

Davenport Scandal

MICHAEL W. CAMPBELL

Michael W. Campbell, Ph.D., is North American Division Archives, Statistics, and Research director. Previously, he was professor of church history and systematic theology at Southwestern Adventist University. An ordained minister, he pastored in Colorado and Kansas. He is assistant editor of *The Ellen G. White Encyclopedia* (Review and Herald, 2013) and currently is co-editor of the forthcoming *Oxford Handbook of Seventh-day Adventism*. He also taught at the Adventist International Institute for Advanced Studies (2013-18) and recently wrote the *Pocket Dictionary for Understanding Adventism* (Pacific Press, 2020).

Donald John Davenport (1913-1996) was a physician and entrepreneur at the heart of financial misdoings during the 1970s through the early 1980s, which became the most significant financial scandal within Adventism in the twentieth century. The scandal raised issues about financial transparency, the integrity of church leaders and systems of accountability, and ultimately resulted in a significant number of church members and institutions who lost funds as a result.

Personal Life and Career of Davenport

Donald John Davenport (1913-1996) was born in Bakersfield, California on September 2, 1913, to Donald Earl Edward Davenport (1886-1933) and Pearly Ivy Hoyt (1889-1981). His father was an early graduate (1915) of the College of Medical Evangelists in Loma Linda, California. From 1918-24 they served as missionaries to China. At age 47 his father tragically died from a brain tumor while serving as a physician at Washington Adventist Sanitarium.¹

In 1941 Donald married Elizabeth May Garvin (1918-2010) but divorced in September 1971. Then at age 58, he remarried the 39-year-old divorcee Patricia A. Macglashan on June 17, 1972. Patricia had previously been married to William E. Counter in 1955 and was divorced in August 1969. Elizabeth would later (Aug. 20, 1977) remarry Kenneth Evan Mayberry (1921-1992), a real estate agent in Redlands, California.

Davenport completed a medical degree in 1940 from the College of Medical Evangelists and spent a year subsequently as a U.S. Army surgeon during World War II. He served as a surgeon at Douglas Aircraft Company in Long Beach for four years. In 1942 he also established a private practice in Downey, California. In 1955 he

EDITOR'S VIEWPOINT

The Davenport loans

Three news items have appeared on the Back Page of the REVIEW in recent weeks regarding loans made by church entities to Dr. Donald Davenport, a California Adventist physician-turned-real-estate-developer, who filed for bankruptcy in July. The most recent item reported that Dr. Davenport owes church organizations nearly \$18 million in loans and more than \$3 million in interest. Newspapers and magazines (for example, the *Los Angeles Times*, *Washington Post*, and *Forbes*) have reported that Dr. Davenport owes additional millions to banks and about 150 individuals. The *Forbes* article stated that attorneys have confirmed reports that the Securities and Exchange Commission (SEC) is investigating Dr. Davenport's business dealings.

From *Adventist Review*, October 22, 1981, page 3. Shared by Michael W. Campbell.

began teaching as a professor on the UCLA Medical School staff.²

In 1946 Dr. Davenport was standing in a line at the Long Beach post office. When he commented to the clerk about the facility shortage, the clerk challenged him to build a post office. Twenty-five years later he had built more than 70 post offices across 31 states leasing them to the Federal Government. He was known to joke that while some people collect postage stamps, he liked to collect post offices. He expanded his business into the Long Beach Escrow Group that amassed shopping centers in addition to post offices. In order to build capital, Davenport developed a network of friends and circulated a newsletter to garner support for his investments, particularly among Adventist church members. He was especially popular in the Loma Linda area. For example, in 1971, Dr. Davenport offered an "Investment Course" at Loma Linda University.³ Davenport began to attract significant attention within Adventist circles during the 1970s.

Controversy

After Donald and Elizabeth's divorce some copies of their divorce proceedings surfaced that revealed that a significant number of church entities and denominational employees had invested money in his real estate empire, which was beginning to crumble. Dr. Davenport had in effect created an elaborate Ponzi scheme with some \$71 million dollars in missing funds. In order to sustain the Ponzi scheme, accusations were made that church leaders pressured church members to invest funds in return for high interest rates on their loans.

On July 22, 1981, Dr. Davenport filed for bankruptcy.⁴ Even before the official filing, General Conference church leaders on July 16, 1981, established a "Committee on Investments" to "study the matter of denominational investments with Donald Davenport." The committee was composed of General Conference officers, presidents and treasurers of union conferences, and presidents and treasurers of NAD conferences.⁵ Adventist leaders initially urged caution citing an on-going review under guidance from legal counsel so it could neither "confirm or deny statements" allegedly made or quotes featured in the press. "Any such statements should be considered the personal views of the spokesperson involved and not necessarily fact that has been verified by the General Conference investigation."⁶

On the back page of the *Adventist Review* on September 10, 1981 (pg. 23) church leaders issued a press release titled "Update on Davenport Loans." When church leaders tallied the balance sheets, they discovered that \$17.8 million dollars in loans with \$3.3 million in accrued interest was outstanding from denominational entities.⁷ Many church leaders, most notably V. Norskov Olsen, president of Loma Linda University, and former General Conference president Robert H. Pierson, were left embarrassed with a loss of personal funds (Olsen reportedly held a personal claim of \$45,000).⁸

Details eventually emerged that Dr. Davenport's assets totaled an estimated \$55 million, yet his debts to creditors amounted to over \$70 million. As cash flow became an increasing problem, Dr. Davenport allegedly

made loans at two to three times the prevailing rate in order to repay loans that came due. As he became increasingly desperate, in order to repay these loans to church members and denominational entities, he was willing to allegedly offer rates of up to 80% in order to maintain liquidity. He and his wife reportedly withdrew an estimated \$1.8 million dollars before filing for bankruptcy.⁹

Aftermath

Neal C. Wilson reported to the 1981 Annual Council on October 13, 1981, that even “greater than the monetary loss” was the loss of “credibility and integrity” from the loss of “trust and confidence of our members.”¹⁰ At this same Annual Council, the denomination established a special review committee that met for the first time on October 26, 1981, to oversee any recovered assets and to establish new rules for accountability. The massive 624-page report by the committee was never made public.¹¹ Subsequently, church leaders enacted a series of resolutions to ensure greater accountability with varying degrees of discipline, including some church employees who would be barred from further denominational employment. Neal C. Wilson, General Conference president, stated, “This is by far the most sweeping discipline ever attempted within the church.”¹² Later, he added that some “50 top church officials” were “publicly disciplined,” including some who were “fired and their ministerial credentials withdrawn.”¹³ Wilson also disclosed that FBI agents were investigating Davenport’s bankrupt investment empire, although the FBI report was also never made public either.¹⁴

At the Loma Linda University Church, Wilson described the debacle as a “morass” and “mud puddle.”¹⁵ While the investigation was never publicly disclosed, Davenport’s outstanding assets were dispersed to creditors in bankruptcy court. By 1983 Davenport was removed from church membership in the Loma Linda University Church.¹⁶ He moved out of his Beverly Hills condominium to continue a lavish lifestyle at a new condo in Newport Beach, where he continued to practice medicine in Corona del Mar. Newspaper articles noted how he continued to drive a flashy red Mercedes while playing tennis each day.¹⁷

On January 4, 1983, the 15-member “President’s Review Commission” reported back to General Conference Officers. They requested that those who were to receive administrative discipline be interviewed by the General Conference Officers, who would in turn report back to the committee if they altered any of the disciplinary recommendations.¹⁸ By February 24, 1983, Wilson had completed this interview process and reported back to the General Conference Committee. Of special concern was the violation of two policies GC S 40, “Safeguarding the Funds of the Cause and Investments” and GC S 50 “Conflict of Interest.” In addition, Wilson cited areas of concern that included “personal loans to D. J. Davenport, unusual financial relationships, excessive returns on investments, unauthorized use of denominational position to encourage investments with Dr. Davenport, and lack of attention to auditor’s statements.” Church financial leaders who ignored financial warnings by auditors were in “dereliction of fiduciary responsibility.” As a result, the General Conference officers decided that names would “not be published by the Church in the *Adventist Review* or elsewhere.” Instead, “The General Conference

will, however, through personal representation by General Conference and/or the North American Division Officers, require that responsibility be assumed by controlling boards and committees for the administering of discipline.”¹⁹ The case of Alva R. Appel (1922-2006), secretary of the Columbia Union Conference from 1964 to 1980, was considered to be particularly egregious as his was the first and only case to be voted on by name by the GC Executive Committee immediately after the initial report was made by Wilson.²⁰ Appel, who was a son-in-law to former church president R. R. Figuhr, afterward went into chaplaincy.

Neal C. Wilson gave a concluding public report about church discipline to church leaders caught up in the Davenport affair on March 24, 1983, in an *Adventist Review* report titled: “The Davenport Affair: Further Report.” In it, Wilson reported that he and vice-president for North America, C. E. Bradford, “had interviewed those in responsible positions who were the most directly involved in the Davenport loans.”²¹ The 15-member “President’s Review Commission” met with the General Conference Officers on February 20-21, 1983, and reviewed the recommended discipline for 80 out of 163 cases (two had died and the rest were cleared). “Eighty individuals are being recommended for either public or private discipline in four different categories of discipline. In harmony with church organization, the recommendations are being referred to the local boards and committees where these individuals are currently employed for implementation of the discipline.”²² After comparing the commission’s recommendations juxtaposed with oral testimony, the General Conference officers increased the discipline in five cases and decreased it in 20 other cases.²³ The four categories of escalating discipline included: (1) A private letter of administrative warning; (2) a private letter recommending administrative reprimand for dereliction of fiduciary responsibility; (3) A private letter recommending administrative reprimand for dereliction of fiduciary responsibility and a transfer or reassignment to some other type of work; and (4) permanent termination from denominational employment and loss of ministerial credentials. Ultimately only three individuals received this last form of discipline.²⁴ In addition to Appel, already mentioned, John F. Wilkens, was also cited for administrative reprimand; while treasurer of the Upper Columbia Conference he had made investments with church funds between 1976 to 1978. He was urged “to learn and benefit from this administrative reprimand” in his new role as treasurer of the Trans-Africa Division.²⁵ Appel and Wilkens were the only two church leaders mentioned by name for discipline in the General Conference Committee Minutes.

A significant controversy emerged about the publication of the names of church leaders caught up in the Davenport scandal. At first, *Adventist Review* editor William G. Johnsson and church president Wilson indicated that the names would be published at a meeting held in Loma Linda. Afterward, Johnsson felt convicted that this was wrong and that this flagship publication should not be used to publicly shame individuals.²⁶ Church president Wilson ultimately decided not to pursue this course of action. This decision prompted a wide response, as evidenced by letters ranging from general support to concerns about accountability. Brian E. Strayer, a young history professor at Southern at the time, urged that “three groups who have the *right* to know them: Adventist historians, who must preserve with integrity as nearly an unwhitewashed record of our church’s

past as possible; conference and union leaders into whose territories some of these erring brethren will be transferred; and, most of all, every church member who lost funds invested through church channels with Davenport."²⁷ Ultimately, the list of names was never published, prompting intense speculation, particularly if people were reassigned or retired soon after the commission finished their work.

A final report tallying all losses after litigation and insurance recovery did not occur until Wilson reported to the 1989 Spring Meeting of the General Conference. He noted that the church paid out approximately \$2 million dollars in legal and accounting fees. Of the missing \$17.9 million dollars along with \$3.1 million dollars in unreimbursed income and expenses, the church had been able to recover just over \$12 million dollars with an additional \$4 million dollars recovered through insurance.²⁸ After a \$1.158 million dollar church subsidy used to offset expenses (to defray legal and accounting expenses), this left a net loss for the denomination of \$3.75 million dollars.²⁹

The Davenport scandal did result in changes to denominational financial practices. One significant tangible result: all denominational employees (up to the present time of writing) are required to, on an annual basis, sign a conflict-of-interest form to disclose any personal financial interest behind decisions made on behalf of the church. While such forms existed before the scandal, signing them at all denomination levels became more widespread and strictly enforced.³⁰ In addition, the second phase of the President's Review Commission made an additional 26 specific recommendations pertaining to investment policies, auditing, trust services, and communication that were presented to the 1984 Annual Council.³¹ The 1985 *Working Policy* included more specific guidelines on the investment of denominational funds.³² This included a new policy on securing real estate investments³³ and additional clarification on what constitutes a conflict of interest.³⁴ "A conflict of interest arises," in this new language, "when a trustee, an officer, or an employee of the organization has such a substantial personal interest in a transaction or in a party to a transaction that it reasonably might affect the judgment he exercises on behalf of the organization."³⁵ A separate section of *Working Policy* emphasized the need for submitting a "Statement of Acceptance."³⁶

The Davenport scandal exposed how vulnerable the denomination was when it did not follow its own internal financial policies and best practices and consistently ignored warnings by auditors and internal control mechanisms. As tragic as the loss of funds was for individuals and church entities, the Davenport scandal highlighted the need for church leaders to be more aware of financial transparency and how the requisite same leaders invested funds. It furthermore raised issues about authority, how the denomination should conduct church discipline when leaders fail, and ultimately, the need to examine systems of leadership responsibility.

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