

Financial Ethics and Accountability

Chesapeake Conference Youth Leaders Convention-Master Guide Advanced Track

September 11, 2021

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95 Adventist leaders said to be on carpet

By JAMES NICKLES
and ART WONG

Sun Staff Writers

About 95 officials of the Seventh-day Adventist Church may be disciplined for improper or imprudent dealings with Southern California developer Donald J. Davenport, who filed for bankruptcy in 1981 owing the church \$21 million in unpaid loans and interest.

An official of the General Conference, the church's top ruling body, said four officials are being recommended for termination. The official, who asked not to be identified, also said another 15 could be publicly reprimanded and demoted.

The names of the officials have been withheld during a period set aside to allow any internal appeal.

Meanwhile, world church leader Neal C. Wilson, in a statement released Tuesday, confirmed the church is considering a range of disciplinary measures — including dismissal — against 95 or so officials accused of ignoring church guidelines in making personal or church loans to the surgeon and post-office builder.

Wilson said those measures could range from a "private letter of administrative disapproval" to termination from church employment and loss of ministerial credentials.

"This is by far the most sweeping discipline ever attempted within the Seventh-day Adventist Church," Wilson said in the statement.

The written statement, re-

leased by a spokesman for the General Conference, coincided with publication of an article by Wilson on the "Davenport Affair" in the weekly Adventist Review.

It did not name names or even state the exact number of officials involved.

But it was Wilson's most detailed acknowledgement to date that Davenport's financial dealings extended far into the Adventist hierarchy.

An investigation by The Sun last year found that many of Davenport's transactions with Adventist organizations and officials appeared to violate the church's own investment and conflict-of-interest guidelines.

It found that some Adventist investment officers made personal loans to Davenport at up to 80 percent annual interest — far more interest than received by their church organizations or the dozens of rank-and-file Adventists who also made loans to the developer.

In his statement, Wilson conceded that some church financial officers may have accepted special favors from Davenport for channeling church monies into his vast real-estate empire, which collapsed with debts estimated at \$68 million.

Wilson said the disciplinary measures were recommended by a 15-member president's review commission that spent five months evaluating a report by the church's special counsel, the na-

(Please see Adventists, A-5)

Visitor

WORLDWIDE ADVENTIST COMMUNICATIONS • SEPTEMBER 19, 1981

A report to the church on the Davenport affair

On Tuesday, July 27, a 144-page report came to my desk from the office of the Special Counsel for the General Conference, Southern California, detailing the investigation of the financial dealings of Donald J. Davenport, a prominent surgeon and post-office builder, with the Seventh-day Adventist Church. The report, which was the first of a series, was addressed to me, as the Special Counsel for the General Conference.

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Neal C. Wilson,
General Conference President

involved with Davenport's "health empire" (see "Davenport's Health Empire," July 27, 1981). This is a significant development and an unprecedented disclosure of the church's financial dealings with a prominent surgeon and post-office builder. I have personally stated that when the church is involved in such a situation, it is essential that the church's financial dealings be transparent and that the church's financial officers be held accountable for their actions.

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R e p o r t r e g a r d i n g **Family Enrichment Resources**

The October 24, 1996,

Columbia Union

constituency session

included a discussion

regarding Family

Enrichment Resources

(FER), the organization

that was responsible for

literature evangelism in

the Atlantic, Columbia

and Pacific unions.

During that discussion,

the delegates asked that

the union administration

give immediate study to

the operating policies and

financial viability of FER

and report their findings.

It has taken several months to discover answers to many of the questions asked about FER. The company, which had developed a \$3.4-million negative net worth, was dissolved by the board on December 3. A 10-member transition team, headed by the secretary of the North American Division, Harold Baptiste, has been established to guide through the process of closure. This team meets weekly and is caring for all legal, financial and personal aspects of the transition. Its work should be completed by early March.

FER employed 65 people in management and field leadership positions. Approximately 200 employees were active commissioned sales workers and 100 others full- or part-time "cash sales" employees. The company also employed more than 200 college and high school students in summer sales programs.

During its five years of operations, FER generated \$30 million in sales and was influential in more than 4,000 baptisms. Even after the losses projected in closing the company, the three unions will have saved \$3.5 million over their previous literature evangelism programs. Students working in the Columbia Union sold \$1.4 million worth of literature in 1996.

Historical background

By the middle of 1991, the Columbia Union's literature evangelism program (Home Health Education Service) had accumulated a loss of more than \$300,000. Realizing that this situation could not continue "as is," the union administrative council began to look for alternative approaches for delivering Adventist books and magazines within our union. About the same time, encouraged by the North American Division, the Atlantic and Pacific unions began a similar exploration process. Together, the unions developed Family Enrichment Resources and employed Harold Otis Jr. as president. FER began operating in January of 1992.

The conference executive committees approved the four major goals of this innovative company:

1. That the conference expense for the program be a maximum of one percent of tithe income, a considerable savings over previous sales programs.
2. That the product sales be increased.
3. That new products be made available for sale.
4. That the financial situation of the literature evangelists be improved.

Each of the three participating unions loaned money to help the company get started, with the Columbia Union's portion of FER's net worth being \$1.3 million or 32.23 percent of the total. The Atlantic Union's portion is 7.88 percent, the Pacific Union 59.89 percent. The Pacific Union also made money available for research and development of the new products that would be necessary for FER to be successful.

In response to these goals, the company endeavored to develop modern distribution systems and a cost-saving management approach while also providing a greater variety of products. Gross sales nearly doubled between 1992 and 1996. However, there was a pressing need for new products, and financial difficulties arose while the company was attempting to secure financing for a new series of animated Bible videos. This search, and other management issues, resulted in a severe cash shortage during 1996. Since the earnings of student summer literature evangelists were used to cover a portion of that shortage, each union had to vote a special allocation to care for 1996 student summer income.

ADVENTIST LEADER RESIGNS OVER CONTROVERSY

By **Caryle Murphy**

February 9, 1999

The embattled president of the Seventh-day Adventist Church announced yesterday that he is stepping down as head of the Silver Spring-based denomination, citing concerns that a controversy over his business dealings is "detracting from God's work." Robert S. Folkenberg, 58, had been under pressure from church officials to resign since mid-January when allegations by a former business partner in California triggered a church review of Folkenberg's business dealings and concerns about possible conflicts of interest. "It has become apparent to me that the controversy surrounding the allegations . . . is detracting from God's work," Folkenberg told staff members at the church's international headquarters. "To avoid additional pain and conflict to my family and the church I love I am . . . tendering my resignation." G. Ralph Thompson, secretary of the church's General Conference Executive Committee, the church's top policymaking body, will serve as acting president. Folkenberg's resignation came just three weeks before the General Conference Executive Committee, made up of about 260 members from around the world, was scheduled to consider his dismissal from office. Now, the committee will elect a new president when it convenes March 1, a church spokesman said. Folkenberg, the son of Adventist missionaries, has been president of the 10



ADVENTIST REVIEW

MARCH 2020: HAPPY CEREAL DAY! + ETHICAL
INVESTING AND HELICOPTER MONEY + MY ATTITUDE
ADJUSTMENT + REFLECTIONS FROM THE SERVANT
QUEEN + "PRAY FOR ME" + LIVING THE DREAM



Moral Vision in 2020



Adventist World

03/2020

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Church**
Page 10

Not For Sale
Page 16

**Tearing
Down Walls**
Page 20

The Church
I Want to
Belong to Is...

ETHICAL



What comes to mind
when you hear the word
ethics?



So exactly what is ethics?

- ▶ the branch of knowledge that deals with moral principles.
- ▶ moral principles that govern a person's behavior or the conducting of an activity.



The “street” definition of ethics

Doing the right thing in the right way



Biblical ethics

- ▶ Colossians 3:16
- ▶ Colossians 3:23
- ▶ Leviticus 19:2
- ▶ Leviticus 19:13
- ▶ Leviticus 19:18
- ▶ Luke 6:31
- ▶ Luke 16:10
- ▶ Proverbs 11:1
- ▶ Proverbs 11:3
- ▶ Psalms 25:21
- ▶ 1 Corinthians 6:9-11
- ▶ Matthew 5:37



So what have these texts told
us about ethics?



Ethical Behavior = Moral Behavior



The Seven Signs of Ethical Collapse

Understanding What Causes Moral
Meltdowns in Organizations



Marianne Jennings, J.D.



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Jenning's Seven Signs

- Pressure to maintain numbers.
- Fear and silence.
- Young 'uns and a bigger-than-life CEO.
- A weak board.
- Conflicts (of interest).
- Innovation like no other.
- Goodness in some areas atoning for evil in others.



Conflict of Interest

- ▶ A situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.



Ethics vs the Law

In general, the legal standard is a minimum requirement. Frequently, the ethical standard is the higher standard.



Some IRS regulations

- ▶ Disqualified persons
- ▶ Excess benefits



The main result of ethical lapses

Ethical problems are great destroyers of trust. Frequently, the good work of a lifetime is destroyed by a single ethical lapse. This applies to both individuals and organizations.



Ethically sound ways of operating

- ▶ Be accountable
- ▶ Make sure you get proper approval from your governing body
- ▶ Be aware of your organization's financial policies and its legal responsibilities
- ▶ Understand your spending authority
- ▶ Always be open and “above board”



Ethically sound ways of operating (cont)

- ▶ As a board or team member, be willing to ask hard questions
- ▶ Ask how this action will look to someone on the outside
- ▶ Do what you say and say what you do
- ▶ When in doubt, seek counsel from someone on the “outside”
- ▶ Declare any conflicts of interest
- ▶ Practice the “Golden Rule”



Some Case Studies for Discussion



The Disappearing Memorial Funds

An individual bequeathed the church a significant amount of money to renovate the chapel on the church campus. The church experienced several lean years in giving but since there was no separate distinction between the operating and memorial funds, it looked like there was money in the bank and the board spent it in spite of warnings from the treasurer. Several years had passed and when the church wanted to renovate the chapel, there was not enough money in the bank to cover the amount that was supposed to be in the memorial funds.



A Family Affair

After a Pathfinder International Camporee, which was paid for by fundraisers run by the club there were funds leftover. At the camporee, several families of Pathfinders as well as some non-Pathfinders were present. These people had paid their own way. The funds that remained were used to reimburse these families for their expenses. This was not budgeted or approved in advance by the board and several members of the families were also on the Church Board. These reimbursements were also paid out of the personal business account of one of the Pathfinder staff.



Dealing With Excess Funds

Money was raised for a Pathfinder Event and when it was over several thousand dollars remained in the account. The youth needed some money for a mission trip so the Youth Council asked the board to redesignate those funds for the Mission Trip.



The Fundraiser

An opportunity arose at the last minute to participate in a fundraiser for the Pathfinder Club through an organization that was run by a friend of the club director. The club fronted the organization several hundred dollars, without getting approval from the Church Board, to get the materials for the fund raiser.



The Budgetless Event

The Pathfinder club was planning on attending a camporee and had raised money to cover the costs. However no budget was submitted to the church board and the club asked for a large cash advance for the trip at the last minute.



The Needy Family

The head of the Community Services Ministry had a financial problem and needed funds to pay her electric bill. Since she felt she qualified as a person of need, she took a cash advance from the treasurer and paid her bill. The receipts were turned in to the treasurer for this expenditure.



I Want It My Way

A ministry was set up as a cooperative venture between several SDA churches. It was set up as a quasi independent ministry, with it's own board but being accountable to the churches through a triannual constituency meeting, in which the officers and board were to be chosen. A leader was chosen for this ministry who did not appreciate active oversight and chose his own picks for the board, did away with the constituency meetings, and even set up a separate 501C for this ministry, all without constituency or board approval from the constituent churches.



“Trust is the ultimate human currency”

Bill McDermott



“Trust is the church’s most important human resource. We live in an age that exhibits a crisis of confidence in leaders. Strategy, technique, innovation, technology, performance, and social media are important words for organizational success. It’s easy to become preoccupied with them. But they are ineffectual without trust. Where trust exists, other resources become available. Where trust is lacking, other resources will diminish.”

Lowell Cooper, *Adventist Review*, March 2020



“The greatest want of the world is the want of men - men who will not be bought or sold; men who in their inmost souls are true and honest; men who do not fear to call sin by its right name; men whose conscience is as true to duty as the needle to the pole; men who will stand for the right though the heavens fall.”

E. G. White, *Education* p 12



Resources

- ▶ SDA Accounting Manual
https://www.nadadventist.org/sites/default/files/inline-files/SDAAM_Jan2011Final.pdf
- ▶ <https://moneywise.adventist.org/>
- ▶ <https://www.irs.gov/charities-and-nonprofits>
- ▶ <https://nonprofitrisk.org/resources/articles/how-to-lose-your-501c3-tax-exempt-status-without-really-trying/>

