

Affinity fraud: Fleecing the faithful

by [Amy Frykholm](#) in the [August 25, 2009](#) issue

Phil Harmon was a successful business executive with deep roots in the Quaker community of the Northwest. By the 1990s the Oregon man had several homes in Oregon and Washington State. In his early career, he sold insurance. He gained widespread trust as a businessperson and garnered clients such as George Fox University, a Quaker school in Newberg, Oregon, and the Northwest Yearly Meeting, an organization of 67 Quaker churches in Washington, Oregon and Idaho. But he began to collect premiums without buying the insurance and using the premium payments to cover his clients' claims. By the mid-1990s, he was also taking investment money from clients, which he invested only in his own complex web of businesses.

In 1997 Harmon was convicted of fraud and sentenced to eight years in prison. It was estimated that he had stolen between \$15 million and \$20 million from members of his community, including members of his own family.

Harmon's crime resembles, on a smaller scale, Bernie Madoff's Ponzi scheme that rocked the world of high finance in recent months and created a crisis for many Jewish investors who had regarded Madoff as a trusted friend of the Jewish community. Harmon's clients invested with him because they saw him as a good Christian man who could help them sort through their bewildering investment options. They often gave him their life savings.

The current recession has brought to light a number of religious-based schemes. In Colorado, a former Mormon bishop, Shawn Merriman, has been indicted for taking \$20 million fraudulently from investors, some of them fellow Mormons; in Queens, four members of the Local Christian Assembly Church were indicted for swindling investors.

Harmon and these others engaged in what is called "affinity fraud." The most common type of fraud, affinity fraud takes place when perpetrators rely on bonds of personal trust and on their place in the community. Affinity fraud is frequently the kind of fraud committed in religious communities.

Religious communities are also vulnerable to fraud that rises from casual business practices and insufficient financial oversight. A famous case of this in the mid-1990s involved Ellen F. Cooke, the treasurer of the Episcopal Church, who over five years stole \$2.2 million. She pled guilty in 1995.

Michele Johnson, a retired professor of accounting at George Fox University, where Harmon's fraud took root, says that all fraud has four elements. First, the perpetrator has a need of some kind—usually a secret one. It could be as tangible as a gambling addiction or as intangible as a need to be admired. It could be an illness in the family or an impending divorce. Whatever it is, the perpetrator has a problem that he or she does not want others to know about.

Second, the perpetrator has an opportunity. This might be a flaw in the church's accounting system or, as in Harmon's case, the fact that people trusted him with ever-increasing amounts of insurance money. Third, the perpetrator has a rationalization. He or she thinks: "Everyone else here gets paid more than I do." "This organization wastes its money." "I will pay it back." "I deserve this." "I'm the smartest one here." Cooke's justification had to do with being a high-ranking woman in a male-dominated church. Rationalizations may contain a grain of truth, but they primarily serve the purpose of justifying fraud.

The fourth element is the capacity to commit fraud. Perpetrating fraud takes a large amount of energy, time and intelligence. Schemes tend to become more and more complex over time, and maintaining appearances takes more and more energy. By the time most perpetrators are caught, Johnson says, they have begun to act in flamboyant ways that suggest they want to be discovered and for their scheme to be ended.

Accounting fraud isn't the only kind of fraud to which religious institutions are vulnerable. "If you want to know what keeps me up at night," said Mike McKillip, treasurer of the Evangelical Lutheran Church in America, "it's identity theft. We have not just money coming into our organization, but also the identities of those who have entrusted their money to us. If we put that information in the wrong place and the wrong person gets hold of it, then we have lost the trust of those who give to us."

Preventing fraud, McKillip said, begins with setting a "tone from the top." He added: "The leadership of this church absolutely gets it. They know that people are

entrusting their money to us to do the work of God. They know that good stewardship is essential to maintaining trust.”

Denominational bodies like the ELCA, the Episcopal Church and the United Methodist Church are increasingly sophisticated in their use of internal controls. After the Cooke scandal, the Episcopal Church became more and more vigilant.

“The problem as I understand it,” said Kurt Barnes, the current Episcopal Church treasurer, “was that a great deal of power was in the hands of just one person, the treasurer. Since then we have diversified control so that the treasurer’s office and the controller’s office each have a different set of duties that check each other.” Alpha Conte, the controller, noted that in the wake of the scandal, everyone understands why these controls matter.

But congregations and other small church bodies generally receive only guidelines from their parent churches on financial procedures. Richard Rettberg, corporate counsel for the United Methodist Church, observed: “We have a decentralized organization.” The UMC as a whole has no authority over the individual choices of a congregation. Individual churches must oversee and ensure that procedures and protections are in place for their own congregations. This is a challenge for smaller churches, not only because they lack staff with proper training, but also because of the atmosphere of trust that is essential for small churches to function. Rettberg said he finds a great deal of naïveté in congregations regarding the question of fraud. This is why good, basic business practices are essential.

To verify that fraud is not being perpetrated inside a church, many church organizations encourage congregations to secure outside audits and to follow procedures that minimize the possibility of fraud. Two of the simplest, Johnson says, are to have two signers for every check and to have the books checked by someone who has no authorization to sign checks.

Dan Busby of the Evangelical Council for Financial Accountability said that sometimes organizations simply have to acknowledge that some fraud may take place, since the alternative is for an organization to spend virtually all of its resources verifying how every dollar is spent. That is also not an effective use of resources. Busby recommended finding a balance: put good systems in place, seek outside verification and then do the work for which your organization is intended. “Trust, but verify.”