WM 1106

WELCOME TO THE WORLD OF SWINDLING

Ponzi and Other Frauds

WILL YOU BE NEXT?

PART ONE OF TWO

As a denomination, we have little to be proud of and much to repent of. Both in the pulpit, and in our church papers and books, it is being taught that our thoughts and actions—*our behavior*—no longer have anything to do with our salvation. In view of such teaching, is it any wonder that our people steadily become more worldly and workers in our churches increasingly embezzle funds?

Who cares the most for our church? those who keep quiet amid such a moral crisis or those who speak up and plead for a return to the standards and beliefs of our forefathers?

The God of heaven called us into existence in order to proclaim the Third Angel's Message. By definition, it is a message of required obedience to the law of God by the enabling grace of Jesus, our Lord and Saviour. Will we return to our God-given message or will we veer even further from it?

This is a serious matter.

If we refuse to do His will, who will defend us in the day of Judgment?

"With sorrow-stricken heart, the visitor [Nehemiah] from afar gazed upon the ruined defenses of his loved Jerusalem. And is it not thus that angels of heaven survey the condition of the church of Christ? Like the dwellers at Jerusalem, we become accustomed to existing evils, and often are content while making no effort to remedy them. But how are these evils regarded by beings divinely illuminated? Do not they, like Nehemiah, look with sorrow-burdened heart upon ruined walls, and gates burned with fire?

"Are not everywhere visible the shameful tokens of backsliding from God and conformity with a sin-loving and truth-hating world? In these days of darkness and peril, who is able to stand in defense of Zion and show her any good? Her spiritual state and prospects are not in accordance with the light and privileges bestowed of God."

—*Southern Watchman, March 22, 1904; 3 Bible Commentary, 1136-1137*

— PART ONE : SECULAR SCHEMES —

THE STORY OF PONZI

Carlo Ponzi was born in Italy and immigrated to New York City in 1893 at the age of 15. Anxious to make lots of money, he set to work figuring out get-rich-quick schemes. He served short stretches of time in both Canadian and Atlanta prisons for various offences, including mail fraud, passing bad checks, and an illegal immigration scheme.

Moving to Boston in 1919, Ponzi (who started using the first name of "Charles") kept trying to figure out a successful swindle. At the same time, he was writing letters to relatives back home in Italy. Then he hit on an idea, which was essentially a crude form of currency exchange speculation.

In the early 1900s, a person could enclose a coupon with a letter in order to save a correspondent the cost of return postage. An organization, called the International Postal Union, issued postal reply coupons that could be traded in for postage stamps in many countries.

Ponzi theorized that coupons could be purchased inexpensively in nations with weak economies and redeemed for a profit in America. But, when he tried to do it, he found that postal red tape delays absorbed his profits.

However, in the process, Ponzi had mentioned his idea to others—and he found that everyone he spoke to was quite enthusiastic about getting in on the bonanza. It seemed to make sense to people; however, Ponzi was careful not to reveal that he had already discovered the scheme was unworkable.

So it was that Charles Ponzi hit on a multi-million-dollar winner! He stopped buying international postal coupons—and spent his time bringing in investors.

It was not hard to find them. They were everywhere, people who wanted to make quick money they did not earn.

In December 1919, starting with $150, Ponzi began the business of borrowing money on promissory notes. First he invited friends and relatives (he was not concerned about who he swindled) to get in on the ground floor.

His "Ponzi Plan" was simple enough: He claimed that he was making 100% profit on his money in a few months; but, he added, his problem was he did not have enough capital to fully exploit postal rate discrepancies. So he was willing to include investors on his

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deals.

He told them he had received a letter that contained a reply coupon that cost the equivalent of one cent in Spain but could be exchanged for a six-cent stamp in the U.S.

A few cautious acquaintances decided to risk a few dollars. Ponzi collected about $1,250 from his extended family members, his Catholic priest, and some neighbors. Ninety days later, he returned $750 in interest. Stunned investors realized they had found a bonanza,—*and they told everyone!* Word spread faster than Ponzi's meteoric income.

Charles promptly rented an important address in Boston's financial district. He was now a prominent businessman.

Ponzi was also daring. He would give a promise in writing to repay $150 in 90 days for every $100 loaned. Soon thousands of people had given him millions of dollars. Within eight months, he took in $9 million, for which he had issued notes with a paper value of $14 million. By then he had agents who were paid 10% on every loan they brought in; every loan he paid in full cost him 60%.

A person could go broke quick at this rate, but not Ponzi. As long as he kept signing up more investors, his bank accounts kept getting bigger and bigger.

Within a few months, Charles was taking in $200,000 a day and paying out dividends of 50% in 90 days (he later changed it to 100% in three months). By this time, people were begging him to take their money. Lengthy lines were forming daily outside his office.

In order to slow the return of money, he made investors wait quite a while in long lines at the back his office at one of two "redemption windows." Once they got their money, they had to walk past lots of windows—each with a short line of people wanting to give Ponzi their money. As a result, few people walked out of the place with any money in their pockets. They kept reinvesting it.

The name of the game was greed. People were willing to part with their hard-earned cash,—all in the hope of getting money that did not belong to them. Go to any racetrack or big city bookie, and you will find the same thing. Whether it be a state lottery, video game machine, or a roulette table at Las Vegas, people want to get money that rightfully belongs to someone else. Because they are willing to steal, God permits Satan to capture their minds.

By early July, Ponzi was taking in $1 million a week. And he kept busy. Charles was buying scores of suits, lots of diamonds for his wife, limousines, and a 20-room mansion in the suburb of Lexington. One afternoon, he walked into the Hanover Trust Co., with $3 million stuffed in a suitcase—and bought controlling interest in the bank!

But then an editor at the *Boston Globe* began checking into the matter. A financial expert explained to him that it was impossible to make that much profit from postal coupons.

Sensing that the end was near, Ponzi drove to Saratoga Springs and bet $2 million at a racetrack, in the hope of covering some of his expensive living. He lost everything.

In August 1920, only seven months after Ponzi set himself up in business, the *Boston Globe* published an exposé. The entire fraud was unmasked.

Immediately, terrified investors made a run on his office, demanding their money back. Bankruptcy soon followed.

At the height of his scheme, Charles Ponzi owned only $30 worth of postal coupons,—against which he had borrowed $10 million from 20,000 investors in Boston and New York. Most investors lost their life savings. Arrested by federal agents, Ponzi was sent off to Plymouth Prison.

In an effort to recoup some of the money which had been lost, Ponzi's collapse spawned many lawsuits. In April 1924, the U.S. Supreme Court ruled that any profit that some investors had made from the fraud must be returned and divided equally among all the investors. That ruling still stands.

When Ponzi got out of jail, he moved to Florida and began selling worthless swampland—until he was arrested and deported to Italy.

In the 1930s, convincing Benito Mussolini that he was a financial genius, Charles was given a high-level job in the Italian Government. It was then discovered that he had difficulty with basic math.

Eluding arrest, Ponzi stuffed stolen cash in several suitcases and boarded a ship for South America. Several years later, he died in Brazil in a hospital charity ward.

HOW THEY WORK

From that day to this, Ponzi schemes have been outstandingly successful at pulling in the money. Greedy investors are promised large returns on their money with little chance of losing it. Fast, excited talk of "low risk," "no risk," and "quick returns at high percentages" is what you will hear.

Because people are at first rewarded with a little money for their participation, the perpetrator of the scheme is thought to be something of a financial genius. An illusion of a highly successful business is imagined. Those who buy in are considered "smart." Those who stand outside, questioning, are considered "losers." In the thinking of those he captures, Satan has a way of turning things upside down.

The number of possible schemes are endless. In one Ponzi-type decision, *Kugler vs. Koscott Interplanetary, Inc.,* the New Jersey Supreme Court wrote:

> "Fraud is infinite in variety. The fertility of man's invention in devising new schemes of fraud is so great, that the courts have always declined to define it . . All surprise, trick, cunning, dissembling

and other unfair ways that are used to cheat anyone is considered as fraud."

SOME EXAMPLES

Almost all modern Ponzi schemes are based on a semi-plausible business as the explanation for the astounding potential growth of the investor's money. *Here are a few examples:*

Amtgel Communications, A San Diego-based telephone equipment leasing company offered to sell pay phones to investors for several thousand dollars and then immediately lease them back, locate them, and service them. The scheme lasted four years (1992 to 1996) and took in over $60,000.

Cynthia Brackett, in Greensboro, North Carolina, told her neighbors that she could sell as many antique furniture items to wealthy people as she could get. Her problem was that she needed money with which to buy more furniture. She offered 10% for a 30-day-note. By 1991, when the scheme collapsed, she owed nearly $1.5 million to over 60 investors.

Joshua Fry owned a small investment advisory firm near Baltimore. A friendly, enthusiastic person, he impressed clients with detailed explanations of a program he developed for investing in the volatile derivatives markets. He claimed to have a method for maintaining the profitable upside of derivatives investments while, at the same time, reducing the downside risk. Fry had told people that his method involved no more risk than investing in General Motors' stock. Actually, for Fry, there was no risk; for he invested in no derivatives at all, preferring to buy race horses and visit Atlantic City casinos. Nearly 200 investors gave Fry a total of more than $5 million. When the end came, he fled; but he was was arrested 14 months later in Cincinnati.

In the 1990s, a whole new wave of Ponzi schemes began when people began going online. The internet has proven to be a handy means of defrauding people. For more on this, go to *fraud.org*. A project of the National Consumers League, it was launched in the mid-1990s. NCL president Linda Golodner says, "Our website alone has received more than 300,000 visits from consumers and averaged 25,000 hits a week." That may not be as many as *pathlights.com* receives (125,000 a week), but it is still a lot.

WHY THEY CRASH

The Ponzi scheme may bring quick gains from equipment leases, bridge loans, mortgages, or currency futures. But they are all grandchildren of what Charles invented in 1919. And they all crash nearly as fast.

Once a Ponzi man gets money from a few folk, he then has to bring in a second wave of investors. This is the crucial part. If he succeeds there, the scheme often drives its own growth. So a certain level of word-of-mouth publicity is essential.

Soon a lot of money is moving around, but little or none of it is going to anything that brings a legitimate profit. As soon as the number of new suckers dwindles even slightly, the whole thing collapses. Here is why:

Whether it be a Ponzi scheme or its sisters' (a pyramid plan or a chain letter), the continuation of the fraud is dependent on each new level of participants securing more persons to join. In a four-level scheme, in order for all of the first group of new participants to be paid, 64 people had to join. But if it increases to 20 levels of new participants, 8,388,608 additional investors would be needed. That would total 16,777,200 people in the scheme! But such numbers are a practical impossibility.

Here are the primary reasons the schemes are successful for a time:

- People are gullible.
- People are greedy.
- A relative or close friend seems to be succeeding, so I can too.
- The actual "business" operation is kept secret.
- People are lonely and want to belong to something.
- People are desperate to solve their problems and willing to take a chance.

PYRAMID SCHEMES

Is there any difference between a Ponzi scheme and a pyramid scheme; and if so, what is it?

Although the terms are used interchangeably by most consumer advocates and many law enforcement people, they are not fully the same.

The main difference is that, in a Ponzi scheme, the money is handed over to be invested. But, in a pyramid scheme, the money is handed over for the right to do something. In most instances, this is the right to become a member and solicit new members or to open a franchise of a "fast-growing" business operation.

Ponzi schemes are always illegal. Depending on how they are structured, pyramid schemes may or may not be.

Ponzi perpetrators keep their growing need for new money very quiet while pyramid schemers announce their need as part of their sales pitch. In either case, the scheme has to keep doubling, tripling, or quadrupling in size to avoid collapse.

In a typical pyramid scheme, you pay, say, $5,000 and receive a special label; for example, you become a "junior sales executive." After recruiting two other such investors, you move up the ladder and become a "senior sales executive." As those beneath you recruit still more, you keep moving up to "branch manager," "district manager," and beyond. Everyone is pouring in money and thinking they are going to get rich. Then the pyramid generally collapses.

The above explanation may sound ridiculous, but only because it is stripped of the high-sounding wording and complicated details (always complicated details!) which makes it seem so plausible to the gullible.

The few pyramid schemes that do not fail are those which, although offering great rewards to those who recruit lower-level workers, manage to remain legal only because they provide low income based on actual product sales to real customers. Amway is an example.

HOW TO PROTECT YOURSELF

To protect yourself from Ponzi and pyramid schemes, remember the following five points:

• Do not expect to get rich quickly. If an investment sounds too good to be true, it probably is.

• Most bad deals offer high yields and meaningless talk of "guarantees" to "zero risk." The promise of high returns almost always implies high levels of risk.

• Be suspicious of any investment opportunity that seems inordinately complicated. This often is intentional; for it encourages consumers to make the investment on faith, without really understanding what it is all about.

• Ask an investment adviser or accountant to review the prospectus or offer memorandum with you. Promoters who balk at this kind of review should be treated with suspicion. They always want you to trust them, without seeking professional counsel.

• Ponzi schemes often straddle regulated and non-regulated markets—but reputations are steady things. Check out the promoters with government regulators or industry trade groups.

Before concluding this section, here are a few additional pointers:

• Do not give any personal information to someone who phones you. This includes your bank number, social security number, credit card numbers, etc. Important: if you did not initiate the call, be wary! One such scam is a phone call which is said to be from your bank, and you are told that they need your bank account number to check on something.

• Do not agree to any bargain investment opportunity that you are offered by phone. Several years ago, while working right here at my desk, the phone rang and a mature woman told me about a wonderful currency exchange deal I could get in on. Thinking to myself, "Great, I'll get a chance to learn more how these scams work," I replied, "Send me a brochure of your services." Before I could give my address, the line clicked dead.

• Do not respond to any offer with which you are presented, either by mail or in person. Back in the mid-1970s, while working in another state, I received a phone call from a man with a New York accent, who offered to sell me acreage in Florida. He said it was "an incredible bargain" since ITT had just contracted to purchase some land 80 miles away! I thought to myself, "This is ridiculous." The man was offering empty land out in nowhere in Flagler County. He seemed astounded that I would turn down such an opportunity.

• Beware of any phone call from someone who needs your credit card number so you can donate by phone to some needy organization. You did not initiate the call, so do not give your credit card number.

In brief, if anyone contacts you—whether in person, on the phone, by mail, or on the internet—and offers you a way to make money a little easier and quicker—it is probably fraudulent. Why is he spending his time trying to make you rich, when he could amass all that wealth for himself?

— PART TWO: ADVENTIST PROBLEMS —

DONALD DAVENPORT

Donald J. Davenport was the granddaddy of Adventist Ponzi schemes. Oddly enough, I was the only Adventist who provided in-depth details of what happened. Oh, yes, there were articles in the *Review* and brief items in a few union papers, but relatively little information was provided. The primary objective of the articles was to stall church members long enough from demanding significant changes in personnel and methods of management, that the whole thing would blow over. And it worked. Or did it? Instead of cleaning up the problems that made such a terrible loss possible, it left all the problems intact, so they could recur again later. And, as we will learn below, that is exactly what happened.

It would be impossible to recount the story in detail. At the time, I wrote a total of 17 small-print tracts on the subject. That 68 pages would easily fill a good-sized book of normal dimensions and type size. You will find it in our 166-page reprint, *Finances Tractbook ($12.50 + $3.00)*. The entire story is astounding. For example, to keep the mutual money-making operation secret, two years before the bankruptcy, church leaders in one union told Davenport to sue a layman (John Adam) who was investigating courthouse and other records. John Adam was in danger of discovering how the church and its members were being fleeced!

Here are a few numbers to help you grasp the seriousness of the situation. They only include money handed over to Davenport by church leaders from church funds, without any solid collateral. (These figures do not include the $20 million given Davenport by individual members, who were encouraged to do so by church workers who, unknown to the members, were paid "finder's fees" for doing so,)

Pacific Union: $939,367. Total from entities in Pacific Union: $939,367.

North Pacific Union: $8,400,000 / Montana Conference Association: $186,750 / Upper Columbia Conference Association: $1,600,000 / West Oregon Conference Association: $475,434 / Total from entities in the North

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Pacific Union: $10,662.184.

Mid America Union: Central Union: $213,974 / Northern Union: $679,118 / Kansas Conference Association: $661,335 / South Dakota Conference $476,443 / Total from entities in Mid America Union: $2,030,870.

Southwestern Union: Southwest Estate Service: $1,500,000 / Total from entities in Southwestern Union: $1,500,000.

Southern Union: Carolina Conference Association: $608,503 / Florida Conference Association: $579,448 / Georgia-Cumberland Conference Association: $3,700,000 / Kentucky-Tennessee Conference Association: $173,505 / Total from entities in Southern Union: $5,061,456.

Columbia Union: $396,326. Total from entities in Columbia Union: $396,326.

General Conference: Christian Record: $108,335 / Total from entities in General Conference: $108,335.

Total North American Division: $20,698,538.

Davenport was able to extract such massive amounts from church coffers, because he arranged secret deals with church leaders. On one-year loans, he would give them as much as 17% interest! Some became rather wealthy. They "repaid" Davenport by voting on committees to "invest" church funds with him.

When Davenport filed for bankruptcy protection on July 22, 1981, the massive cover-up and the money church officials and workers had been making from it should have blown wide open. But it did not.

Stalling for time, church leaders said they needed time to "investigate." Later, a "President's Commission" was appointed to investigate the matter and was told to wait a full year before submitting a report to President Wilson. The members of this commission were solid Adventist businessmen and women. This appointment brought reassurance to church members, and they waited patiently. But the submitted report was not acted upon. The commission had only been initiated as a stalling tactic. Commission members were deeply disturbed that their recommendations were ignored.

Unfortunately, that meant that new financial scandals would occur later. No limitations had been placed on the ability of church leaders to personally profit from their position or, without enriching themselves, make very costly, bungling mistakes. In the years since, both have happened. No transparency in high-level committees had been instituted; everything was kept as secret as before. A few men still controlled immense amounts of money. Finally, by 1990, David Dennis, chief auditor for the General Conference, was the only high-level whistle-blower still in office. Shortly afterward, he was fired on trumped-up charges.

SOME OTHER MAJOR CHURCH LOSSES

The Davenport crisis, involving a $20 million loss to denominational funds and a $20 million loss to trusting church members, was a Ponzi scheme. Included among studies you will find in our *Finances Tractbook* are the following major church losses which were not Ponzi-based. They all occurred after the Davenport fiasco:

• The inside story of what really happened in the Harris Pine Mills bankruptcy. The chain of furniture factories, located in many of our academies and based in northeastern Oregon, was abundantly solvent and never needed to be forced into bankruptcy;—yet, late in the afternoon on Friday, December 5, 1986, church leaders did it anyway. This was another major scandal which never need have occurred. See our *Finances Tractbook* for the complete story of Clyde and Mary Harris' factory, which opened in 1916 and was given to the church in 1951. Mary died heartbroken at what church leaders did in 1986. All but a handful of Adventist workers were immediately fired. Only those who got to the bank quick were able to cash their paychecks. The non-Adventist bankruptcy referee, an experienced accountant, carefully checked and found an abundance of resources—including a standing redwood grove! He was quoted in the public press as amazed that the church wanted to destroy Harris Pine when it was doing quite well.

• The Lake Region crisis, which involved massive amounts of improper investment of tithe and other church funds in worthless secular projects, including a shopping center, was another tragedy. For several years, church leaders poured massive amounts of money into court battles, fighting banks, which wanted to foreclose because they were not being paid. Eventually, the inevitable occurred—and the church members finally learned what had happened. The General Conference had to pay out an immense amount of money to cover expenses caused by those delaying court battles.

• Like the other crises, the Adventist Living Centers' bond default was hardly mentioned in the *Review* or union papers, but you will find the story here. As you will learn in the section below on AHS, because of AHS activities, the Adventist Church lost a lot of credibility in the financial centers of America.

(Part Two of the *Finances Tractbook* deals with stock investments by our church in the United States. One problem is investment in types of stocks we should not own. Another is a danger inherent in the owning of those stored-up stocks; eventually, our church will probably lose those invested funds when the National Sunday Law crisis breaks.)

• Then there are the individuals who take advantage of the system. Because church leaders are not accountants, they trust people who appear to be. From time to time, individuals are able to embezzle church funds because of the trust reposed in them. This has happened in a number of our church offices and institutions in America. (One example would be *Theft at Southern New England Conference [WM–804]*, done to help cover a lawyer's gambling debts). Others occur from time to time. When, from the pulpit and in church literature, we teach our people that obedience to the Ten Commandments is not required for salvation, a pandora's box of deceit, thievery, and licentiousness is opened.

• Then there are the hospital scams, in which the administrators emptied the till through inflated executive salaries plus incompetent management and ruined hospitals (*The Problem at Fuller [WM–120-121], The SNEC Commission Report [WM–150], Boston Regional Medical Center [WM–875], Boston Crisis Deepens [WM–918]*, and *Shady Grove Shakes the Church [WM–933-934]*).

PROBLEMS AT AHS

Here we find ourselves confronting, not problems at individual hospitals but, financial crises caused by our multihospital organizations.

Adventist Health Systems (AHS) has been the source of many difficulties and frauds in our church. Our denominational hospitals were initially built by the sacrificial help of faithful believers, many of whom had little money to meet their own needs. These facilities were originally owned by local conferences. Later, ownership was quietly transferred to the unions. Many of those transfers occurred in the 1950s and early 1960s. Then, just as quietly, something new occurred in the early and mid-1970s: Ownership of all our denominational hospitals in the United States were quietly transferred to one or another of several "Adventist Health Systems." This was done without consulting the membership who had paid to have those facilities built.

These were corporations separate from the conferences, theoretically; yet they were under direct General Conference control, but with AHS, General Conference, and union executives on their governing boards.

A few men now controlled millions and millions of dollars in medical facilities and equipment. The only people blocking their way to enriching themselves were the votes of the union and General Conference leaders who sat on the AHS boards. But this was taken care of by means of private agreements: If rubber-stamp votes were given, the sons of the leaders would be hired into high-salaried AHS jobs; and, when a church leader later got into trouble because of mismanagement, he would be quietly slipped into upper-level AHS positions. Those who received wrist slaps over the Davenport deal were dutifully hired into AHS. More transfers to lucrative AHS positions came later.

Because AHS leaders had the boards under their control, several amazing developments began occurring in the 1980s.

• Although, by the fall of 1983, our entire U.S. church had only a few million in total debt on all their churches, agencies, headquarters, and publishing houses,—our AHSs in the U.S. had racked up *a billion dollars in debt!* They had done it within only ten years after the first AHS incorporated!

Instead of many separate, economical hospital managers, the several regional AHSs now controlled them all. Their executives had gone on a spending spree, mortgaging our existing hospitals, floating long-term bonds, and using the money to buy third-rate hospitals close to closure and remodeling them. But that did not necessarily solve the fact that they did not have an adequate patient intake.

When I wrote my first four-part exposé on it in the fall of 1983, AHS leaders who had been denying for over a year that it was a problem,—immediately said they were going to heavily reduce that debt within a year. We waited to see what would happen. One year later, they were up to $2 billion in debt! When people become used to being spendthrifts, it is hard to change their way of life.

How long would it take our church to pay off a billion-dollar debt? Assuming no interest, it would take a thousand years. But, add about 6% compound interest and see what payoff date you arrive at!

Later in the 1980s, unexpected, new federal regulations made it much more difficult for U.S. hospitals to receive the large amount of federal money for patients they had become accustomed to. Yet AHS was saddled with an excessive debt, which it could hardly repay. The entire AHS in the United States owed more than it owned! The total declared assets of all its hospitals, offices, equipment, vehicles, and supplies was less than the amount it owed in long-term debt—not counting the interest that it would have to pay, year after year, on those debts.

You will find all this in our 186-page *Medical/Publishing Tractbook ($14.00 + $3.00)*.

The Spirit of Prophecy blueprint for our hospitals is strictest economy and no debt. (Read chapter 9 in my *Medical Missionary Manual;* it has a section of quotations on hospitals and debt.)

• At the height of this massive financial crisis for AHS, its executives hit on a way to wonderfully improve the situation! They convened committee meetings—and talked union and General Conference leaders into approving their request to raise executive salaries to astronomical levels! Instead of focusing on strictest economy, they decided to live as high as possible, till the ship sank entirely! *(High Wages for AHS Executives [WM–969])*.

That is what they did, and they have continued to draw fabulous salaries ever since. Salaries of AHS executives were pushed up to $250,000 a year (with hospital managers receiving about $200,000 and lower-level office executives receiving $180,000). Today, it is more like $350,000 on up for the executives. You will recall that when David Dennis, the head auditor of the General Conference wrote a single letter of protest to President Neal C. Wilson, it ultimately led to Dennis' firing on false charges. Not one other person in the church dared say a word.

• The third major event was the occurrence of interchurch lawsuits, bankruptcies, and similar problems. You will find some of it in our *Finances Tractbook:* The battle over ownership of Ardmore Hospital, the SNEC Commission Report, the first of several AHS bond defaults, the Arizona Conference lawsuit against AHS/West, and the Kettering lawsuit.

At the end of one fiscal year in the mid-1980s, one AHS issued false reports of its financial status in order to maintain a high-bond rating. This was done so it could float more bonds (more long-term debt) at a more moderate-interest rate.

In at least one instance, executives in one of our several AHSs purposely siphoned the funds out of a subsidiary operation and drove it into bankruptcy. Then they split the money among themselves.

There are men who have grown fabulously rich because of their connections with AHS. Just the salaries alone would make them millionaires within three years. But some pursued even faster ways to do it. (See *Adventist Hospitals: 1970-2000 [WM–1017-1018]*.)

How could our church get itself into such a situation? Young men decide to enter the ministry and take theology at our colleges, where they are taught that obedience to God's law is legalism. After they are hired, those especially good at managing committees move up in the church and become conference, union, division, and General Conference leaders. Yet many of them have never had a single course in basic accounting. This renders them prone to errors of various kinds or to being fooled by shrewd individuals who appear to have financial ability.

Later, having proved themselves to be good yes-men on committees, they are moved into key positions in AHS.

As mentioned earlier, a related problem concerns church leaders who have been good at approving AHS actions in committee meetings. They, and/or their sons, are eventually hired as heads of AHS hospitals. That is what happened to the president of Columbia Union Conference. He was rewarded, not only for a 1990-1991 money-laundering scheme which secretly paid the wives of the General Conference and North American Division presidents from a Union "Worthy Student Fund" (see our book, *Collision Course,* for more on this), but he was also rewarded for years of favorable votes at AHS meetings, involving medical facilities in his territory.

The reward given him was the presidency of Shady Grove Hospital, situated not far from our world headquarters. He then set to work to pay himself and fellow conspirators fabulous salaries for several years—which had the effect of nearly bankrupting the hospital. Hospital services were so heavily reduced that a woman died in the hallway. The *Washington Post* investigated and opened the entire scandal to the public. (See *Shady Grove Shakes the Church [WM–933-934]*.)

PONZIS AFFECTING THE FAITHFUL

We will now return to the Ponzi plan. Ponzi operators have not only worked on our leaders, but also on individual believers.

• Davenport arranged with Adventist workers to be "feeders" and refer church members to him. He gave the workers "finder's fees" as a reward. In addition, he offered them extremely good interest rates on short-term loans to him. Even conference association leaders (the person you go to if you want to set up a trust with the church) told the members to, instead, hand their life savings over to Davenport! (See our *Finances Tractbook* for details.) Those men were handsomely rewarded for their treachery. Conference and union presidents knew what they were doing, but were themselves given highest-interest short-term loan rates for approving the entrusting of large blocks of church funds to Davenport.

Church members lost $20 million in the Davenport collapse. To our knowledge, although the church recovered part of its own $20 million in losses, almost no individual members did. Remember Jeremiah 17:5-8.

• After Davenport came other Ponzi schemers who preyed on our people. One example was a man named McKenzie. I do not now recall his last name. He operated in California, Arizona, and Texas in the late 1970s and early 1980s. A friend of mine in southern California collected a lot of information about his operations and faithfully notified church leaders in Southern California Conference, Southeastern California Conference, Arizona Conference, and Texas Conference—but none of them would do anything about the matter.

It is the work of the shepherd to protect the sheep, but some shepherds only protect themselves. "Peace in our time," is their motto. But that is the kind of attitude that has nearly destroyed our U.S. Adventist retirement system. Instead of fixing a problem, leaders do nothing, because it will take some work to solve the problem. But every passing year only intensifies the difficulties.

McKenzie would approach Adventist believers and get their money for one scheme or another. One of them was a silver mine supposed to be somewhere on the eastern slope of the Sierra Nevada range.

For a time, he worked with Davenport, processing phony papers for him. Whatever happened to McKenzie, I do not know. I mentioned his activities in one of my tracts on Davenport.

• In the mid-1980s, a financial scam developed in the Northwest. Some workers at Walla Walla College become involved, one of whom I am sure was roped into it without realizing it was a Ponzi scheme. Unfortunately, when everything collapsed, it ruined his denominational career. I had known him years earlier; he was a man of sterling character. Many Adventists in Washington, Oregon, and Idaho lost money on the venture.

• Another scheme developed in northern California, which took the life savings of a number of our people. One individual received a jail sentence. He later told me on the phone that he was an innocent victim. I am less acquainted with the circumstances of this case.

• The Rebok Foundation scam at Fletcher, our largest North Carolina Adventist church, was a big scam but somewhat localized to that area. It centered around the pastor, an investment adviser, and a purported plan to obtain invested money with which to start a drug rehabilitation program for young people. When the crash came, each blamed the other as being the swindler. Regardless of who was at fault, Adventist Church members lost a very large amount of money.

• Then there was a Ponzi scheme that showed itself in a variety of places; so many in fact, I am still not sure if they were all part of the same scam. But here are some of the pieces, all of which occurred at close to the same time, and all purportedly concerning foreign currency exchange deals:

1 - An "investment adviser" held a seminar, at an independent Adventist ministry, and extracted a fair amount of money from some of those attending. One who did not invest phoned me and told what had happened.

2 - The leader of an independent ministry invested $35,000 with the adviser.

3 - An independent group held a meeting not far from Loma Linda. After an independent ministry leader spoke and took up an offering to help him in his work, the investment adviser took the podium, gave his presentation,—and had the effrontery to ask that the money just collected for the ministry be given to him to invest! The ministry leader wisely refused to hand it over.

4 - Church leaders in the Pacific Union, Columbia Union, and Atlantic Union united in a project to produce new colporteur sales materials. The head of the project, based at Columbia Union headquarters, along with the president of the Columbia Union, were approached with a quick-get-rich opportunity. Without asking either the Columbia Union committee or the other two sponsoring unions, the union president and a small committee voted to hand over $2.4 million to "an investor" who promised to place the money in "an international banking program" which would bring their colporteur organization returns of "up to $100,000,000." It was only because a brave soul in union headquarters objected, that the money was not transferred to a Canadian bank. Ultimately, $264,500 was sent to Canada and totally lost *(Financial Loss in the Columbia Union [WM–749-750]).*

5 - Later still, an investment adviser, who had contacted Adventists all across the country and whose base of operations was in Riverside, California, was arrested and jailed.

I believe all five of the above items, which occurred within about a year of each other, related to the same currency exchange investor; but, of this, I am not certain.

At the conclusion of my large 15-part tract study on the Davenport swindle, I said it was obvious that there was no indication that any changes would be made which could guard either our institutions or the church members from later penetration by new swindlers, or even warn them of developing problems. An atmosphere of "every man does what is right in his own eyes" seems to exist.

So I send this warning to you. Be careful. Any deal or financial investment opportunity which looks unusually good—probably is a swindle.

Here are summaries of several paragraphs in my two-part study, *Finances and Investments [AS–1-2],* published 20 years ago:

Caution in how every one of God's dollars is used *(WM 267)*. Not to overreach in the gathering in of funds *(3T 510-511)*. Improper ways to raise money *(COL 54)*. Guard the funds and use them right *(7T 215).* Five basic business principles *(Ed 137)*. Burying it in the world instead of using it *(5T 151-152).* The love of worldly acquisition *(4T 82)*. Surplus means into treasury, to win souls *(CS 45).* Heaping up treasure: a sign of the last days *(9T 14)*. Saving up a large surplus dishonors God *(GW 456-457).* No gain in copying the world *(Ev 139).* The church is not to be in the money-making business *(8T 215)*. Deceitful, alluring projects *(7T 283).*

"If you would do good with your means, do it at once lest Satan get it in his hands and thus hinder the work of God. Many times, when the Lord has opened the way for brethren to handle their means to advance His cause, the agents of Satan have presented some enterprise by which they were positive the brethren could double their means. They take the bait; their money is invested, and the cause, and frequently themselves, never receive a dollar."—*5 Testimonies, 154.*