

# Financial Loss

## PART ONE OF TWO

# in Columbia Union

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The president of Family Enrichment Resources, Inc., had just completed a glowing report on the outstanding success which FER was continuing to experience in every aspect of its work.

As had occurred on the West Coast and in the Northeast, there was only praise from leaders and delegates in attendance at this constituency session of the Columbia Union Conference. It was now time for the chair to mechanically hurry on through the preplanned agenda to the next item.

But, just then, a layman in the audience stood up and asked a question.

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*That question probably saved the Seventh-day Adventist denomination in America an additional \$3 million loss, which calendar year 1997 would have brought.*

*The man asked this question: "If Family Enrichment Resources is doing so well financially, why didn't my daughter get paid for her colporteur work last summer?"*

The date was October 24, 1996. An interruption to the proceedings was not appreciated; so, when the man asked that question, he was given a put-down by leadership.

But then another layman falteringly stood up and said that his son had not been paid either.

By this time, there were those who were beginning to think that it was not time to rush on to the next agenda item; so, in spite of objections about the limited time available, delegates in the audience began asking additional questions.

The president of Family Enrichment Resources, Harold F. (Bud) Otis, was called back to the podium, but the requested financial answers were not forthcoming as one might expect. He had not even brought a financial sheet with him.

There was good reason for this. It would later be learned that, for the current calendar year alone (1996), FER was losing \$9,248 a day!

**HOW IT GOT STARTED**—Four years earlier, in 1992, Bud Otis, former president of Review & Herald Publishing Association, offered to start a publishing marketing outlet for the church in North America.

He said that it would increase colporteur sales, solve cash flow problems, and help many young people pay their way through academy and college.

Home Health Education Service, which had operated the colporteur program through yearly union conference subsidies, was running low on funds.

Promises were made that this new program, entitled *Family Enrichment Resources*, would powerfully change the whole financial picture. Instead of being funded by 3-4% of the tithe, it would be supported by 1% of the tithe. There were promises of innovative ideas and strong management.

Otis took his idea to Ron Wisbey, at that time president of Columbia Union. Wisbey was influential and helped Otis sell the leadership of Pacific Union and Atlantic Union on the idea.

While the new program would be funded by participating conferences, it would primarily be union leaders who would oversee the operations, although some conference presidents would also serve on the new board. Many bore responsibility for the financial disaster which later came. They were there on the board as it developed, and they did nothing to call a halt or warn the constituencies they were elected to

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**This tract is misnamed; it should be called "*Financial Loss in Pacific, Columbia, and Atlantic Unions.*" However, most of the detailed data we are able to provide you with applies only to the Columbia Union. Yet the financial losses elsewhere are still serious. Pacific Union alone lost \$2,025,350.**

protect. They served on the committees; they could have asked questions; they could have done something.

Pacific Union, Columbia Union, and Atlantic Union signed on as sponsors of the new program. The other unions, hesitating, held back.

From the beginning, it was agreed that the unions would henceforth split gains and losses among themselves, based on whatever seed money they individually loaned FER to get the project going. Pacific Union gave c. 60%; Columbia Union gave 32% ; and Atlantic Union gave c. 8%.

By mutual agreement of all parties, it was written into the organizational document of FER that it would be a North American Division entity; be subsidized by the participating conferences through 1% tithe paid to FER through the unions; be headquartered in the office building of the Columbia Union Conference on Twin Knolls Road in Columbia, Maryland; and have a 15-member board (5 from each union: the union president; secretary; treasurer; plus one conference presi-

dent; and a layperson, George).

Four men would serve on the board of directors.

In 1993 the three men on the board of directors were Ron M. Wisbey (CUC president at that time), chairman; Thomas J. Mostert (PUC president), vice-chairman; and Harold F. (Bud) Otis, secretary.

In 1996 those four men were Ralph W. Martin (CUC president), chairman; Mostert, vice-chairman; Theodore T. Jones (AUC president); Otis, secretary.

Bud Otis has always been the president, and the CUC president (just down the hall from Otis' FER office) has always been the chief executive officer.

**1992**—Bud Otis, the president of FER, set to work with his staff, yet they did not have the financial success they had expected. Unfortunately, instead of confronting the situation directly, a pattern of events were set in motion which could only lead to ultimate disaster.

The first year of operation (1992) brought nearly half a million dollars in loss to FER (\$492,707). Al-

### HOW MUCH WAS ACTUALLY LOST AND BY WHOM?

According to the *Family Enrichment Resources Taskforce Report* (p. 3), the total negative net worth of Family Enrichment Resources by the time of its closure in 1996 was \$3,375,584. ("Negative worth" means that liabilities exceed assets.)

We knew that the Pacific Union Conference would carry approximately 60% of that loss; the Atlantic Union Conference, approximately 8%; and the Columbia Union Conference, exactly 32.23%.

Therefore, based on the \$3,375,584 figure, the PUC share of the loss would be c. \$2,025,350.40; the AUC share c. \$270,046.72; and the CUC portion \$1,087,950.70.

But, in a separate report on the Columbia Union Conference crisis, we are given a different figure for the total CUC loss:

"According to the FER charter, the Columbia Union portion of the final FER debt will [be] 32.23%, or approximately 1.5 million dollars."—*Report on Columbia Union Status, January 12, 1997, p. 1.*

\$1.5 million minus \$1,087,950.70 yields a remainder of an additional \$412,049.30 loss by CUC in the FER affair.

One might imagine that the \$333,638 loaned by CUC, without proper authorization, to FER (which was totally lost) would account for part of that additional \$412,049.30.

But, if we read again the above quotation, that view cannot be correct: The \$1.5 million figure represents only the CUC portion (32.23%) of the total

loss suffered by all three unions. The \$333,638 was lost solely by CUC. Note these facts:

(1) The \$333.638 loss by CUC was in addition to its \$1.5 million loss. \$1.5 million plus \$333.638 would equal \$1,833,638 as the total loss by CUC.

(2) If the CUC (32.23%) portion of the total FER loss was \$1.5 million, then the total (100%) amount would be \$4,654,049; the PUC (c. 60%) portion would be \$2,792,429.40; and the AUC (c. 8%) portion would be \$372,323.92.

The total FER loss (\$3,375,584), as reported by a special auditing team on December 3, 1996, when FER announced it was going to close down, was \$3,375,584. Yet the total (100%) loss which the three unions shared in was \$4,654,049. The additional \$1,278,465 probably involved legal (and perhaps investigative) expenses in settling the matter.

Keep in mind that the \$333.638, loaned without proper authorization by CUC to FER (which also proved to be a total loss), would be a loss to CUC in addition to its percentage of the total losses incurred by the three unions.

Well, the picture isn't so bad after all. Do not forget that CUC was planning on extending a \$2,400,000 loan to FER, which it wanted to invest as part of a \$2,600,000 package "investment" in an international banking scheme! At the last minute, this \$2.4 million loan, which had already been moved out of the CUC Revolving Fund, was put on hold by union officers. If that had not happened, millions more would have been lost by the Columbia Union Conference!

ready a large part of the original investment was gone. But Bud Otis, president, and Wisbey, chief executive officer, bravely continued on.

At this point, one might conclude that only a few men knew about this immense loss. But this is not the case.

In the spring of 1993, when the General Conference Auditing Service conducted its annual audit of FER, it had footnoted the financial operations of the entity as in "doubtful condition to continue as a going concern." This warning of serious danger was sent by the GC auditors' office to every union and conference president participating in FER. They were told, yet did nothing about the matter.

As long as 1-3 men are allowed to control each conference, union, and other entity office in the world church of Seventh-day Adventists, as is now done, this problem will continue. It will not be solved until we return to the pattern given to us by Ellen White in 1901. The church needs to be run by larger representative committees, not a few men who spend their days in office being praised for their brilliance by underlings. There is an incredible lack of lay involvement in anything that goes on in committees above the local church level.

**1993**—The second year produced nearly \$1 million (\$989,151) in losses. Otis was undeterred.

In the spring of 1994, the GC Auditing Service went over the records for the preceding year and once again flagged FER. The union and conference presidents were once again warned. Again they did nothing.

By this time the total accrued loss amounted to \$1,481,858. In addition to the three unions, what conference officers were asleep at the wheel? All of them were pouring money down a hole.

*Pacific Union* comprises Arizona, Central California, Hawaii, Nevada-Utah, Northern California, South-eastern California, and Southern California Conferences.

*Columbia Union* comprises Allegheny East, Allegheny West, Chesapeake, Mountain View, New Jersey, Ohio, Pennsylvania, and Potomac Conferences.

*Atlantic Union* comprises Bermuda, Greater New York, New York, Northeastern, Northern New England, and Southern New England Conferences.

This totals three unions and twenty-one conferences, which, by the end of 1993, had already racked up nearly \$1.5 million in losses. The presidents and treasurers were all fully aware of the problem, yet took no action. They neither objected to Otis, nor did they inform their respective constituencies that Family Enrichment Resources was bleeding to death. Even at Division and General Conference meetings, only FER successes were mentioned. When, at North American Division meetings, anyone spoke a hint about FER problems, George Crumley, NAD treasurer,

would give an implied warning to the speaker if he said more.

**1994**—The next year was 1994. At the end of that year, FER reported a gain of \$735. This was verified by the spring 1995 audit, done by the GC Auditing Service.

Great news? No, not actually. It appears that someone may have been cooking the books. David Dennis, head of the GC Auditing Service, had been fired in December 1994, so was no longer present to overview the yearly audit. The spring 1995 audit failed to discover the mismanagement at FER. But a later examination, by a special 1996 task force uncovered the truth of the situation: FER had actually experienced a loss of nearly half a million dollars (\$517,765) in 1994!

**1995**—The year 1995 was another good year for FER, reporting at year's end a gain of \$38,241. But the later task force discovered that 1995 was another loss year for FER—nearly half a million dollars (\$479,581).

Eric Korff, a division auditor who had been the only auditor to take a bold stand with Folkenberg against David Dennis, was quickly made head GC auditor when Dennis was fired in December 1994. That date marked the end of an independent auditing service. It no longer reports the truth about shaky financial problems in our denomination.

**1996**—The fifth year of operation was made out to be another banner year.

But the audited September financial statement revealed an immense loss—\$1,292,000.

How could the presidents not know about such a huge loss?

Yet not one word was said about the matter when Bud Otis gave his glowing reports to the respective conference and union constituencies.

Then someone stood up, at the October 24 Columbia Union constituency meeting, and asked a question.

At first, the lone questioner had been almost silenced; but, then, a few others arose with similar complaints. By this time, the constituency was beginning to wonder what was going on. Both conference and union officers had remained silent as Bud Otis expounded on the glorious successes while saying nothing about the finances. It was inquiring laymen who broke everything open.

The church is waiting for laymen to demand fiscal soundness, moral purity, proper standards, and doctrinal accuracy from their leaders and pastors. Until that day comes, the necessary changes are unlikely.

When the delegates asked about the financial picture at FER, they were told that neither Otis nor other

FER officers had brought any financial statements with them!

Now, thoroughly aroused, more questions were asked. Their exploratory questions and comments raised yet another issue: FER had been employing illegal immigrants as colporteurs.

The delegates then passed a resolution that union administrators and conference presidents look into the operations of FER—and bring a report to the union constituency as soon as possible. (We will learn later in this tract set that there are no plans to ever bring that report to them.)

**NOVEMBER 14, 1996**—Twenty-one days later, the new union committee met and appointed a “task force” to examine the workings of FER and bring back a report.

This group, chaired by Ed Motschieder, president of the Ohio Conference, was composed of five church employees and five lay members. Church administrators, treasurers, businessmen, and bankers were on that task force. They met several times and reviewed all relevant documents relating to FER and its relationship with the Columbia Union.

However, this group, which had been appointed by the Columbia Union constituency, did not examine FER’s relationship to the Pacific Union and Atlantic Union Conferences. The problems, of course, would be similar. Pacific Union had twice the loss of Columbia Union, yet its president had always been vice-chairman of the three or four man board of directors.

**DECEMBER 3, 1996**—The task force had gathered together for one of its meetings when word came of a special announcement.

The board of FER had decided that it was so deeply sunken in debt, that it could not survive much longer. (The board probably had in mind the ongoing discoveries by the task force.) So, calling it quits, FER sent word to the task force and each union officer that it would close its doors on Friday, February 28, 1997.

A factor, affecting the decision of the FER board of directors, was a report presented to this regularly scheduled meeting of FER by a specially appointed auditing team. This time they had carefully examined the records—and discovered that FER’s financial loss for 1996 was more than the \$1,292,000 earlier determined (although even that amount had not been reported at any constituency meetings). This loss, plus auditors’ adjustments of \$1,600,000, dramatically changed FER’s financial net worth.

With all aspects of the business having been taken into account, the total net worth of Family Enrichment Resources was *negative* \$3,375,584.

Upon hearing the news, a transition team was immediately established to wind down the company as quickly as possibly in order to contain the mounting

debt. This team is chaired by Harold Baptiste, secretary of the North American Division.

**JANUARY 10, 1997**—On this date, the task force presented its findings to the Columbia Union executive committee.

First, a set of written “guidelines” were presented for vote from everyone present. They specified that data about FER and its operation and finances could be discussed, but nothing negative was to be said about the leaders of the company! All present voted to accept the “guidelines.” Employees of CUC knew they might be fired if they did not do so.

Who were those leaders? Bud Otis, president of Family Enrichment Resources, and Ralph Martin, CUC president. Harold Lee, CUC secretary, and Don Russell, recently retired CUC treasurer, had also been closely involved. All but Russell were present at the meeting.

Then the task force presented its report.

**THE TASK FORCE REPORT**—We will reprint this report on pages 7 and 8 of this present tract set.

Highlights include these facts:

- Actions voted at the 15-man board meetings were not necessarily carried out. But nothing was done about this.

- The chairmanship was not rotated as required, but this infraction was also allowed to pass.

- The FER board had earlier appointed a finance committee to give special attention to the finances of the company and provide careful guidance. This committee consisted of the officers of FER (primarily Otis and Wisbey; later Otis and Martin) and the three union treasurers, under the chairmanship of Sy Bietz. (The three union treasurers are PUC: Sylvester D. Bietz; CUC: Donald J. Russell; AUC: Leon D. Thomassian.)

These men knew, or should have known, exactly what the financial picture of FER was at all times. Yet they did nothing to warn their constituencies about the mounting crisis. At NAD meetings, not one union treasurer said a word about the ongoing four-year financial disaster overtaking FER.

The other men on the FER board also would have known what was going on, for they were closely connected with the finance officers named above. These other men included: Thomas J. Mostert, CUC president; R. Ernest Castillo, PUC secretary; Ralph W. Martin, CUC president; Harold L. Lee, CUC secretary; Theodore T. Jones, AUC president; and Alvin R. Goulbourne, AUC secretary.

We do not know the names of the three conference presidents, but the task force report does mention that Ronald Wisbey was the “only lay person on

Continued on the next tract

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# Financial Loss

## PART TWO OF TWO

# in Columbia Union

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Continued from the preceding tract in this series

the FER board at its end.” It is humorous to consider Wisbey, former CUC president and FER CEO, as a board “layman.”

Wisbey was the one who, while he was CUC president, had laundered money through the CUC “Worthy Student Fund” for Robert Folkenberg and Al McClure! (See the author’s book, *Collision Course*.) Wisbey, during his union presidency, was in a key position to okay whatever AHS/NEMA wanted. He had done his job well; and, upon retirement, he was advanced to a newly invented, high-paid position as “liaison between AHS and CUC” and placed as a “lay person” on the FER board.

- According to the task force report, every year, from its inception, FER operated in the red!

- Yet, in spite of such a desperate, ongoing financial situation, FER board meetings were only convened twice a year!

- As for the FER finance committee. All they did was chat together over the phone once a month—and no record of what they discussed was sent to the board. The task force discovered that notes taken of those monthly get-togethers were essentially worthless.

Yet in the five years it had been in operation, FER had chalked up more than \$3 million in losses.

The total accumulated negative net worth was listed at \$3,375,584. That amounts to \$1,850 loss every day, for the five years FER was in operation. Are we to believe that no one knew what was going on?

Or are we to assume that no one cared.

(When FER closed, its negative net worth was \$3,375,584, which deducts the seed money initially invested. Actual FER losses are estimated to run to about \$5 million.)

- Union committees were told about successes rather than about financial status. What were the union committees for, if not to check on financial stability? We get the impression that it was customary for union committees to willingly be kept in the dark; they didn’t seem to mind it at all. What other things are going on in our conferences, unions, and institutions that committees are in the dark about?

- Not one time did FER ever present a financial report at any union constituency meeting. Apparently, no one asked. Why did they not ask? —Until that man stood up and said something on October 24.

- In addition to the church leaders on the FER board, there had also been laypersons. But it is a significant fact that they gradually dropped out because of other duties, and they were not replaced.

Why did they drop out? I will let you in on a secret: Laymen on committees, above the conference level, feel outnumbered and unnecessary. They are treated as second-class citizens who do not know much. So they eventually quit.

**THE OTHER LOANS**—But then we come to information which is even more startling:

- Leadership at FER (which consisted primarily of Bud Otis, president, and Ralph Martin, chief executive officer) became fascinated with the possibility of making some quick money for FER.

- According to the task force report, the entire FER board (which would have to include all 15 union and conference leaders!) approved the idea.

- By this time FER was already deep in the red, so the board voted to transfer \$2.6 million from denominational funds to FER—so it could hand the money over to an “investor,” in Canada, who told them he would place the money in an “international banking program” which would bring FER returns of “up to \$100,000,000.”

Martin then called a meeting of the Columbia Union Revolving Fund, which then voted to loan \$2.4 million (\$2.4 million!) to FER for this purpose.

But, just prior to final transfer of the money from the CURF bank account, some brave men in CUC headquarters in Columbia, Maryland, did object—and the money was not transferred to that Canadian bank.

At this point (near the bottom of page 4 of the task force report), we come to a transmission break in the task force document. Apparently, the Canadian investor made some additional offers if money would be forthcoming from FER. There is indication that an immense donation to FER (\$25 million) was promised, if FER would do its part in sending the money up there.

This is a favorite method of scam artists. We will

give you a lot of money, but you need to send us some in order to claim it.

We are also told that the Canadian investor was working through a Panama firm. It is well-known in the business world that all kinds of shady offshore operations work out of Panama and the Caribbean Islands. This is because their business operations cannot be traced by foreign governments or policing agencies.

At the very bottom of page 4 of the task force report, we come to the second break. It listed the exact payments made to the Canadian investor by FER, and then detailed the first two of seven aspects of certain FER money transfers to Canada which were not proper.

Near the bottom of page 4 of the report, we were told that the board voted to send \$2.6 million to Canada, and almost sent \$2.4 million. But apparently something else was sent up there (discussed in the break at the bottom of the page) which, according to page 5, was only okayed by three of the FER officers. On page 5, seven additional violations are discussed (items c to i).

Then, partway down page 5, there is a third break. You will want to read the page for yourself.

According to other information we have, \$264,500 was transferred, by CUC, to FER without proper approval. That is probably the money referred to on page 5 of the report.

That concludes our overview of the task force report, reprinted at the end of this tract set.

**DISCUSSION OF THE REPORT**—After the report of the task force was presented to the Columbia Union executive committee on January 10, 1997, it was discussed. Keep in mind that the leading ones implicated in the crisis *were the leaders of this executive committee!*

How is this for putting the possums, who are in charge of the committee investigating the previous night's carnage, in the chicken house?

Although it had previously been agreed that all would be gentlemen and not reprove anyone (not even a pat on the wrist), it seemed wise to let each person named in the report, who were present at the executive meeting that day, be given time to speak.

Ralph Martin, CUC president; Harold Lee, CUC secretary, and Harold Otis, FER president, all spoke. (Don Russell, recently retired CUC treasurer, thought it best not to be present, nor was he reprimanded by the report.

Martin said that \$264,500 was being repaid to the CUC from, what he called, "non church funds." Whatever that means.

Lee said the loans were not out-of-policy, but that better follow-up should have been made.

Otis said he had done a good job as FER president.

All three took exception to portions of the task force report, but both Martin and Lee did apologize. The union committee, many of whom were Martin and Lee's employees, expressed their appreciation.

The task force then presented recommendations for strengthening the management operations at CUC.

Then the task force members left, and the executive committee discussed the recommendations and formally accepted the apologies of Martin and Lee (i.e., no one was fired).

The executive committee then voted that the recommendations of the task force be referred to the union administration for their consideration. (The union administration consists largely of Martin and Lee.)

It was also voted that the recommendations be brought again to the attention of this same union executive committee at its next (March 6, 1997) meeting. Apparently it wanted to look at the recommendations once more.

In addition, a special meeting was called for January 30, in order to consider the administration's (that is, Martin and Lee's) proposals for continuing on with a literature evangelism program within the Columbia Union.

The January 10 executive committee then adjourned.

**SINCE THEN**—The present report is being written and sent out a few weeks after that January 10 meeting.

Here are the latest events:

- The Potomac Conference president, Herbert H. Broeckel, has called on Ralph Martin and Harold Lee to resign from their positions as president and secretary of the Columbia Union Conference.

- Both men have refused to resign.

- Edward Motschiedler, president of the Ohio Conference, has pressed for a reconvening of the CUC constituency, so they can receive a report of what has happened! (You will recall that it was the CUC constituency, at their October 24 meeting, which initially demanded both the FER investigation and a full report back to them, as soon as possible, on what was found.) Apparently, there are no plans to let them know what happened. Only one church leader, Motschiedler, is asking that the laymen be treated fairly.

Perhaps someone will hand them copies of this tract set. They only read about a few high-points in forthcoming issues of the *Review* or the *Columbia Union Visitor*.

*The best copy we could obtain of the Task Force Report is reprinted on the next two pages. The missing portions are noted in the margin.*

*The church in our time is a continuing tragedy. Pray that Jesus will come soon. Surely, it cannot be long before the end will come.*