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Accounting firm under fire for alleged foundation fraud

By Bob Allen

PHOENIX (ABP) -- The state of Arizona has sued accounting giant Arthur Andersen for $600 million on behalf of 1,300 investors who two years ago lost money in the collapse of the Baptist Foundation of Arizona.

The Wall Street Journal reported April 26 a joint lawsuit by the Arizona Corporate Commission's securities division and the state's attorney general, along with disciplinary action by another state agency.

The cases follow an earlier complaint by Foundation trustees that Arthur Andersen failed to properly audit the not-for-profit charity, while its officers allegedly misled investors by hiding losses and operating a "Ponzi scheme" in which money from new investors was used to pay off other investors. Those allegations are the latest turn in the largest fraud case involving a religious organization in U.S. history.

Arizona's attorney general's office is reportedly also conducting a criminal investigation but has not said whom it is targeting or when anyone might be charged.

The suits against Arthur Andersen, whose parent company had more than $16 billion in revenue in 1999, could be good news for investors, who would be recipients of any award. Investors currently expect to receive either 31 percent or 44 percent of their investment over the next five years as part of a BFA restructuring plan.

The Foundation reported about $640 million in debts and $240 million in assets when it filed for bankruptcy protection in November 1999.

Investors received the first $20 million, 3.5 percent of their total claim, from a court-ordered plan to liquidate the Foundation's assets in January. A second payment of an undisclosed amount was expected around the end of April.

Arthur Andersen claims it has done nothing wrong. A spokesman told the Wall Street Journal that the firm was neither negligent nor involved in fraud or a cover-up. He said Andersen is liable only for the estimated $175,000 a year in fees it has received since 1984, and not investor losses.

"Any time senior management conspires to defraud investors, this kind of complicated fraud will be very difficult to detect," said Ed Novak, an outside attorney representing Arthur Andersen. Novak predicted the state would have a hard time proving its case.

It is the second time in a decade that Andersen has been in trouble in Arizona, according to a December article in the Arizona Republic. Without admitting any wrongdoing, the firm in 1992 agreed to pay up to $30 million to settle claims stemming from the collapse of Charles Keating's financial empire.

According to pending court documents, Andersen did not, as it claimed, conduct annual audits of the Baptist Foundation of Arizona in accordance with generally accepted accounting standards. Because of that, lawsuits contend, Foundation officers were able to continue to defraud investors by pointing to clean audits by the accounting firm.

Documents also allege that Andersen ignored red flags, including specific information from a whistle-blower, an anonymous phone call and a series of newspaper articles in 1998 that brought to light many of the allegations that are now in litigation. Auditors continued to give the clean audits, it is alleged, relying on information provided by Foundation officers.

The Baptist Foundation of Arizona was founded in 1948 by the Arizona Southern Baptist Convention for the purpose of raising and managing endowment funds to further Southern Baptist causes.

The agency allegedly ran into trouble in the early 1980s, when under leadership of president and CEO William Crotts it began offering individual Baptists high rates of return while promising that some of the money would be used to fund new churches and other programs.

Crotts and other members of the Foundation's senior-management team resigned in August 1999 after the Arizona Corporation Commission froze Foundation investments, citing violation of disclosure policies in state regulations.

The Foundation invested funds heavily in property, unlike other state Baptist foundations that avoid speculative investments. When real-estate markets suffered during the late 1980s, Foundation officers, feeling pressure to show profits, allegedly set up a web of subsidiary organizations to hide losses from investors through artificial paper transactions.

An example of how the scheme worked, from the lawsuit by the Foundation against Arthur Andersen, concerned a transaction recording $3.5 million gift income based solely on a pledge from an individual named William Gahan.

Arthur Andersen questioned whether the gift was collectible in its 1991 audit. To satisfy the auditor, the Foundation's senior-management team allegedly engaged in a "swirl" transaction with subsidiary corporations.

Without approval of the Foundation's board of directors, the officers in 1992 allegedly provided about $3.5 million in cash to a subsidiary, Arizona Southern Baptist New Church Ventures, Inc., in return for a $3.5 million promissory note by Gahan.

The same day, New Church Ventures paid the same $3.5 million to ALO, Inc., a for-profit corporation purportedly owned by Foundation trustee Jalma Hunsinger, in return for a $3.5 million line of credit. To close the circle, according to court documents, ALO paid the same $3.5 million to the Baptist Foundation of Arizona in return for assignment of the Gahan pledge.

Arthur Andersen allegedly accepted receipt of the payment from ALO for the pledge to recognize the $3.5 million income. ALO later determined the Gahan pledge was worthless in a report to the Arizona Corporate Commission in 1994.

Another example, according to a court document, involved a reported $2.7 million donation by Crotts' father, William Crotts, obtained only weeks earlier for a fraction of that cost.

Crotts allegedly purchased cash-flow interests related to two properties on Guam from ALO for $200,000 in December 1994. On Dec. 29, just prior to the end of the fiscal year, he allegedly donated the interests to the Foundation, which valued them at $2.7 million. Arthur Andersen, according to the lawsuit, did not question the value of the transaction.

Meanwhile, representatives of the Baptist Foundation aggressively recruited new investors in churches.

Dianna Francis of Golden Shores, Ariz., a small community near Needles, Calif., and her husband invested $35,000 from their son's Navy death benefit with the Foundation.

A Foundation representative gave a presentation in her church. She said she was told the money would be used to grow churches, and she would receive higher interest than if she invested it in a bank.

"My money would grow and God's kingdom would grow. It was perfect," Francis said. She locked her money in for 10 years, rather than opting for a shorter term. "I chose to do long term so it could do more for God's kingdom," she said.

"I never had the money to do this before," she said. "Since my son left this money, I wanted to do something that honored God and my son's memory and still have the money to put my daughter through college."

When she finally asked for some of the money to pay for her daughter's wedding, she was told that all funds were frozen. She never imagined, she said, that her money was being used to buy golf courses and overseas properties and pay salaries up to $200,000 a year.

"We were deceived," Francis said, comparing the Foundation presentation in her church to "the moneychangers in the Temple."

Francis said that dollar-wise, she has not suffered nearly as much loss as others. She said she takes groceries to a neighbor who lost $70,000. Other friends had $750,000 invested, she said, and quarterly interest was their only income. "Now that there isn't anything there, I take them food, too," she said.

But Francis says the worst damage is not material. "You don't know the spiritual damage that's been done to people," she said. "The money is the money. We need the money -- some more than others."

She said Baptist officials are reluctant to discuss the scandal for fear that it "gives God a bad name."

"It doesn't give God a bad name," she said. "It gives the people who use God's name a bad name. God wasn't in this."

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Preacher's daughter finds wider audience for songs

By John Pierce

BIRMINGHAM, Ala. (ABP) -- Hearing a preacher's kid sing is not so unusual, but hearing Kate Campbell is. Her clear voice, thought-provoking lyrics and musical warmth draw listeners from a wide variety of backgrounds.

Though her fifth and latest CD release, "Wandering Strange," contains soulfully arranged hymns and original songs of faith, Campbell cannot be rightly labeled "a Christian singer." Her folk-country-blues-shaped music and philosophical openness make her at home in both churches and the numerous music clubs she visits across the country and beyond.

"I resisted it a long time," said Campbell, of the gospel album she recorded in three days with talented friends in Muscle Shoals, Ala. "This is not contemporary Christian music; this is Kate Campbell doing what I want to do."

What she did first was sing "On Jordan's Stormy Banks" as an encore while touring England with Emmylou Harris. Fans suggested she record some of the hymns she has sung since her early church days in Sledge, Miss.

As the oldest child of former Southern Baptist Convention president Jim Henry and his wife, Jeanette, much of Kate's music has been shaped by church experiences and growing up in a time of racial unrest. Social justice is a theme found on each of her recording projects.

So it's not surprising the album that started out to be a collection of hymns now includes powerful original compositions like "10,000 Lures," that wrestles with the age-old struggles of temptation, and "Bear It Away," that focuses on the deadly 1963 bombing of Birmingham's Sixteenth Street Baptist Church.

"Every time I saw pictures of the four little girls (killed in the bombing), it upset me," said Campbell, sitting outside the Birmingham Civil Rights Institute and facing the brick church where the tragedy occurred. As a songwriter, however, she "couldn't find a way to put it together."

But writer Flannery O'Conner's use of the words, "The violent bear it away," taken from the gospel of Matthew, gave Campbell the phrase she needed. "It was one of the hardest songs I've ever written," said Campbell whose husband, Ira, a hospital chaplain, helped shape the lyrics.

Starting with a catchy phrase -- what Campbell calls "Nashville-style song writing" -- is evident throughout her impressive collection from heart-wrenching songs to her lighter works like "See Rock City," "Jesus and Tomatoes," and the oft-requested "Funeral Food."

"I just see things and think, 'That's a story that's got to be told,'" Campbell told a coffeehouse crowd at Birmingham's Church at Brook Hills in March. And not all of her songs deal with life's harshest moments.

"My mother doesn't know if I'm serious or not -- and she's afraid that I am," said Campbell with a grin before strumming her sunburst Tahamime cutaway guitar and singing the song based on a roadside sign proclaiming, "Jesus and Tomatoes Coming Soon."

After witnessing the public attention given to a bun supposedly resembling Mother Theresa, Campbell spun her own story of growing a tomato with divine attributes -- "a ripe phenomenon" -- just for fun.

"My mother is the musical person in our family and my father is the story-teller," said Campbell, 39, who did not become a professional musician until age 30.

"I used to love going to church, and I loved the singing more than the preaching -- but don't tell my daddy," Campbell told her audience between songs. She speaks often of being the preacher's kid, but doesn't identify him as the prominent pastor of the 10,000-member First Baptist Church of Orlando, Fla., who served as president of the Southern Baptist Convention in 1994-96.

"I wish I could take some credit," said Henry regarding his daughter's talent and growing success as a musician. "Her mother saw it more than I did," he said of her music potential.

Henry recalled sitting in the balcony at the Baptist conference center in Ridgecrest, N.C., when an associate at the church he was serving in Nashville urged Kate, as a seventh grader, to enter a talent show.

"They gave her a standing ovation," Henry reflected proudly. "I thought, "That little rascal -- look at her up there.' You could see it developing."

Henry admits that he first wished his daughter had become exclusively a Christian singer. But Campbell's expressed comfort in both secular and church settings won out -- and even her pastor-father now can appreciate that.

"I've preached and taught our people to be involved in the secular world," as a means of "being salt and light," said Henry, adding that the various musical venues give his daughter opportunities to express faith among those unrelated to church.

"There is an artistic, mystical side to her," said Henry of the daughter he calls "Kitty." "Some of her music leaves you wondering -- wondering what she is saying."

"I think there's a hunger for that ... mystical, quiet place," he added. "Kitty explores that."

This is especially true of Campbell's 1998 project "Rosaryville." One song on the CD also gives a peek into the relationship with her parents.

The lyrics to "In My Mother's House" reveal that during holiday visits they sometimes "disagree on politics and theology." And though Campbell describes herself in the song as "a prodigal daughter," the moving conclusion emphasizes, "I have found there is a wideness in mercy and there'll always be a place for me in my mother's house."

Kate's decision to record a gospel album was certainly well received at home. "We were thrilled," said Henry. "We had been praying for that."

"That '10,000 Lures' is something," he added excitedly, before rattling off a list of Kate's other songs that he finds inspiring. He is impressed with his daughter's ability to "paint in words."

"She can weave a story out of something I've looked over," said Henry of Campbell's ability "to see a story or a moral in a little thing."

Henry is well known for his role in racial reconciliation while SBC president and before. He took unpopular positions in support of integration as pastor of small Southern Baptist churches when his children were young and conflict was part of the daily news.

"It was impacting her life more than I thought," said Henry, who like others hears the themes of justice throughout Campbell's music.

In the song "Delmus Jackson," she tells of a special relationship that developed between her as a child and a black church custodian. Henry said he didn't realize the committed Christian gentleman was making such an impact on her, though "he impacted my life."

"Actually, I feel quite fortunate" to have been raised as a preacher's kid, said Campbell, who spent her formative years in the music capital of Nashville but "never considered doing music for a living."

She said her father has sent her a letter of encouragement every week since she left home. "When I was at Samford (University), he would send money," Campbell added.

But there was another time when her parents took money away from her -- and Henry still laughs about it. In one song, Campbell tells of a deacon placing a silver dollar in her hand every Sunday evening -- and her mother removing it after church.

"We were in seminary then," Henry said, and the silver dollar was needed to buy hamburgers for the family. "And she's never forgotten that."

In fact, Kate Campbell remembers a lot of things. And, fortunately, she turns them into songs that entertain, inspire and cause us to remember those easily-overlooked persons and events that have shaped our own lives.

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-- EDITOR'S NOTE: Visit www.KateCampbell.com for information on Kate's music and concert schedule.

News briefs from Associated Baptist Press

California pastor clarifies interfaith involvement

BUENA PARK, Calif. -- A California Baptist pastor who in the past has taken a high profile in the Southern Baptist Convention's Disney boycott and in zoning battles on behalf of the homeless has apologized for his involvement with an interfaith movement sponsored by Sun Myung Moon's Unification Church.

Wiley Drake, pastor of First Southern Baptist Church in Buena Park, Calif., wrote an open letter April 16 asking for forgiveness for causing other Southern Baptists to be "offended or confused" by his involvement with the United Federation of Churches.

Literature from the group describes the UFC as "a group of ministers and churches uniting together to create programs to empower church families and communities." Drake drew criticism from other Baptists for participating in the group that includes not only the Unification Church but Jewish, Muslim and Mormon leaders.

"Under no circumstances does my affiliation with any religious organization, or any religious leader, endorse or give my approval of their beliefs," Drake said in a statement he provided to the California Southern Baptist. (ABP)

Texas Baptist agency calls for moratorium on executions

FLOWER MOUND, Texas -- The Texas Baptist Christian Life Commission has joined other faith groups in calling for a two-year moratorium on executions in Texas.

At an April 19-20 meeting of the commission and its board of consultants, the public-policy and moral-concerns agency of the Baptist General Convention of Texas voted to support a two-year freeze on the death penalty.

The two-year halt would allow time for a special study commission to examine the administration of the death penalty in Texas and to recommend reforms. The Texas Conference of Churches and a number of other faith communities have endorsed the measure.

Phil Strickland, director of the Texas CLC, noted that Texas is the national leader in executions, and a significant number of the executed inmates are poor and non-Anglo. "There is a growing sense that the way we do capital punishment in Texas simply is not just and not equitable," he said. "We have to look at the whole system." (ABP)

Organization to provide chaplains for crime victims

DALLAS -- A coalition of government, private and faith-based service providers is creating a new class of chaplains to minister exclusively to crime victims.

Victim Relief Ministries announced the new chaplaincy program at a news conference April 23 in Dallas. "This is the first program of its kind in the state and, to our knowledge, in the nation," said the organization's director, Gene Grounds.

The interdenominational non-profit organization sponsored in part by Texas Baptist Men said it will begin recruiting and training clergy and mental-health professionals immediately. The chaplains will work with local police departments, carrying the same credentials as police chaplains. (ABP)

Foundation director retiring

MONTGOMERY, Ala. -- Warren Trussell is retiring June 30 as president of the Alabama Baptist Foundation after 20 years with the Montgomery-based organization.

Trussell, 64, said he has always viewed his service as being about people as much as finances. "I felt it was another area of ministry and certainly an area of stewardship," the Mississippi native told the Alabama Baptist. (ABP)

State WMU director stepping down

BRENTWOOD, Tenn. -- Tennessee Woman's Missionary Union Executive Director Carrol Kelly is retiring May 31.

Kelly, 55, held the post three years. She was interim director six months following the retirement of her predecessor, Katharine Bryan. She has worked for the Tennessee WMU a total of 15 years. (ABP)

Baylor offering training for organists

WACO, Texas -- Baylor University's School of Music is presenting two institutes this summer to help solve a shortage of church organists. The institutes, scheduled June 10-16 and June 17-22, are designed to teach pianists how to play organ and give organists a chance to sharpen their skills.

Music professor Joyce Jones said the institutes are not intended to compete with larger music conferences sponsored by Texas and Southern Baptists, but to offer hands-on training on 12 organs on the Baylor campus. "Through these two institutes, we hope to help solve the shortage of organists and provide more organists for churches," Jones aid.

More information is available by calling the music school at (254) 710-1417 or e-mail to Joyce_Jones@baylor.edu. (ABP)

Baptist university honors author

DALLAS -- Dallas Baptist University recently awarded an honorary doctor of divinity degree to Church of Christ preacher and author Max Lucado.

Lucado, pastor of Oak Hills Church of Christ in San Antonio, Texas, was on the campus April 20 to receive the honor. "We recognize Max Lucado's commitment to the Lord Jesus Christ through his ministry which reaches people through both the written and spoken word," said university President Gary Cook.

Lucado has written more than 50 titles, including "Just Like Jesus," which was named Christian Book of the Year in 1998 by the Evangelical Christian Publishers Association and the Christian Booksellers Association. (ABP)

Church cuts ties with SBC

LIBERTY, Mo. -- The historic Second Baptist Church of Liberty, Mo., has voted to dissolve its 156-year affiliation with the Southern Baptist Convention. The resolution also expresses "grave concerns" about the church's continuing relationship with the Missouri Baptist Convention, which, like the national body, is controlled by conservatives.

In a series of town hall meetings, church members said the congregation and SBC had moved apart on issues including pastoral authority, free inquiry and the ordination of women.

Another prominent moderate church, Hayes Barton Baptist Church in Raleigh, N.C., recently passed a resolution disavowing recent actions of the SBC but stopped short of severing ties. A denominational relations committee said such a proposal could have been "very divisive for our congregation." (ABP)

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