

Legal Authority, Bylaws & Such

Duties of CST Special Directors

LRH created another safety valve within CST beyond the right to purchase from RTC the rights to Scientology trademarks and Advanced Technology. Namely, he established in CST an additional board of "special" directors. The board is comprised of three California lawyers. Non-Scientists, and compensated for their roles, they were given particular duties by LRH – and, importantly, fiduciary duties, and liability for breaches of those duties, by California law.

"A fiduciary duty is the highest standard of care at either equity or law. A fiduciary (abbreviation fid) is expected to be extremely loyal to the person to whom he owes the duty (the "principal"): he must not put his personal interests before the duty, and must not profit from his position as a fiduciary, unless the principal consents."¹

Under California religious corporation law, the persons to whom duties are owed may include constituents, i.e., those members of the public their duties were meant to benefit, which, in the case of CST, parishioners of Scientology.²

Particular Duties of CST Special Directors

You can verify for yourself the particular duties given by LRH to the CST special directors at: [CST Bylaws](#). Go to Article VII, sections 1.d. You might want to first review "Legal Basics" on our [CST Info](#) page. Here are the particular duties we want to point out:

- d. Particular Functions of the Special Directors.** The Special Directors, acting by a majority of their authorized number are empowered to ensure the following:
- i. That the corporation attains tax exempt status, as soon as practical, and that such status is maintained throughout the existence of the corporation.
 - ii. That no part of the corporation inure to the benefit of any private individual, firm or corporation.
 - iii. That the assets of the corporation are not subject to waste and/or extravagance but are instead increased in value.
 - iv. That proper Scientology management is correctly applied to the end that the purposes of the corporation are accomplished.

Failure to maintain independent boards of trustees and directors risks the loss of tax-exempt status, and allowing the control of the CST boards to be usurped by David Miscavige and RTC undermines the essential purpose of CST, nullifying it.

The essential purpose of CST can be defined by an examination of the specific criteria LRH created for CST to use in determining whether to purchase the trademarks and Advanced Technology from RTC, which are:

This option shall be exercisable by CST at any time if CST decides, in its sole discretion and judgment,

- **that RTC has failed to preserve and maintain the ethical use of the Marks/Advanced Technology in accordance with the Scientology Scriptures,**
- **or that RTC's ownership of the Marks/Advanced Technology in any way places the Marks/Advanced Technology in danger of appropriation by any entity that is outside or hostile to the religion of Scientology,**
- **or that RTC has permitted and is permitting use of the Marks/Advanced Technology in any way that is contrary to the Scientology Scriptures and seriously damages the religion of Scientology or the image or repute of LRH.**

Potential Liability of CST Special Directors

One might observe that the unhandled, so-called Independent Movement, for example, and the resulting negative PR stemming from it satisfy or at least call into question each of the above criteria. Not only do the highly publicized allegations of former long-time, high-ranking Sea Org members tend to establish these criteria but the very nature of the manner and means of handling them, which is playing out in real time (like a reality show), is arguably "contrary to Scientology Scriptures and seriously damages the religion of Scientology or the image or repute of LRH."

Moreover, to allow control over CST finances by another entity or person external to CST is an obvious abdication of responsibility and makes it impossible to exercise duties ii & iii above. To allow RTC to dismantle the Watchdog Committee and otherwise usurp the ecclesiastical authority of CSI, the "Mother Church," is also an abdication of responsibility. CST owns the copyrights of Scientology. Loss in book sales due to loss of repute of Scientology cuts directly across CST income lines. And so on and so forth.

CST special directors are exposed to liability. The amount of liability is potentially staggering. As we roll out the Action Series, it will become more and more clear the breadth of liability. Suffice it to say at this stage that CST special directors can potentially be held legally responsible for any uncorrected harm that flows from Day One when they failed to take steps to ensure that CST trustees and general directors

were hatted in their roles and acted truly independently.

How about the millions of dollars of alleged private benefit mentioned in our article, [The Tax Man Cometh?](#) Or the tens of thousands of dollars of daily waste spent fighting a created war with Scientologists? And these examples just begin to scratch the surface.

Not that anyone is seeking liability. We seek reform. CST special directors can limit their liability, possibly entirely. But time is running out for them.

Internal Audits

We call for a Compliance Audit in our proposed letter to CST special directors. A little hatting on audits is in order. We have previously called for an independent, internal investigation. To be more specific, the term used is an "audit."

Internal Audits do not just cover financial balance sheets. Audits can be conducted on any aspect of the performance of the Church and can rely upon LRH policy in evaluating the programs. How well is the Church complying with LRH policies in the area of Finance, Board Structure, treatment of Sea Org Members, application of Justice and Ethics and dealing with whistleblower complaints?

Audits cover objectives related to assessing program effectiveness and results; economy and efficiency; internal controls; and compliance with legal requirements Here are the basic types of performance audits:

1. **Program effectiveness/results audits** address the effectiveness of a program and typically measure the extent to which a program is achieving its goals and objectives.
2. **Economy and efficiency audit** objectives concern whether an entity is acquiring, protecting, and using its resources in the most productive manner to achieve program objectives. This includes assessing the extent to which legal or organizational goals and objectives are being achieved; (statistics on organizational goals).
3. **Internal control audits** relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Examples of this type of audit include assurances that the organization is meeting its goals effectively and efficiently; that resources are used in compliance with laws, regulations, or other requirements.
4. **Compliance audit** objectives relate to compliance criteria established by laws, regulations, internal church policies, that could affect the protection and use of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance objectives also concern the purpose of the program, the manner in which it is to be conducted and services delivered, and the population it

serves.

Independent Audits

Law firms and audit firms that specialize in all these types of audits exist and are often hired by corporations, including nonprofit and religious organizations, and governments, state, local and federal agencies.

In order to fully handle claims of corporate corruption, it is imperative that a highly reputable firm that is experienced and known for high integrity and competence be engaged to conduct the internal audits.

CST special directors, due to their exposure to liability, have conflicts of interests. Thus, they need to retain an independent firm to conduct the audits. The more independent and the more reputable the firm, the better – for all concerned.

When corporations or entities seek to cover-up rather than fix things, lawyers and corporate executives tend to go to jail, e.g. Watergate, Enron, etc. (Eleven of the thirteen individuals who went to jail for the Watergate scandal were lawyers, by the way.) Reliance on independent audits, in our opinion, is the only prudent way for CST special directors to proceed.

1. <http://en.wikipedia.org/wiki/Fiduciary>

2. C.E.B., *Advising Cal. Nonprofit Corps* (2d ed) § 8.105.