

The Embezzlement at Sharon Baptist Church

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ABSTRACT

The case concerns a long term employee who embezzled approximately \$1.5m from her employer, a religious organization, over a three year period. The scheme involved making checks payable to cash allegedly for legitimate business purposes. The checks were modified post-approval and converted into personal use. Although the motivation is unclear, assisting her son who was facing IRS and other business debt might have been a contributing factor. The embezzlement was discovered after vendors starting contacting the church over the nonpayment of various commitments. A forensic audit was initiated and the extent of the fraud confirmed. The financial secretary and her son were both arrested and charged with fraud and money laundering. The mother received a 44 month prison sentence while her son was sentenced to 51 months in federal prison.

The case illustrates the importance of fraud detection procedures for organizations of all types, and how individuals attempt to structure financial transactions to circumvent federal reporting requirements under the Bank Secrecy Act.

Keywords: nonprofit organizations, religious organizations, fraud, money laundering, bank secrecy act



INTRODUCTION

“I thought they might have won the lottery, or something” noted a neighbor. “How do you spend that much money in this economy?” (Starkle, 2010)

Another neighbor noted that the accused always went to church on a regular basis and that it was hard to believe she would engage in such activity.

The referenced activity was the \$1.5 million stolen by April Watt, the 68 year old beloved employee who served 47 years as Sharon Baptist Church’s financial secretary.

Her own pastor described her as “...very quiet, very loving. Just a caring person who helped in several different areas of our church.” (Starkle, 2010). He offered up forgiveness by noting that although shocking, it’s a reminder that anyone could be overtaken by temptation.

The affected church pastor joined in the spirit of forgiveness noting that the congregation continued to be supportive of Ms. Watt, and that the support was recognized in the community at large.

Although the theft had an impact on the organization, the pastor continued that “We're not going to stop the programs entirely...But we might have to tap on the brakes.” (Anonymous, 2010).

Church and community members are now packed into the local courtroom listening to the former secretary as she asked for their forgiveness.

Although the distraught congregation might be willing to accept her apology and offer her compassion and forgiveness, a crime was committed and Ms. Watt will need to answer to ‘man’s laws’.

So why did this quiet, loving, caring, long-term employee commit such fraud against her long time employer? A look back at the church and a discussion of the embezzlement scheme might provide clarity.

BACKGROUND – A BRIEF HISTORY

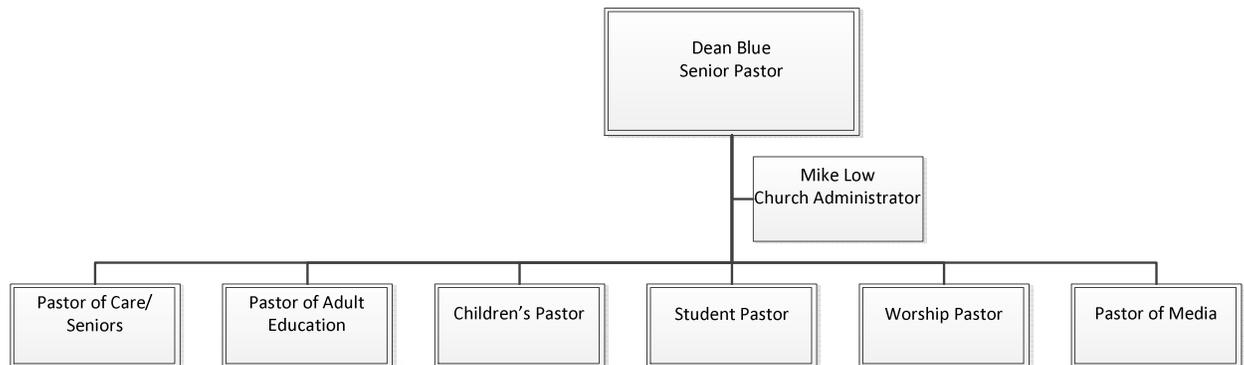
In May 1950, a group of 20 felt a “call” to start a new congregation in Kellits, Tennessee. They named the congregation, Sharon Baptist Church (Sharon or the Church), a reference to a type of flowering shrub found in scriptures. Services were first held on a rotational basis in members’ homes. However, with a year, the group pooled their limited resources together and was able to purchase a building to hold services. At about the same time, Sharon was able to join an umbrella organization, The Southern Baptist Convention.

Sharon continued to prosper over the years as evident by it expanding membership base and a corresponding increase in tithes and offerings. To accommodate its growing congregation and to plan for future expansion, Sharon raised funds through its membership to build a new facility, its current home. The facility includes a sanctuary, office spaces for its staff, and classroom staff of its growing Sunday school programs and ministries.

THE ORGANIZATION STRUCTURE

Sharon Baptist Church is governed by a senior pastor, Pastor Blue, who is assisted by a church administrator, Mike Low, and approximately six other ministers. Together they form the leadership team as depicted in the organization structure shown below.

Sharon Baptist Church Organization Chart



Pastor Blue joined the congregation in 2008 from a smaller church in Georgia and now oversees this sprawling ministry with approximately 2,500 members. The organization structure allows Sharon to offer a variety of programs to its membership, including men's, women's, and college ministries. It also has approximately seven missions including disaster relief services, and a dental ministry which assist the low-income residents within its community.

Sharon holds two Sunday morning and one evening service, and a variety of services and meetings during the weekdays.

FUNDS MANAGEMENT AND DISBURSEMENT

April Watt was employed as a financial secretary by Sharon for approximately 47 years. She was not a member at Sharon but instead belonged to a smaller church approximately five miles away. Ray Watt, her only child, resided with her in Tennessee and owned a company called WattCo Electric Company housed at her residence.

Sharon Baptist Church

The church maintained a bank relationship with Brandon Hill Bank and one of its accounts was a checking account, used for operating purposes. The operating account was used to fund church operations, and to provide support to other ministries and missions. As part of her duties, April Watt prepared and mailed checks, received the monthly bank statements, reconciled the accounts, and had overall responsibilities for the banking relationship. She was not an authorized signer on the checking account and this responsibility was delegated to other church members.

Church policy stipulated that each check disbursed have two authorized signatures. However, the bank account agreement did not have a similar requirement and checks could be negotiated accordingly. Ms. Watt prepared and issued checks against the checking account listing the payee simply as "CASH." She then asked one of the church's authorized signers to

sign the check by falsely representing that the checks were for legitimate purposes. She noted that the checks were needed either to transfer funds between accounts or to obtain cash for church activities.

Once the checks were signed, Ms. Watt used a typewriter to add her name to the checks so that the payee appeared as "CASH – APRIL WATT." The underlying bills from vendors or commitments to certain missions, were filed away unpaid in a drawer.

Ms. Watt aided by her son, presented the checks at the bank during her lunch hour and obtained cash drawn from the checking account. She provided the cash obtained to her son at his request and direction. Her son needed the funds to cover outstanding debts with the Internal Revenue Services and other vendors. In order to conceal her activities, Ms. Watt did not mail the checks that were written to vendors for legitimate expenses.

This scheme took place over an approximately three year period (July 2007 to April 2010), and involved 1,600 checks totaling \$1,514,593. Each individual check was larger than \$900 and more than \$50,000 was misappropriated each month.

WattCo Electric Company

Ray Watt used the funds obtained from his mother to purchase general purpose re-loadable pre-paid cards from various vendors. Ray Watt had to disclose the source of the funds since the amounts involved were frequent and large and might initiate federal reporting requirements for the vendors. He erroneously claimed that the funds were from his business and not from any illegal source. As the firm's bookkeeper, his mother knew the true source of the funds but maintained her silence thus supporting her son's statements.

Ray Watt used the pre-paid cards to make purchases and payments for the benefit of his mother and himself, including improvements to the residence they shared. In December 2009, Ray Watt structured an \$11,000 payment for the purchase of a car to avoid federal reporting requirement. He did so again in April 2010, in a monetary transaction of over \$10,000 for the purchase of a boat. He also used some of the funds received to purchase illicit drugs to support his drug addiction.

THE EMBEZZLEMENT IS UNCOVERED

In 2010, the church learned that \$147,000 allegedly sent to a missions related organization was not received. Further investigation revealed that five payments (approximately \$120,000) budgeted by the church to its umbrella organization for missions and ministry was also not received (Wilkey, 2011). In looking through its administrative offices, the church also discovered checks additional checks payable to vendors that were not delivered...

The church hired a forensic auditor to examine how long the embezzlement had been occurring. The audit discovered that more than \$1.5 million had been diverted from the church over a period of several years (Wilkey, 2011). A special business meeting was held by the church to inform members of the fraud before the news was reported in the local papers,

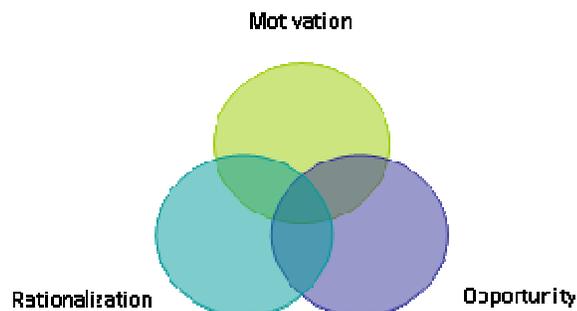
Ms. Watt initially claimed having no knowledge of the unpaid bills and embezzlement. However, facing mounting evidence from the audit, she confessed that she had misappropriated approximately \$1.5m through the use of more than 1,600 checks. The church contacted the local authorities who arrested Ms. Watt and her son. The church also filed a civil lawsuit against its former secretary to try to stop her from selling any of her property.

Ms. Watt and her son were charged with bank fraud and conspiracy to commit money laundering. She was released on a \$175,000 bond and is now awaiting trial to learn her fate under “man’s laws”

DISCUSSION QUESTIONS

The student should be able to answer the following questions:

1. Using the elements of the fraud triangle below, discuss how the fraud occurred and why it was not detected in a timely manner.



2. What role if any did Brandon Hill Bank played in the fraud?
3. What is money laundering?
4. What is the Bank Secrecy Act (BSA)?
5. Did April and Ray Watt commit money laundering? If so, how? Why wasn't it detected?
6. What risk mitigation strategies should Sharon put in place to prevent the embezzlement?

EPILOGUE

Sharon Baptist Church continued to prosper after the fraud and has put additional controls in place to prevent reoccurrence. When the 2010 budget year ended (i.e., the year the fraud was discovered) receipts were \$340,000 over budget. Although the church did not recoup all its losses from the embezzlement, it did receive \$1 million from its insurance policies (Wilkey, 2011). The church has made up the missing missions gifts that were misappropriated by the secretary and it continues to satisfy its financial commitments.

In addition, the church expanded its ministry by opening an evangelistic dental clinic, a bus ministry, and made additions to facilities. It also broke ground on a new children's building and has more than \$4.7 million in funds for the facility (Wilkey, 2011)

The financial secretary April Watt pleaded guilty to one count of bank fraud and one count of conspiracy to commit money laundering. In a separate trial, Ray Watt pleaded guilty to one count of conspiracy to commit bank fraud and one count of conspiracy to commit money laundering. Ms. Watt was sentenced to 44 months in prison while her son received a 51 month sentence.

Note: Interested faculty may contact the authors for a copy of the teaching note.

DISCLAIMER

This critical incident was prepared by the authors, and are intended to be used for class discussion rather than determining either effective or ineffective handling of the situation. The events described in this case are based on a real-world situation as reported in various newspaper sources. However, the names of the organization and the individuals involved are disguised.

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