

EXHIBIT G

JONES DAY

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May 3, 2004

VIA FEDERAL EXPRESS

Carl M. Grant
Bond Claims Analyst
AIG Technical Services, Inc.
National Union Claims Division
175 Water Street, 5th Floor
New York, New York 10038

Re: **INSURED:** The Diocese of Cleveland
CLAIM NO.: 165-029063
POLICY NO.: 985-88-51
INSURER: National Union Fire Insurance Company of Pittsburgh, PA
MATTER: Employee Dishonesty - Joseph H. Smith

Dear Mr. Grant:

Enclosed please find the following documents being submitted in connection with the above-captioned crime-insurance claim:

1. Executed endorsement on Deletion of FRJSC Procedures
2. Executed Fidelity Bond Claim Department Proof of Loss

As you will note, the Proof of Loss contains various Attachments, which are as follows:

- A. Description of Circumstances of Diocese's "Discovery" of Smith Losses
- B. Anonymous "Whistleblower" Letters
- C. Description of Circumstances Under Which Loss Occurred
- D. Set of Documents Received From Anton Zgoznic's Attorneys
- E. Ernst & Young Report on Smith Losses
- F. Description of Details of Referral to Law Enforcement Authorities

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Because they are bulky, Attachments B and D are not physically attached to the Proof of Loss packet.

Please note that the Diocese reserves the right to submit an amended proof of loss to augment the material being submitted herewith in support of the "Smith" losses detailed in the enclosed Ernst & Young report. As we have discussed, the Diocese also wishes to reserve the right to amend the enclosed proof of loss by adding to it, if warranted, any additional covered losses associated with Diocesan monies unlawfully taken and retained by Anton Zgoznic and/or the various entities with which he is affiliated or through which he conducts business. As indicated, a Cleveland accounting firm, Howard Wershbae & Co., is currently investigating the possible existence and scope of these latter potential losses. In view of the volume of documents and the complexity of the analysis required, we anticipate that the "Zgoznic" investigation may take up to several months.

We very much appreciate the level of cooperation you have exhibited in connection with the processing of this claim. Please let us know if there is any additional information or material you need.

We look forward to your response to this submission.

Sincerely,



Charles D. Hassell

Enclosures

cc: Joanne Lloyd-Bragg, Esq.

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ATTACHMENT C

Description of Circumstances Under Which Loss Occurred

1. The facts and circumstances of which CDC is currently aware indicate that CDC has sustained covered crime losses consisting of a series of unlawful takings of Diocesan money by a CDC official and employee, Joseph H. Smith, that some such takings occurred during the Policy Period of the Diocese's 2003 AIG primary crime insurance policy and that the rest of such takings occurred during the policy periods of that policy's predecessor AIG primary crime policies.
2. As the attached E&Y report reflects, the takings occurred in either of two ways.
 - a. Some takings (amounting to \$67,500.00) consisted of Smith's causing Diocesan funds to be withdrawn and, without authorization or any other legal justification, to be then paid directly to him or deposited into Smith's personal accounts.
 - b. A second set of takings (amounting to \$784,627.25) was accomplished through the implementation of an elaborate "kickback" scheme into which Smith entered with one Anton Zgoznic.
3. The attached E&Y Report establishes the amount and date of each individual taking and sorts and aggregates those individual takings by year and by category.
4. Mr. Zgoznic owned, controlled or was affiliated with various businesses (the "Zgoznic Entities") that provided accounting and computer services to CDC under a series of contracts with CDC or affiliated entities.
 - a. The total billings to the Diocese and some affiliated organizations by various Zgoznic Entities were in excess of \$16 million since 1997.
 - b. The bulk of the fees was for outsourced internal accounting and IT work.
5. Mr. Smith was CDC's Financial and Legal Secretary.
 - a. As such, Mr. Smith possessed, and exercised, the power to award, or influence the awarding of, contracts to professional firms that provided professional services to the Diocese.
6. In particular, Smith had the power to award, control or influence the awarding of, and to approve or influence payments under, various lucrative contracts between CDC and various Zgoznic-controlled or affiliated entities.

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7. Using that power, Smith either retained Zgoznik Entities, recommended that other Diocese-affiliated entities retain Zgoznik Entities or otherwise influenced the retention of the Zgoznik Entities and the amount of compensation they were paid.
- For instance, Smith urged, and in some instances forced, other Secretariats (such as the Office of Catholic Education) to use Zgoznik Entities and Smith approved the charges.
 - There is some evidence that after Smith contracted with Zgoznik to Zgoznik Entities perform certain accounting functions for some of the Diocesan offices, the internal accountants continued to do much of the work.

Paul Ryan 10/15/03
When questioned in late 2003, Smith misrepresented to the Diocesan Finance Council the total amount in fees paid to Zgoznik Entities.

9. As apparent reciprocation for the awarding of lucrative contracts and payments of millions of dollars, Zgoznik was sending Smith substantial payments on a regular basis.
- As reflected in the tabulations in the attached E&Y report, for the past couple of years, these payments amounted to between \$15,000 and \$20,000 per month.
 - In fact, in the course of the Diocese's investigation here, Zgoznik's lawyer informed the Diocese's counsel that Smith had recently requested that his payments reflect a percentage of the Diocesan billings.
10. Messrs. Smith and Zgoznik are apparently planning to defend themselves and their longstanding arrangement by claiming that it was not unlawful.
- In records created for CDC, Mr. Zgoznik euphemistically characterized his hundreds of thousands of dollars of payments to Mr. Smith as part of some so-called "executive compensation" package.
 - Mr. Smith is apparently going to claim that his arrangements with Zgoznik were in part somehow "authorized" by the Diocese.
11. Neither approach is factually supportable based upon the investigation undertaken thus far.
12. Although Zgoznik's payments to Smith are routinely described in Zgoznik's records as "consulting fees," Zgoznik's lawyer has stated that Smith performed no work for any Zgoznik Entities to earn any such fees.

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13. Nor can the payments be part of some compensation package from the Diocese because CDC did not approve the deliberate inflation of the Zgoznic contracts and bills to include what amounted to a "surcharge" for the payments (the original source of which was Diocesan funds) that Zgoznic was diverting back to Smith.
- a. The Diocese did not "authorize" this arrangement that Smith struck with Zgoznic.
 - b. In fact, CDC's funds were circuitously and surreptitiously diverted to Smith in a manner designed to conceal their existence from Diocesan review.
 - c. The conspirators' consciousness of the utter lack of any authorization for their conduct is reflected, moreover, by Zgoznic's contrived and transparent effort to lend credence to this claim of "authorization" by his deliberate misuse of Diocesan stationery to generate the binder containing the backup information concerning the supposed "executive compensation" payments to Smith (which binder is attached to this Proof of Loss as Attachment D), in an effort to create an aura of authorization, where none actually existed.
 - (1) Note Stephen G. Sozio's January 21, 2004 letter to Mr. Robert J. Rotatori, Zgoznic's lawyer, to which Mr. Rotatori never responded. (Mr. Sozio's January 21, 2004 letter and Mr. Rotatori's January 19, 2004 transmittal letter are appended to this Attachment as Exhibit Nos. 1 and 2, respectively.)
14. Smith apparently will claim that at least some of the so-called "executive compensation" package was authorized by Father John Wright, who until late 1999 preceded Smith in the position of Financial and Legal Secretary for the Diocese.
- a. Father Wright categorically denies ever doing so, however.
15. In a letter of February 14, 2004, Mr. Smith offered Bishop Pilla his resignation from his Diocesan positions, and Bishop Pilla formally accepted that resignation on February 17, 2004. (These letters are appended to this Attachment as Exhibit Nos. 3 and 4, respectively.)