sufficiently with the investigation without costly outside assistance from attorneys, accountants, and auditors.

¹ Appendix A: Memorandum – Re: "Cursory Review of St. Tikhon's Bookstore," Priest Michael Tassos, February 10, 2009.

Loans and Mortgages

As we began our investigation, we were surprised to find the manner in which Metropolitan Herman managed the business affairs during his many years in control at St. Tikhon's. We found that he took out a cascading system of over 40 loans in an 18 year period, finally leaving the Monastery with over \$1.5 million of debt. The purposes of loans included specific bookstore printing projects, major construction projects, paying credit card debt, paying off previous loans, and providing working capital. Metropolitan Herman did all of this unilaterally. From what we could review, and except as otherwise noted in our report, the loans were for legitimate monastery purposes². However, because of Metropolitan Herman's complete control, there was no assessment of whether it was prudent for the monastery to assume the ever-increasing debt.

Regarding mortgages, the Church at-large only seemed to realize in 2008 and 2009 that the monastery property had been mortgaged to secure bank loans. In fact, the monastery property had been mortgaged from 1994, and the seminary property from 1990. Starting in 1994, Metropolitan Herman needed to use the monastery property as collateral to continue the increasing pattern of borrowing. The committee focused on three loans – the 1996 loan to construct the mausoleum, the 2003 loan to construct the bookstore, and the 2008 loan to pay off credit card debt and other loans. For these loans, we found irregularities in statements made by Metropolitan Herman and former Protospesbyter Kondratich, stating to banks that Metropolitan Herman had “absolute authority” to mortgage monastery property. The OCA Statute requires that such transactions for stavropegial institutions be approved by the Metropolitan Council.³

² Only a full forensic audit could determine whether all loan proceeds were used appropriately.

³ The non-profit corporation formed in 1905 was formed for the purpose of, among other things, operating a monastery. Perhaps the question is clear to the Church, but from a corporate law perspective two important questions are: (1) which is the stavropegial institution, the 1905 corporation, which from its charter seems to have been formed as a local parish, or (2) merely the monastery itself, one of several discrete operations of the 1905 corporation (under the provisions of the charter document). Even if the foregoing question were clear, it is worth noting that in addition to the OCA's own requirements from its Statute, the 1905 corporation's charter provides for a board of directors of five, as discussed elsewhere in this report. A Pennsylvania corporate attorney with relevant experience can likely give a clearer answer, but it seems that Metropolitan Herman's actions were beyond the powers for purposes of Pennsylvania corporate law, as well, and that each lending institution ought to have known that. Certainly, the lenders' lawyer(s) ought to have known. It is also worth noting that in the State of Pennsylvania, over the period of time relevant to the committee's investigation, there was no such entity as “*St Tikhon's Monastery*,” nor any entity qualified to do business under such name. The lenders should have learned this, also; had they learned this – or heeded it – they would have discovered the five person board provision and would have required a copy of the corporate resolutions by which the board approved of the loans. In at least one instance both the borrowing entity and the lending bank appear to have been represented by the same attorney and there appears to have been no waiver by the lender and/or the borrower concerning such dual representation.

Fr. Tassos' Indications

Our investigation confirmed the mismanagement identified by Fr. Tassos. Archdeacon Klimitchev mismanaged the St. Tikhon's Bookstore and the Philadelphia bookstore. Furthermore, Metropolitan Herman mismanaged his responsibilities to supervise the activities of Archdeacon Klimitchev.

Fr. Tassos suspected conflict of interest in Archdeacon Klimitchev's sales of *Omega Design* products to St. Tikhon's Bookstore. Regarding lack of accountability, he believed Archdeacon Klimitchev transferred *Omega* merchandise back to his personal business. Unfortunately, inventory control was so badly managed at both the Philadelphia store and at St. Tikhon's Bookstore, both under Archdeacon Klimitchev's management, that we could not make conclusions regarding the disposition of inventory. However, witnesses confirmed that Archdeacon Klimitchev had engaged in these practices.

Fr. Tassos suggested credit card abuse and cited three examples – a Las Vegas trip by Archdeacon Klimitchev, purchase of jewelry from a supplier, AV Diamonds, and various personal expenses including Harlem Globetrotter tickets.

We reviewed credit card charges. Regarding Fr. Tassos' examples, we found, as stated below, that Metropolitan Herman authorized Archdeacon Klimitchev to travel to Las Vegas to buy jewelry for the *Omega Designs* portion of the Philadelphia store. Therefore, the Las Vegas trip and AV Diamond purchases were authorized. We also found that Archdeacon Klimitchev reimbursed the credit card account for the Harlem Globetrotter tickets. However, we confirmed there was no control over credit card purchases, and we found numerous questionable charges by Archdeacon Klimitchev that he paid with St. Tikhon Bookstore funds.

Recommendations regarding Archdeacon Klimitchev

We found that the St. Tikhon's Bookstore and Philadelphia bookstore were so inappropriately managed in areas where Archdeacon Klimitchev was involved, that the committee could not determine conclusively what happened to unaccounted for income and inventory. Some examples are:

- Inventory control at St. Tikhon's Bookstore and the Philadelphia bookstore was so poor that we cannot form an adequate picture of what was sold, returned, or unaccounted for.
- Transfer of cash and checks from the Philadelphia store to S. Canaan was made haphazardly, without a system correlating the amount transferred against actual sales. Also, deposit records give only amounts and not details. We found a \$29,000 discrepancy between cash register receipts and S. Canaan deposits.

- There was no expense accounting system. Therefore, we cannot verify proper use of cash amounts and credit card expenses. We asked Archdeacon Klimitchev to explain seventeen charges amounting to \$16,679.09, but we have not had a reply. Archdeacon Klimitchev also received \$36,200 in cash for which there is no expense justification.

We find the reason we are unable to determine whether funds were taken improperly is due both to Archdeacon Klimitchev's poor management and to Metropolitan Herman's failure to set up reasonable management systems.

We gave specific attention to \$34,849.48 worth of jewelry and watch purchases that Archdeacon Klimitchev made with St. Tikhon's Bookstore funds. We found that Metropolitan Herman authorized these purchases⁴ and Bishop Tikhon was aware of them⁵. Metropolitan Herman stated that he allowed these purchases in order for Archdeacon Klimitchev to set up the *Omega Designs* jewelry store in the Philadelphia bookstore because it would bring more people into the bookstore. Jewelry proceeds would go to the St. Tikhon's Bookstore. Archdeacon Klimitchev said he was approved for these purchases. He also said that jewelry items were sold on the *Svetoch* computer, and proceeds were transferred to St. Tikhon's Bookstore.

We found a \$29,000 discrepancy between cash register receipts and cash received by St. Tikhon's Bookstore. We believe that Archdeacon Klimitchev did not provide proceeds from the sales of jewelry and watch to St. Tikhon's Bookstore, as he claimed to be doing.

We are recommending that Archdeacon Klimitchev provide justification for cash, credit card charges, and jewelry/watch purchases, and to provide reimbursement to St. Tikhon's Bookstore for those items that cannot be justified.

Corporate Structures and Real Estate

We also investigated the corporate structures and real estate ownerships of the St. Tikhon's complex. In this area, we found the monastery exists as part of a 1905 nonprofit corporation, St. Tikhons Greek Russian Orthodox Church. Furthermore, we found that deeds of properties belonging to the 1905 nonprofit corporation (i.e., the monastery) are various names, as identified in Section 4.1.2. We recommend that the 1905 nonprofit charter be amended to reflect the name of the monastery, and the deeds be modified to the correct corporate name.

⁴ At first interview Metropolitan Herman seemed uncertain regarding Archdeacon Alexei's jewelry purchases. It was only later that he informed the committee chair that he authorized Archdeacon Alexei to make these purchases.

⁵ Bishop Tikhon was aware of the *Omega* jewelry store sharing space with the *Svetoch* bookstore, and that Archdeacon Klimitchev was buying and selling jewelry at the Philadelphia store. However, it was his understanding from the beginning that *Svetoch* and *Omega* were two separate entities and that the jewelry was being purchased with *Omega* funds. He was not aware that St. Tikhon's Bookstore funds were being used for such purchases, nor was he aware of the specific amounts of the transactions.

In addition, we found that St. Tikhon's Russian Orthodox Orphanage, incorporated in 1939, has not been dissolved as a corporation even though the orphanage has not functioned for years. In 1981, a local functioning committee of the orphanage board was set up in order to approve the construction of the Diocese of Eastern Pennsylvania Diocesan Center on orphanage property. However, since 1981, we did not find any governing board activity related to the orphanage.

This is pertinent because we found that Metropolitan Herman is currently residing in the Jacewicz House that is located on orphanage property. Two sisters, Anna Jacewicz Dziamba and Julia Jacewicz Fedorko (the Jacewicz sisters) entered into an agreement (the Jacewicz Agreement) with the monastery to construct a house in which they could live until the end of their lives. They were willing to enter into the Jacewicz agreement on condition that Metropolitan Herman and/or Martin Paluch would have lifetime use of the Jacewicz House after the sisters' death. In consideration of this agreement, signed by Metropolitan Herman, the monastery received a large sum of money from the Jacewicz sisters.

Regarding this Jacewicz Agreement, we find that Metropolitan Herman improperly entered into the agreement because of its self-benefitting aspects. We note the agreement does not say that Metropolitan Herman and/or Martin Paluch may use the Jacewicz House rent-free. And finally, because the house was built (under Metropolitan Herman's direction) by the monastery on land it did not own (i.e., orphanage land), we believe the agreement for Metropolitan Herman/Martin Paluch's lifetime use is not binding.

Recommendation regarding Metropolitan Herman

Our investigation identified and confirmed what was generally known throughout the Church: that Metropolitan Herman was the dominant figure at St. Tikhon's with almost total control over its activities. Our investigation also found that Metropolitan Herman did not perform his fiduciary duty to reasonably manage the activities of St. Tikhon's. This failure resulted in the loss of thousands of dollars and left a debt of over \$1.5 million.

As a result of this former absolute control and mismanagement, we recommend that Metropolitan Herman be asked to relocate from St. Tikhon's under a negotiated agreement that adequately balances any interest he may have through the Jacewicz Agreement with the losses due to his inappropriate management of St. Tikhon's affairs that were under his unilateral control.

Management Checks and Balances

Recommendations are identified in Section 5.0 of this report. We specifically recommend a series of controls, checks, and balances to address the concerns identified in our report.