

**2006 Independent Investigation  
of  
Allegations of Misuse of  
Baptist General Convention of Texas Funds for  
Starting Churches in the Rio Grande Valley**

Commissioned by the Baptist General Convention of Texas

October 31, 2006

In May 2006, the Baptist General Convention of Texas<sup>1</sup> commissioned an independent investigation in response to allegations regarding the misuse of BGCT funds for new church starts in the Rio Grande Valley<sup>2</sup>. This report is the culmination of that independent investigation. Its purpose is to chronicle some of what occurred and to offer recommendations to detect or prevent similar problems.

I. Background

BGCT is Committed to Starting New Churches

The BGCT has a long history of providing funds to help start new churches throughout Texas. The BGCT requires an existing Baptist church to initiate the process for starting churches. The “sponsor church” identifies a need for a new church and commits to help plant a new church to address that need. The commitment from the sponsor church is serious. It is a commitment to provide practical guidance, spiritual support and financial assistance for the new church.

Additional support for the new church is generally provided by the BGCT through its Church Starting Center.<sup>3</sup> The Church Starting Center is dedicated to the principle that “starting churches is the most effective method of reaching people for Christ...”<sup>4</sup> Thus, it provides the new church with a church consultant<sup>5</sup>

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<sup>1</sup> For simplicity, the Baptist General Convention of Texas will be referred to as the “BGCT” in this report.

<sup>2</sup> For purposes of this report, the terms “Rio Grande Valley” and “Valley” refer to Hidalgo County, Cameron County, Willacy County and Starr County. A map is provided as Exhibit 1.

<sup>3</sup> The BGCT’s Church Starting Center is committed to help plant new churches in Texas. It has been a department of the BGCT in the past and is currently a Church Starter Team within the Congregational Strategists department. It has been referred to by different names over the years, such as the Church Multiplication Center. For simplicity, the reference to the “Church Starting Center” is a reference to all.

<sup>4</sup> *New Church Development Guidelines*, prepared by the BGCT State Missions Commission, assigned to the Church Starting Center, dated August, 2001, at p.3. These 2001 guidelines will

as well as financial assistance. Additional support for the new church is usually provided by the local Baptist association. The local Baptist association's Director of Missions serves as liaison between the new church, the sponsor church and the Church Starting Center.<sup>6</sup>

### Dr. Otto Arango's Approach to Starting Churches

In May 1994, the Church Starting Center presented "Vision 2000" to the Hispanic Baptist Convention in Texas.<sup>7</sup> Vision 2000 was a new strategy for starting Hispanic Baptist churches in Texas. It had the ambitious goal of starting 600 new Hispanic Baptist churches in Texas by May 2000.<sup>8</sup>

Around the same time, Dr. Otto Arango<sup>9</sup>, the pastor of Gethsemane in McAllen, created a new way of starting churches. His idea was to train laymen to start and pastor their own church. Each new church would start out as a group that met in a house. The idea was that each "house church" would grow and become a large church or merge with other house churches to become a large church. Once the house church became a large church, the pastor would, in turn, train its members to be pastors. The newly trained laymen would then start and pastor their own "house churches".<sup>10</sup> To assist in the training of lay pastors, Dr. Arango started a "Training Center" at Gethsemane. Several representatives of the BGCT visited the Training Center, including, Dr. E.B. Brooks, the Director of the Church Starting Center. Thereafter, the BGCT provided a \$100,000 loan for the expansion of Gethsemane's facility to accommodate the Training Center.<sup>11</sup>

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be referred to as the "Guidelines". They are attached as Exhibit 2. The Guidelines were produced to the investigators on October 7, 2006.

<sup>5</sup> A Church Consultant is a BGCT employee assigned to a geographical area for purposes of assisting new churches in that region. Although sometimes called a "Church Starter", throughout this report the reference to "Church Consultant" is a reference to both.

<sup>6</sup> Guidelines at p.17.

<sup>7</sup> *Vision 2000 Church Starting Strategy Final Report* ("Vision 2000 Report"). The Vision 2000 Church Starting Strategy Evaluation Committee, June 2000, is attached as Exhibit 3. This document was produced to the investigators on October 7, 2006.

<sup>8</sup> The *Vision 2000 Report*, referenced in Footnote 7, indicates that the goal was met and surpassed. Vision 2000 produced 679 Hispanic churches. Interestingly, Dr. Otto Arango, Dr. Aaron de la Torre and Church Consultant David Guel were members of the Vision 2000 Church Starting Strategy Evaluation Committee. Dr. E.B. Brooks was the Director of the BGCT Church Starting Center at that time.

<sup>9</sup> Dr. Otto Arango is from the Dominican Republic. He moved to the Valley in 1973 and began to teach at the Rio Grande Bible Center. Dr. Arango has degrees from four different universities. He was called to be the pastor at Iglesia Bautista Getsemani in McAllen in 1991 or 1992. "Iglesia Bautista" means "Baptist Church" in English. For simplicity, Iglesia Bautista Getsemani will be referred to as "Gethsemane" in this report. This information was gathered from Dr Otto Arango during an interview conducted on October 5, 2006 by Diane Dillard and Michael Rodriguez.

<sup>10</sup> Dr. Otto Arango described this concept in an interview with Diane Dillard and Michael Rodriguez on October 5, 2006.

<sup>11</sup> This loan was paid back according to Dr. Arango in his interview on October 5, 2006. The investigators have not independently confirmed this representation because BGCT loans were outside the scope of the investigation.

The Church Starting Center was very interested in this new approach and paid Dr. Arango to teach his method of church starting to other pastors across the state. The Church Starting Center also funded reprints of Dr. Arango's "Training Books" that he had written and used in the Training Center. The Training Books were written in Spanish and at that time came in a 10 volume set.<sup>12</sup> Over the years, the BGCT paid at least \$170,000 to have the Training Books republished.<sup>13</sup> There are conflicting reports as to whether the Training Books were given or sold to pastors.<sup>14</sup>

### Dr. Arango and Protégés Start Over 250 New Churches

Also during this time, Dr. Arango began starting more and more house churches with the assistance of funds from the BGCT. Initially he started 79 new churches through Gethsemane. Later, while still pastor of Gethsemane, he started 34 new churches through the Institute for Church Planting, Inc., a non-profit corporation that he founded.<sup>15</sup> BGCT records indicate that a total of 113 churches were started by Dr. Arango between 1999 and 2005 and that these churches received \$676,291.<sup>16</sup>

Dr. Arango also encouraged other pastors in the Valley to start house churches. One of these pastors was Aaron de la Torre, the pastor of Iglesia

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<sup>12</sup> Dr. Arango's books were later published in a 2 volume set. They have been translated into Portuguese. They have not been translated into English.

<sup>13</sup> This amount is the total of checks found by the BGCT and three checks provided by Dr. Arango. The BGCT staff is unable to determine how much money was actually spent on reprinting the Training Books or how many of the Training Books were reprinted. Interestingly, the three checks provided by Dr. Arango, totaling \$85,000, were made payable to Richard Mora. In his interview, Dr. Arango explained that Ricardo Mora owned the printing company in Mexico that republished the Training Books. All three of these checks were deposited in Texas State Bank Account #1101390, Dr. Arango's personal checking account. See Exhibit 4.

<sup>14</sup> Rene Lizcano, in his interview on June 22, 2006, stated that he paid \$700 for a set of Training Books. Dexton Shores, in his interview on June 21, 2006, stated that the BGCT River Ministry paid \$20,000 to republish the Training Books. This BGCT check was one of the checks made payable to Richard Mora that was deposited in Otto Arango's personal checking account.

<sup>15</sup> Attached as Exhibit 5 is a copy of a three year contract beginning October 1, 2002 between the Church Starting Center and the Institute for Church Planting. This contract approved an initial annual budget of \$181,000, with \$53,000 to be paid to Dr. Arango as the Project Director and \$24,000 to be paid to Dr. Arango's wife, Allison, as the Executive Assistant. The Institute for Church Planting, sometimes called the Church Planting Institute, will be referred to as the "Institute".

<sup>16</sup> BGCT Final Valley Data Base spreadsheet provided October 18, 2006. See *Summary Sheet* at Exhibit 6. Dr. Arango started new churches prior to 1999, so the number of churches he started is actually higher according to the BGCT records. In addition, on October 26, 2006, investigators were provided with information regarding an additional 50 preaching points at apartment houses that were funded by the BGCT. See Exhibit 7. These documents indicate that the "Church Planting Church" received a check dated February 11, 2000 for \$75,000, \$1,500 per preaching point. This BGCT check, No.158969, was deposited into the personal bank account of Dr. Arango.

Bautista de la Comunidad<sup>17</sup>. In a September 13, 2006 interview, Pastor de la Torre said that Dr. Arango encouraged him to apply for new church start up funds for his existing Bible study groups and for additional new house churches<sup>18</sup>. Pastor de la Torre soon became one of the most prolific church starters in the Valley. According to BGCT records, Community Baptist received church starting funds for 89 new churches between 1999 and 2005.<sup>19</sup> Pastor de la Torre also grew his own church from four families to over five hundred members in a few years. Community Baptist now meets in a new building located across the street from the Dodge Arena in Hildalgo, Texas.

Dr. Arango also helped Pastor Armando Vera. In fact, Dr. Arango sponsored Pastor Vera's first church, Iglesia Cristiana Alianza,<sup>20</sup> which met at the Vera's house in McAllen. Christian Alliance outgrew Pastor Vera's house and now meets in a building located in Pharr. According to Pastor Vera<sup>21</sup>, Dr. Arango encouraged him to seek funding from the BGCT for new church starts. BGCT records indicate that Christian Alliance received church starting funds from the BGCT for 56 new churches between 1999 and 2005.<sup>22</sup>

According to BGCT records provided on October 18, 2006, Dr. Arango, Pastor de la Torre and Pastor Vera applied for start up funding for at least 258 new churches in the Valley between 1999 and 2005. The same BGCT records indicate that the total number of new churches started in the Valley during this same time frame was 357. Thus, these three pastors started 72.3% of the churches started in the Valley at that time.

#### Dr. Arango's Financial Status

During this time frame, 1997 to 2003, in addition to starting new churches, Dr. Arango continued to work as the Pastor of Gethsemane.<sup>23</sup> He also, however, entered into a five year contract with the BGCT to teach his church starting

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<sup>17</sup> *Iglesia Bautista de la Comunidad* means "Community Baptist Church" in English. For simplicity, the church will be referred to as "Community Baptist" in this report.

<sup>18</sup> Pastor Aaron de la Torre was interviewed by Diane Dillard and Michael Rodriguez on September 13, 2006. Also present was Marisela de la Torre, Pastor de la Torre's wife who was also the former Director of Missions for the church. Also present was George de Villiers, a professional interpreter, who interpreted the interview from English to Spanish and Spanish to English.

<sup>19</sup> BGCT Final Valley Data Base spreadsheet provided October 18, 2006.

<sup>20</sup> *Iglesia Cristiana Alianza* means "Christian Alliance Church" in English. For simplicity, the church will be referred to as "Christian Alliance".

<sup>21</sup> Pastor Armando Vera was interviewed by Diane Dillard and Michael Rodriguez on September 21, 2006. Also present was Pastor Vera's wife, Dr. Luz Vera, who is the Minister of Missions for Christian Alliance. Also present was George de Villiers, a professional interpreter, who interpreted the interview from English to Spanish and Spanish to English.

<sup>22</sup> BGCT Final Valley Data Base spreadsheet provided October 18, 2006.

<sup>23</sup> Dr. Arango stated that he was paid \$64,000 a year by Gethsemane. October 6, 2006 interview.

method to other Baptist churches in Texas.<sup>24</sup> In addition, he had similar contracts with local Baptist associations such as Eagle Pass Association, Tri-River Association, Dallas Baptist Association, Gainesville Association, Union Baptist Association, Johnson Baptist Association, Gulf Coast Baptist Association and Coastal Bend Baptist Association.<sup>25</sup> As a result of these contracts with numerous local Baptist associations, Dr. Arango regularly traveled across the state.<sup>26</sup>

When interviewed with Diane Dillard and Michael Rodriguez, Dr. Arango said that he made a lot of money promoting his vision of planting churches and that this created jealousy among some of the Valley pastors. In addition, he said that the “complainers” were envious of the Gethsemane facility in part because it was debt-free.

### Allegations

Almost from the beginning of the implementation of Dr. Arango’s new vision, rumors and questions about the new church starts surfaced in the Valley. For example:

- Were “house churches” “new churches”, cell groups or Bible study groups?
- Were some of the house churches “phantom churches” that did not exist except on paper?
- Did some church pastors misuse church start up funds?
- Did some people at the BGCT know about the misuse of church start up funds?

The BGCT on several occasions sent representatives to the Valley to review the situation and assure the “complainers” that everything was fine. These

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<sup>24</sup> Dr. Arango stated that he was paid \$4,400 a month by the BGCT. He estimated that the BGCT paid him “no less than \$500,000” in honorarium and reimbursement expenses. October 5, 2006 interview.

<sup>25</sup> In his October 5, 2006 interview, Dr. Arango stated that he was also paid the following amounts from local Baptist associations: Eagle Pass Association (\$2000/month), Tri-River Association (\$1700/month), Dallas Baptist Association (\$3200/month) and Gainesville Association (\$2200/month). The total of payments from local associations is \$9,100 a month. He did not provide an estimate of the payments he received from his contracts with Union Baptist Association, Johnson Baptist Association, Gulf Coast Baptist Association and Coastal Bend Baptist Association. He did, however state that he received \$14,000 a month from local associations. Presumably the \$9,100 is contained within the \$14,000 monthly figure; however, that is an assumption. None of these figures have been verified at this time. October 6, 2006 interview.

<sup>26</sup> Dr. Arango, in his October 5, 2006 interview, stated that during his travels for the different Baptist Associations, he would charge the travel expenses to the BGCT. He stated that he would also receive numerous “offerings” when he worked around the state, which he kept and spent. Many of these offerings were received after “giving away” his literature for church starting. Dr. Arango stated that he received as little as \$1500 to a maximum of \$2900 per month in “offerings.” During the interview, Dr. Arango pulled out a large amount of cash from his pocket and said, “Like this, this is \$400, I am to spend it.”

meetings did not change the BGCT's position nor did they alleviate the concerns of the "complainers".<sup>27</sup>

The rumors and questions persisted. Eventually, the BGCT hired an attorney to conduct an independent investigation of these matters. Thus in late May of this year, the independent investigation began.

## II. Independent Investigation

### A. Attorney Selected

In late May 2006, the BGCT selected D. Diane Dillard, a Brownsville attorney, to lead the independent investigation team. The terms of her engagement are set out in a May 16, 2006, letter. Among other matters, the letter clarifies three things:

1. The client is the BGCT, not the Executive Board, and not the BGCT officers or employees.<sup>28</sup>
2. Robert K. Fowler and James L. Nelson are the designated client contacts for communications between the investigative team and the BGCT.
3. The BGCT officers and employees must cooperate with the independent investigation.<sup>29</sup>

### B. Investigative Team Selected

After initial research and discussions with Mr. Fowler and Mr. Nelson, Ms. Dillard selected a Brownsville law firm to assist her with the investigation. In addition, she hired an accounting firm to review financial documents and procedures for accountability and fraud protection. She also hired an investigation firm to assist with interviews.

The investigation team included:

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<sup>27</sup> "Complainers" is the term used by Dr. Arango in his interview on October 5, 2006.

<sup>28</sup> "Sometimes when an attorney is representing an entity, there is a misunderstanding as to whether the attorney also represents the members of the Executive Board, officers and employees of that entity. So that there is no misunderstanding in this case, I want to clarify that my only client in this matter is the BGCT. I do not represent any of the members of the BGCT's Executive Board, or any of its officers or employees. This means that any information provided to me by anyone at the BGCT can be used in connection with this investigation and can be used in my report." May 16, 2005 letter from D. Diane Dillard to the Baptist General Convention of Texas c/o Robert K. Fowler and James L. Nelson, p.2.

<sup>29</sup> "In order that I might investigate this matter efficiently and effectively, the BGCT will direct all of its officers and employees to disclose fully and accurately all facts and keep me informed of all developments relating to this matter. The accuracy and completeness of the facts and information provided by the BGCT will have a significant impact on my ability to unearth the truth regarding this matter." *Id.* Subsequently, Ron Gunter, the Chief Operations Officer, was designated as the team's contact for BGCT document requests.

- D. Diane Dillard<sup>30</sup>
- Michael Rodriguez, a Brownsville trial attorney and former federal prosecutor.<sup>31</sup>
- A. Carlos Barrera, a Certified Public Accountant and Certified Fraud Examiner.<sup>32</sup>
- Gregorio Castillo, an experienced Spanish speaking investigator with Investigative Research, Inc.<sup>33</sup>

### C. Scope of Investigation

The BGCT requested Diane Dillard conduct an independent investigation of certain allegations regarding misappropriation of BGCT church starting funds in the Rio Grande Valley. She was given the authority to conduct the investigation as she deemed appropriate and necessary. Ms. Dillard was also given authority to hire an investigative team to assist her with this investigation. Her task was to determine the nature of the allegations that had been alleged and to determine if there was proof that supported or disproved these allegations. She was also asked to determine if BGCT procedures were followed in connection with the disbursement of funds. Ms. Dillard's assignment also included a review of the BGCT's response to these allegations. Finally, she was hired to compile a written report of her findings and make recommendations to the BGCT.<sup>34</sup>

As with almost any investigation, there are certain limitations to the scope of this assignment. For practical reasons, after the initial review of records available at that time, it was agreed that the investigation would be limited to church starts in the Rio Grande Valley between 1999 and 2005. The investigation would include the BGCT's response to allegations of misuse of start up funds.

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<sup>30</sup> Ms. Dillard is a Baptist and a graduate of Baylor University and Baylor University School of Law. She has practiced law for twenty seven years. In a May 2006 press release, Robert Fowler, Chair of the Executive Board of the BGCT, described Ms. Dillard as a "widely-respected business attorney, known through out the state for her service to the Texas legal profession and leadership in promoting the ethical standards of attorneys." She has been named a "Texas Super Lawyer" by *Texas Monthly* for the last three years.

<sup>31</sup> Mr. Rodriguez is a graduate of The College of William & Mary and The University of Texas School of Law School. He grew up in Brownsville and speaks Spanish. Mr. Rodriguez has practiced law for eleven years and is a partner in the firm of Rodriguez & Nicolas, L.L.P. Mr. Rodriguez was recognized as a "Texas Rising Star" by *Texas Monthly* in 2004.

<sup>32</sup> Mr. Barrera earned his BBA from The University of Texas at Austin and his MBA from The University of Texas at San Antonio. He is a partner in the accounting firm of Long Chilton, L.L.P. In addition to his thirty years of experience and expertise, he is a native of Brownsville and speaks Spanish.

<sup>33</sup> Investigative Research, Inc. is headed by former U.S. Postal Inspector Douglas Beard. IRI, which has been in existence for 25 years, has offices in the United States, Mexico and South America.

<sup>34</sup> A May 16, 2005 letter from D. Diane Dillard to the Baptist General Convention of Texas c/o Robert K. Fowler and James L. Nelson, confirms this assignment.

Upon the suggestion of the investigators, the client agreed that the investigation would not include:

- BGCT Loans to Valley churches
- Churches started in Mexico
- The River Ministry
- The Piper Institute for Church Planting

After research and interviews, the attorneys, with the agreement of the BGCT, decided that the independent investigation would focus on new churches started by the three pastors who were responsible for starting the most new churches in the Valley during the period between 1999 and 2005. According to BGCT records, these three pastors collectively started 258 new churches in the Valley, or 72.3% of the new church starts in the Valley.<sup>35</sup> These pastors were:

- Dr. Otto Arango (Gethsemane and the Institute),
- Pastor Aaron de la Torre (Community Church) and
- Pastor Armando Vera (Christian Alliance).

#### D. Limitations

As with any investigation, the investigators encountered limitations which necessarily limit the scope and effect of the report. Those limitations are listed below. This report is only a representation of what the investigation team knows on October 31, 2006. It is not a report of a completed investigation.

1. Incomplete Data -Lack of Subpoena Power. This was a private investigation, as opposed to an investigation initiated by the government or an investigation in conjunction with a civil lawsuit. The investigators did not have subpoena power. Without subpoena power the investigators had no means to compel a witness to discuss the events or to compel production of documents and records. They also had little ability to test the reliability of information voluntarily produced.

2. Limited Means to Test Credibility. Since all individuals interviewed did so voluntarily and informally, the investigators in many instances were compelled to rely on the individual's untested statements as being true. Verification was sought through additional interviews and documentation, but it was not always available. By necessity, the interviewers had to rely in some instances on the honesty and accuracy of the person being interviewed. Consequently, the interviewers cannot guarantee the truthfulness or accuracy of statements made by those interviewed. The investigators in many instances have no way of knowing whether these individuals would give the same information if

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<sup>35</sup> BGCT Final Valley Data Base spreadsheet provided October 18, 2006.

placed under oath and made subject to cross examination or if confronted by anyone other than the investigators.

3. Complications in Reviewing Data. The data provided by the BGCT was complicated by the fact that positions, departments, procedures, guidelines, personnel and computer systems changed during the period of time being investigated. The investigative team also found that some of the data provided by the BGCT staff was incomplete and unreliable. This was not seen as intentional, but rather as a result of the BGCT systems for record keeping and collecting data.<sup>36</sup> There was a lack of a central depository for all relevant information regarding a new church start. This made access to meaningful data difficult and in some instances impossible.

As an example, the Church Starting Center gave each new church start a file number and the Church Starting Center's files and information were arranged by that file number. The Accounting/Finance department assigned a vendor ID number for check payees and organized the accounting files and data by the vendor ID number. The Information Systems department assigned a BGCT ID number to each new church and certain information was filed by that number. Thus, the information provided by the BGCT came from three different record keeping systems. In other words, the data on one church start was filed in different places under three different numbering systems and often there was no way for the investigators to merge this information together.<sup>37</sup> Eventually, the BGCT staff was able to merge this data in a spreadsheet, but totals from the Church Starting Center and totals from the Accounting/Finance Department did not match. Nor did they match the outside accountant's figures.

This was a major impediment to the investigation. In May 2006, Diane Dillard asked the BGCT three questions:

- How many churches were started in the Valley?
- How much money was funded by the BGCT?
- How many of the churches still existed?

She received a final answer on October 19, 2006. The accuracy of the answer, however, could not be guaranteed.

4. Unreliable Information. It became clear during the investigation that some of the information provided by the BGCT was unreliable.

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<sup>36</sup> Nearly all of the BGCT employees were extremely eager to provide the investigators with the information requested. The problem of incomplete and unreliable data seems to have been a result of an inadequate data tracking system.

<sup>37</sup> There were many BGCT employees that worked tirelessly to help collect the data in a meaningful format. The investigators want to particularly thank Mary Barnett of the Church Starting Center, Clay Price and Mary Riley of Information/Systems and Jill Larsen, the Controller for their work that was time consuming and often tedious.

Some of the documents, such as New Church Monthly Reports<sup>38</sup> were found to be fabricated.<sup>39</sup> In addition, spreadsheets produced by data collected from the Church Starting Center indicated funding at levels that were not the same in the data sheets produced by the Accounting area or the data sheets produced by Carlos Barrera, the investigating accountant.<sup>40</sup> With hard work on the part of the BGCT staff and the investigation team, many of the discrepancies were resolved, but not all. In addition, the BGCT record of active and inactive churches did not comport with information the investigative team gathered in the field. This was in large part due to the dependence by the BGCT on local churches and associations to report voluntarily on disbanded churches. This discovery created considerable doubt as to the accuracy of any statistics regarding the effectiveness of the church starts in the Valley.

5. Delayed Document Production. A document request was made on July 25, 2006 for all data and files relating to the investigation.<sup>41</sup> A significant number of documents, checks and spreadsheets were provided by the Church Starting Center, Accounting/Finance and Information Systems. The massive production, however, did not include everything requested. Additional requests were made by telephone and e-mail, as well as in person. The information requested was not always promptly supplied to the investigators. For example:

- The investigators met at the BGCT's offices in Dallas in early June. At that time, they requested information for all BGCT funding of new church starts in the Valley for the period between 1999 and 2005. This request included total number of churches started and total funding received. In answer to this request, Abe Zabaneh, the former head of the Church Starting Center before reorganization, produced a spreadsheet that apparently only included data up to 2003. When asked to include the 2004 and 2005 data, he did; but he left off data from all Borderlands Association churches<sup>42</sup>, which was also requested in July. When reminded to include the Borderlands Association churches, he complied; but he left off the 2004 and 2005 payments to the Borderlands Association churches. The investigators received a revised spreadsheet the first week of October; however this spreadsheet did not include the last nine months of 2005. A

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<sup>38</sup> New Church Monthly Reports are required by the BGCT for continued monthly funding of new churches. In this report New Church Monthly reports will be referred to as "Monthly Reports".

<sup>39</sup> See **Exhibit 8**, a collection of new church Monthly Reports.

<sup>40</sup> See the report of Carlos Barrera dated October 20, 2006 attached as Exhibit 9.

<sup>41</sup> This letter is attached as Exhibit 27.

<sup>42</sup> The Valley was served by the Rio Grande Valley Baptist Association ("RGVBA") for over 100 years. Otto Arango, Aaron de la Torre, Armando Vera and Elliud Guzman created the Borderlands Association in 2003. This break from the RGVBA was due to dissatisfaction with accountability measures imposed by the RGVBA. See letter dated September 22, 2003, attached as Exhibit 10.

corrected revised spreadsheet was finally received on October 18, 2006.

- Although requested several times, Mr. Zabaneh failed to provide the Church Starting Center's policies and guidelines for starting new churches. On September 27, 2006, he provided a pamphlet called *The Starting Point – A Resource for Cooperation in Starting Missional Churches*, which was prepared by the Church Starting Center. However, the booklet produced was the April 30, 2006 version, which would not have been applicable to the relevant time frame of the investigation. Mr. Zabaneh initially said that there were no copies of the earlier versions of the pamphlet. Eventually, the investigators received the appropriate versions on October 7, 2006. By that time, the last interview for the investigation had already been conducted, making it impossible to question witnesses on the church starting procedures. The failure to produce these documents, thus, significantly impeded the investigation.
- The investigators were not informed of the existence of files maintained by E.B. Brooks that were in the possession of the BGCT. Dr. Brooks is the former head of the Church Starting Center and the subsequent head of the Church Missions & Evangelism department that oversaw numerous areas including the Church Starting Center.<sup>43</sup> These files were supplied to the investigators on October 7, 2006.

6. Lapse of Time. Much time elapsed since many of the new churches were planted. This lapse in time made the investigation more difficult. For example, many house churches moved or closed. Witnesses moved and could not be found.<sup>44</sup> Memories as to specifics dulled. BGCT employees changed jobs, were reorganized, or assigned to different departments.

7. Time. The initial description of the work involved in this undertaking and the amount of time needed for the investigation was grossly underestimated by the BGCT. As the research and interviews progressed, it became clear that the subject of the investigation was significantly more complex than originally believed or described. Thus, the time period to accomplish the investigation needed to be increased. Understandably, the client insisted that the investigation report must be presented before the BGCT annual convention in November. This time limitation along with the budget concerns, however, limited some of the information that could be collected.

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<sup>43</sup> Dr. E. B. Brooks is currently the Executive Director of the Piper Institute for Church Planting, a tax-exempt non-profit 501(c) (3) corporation.

<sup>44</sup> Greg Castillo reported that of the 42 house churches he was asked to locate, only 13 witnesses could be found.

8. Costs. In addition, as with any client, there were restraints on the cost of the investigation. The initial cost estimate was based on a BGCT projection that the investigation would be rather simple and would take approximately 6 weeks. As stated above, the time estimate was grossly inadequate, and thus the costs associated with a lengthier investigation were much higher than the original estimate. However, the increased costs in some cases were incurred directly because of the additional work required by the investigators due to the unavailability of user friendly data and delays in production of certain information by the BGCT.

E. Description of the Work Performed

During the investigation, the investigators reviewed files and information on approximately 400 Valley churches, including hundreds of documents and over 2,000 checks provided by the BGCT. They traveled throughout the Valley to interview pastors and lay people and collect data. They spent several days in Weslaco at the office of the Rio Grande Valley Baptist Association reviewing the Association's files. They made three trips to Dallas to interview officers and employees of the BGCT. They also traveled to Mineral Wells, Richardson, Houston and San Antonio to interview others with pertinent information. Over 35 people were interviewed in connection with the investigation.<sup>45</sup>

Gregorio Castillo, an investigator with Investigative Research, Inc., was asked to visit 42 house churches to determine how many were still active.<sup>46</sup> During his search, he located 13 individuals who were identified as "new pastors" in the BGCT records. Mr. Castillo's interviews, all conducted in Spanish, were enlightening with regard to how the new church starts worked at the ground level. The interviews and photographs of locations are included in the Investigative Report compiled by Investigative Research, Inc.<sup>47</sup>

Carlos Barrera reviewed BGCT vendor files and created a spreadsheet based on more than 2,000 checks, including deposit information when available. His analysis of this data gave the investigators valuable information with regard to the flow of funds meant for new churches. Mr. Barrera traveled to Dallas to review the BGCT accounting systems in place and to interview BGCT personnel. He also reviewed BGCT audits and audit letters covering the appropriate time frame. Carlos Barrera's observations and opinions are set out in the Long Chilton, LLP report.<sup>48</sup>

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<sup>45</sup> A list of people interviewed is attached as Exhibit 11.

<sup>46</sup> The list of locations provided to Greg Castillo is attached as Exhibit 12.

<sup>47</sup> The Investigative Report compiled by Investigative Research Inc., is attached as Exhibit 13.

<sup>48</sup> The Long Chilton L.L.P. report.

### III. BGCT Church Starting

#### A. Process for Starting New Churches

To understand what happened in the Valley, it is first necessary to understand the procedural requirements of the BGCT for starting a new church. During the period between 1999 and 2005, the BGCT made several organizational changes. However, the basic line of authority stayed the same.<sup>49</sup> In addition, the Church Starting Center changed its guidelines and procedures for starting churches; however, most basic steps in the process remained intact.

The following is a brief list of the typical steps for starting a new church.<sup>50</sup> For simplicity, the list below assumes that an existing Valley church (“Sponsor Church”) in September 2001 seeks to start a new church (“New Church”) in conjunction with the Rio Grande Valley Baptist Association (“RGVBA”) and seeks to obtain funds from the BGCT to help in this endeavor.

1. The Sponsor Church identifies a need for the New Church and completes a New Church Project Proposal.
2. A Feasibility Study is conducted.
3. A New Resource Covenant Meeting<sup>51</sup> is held with the Sponsor Church Pastor (or representative), the New Church pastor, the RGVBA’s Director of Missions (Rick Hagar) and the BGCT Church Consultant (David Guel). These four people are sometimes called the “Strategic Planning Team”. At the meeting, among other matters, the following occurs:
  - A written strategic plan for the new church, including a vision statement, a statement of values, a statement of goals and action plans for one year, is developed and approved by the Church Consultant.
  - The New Church pastor must submit to leadership assessment by persons or assessment centers approved by the Church Starting Center.
  - The Strategic Planning Team selects a “coach” for the New Church pastor and discusses need for training.
  - A preliminary budget for the New Church is discussed and created. The budget includes the New Church pastor’s salary, the pastor’s expenses, ministry expenses, facilities costs and missions.

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<sup>49</sup> As an example, the 2004 organization chart is attached as Exhibit 14.

<sup>50</sup> The list is created from information contained in the Guidelines.

<sup>51</sup> The New Resource Covenant Meeting is sometimes referred to as a Resource Discovery Meeting. In this report, “Covenant Meeting” will refer to both.

Missions' giving by the New Church is expected to be a minimum of 7% of the budget to the Cooperative Program and 3% to the RGVBA.

- Rick Hagar, as the RGVBA's Director of Missions and David Guel, as the BGCT's Church Consultant, discuss resources available to the New Church through the RGVBA and the BGCT Church Starting Center.
  - A New Church Resources Covenant Agreement ("Covenant Agreement") is signed by each member of the Strategic Planning Team.
  - Report of the New Church Resources meeting is created and signed by the Strategic Planning Team.
4. Rick Hagar submits the Covenant Agreement to the Missions Committee of the RGVBA, and if approved, the Moderator of the Committee signs the Covenant Agreement.
  5. David Guel submits the Covenant Agreement to the Church Starting Center for approval.
  6. If the Church Starting Center approves the Covenant Agreement, the Covenant Agreement is submitted to the Missions Funding Committee of the State Missions Commission for approval.
  7. If the Covenant Agreement is approved by the Missions Funding Committee, the Mission Funding Committee Chairman signs the Covenant Agreement on behalf of the Missions Funding Committee. No BGCT funds are available until the Missions Funding Committee approves them.

#### B. Three Types of Funding

There are several types of funding provided by the Church Starting Center. This investigation, however, is only focused on three types of funding: start up funding, declining sum monthly funding, and grant funding.<sup>52</sup>

Start up funding is a one time gift of up to \$1,000 for items needed to start up the New Church. Examples of its use would be deposits on phone or other utilities, chairs, and teaching/training materials. Start up funding can be provided in addition to declining sum monthly funding.<sup>53</sup>

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<sup>52</sup> This report sometimes refers to "start up funds". This is a general reference that may include any of the three types of funding.

<sup>53</sup> *Id.* at p.11.

Declining sum monthly funding is provided as program support in declining increments. Ideally, at least 50% of the New Church budget would come from local resources such as the Sponsor Church and the local Baptist Association during the first three months of funding. The funding can be set up for a maximum of one year. The funding must be based on the budget and receipts of the New Church. This type of funding cannot be provided for more than thirty-six months without approval of the State Missions Finding Committee. In no event can the funding continue for more than sixty months.<sup>54</sup>

Grant funding can be funded during the first year of the beginning of the New Church. It is targeted for low-income congregations that will need significant financial support. Grant funding is not intended to be used with monthly funding. Grant funding is provided in amounts ranging from \$500 to \$7,500 and can be provided in annual increments, monthly increments, or as a one time start up grant. At least 50% of the New Church budget is expected to come from local sources, such as the Sponsor Church and the local Baptist Association.<sup>55</sup>

C. Accountability

The Guidelines indicate that:

**The Church Starting Center understands its accountability to God, Baptists in Texas, and thus must expect those with whom it works to report intentionality and effectiveness of efforts in the beginning of missional churches.**<sup>56</sup>

In reviewing this statement, questions immediately arose. What part did intentionality play in accountability? How was effectiveness of efforts measured and reported? Who was and is accountable?

1. Intention to be a Church vs. an Extension Unit

a. Only a Church could be Funded

The Guidelines indicated that the Church Starting Center was only authorized to assist with the beginning of new churches. It was not allowed to provide resources for “Extension Units”.<sup>57</sup> So how was a church different from an extension unit?

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<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at pp.11–12.

<sup>56</sup> 2001 New Church Development Guidelines, p. 3 (emphasis added).

<sup>57</sup> *Id.*

b. Definition of “Extension Unit”

The Guidelines excluded extension units because they were not considered to be churches. “Extension Units” were defined in the guidelines as follows.

**A church may choose to move beyond its walls by developing units which are designed to extend the evangelistic ministry of the church but which are not designed to be independent (autonomous church) units. These units offer Bible study, worship and/or discipleship activities. Examples of these kinds of units are:**

1. **A Neighborhood Bible study...may be conducted in a home or any place conducive to Bible study and/or worship.**
2. **A home Bible study... typically oriented to minister to the extended family.**
3. **A human needs ministry...social, economic, physical and/or psychological needs are met along with spiritual needs.**
4. **A cell group... often developed along the lines of a neighborhood Bible study, but with additional concern for ministry to, and discipleship of the participants.**
5. **A ministry to inmates... most often conducted in jail or prison.**
6. **Satellite... a church-type unit which will always function as a second location of the originating church.<sup>58</sup>**

c. Definition of Church

The Guidelines defined an indigenous<sup>59</sup> Baptist Church as follows:

1. **Identifies itself as a Baptist body of believers in Jesus Christ.**

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<sup>58</sup> *Id.* at pp. 3-4 (emphasis added).

<sup>59</sup> “Indigenous” is defined on page 3 of the Guidelines as follows: “Indigenous means that it originates and develops naturally within an identifiable people group. The common factor within the people group may be language, race, culture, geography, socioeconomic status, lifestyle or special interest.”

2. Uses language, worship style and polity which reflect the cultural and socioeconomic context of the church membership.
3. Meets on a regular (most often weekly) basis with specified times for Bible study and worship.
4. Carries out its work with indigenous leadership (except possibly the pastor).
5. Makes its own decisions and operates on a budget adopted by its members.
6. Administers the ordinances of the church.
7. Functions independently through missions, evangelism and ministry to fulfill its mission to the community and the world.
8. Provides its own financial support related to church ministries/functions and support of world missions. Ownership of church facilities and paid staff are not necessarily elements of self-support.<sup>60</sup>

This definition, however, was followed by an important exception.

**This definition serves as a tool for the Church Starting Center to identify churches. Obviously, churches that are not yet constituted fail to fulfill some of the requirements of the definition. However, if the ultimate goal of the new church ... is to fulfill all of the elements of this definition, it is considered to be a church.**<sup>61</sup>

The Church Starting Center's primary consideration for funding a new church was whether the new church had the goal of ultimately becoming a church, which coincides with the requirement of intentionality and reporting of intentionality. In a real sense, the distinction between a new church and an extension was simply the vision the sponsoring pastor, the new pastor, and the congregation had for themselves.

d. Expressed Intent Essential to Funding

All evidence gathered to date demonstrates that many of the new churches or house churches started in the Valley between 1999 and 2005 by Dr. Arango and his protégés did not fulfill all of the requirements set out for a church, including the critical requirement of intentionality or having the ultimate goal of becoming an autonomous church. Many would very likely be characterized as a Bible study, a cell group or a satellite. In other words they appear to have been extension units that should not have been funded by the Church Starting Center. So how were they funded?

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<sup>60</sup> *Id.*

<sup>61</sup> *Id.* (emphasis added).

The expressed intent of the Sponsor Church and the New Church pastor were essential to funding. Did the New Church pastor intend for his/her house church to be an autonomous church eventually? Did the Sponsor Church intend for the house church to become autonomous as opposed to an extension of itself? This intention should have been expressed before or at least at the Covenant Meeting. Obviously, the Sponsor Church pastor and the New Church pastor were responsible for their own veracity.

It appears, however, that no one was responsible for assessing the reliability of their expressed or implied intent to start a new church. In his interview on September 25, 2006, David Guel indicated that neither he nor anyone from BGCT verified that the start ups were actually New Churches, extensions, or even existed at all. The Covenant Meeting would have been an ideal opportunity for the BGCT's Church Consultant to evaluate the intent, or at least question the intent of the relevant parties, especially when multiple New Churches were being sponsored on the same day by the same Sponsor Church.

## 2. Effectiveness of Efforts

Reports of the effectiveness of the New Church's efforts also serve as a method of accountability. The Guidelines described the importance of these reports.

**Accountability is basic in the values of the Church Starting Center. Regular reporting is the simplest kind of accountability and has the most long-term value. [Church Starting Center] staff are (sic) expected to report regularly on all aspects of their ministry.<sup>62</sup>**

### a. Monthly New Church Report

The Guidelines and witnesses interviewed indicated that New Churches were required to file a Monthly New Church Report each month in order to receive its monthly check from the BGCT. To ensure that Monthly Reports were filed, the Church Starting Center was required to hold the New Church's monthly check until the report was received by the Church Starting Center.

The Monthly New Church Report contained statistical data regarding the New Church's progress, such as monthly averages for attendance in worship, attendance in Sunday school, offerings, baptisms, pastoral visits, Cooperative giving, and other essential information. This report was and is valuable to the BGCT as a history of the development of the New Church and as a tool for determining the viability of the New Church and its priority for the receipt of funds as compared to other new churches in the State of Texas.

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<sup>62</sup> *Id.* at p.16.

b. Growth Review Meeting Report

Periodic Growth Review Meetings were required as part of the accountability measures built into the system. Although there is some confusion as to how often they were required to occur. Whether required quarterly or less often, ideally the meeting included the BGCT Church Consultant, the local Association's Director of Missions, the Sponsor Church Pastor and the New Pastor. A Growth Review Report would then be completed and filed by the Church Consultant.<sup>63</sup>

c. Review of New Church Mortality Rates

From the beginning of the investigation, the investigators were told that the BGCT kept updated statistics regarding the mortality rate of BGCT Baptist churches. The "mortality rate" refers to the number of churches that are no longer active.

In a Statement dated May 6, 2006, E. B. Brooks, the former head of the Church Starting Center, said:

**The mortality rate, during my tenure, 1989 to 2005 fluctuated between 12 to 30 percent. We regularly did studies to determine factors contributing to these statistics.**<sup>64</sup>

When asked for copies of these studies, the investigators were given only one study, *Mortality Study For BGCT Church Starting Center*, written by J. V. Thomas.<sup>65</sup> This study, however, intentionally excluded the Valley.

**At the request of Abe Zabaneh the Rio Grande Valley, San Antonio, and Tarrant, were removed from the study because of lack of information.**<sup>66</sup>

The investigators first asked the BGCT for mortality figures for the Valley in May 2006. At the time, the investigators were told that mortality rates were state wide rates and that they were not kept by geographic area or by local

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<sup>63</sup> Some Growth Review Reports and Covenant Meeting reports were provided to the investigators. However, it is not clear from the documents whether they were ever reviewed or whether they were reviewed for anything other than completion or existence. In other words, it cannot be determined whether the content was reviewed. See Exhibits 15 a, b, & c.

<sup>64</sup> *In Response to Accusations of Misconduct in Rio Grande Valley Churches*, by E. B. Brooks, dated May 6, 2006, p. 3. This Response is attached as Exhibit 16.

<sup>65</sup> This Mortality Study has no date. The study reviews mortality rates for church starts between 1994 and 2001. One attachment, a spreadsheet, appears to have been run on January 14, 2004. This might suggest that the study was performed, updated or simply printed in 2004. This report was provided to the investigators on September 27, 2006.

<sup>66</sup> *Id.* at p.1.

association. Since that time, the BGCT staff worked hard to gather and update information to provide an accurate mortality rate for the churches started in the Valley between 1999 and 2005. However, interviews in the field showed that the records were still unreliable. The accuracy of these figures was dependent in large part on voluntary reporting to the BGCT. Therefore, the mortality rates are of little value in themselves but are symptoms of the larger structural and systemic dysfunctions.

#### IV. Allegations

As stated above, New Church starts in the Valley were continually the subject of rumor, allegations, and suspicion. The following list includes the allegations investigated for this report.

- A. “House Churches” were not “new churches” but instead were merely Bible study groups, cell groups or satellites of the sponsor church, which were not entitled to funding by the BGCT Church Starting Center.
- B. There were “phantom churches” that did not exist except on paper.
- C. Some church pastors misused church start up funds.
- D. Some church pastors used church start up funds for personal gain.
- E. The BGCT’s New Church Start Up Guidelines were not followed.
- F. The BGCT knew that the New Church Start Up Guidelines were not followed.
- G. The BGCT knew that some church start up funds were not being used as intended.
- H. Some people at the BGCT received money for personal gain.

#### V. What are the facts that prove or disprove the allegations?

##### A. Allegation: “House Churches” are not “New Churches”

##### 1. “New Church” vs. “Extension Unit”

The New Church Development Guidelines indicate that the Church Starting Center is only authorized to assist with the beginning of new churches. It is not allowed to provide resources for “Extension Units”.<sup>67</sup> Extension Units are excluded because they are not considered to be churches or to have the ultimate goal of becoming a church.

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<sup>67</sup> Guidelines at p.3.

Supporters of funding “house churches” argued that the house churches were new churches because they eventually intended to become autonomous. Others, disagreed because they characterized many of the house churches as Bible studies, cell groups and satellites that did not intend to become autonomous.

2. Some “House Churches” were “New Churches”

There was evidence that some of the “house churches” started in the Valley eventually became autonomous churches. For example:

- Community Baptist started out as a house church sponsored by Gethsemane.
- Christian Alliance – Pharr started out as a house church sponsored by Gethsemane.

3. Some “House Churches” were **not** “New Churches”

There was evidence that some of the “house churches” started in the Valley were not “new churches” as defined in the 2001 New Church Development Guidelines.

Gregorio Castillo, a member of the investigative team, interviewed thirteen people who were listed in the BGCT records as “new pastors” for new churches funded by the BGCT. All of the interviews were conducted in Spanish. His report indicated that all but one person interviewed “believed they were operating a ‘cell’ group for the purpose of prayer, Bible study and fellowship, not starting a new church.”<sup>68</sup> Two examples follow for illustrative purposes.

- Adan R. Salinas is the pastor of Pescador de Hombres Baptist Church in Edinburg. BGCT records indicated that at least eight new churches were sponsored by the Institute for Church Planting that were named Pescador de Hombres (1) – (8). Mr. Salinas indicated that all of these “new churches” were actually Bible studies that he led at various houses.<sup>69</sup>

Valley Data Base dated October 19, 2006, provided by the BGCT, lists the sponsoring pastor as Dr. Otto R. Arango. The BGCT records indicate that these “churches” were provided at least \$92,570 in church start up funds. Previous spreadsheets prepared by the BGCT have included 3 more churches that are named Pescador de Hombres 9, 10 and 11. Other data sheets have indicated that there were new churches named Pescador de Hombres A, B, C, and so on.

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<sup>68</sup> *Investigative Report*, Investigative Research, Inc., dated September 11, 2006, p.2.

<sup>69</sup> *Id.* at p.7.

During his interview Dr. Arango produced a document signed by Pastor Salinas in which Pastor Salinas purports to “testify” that he received \$48,000 “to start 13 new churches in the Rio Grande called ‘Pescador de Hombres’.”<sup>70</sup>

The investigators have not been able to account for the funds above the \$48,000 Pastor Salinas received.

- All eight of the “new pastors” interviewed in connection with starting “new churches” for Christian Alliance<sup>71</sup> reported that they were not ministers and they had no intent of starting a new church.<sup>72</sup> For example, Mrs. Mimi C. Cadena, reported that she lead a cell group of young people. She said that she received correspondence from the BGCT referring to her home as “Iglesia Cristiana Alianza-Fairmont” and to her as a “pastor”. She indicated that this was not correct. Mrs. Cadena said that she had “no intention of becoming a minister or starting a new church.”<sup>73</sup> Another example is Mr. Manuel I. Trevino. He reported that he hosted a weekly cell group for approximately 5 or 6 months in 2002. He stated that he got mail from the BGCT referring to him as a Baptist minister, which bothered him. He stated that he was not a Baptist minister and that he did not “consider himself to be a Baptist” and “does not like to be called a Baptist”. He indicated that he joined Christian Alliance because it was an interdenominational church.<sup>74</sup>

Diane Dillard and Michael Rodriguez interviewed Pastor Aaron de la Torre on September 13, 2006.<sup>75</sup> He is the pastor of Community Baptist. During the interview, Pastor de la Torre admitted that all of the new churches he sponsored or co-sponsored were actually cell groups.<sup>76</sup> He also admitted that he never had an intent for these groups to become independent churches. Pastor de la Torre said that he wanted to tell the truth and “be honest before God.” He also offered to pay restitution.<sup>77</sup>

Based on the information and testimony gathered, it appears that a large number of the house churches did not qualify as “churches” under the Church

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<sup>70</sup> See Exhibit 17.

<sup>71</sup> Christian Alliance is pastored by Armando Vera.

<sup>72</sup> *Investigative Report*, Investigative Research, Inc., dated September 11, 2006.

<sup>73</sup> *Id.* at Exhibit 6 attached thereto.

<sup>74</sup> *Id.* at Exhibit 10 attached thereto.

<sup>75</sup> Also present were Marisela de la Torre, Pastor de la Torre’s wife, and George de Villiers, a professional interpreter who interpreted the interview from English to Spanish and Spanish to English.

<sup>76</sup> BGCT records indicate that Pastor de la Torre was the sponsoring pastor of 89 churches. BGCT Final Valley Data Base spreadsheet provided October 18, 2006.

<sup>77</sup> Interview of Aaron de la Torre on September 13, 2006.

Starting Center's policies and procedures. Thus these "extension units" should never have received BGCT funding per the Guidelines.<sup>78</sup>

B. Allegation: "Phantom Churches"

There have been many rumors and allegations about "phantom churches" that did not exist except on paper. There is evidence that some of the church starts in the Valley were fictitious. The BGCT did not independently verify the existence of the new churches in the Valley or maintain accurate church mortality rates making it difficult to determine the exact number of so-called phantom churches.<sup>79</sup> However, first-hand accounts provide evidence of the occurrence of phantom churches.

- On August 23, 2006, Investigator Gregorio Castillo, interviewed Emilio Azael de la Garza, a member of Southmost Baptist Church in Brownsville, Texas. Mr. de la Garza was shown a "New Church Resources Covenant" form for Del Redentor Church dated July 1, 2000, signed by Dr. Otto Arango as the pastor of the sponsor church, Gethsemane. It was also signed by Emilio Azael de la Garza as the "New Pastor". While Mr. de la Garza said he recognized his signature, he also said that he had never been the pastor of this church and knew nothing about it. Mr. de la Garza also indicated that he had not prepared or authorized anyone to prepare the Monthly Reports filed with the BGCT for the ten months that de la Garza was purportedly the pastor of Iglesia Bautista Del Redentor – SW Edinburg.<sup>80</sup>
- Mr. Jorge Roman, the former Associate Pastor of Christian Alliance, was interviewed by Greg Castillo on August 30, 2006. In the interview, Pastor Roman stated that he was aware of "numerous occasions" when Monthly Reports were sent to the BGCT for "payment" after the house church was no longer active.<sup>81</sup>
- During his interview Pastor de la Torre admitted that there were occasions when he would submit completely false or fictitious New Church Covenants for acceptance by the BGCT. Upon further questioning, he admitted that some churches did not exist

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<sup>78</sup> There is evidence that at least 104 house churches were actually extension units that should have never received funding.

<sup>79</sup> In his interview on September 25, 2006, David Guel said that he did not verify that new churches actually existed.

<sup>80</sup> *Investigative Report*, at Exhibit 2 attached thereto. Iglesia Bautista Del Redentor (CSC# 6-084-213; BGCT ID#457207; Vendor ID#13007).

<sup>81</sup> *Investigative Report*, at Exhibit 1 attached thereto. It should be noted that Pastor Vera and Pastor Roman had a "falling out" four months before the interview was conducted.

and that he had falsified the signature of the “new pastor” on the Covenant Agreement.<sup>82</sup>

Based on the interviews and information collected, the investigators were able to determine the existence of “phantom churches”. However, they were not able to determine if the incidences of “phantom churches” were relatively small in number or widespread.

### C. Allegation: Misuse of Church Start Up Funds

There have been consistent rumors and allegations regarding the misuse of church start up funds. Witness accounts, statements made by interviewees and documents indicate that some church start up funds were misused.

Although mentioned above, it is important to note that extension units (as opposed to new churches) were not eligible for funding. Thus any BGCT funds used for house churches that were merely Bible studies, cell groups or satellites, were arguably misused. Additional examples of misuse of BGCT funds, however, were also found.

The most dramatic example of misuse of church start up funds was first divulged by Pastor Aaron de la Torre. He stated in his interview that Dr. Arango invited him to get involved with “the project”. Dr. Arango told Pastor de la Torre that “he could make money if he did what he (Otto Arango) told him to do.”

Pastor de la Torre told the interviewers that he would receive checks from the BGCT made payable to Community Baptist as Sponsor Church for each “New Church” start. The checks would arrive at P.O. Box 1338 in Hidalgo, Texas, which was Pastor de la Torre’s personal post office address. Upon receipt of the checks, Pastor de la Torre stated that he would call Dr. Otto Arango and they would arrange a meeting at Texas State Bank in McAllen, Texas, where Dr. Arango banked.<sup>83</sup>

Upon arriving at Texas State Bank, Pastor de la Torre would give the BGCT checks to Dr. Otto Arango for deposit into an account owned by Dr. Arango or one of his affiliated companies or institutions.<sup>84</sup> Dr. Arango, in turn, would write a check to Pastor de la Torre from the Institute for Church Planting’s bank account at Texas State Bank.<sup>85</sup> The check written by Dr. Arango to Pastor

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<sup>82</sup> Interview of Aaron de la Torre on September 13, 2006.

<sup>83</sup> Dr. Arango confirmed that Texas State Bank Account No. 1101390 is his personal account and that Texas State Bank Account No. 51041561 is the account of the Institute for Church Planting. Dr. Arango said that the Piper Institute for Church Planting has its bank accounts in San Antonio. The investigators are still attempting to ascertain the flow of the money.

<sup>84</sup> Attached at Exhibit 18 are a non-exclusive compilation of BGCT checks payable to Community Baptist as Sponsor Church for each “New Church”. None are endorsed. None are deposited in a separate and segregated Community Baptist account for benefit of a New Church. None are deposited into an account held by a New Church. All were deposited into an account held or controlled by Dr. Arango.

<sup>85</sup> Pastor de la Torre does not read English well and he said that he thought the checks came from the Institute for Church Planting.

de la Torre would equal ½ the total amount of the BGCT checks that had just been deposited by Dr. Arango. This 50/50 arrangement applied only to the one time start up gifts given by the BGCT to the sponsor churches on behalf of the “new church” starts.<sup>86</sup>

This information was confirmed by Dr. Otto Arango in an interview with Diane Dillard and Michael Rodriguez on October 5, 2006.<sup>87</sup> In the interview, Dr. Arango admitted that:

- He deposited into the bank account of the Institute for Church Planting the BGCT checks made payable to Community Baptist for each mission of that church.
- He took ½ of the start-up gift money which was intended for mission churches of Community Baptist.
- He wrote a check from the Institute for ½ of the money just deposited and gave the check to Pastor de la Torre<sup>88</sup>
- He used the BGCT money intended for Community Baptist’s new churches for various purposes including the reprinting of his Training Books for use in Latin America and Mexico.

Dr. Arango then stated, **“I am not escaping the decision to take the money for printing new materials to advance the ministry.”** Dr. Arango further stated that none of the money was split without the full consent of Pastor de la Torre.

When the interviewers asked Dr. Arango if he had this 50/50 arrangement with Armando Vera, he said that he did not. Armando Vera also denied a relationship of this nature. There is no proof that Armando Vera participated in the type of arrangement; however, the investigators discovered one BGCT

<sup>86</sup> Pastor de la Torre stated that the 50/50 split applied to all one time start up gifts regardless of whether he was a co-sponsor pastor of the “new church” start. The arrangement varied for monthly funding checks depending on whether Pastor de la Torre sponsored the new church alone or with Dr. Arango. Pastor de la Torre stated that when “new church” starts were co-sponsored with Gethsemane, he was required to give 1/2 of the monthly funding sums to Dr. Arango as well. On the other hand, if Community Baptist alone sponsored the new church, Pastor de la Torre did not split the monthly funding checks with Dr. Arango, only the start up gifts.

<sup>87</sup> Dr. Arango is fluent in English. The interview was conducted in English.

<sup>88</sup> Dr. Otto Arango showed the investigators some of his bank records. Some of these checks included:

<u>Check No.</u>	<u>Date</u>	<u>Amount</u>	<u>Payee</u>	<u>Memo</u>
1009	6/09/00	14,400	A. de la Torre	12 pp
1020	8/24/00	8,800	A. de la Torre	11 pp
1073	11/21/00	250	A. de la Torre	
1142	5/24/01	22,200	A. de la Torre	
1180	8/02/01	1800	Marisela de la Torre	

The investigators located seventy-two BGCT checks, made to IB DE LA COMUNIDAD HIDALGO for various new churches that Iglesia Bautista de la Comunidad sponsored, that were deposited in Texas State Bank Account # 51041561, the account of the Institute for Church Planting. See Exhibit 18.

check<sup>89</sup> intended for Christian Alliance – Diplomat, a mission church of Christian Alliance, which was deposited in the Institute’s bank account. Neither Dr. Arango nor Pastor Vera had any explanation for this. The investigators also saw some of Dr. Arango’s bank records provided by Dr. Arango that indicated checks were written to Armando Vera in connection with preaching points.

<u>Check No.</u>	<u>Date</u>	<u>Amount</u>	<u>Payee</u>	<u>Memo</u>
1162	6/22/01	2000	Armando Vera	
1186	2/05/01	2000	Armando Vera	20 pp
1198	9/03/01	2000	Armando Vera	20 pp
1215	10/25/01	2000	Armando Vera	20 pp
1206	10/01/01	2000	Armando Vera	20 pp

The investigators have not determined the significance of these payments; however, they confirm a financial relationship of some kind between Dr. Arango and Pastor Vera.

Yet another example of church start up funds being used for similar uses, but not the designated uses was discovered by the investigators in their interview with Pastor Armando Vera.<sup>90</sup> Pastor Vera stated that all of the checks given by the BGCT for specific new churches in the Valley that were sponsored by Christian Alliance, were deposited into Christian Alliance’s general missions account. The money was then given to help support and sustain the new churches sponsored by Christian Alliance.<sup>91</sup> If a specific new church failed, or if a specific church did not need all of the money originally designated for that new church, it was not returned to the BGCT or the local Baptist association. Instead, it was used to help support other Christian Alliance’s new churches or for the general missions work of Christian Alliance. Pastor Vera indicated that it was an unspoken rule that the money could be used for other new churches.<sup>92</sup> Pastor Vera

<sup>89</sup> BGCT Check No.233549 dated January 15, 2003, in the amount of \$1500. (CS# 6-084-345; BGCT ID# 457378; Vendor # 18995). See Exhibit 19.

<sup>90</sup> The interview conducted on September 21, 2006, included Armando Vera, his wife, Luz Vera, Diane Dillard, Michael Rodriguez and George de Villiers, a professional interpreter, who interpreted the interview from English to Spanish and Spanish to English.

<sup>91</sup> In a September 21, 2006, interview with Pastor Armando Vera and his wife, Luz Vera, the Vera’s admitted that they did not give their new churches the checks that were written from the BGCT for the new churches. They said that they deposited them in a Mission’s Account of their church, Christian Alliance. Thus the funds for each new church were commingled with the funds for all the other new churches. They said that they would buy the new churches what they needed and use the funds from the Missions account to pay for these needs. They explained that giving the new churches their money was not wise because some of the churches were so small and because they did not want the pastors of these new churches to use any of the money for personal use. They did, however, indicate that Dr. Guel, the BGCT Church Consultant advised them that the sponsor church could pool the new church funds together in one Mission’s account and that the sponsor church could decide how the money was to be spent.

<sup>92</sup> Jorge L. Roman indicated in his interview on August 30, 2006 stated that David Guel, the BGCT church consultant, stated in a meeting that “the money would be given to the sponsor

reiterated that all of the funds were used to start new churches because he understood that the sponsor church was responsible for stimulating the growth of the new churches. He stated that they “invested the money in the ‘work’ and that the BGCT trusted us completely in the way they were doing things.”<sup>93</sup>

Mr. Jorge L. Roman, a former Associate Pastor at Christian Alliance, indicated that Christian Alliance kept all the BGCT funds. He stated that he was aware of “numerous occasions” when Monthly Reports were sent to the BGCT “for payment” after the house church was no longer active.<sup>94</sup>

D. Allegation: Some church pastors used church start up funds for personal gain

Although the investigators found proof of the misuse of designated church start up funds by some church pastors, they did not find proof the funds were used for personal gain. The following is some of what they found.

1. Dr. Otto Arango

Allegations have circulated that Dr. Arango was using BGCT funds for personal gain. His ultimate response was that other Valley pastors were and are jealous of his success – financial, professional and personal. In his interview, Dr. Arango told the investigators that he made a lot of money promoting his vision of planting churches.<sup>95</sup> In addition, he said that the complaining pastors were envious of the Gethsemane facility that was debt-free and envious of his house and cars.<sup>96</sup> Based solely on Dr. Arango’s statements as to income, it appears that Dr. Arango had sources of income that answer some of the questions regarding his home and cars.<sup>97</sup>

There are, however, troubling deposits of checks into Dr. Arango’s personal bank account that were found by Carlos Barrera, the CPA on the investigation team.<sup>98</sup> In addition, Dr. Arango provided the investigators with copies of BGCT checks deposited into his personal account that he called

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church and the sponsor church could decide how to spend the money on the new church.” Investigative Research Report dated September 11, 2006, at Exhibit 1 attached thereto.

<sup>93</sup> September 21, 2006 interview with Armando Vera. It should be noted that Mr. Roman and Pastor Vera had a “falling out” earlier this year.

<sup>94</sup> See Investigative Research Report dated September 11, 2006, at Exhibit 1 attached thereto.

<sup>95</sup> October 5, 2006 interview.

<sup>96</sup> Dr. Arango’s house and cars (a Jaguar and Range Rover) have fostered many rumors. Dr. Arango told investigators that he got a good deal on his lot and that a member of his congregation had been the contractor for his home. He said that there is a mortgage on his house. He also said that he leases his cars. The Range Rover has been replaced. Ms. Arango now drives a leased Suburban. Dr. Arango did not provide the investigators with personal tax returns, so it is impossible to verify this information.

<sup>97</sup> The investigators did not have access to records to determine Dr. Arango’s income or the purchase price of his home, cars and other property.

<sup>98</sup> See Exhibit 9 prepared by Carlos Barrera, CPA, CFE.

“mistakes”.<sup>99</sup> Although the investigators asked for copies of Dr. Arango’s bank records, this information was not provided.

2. Pastor Aaron de la Torre

The investigators found no documentary proof that Pastor Aaron de la Torre used church start up funds for personal gain. However, the 50/50 arrangement with Otto Arango certainly raises questions.

3. Dr. Armando Vera

The investigators found no evidence that Dr. Armando Vera used church start up funds for personal gain. However, that eight out of eight people that lead Christian Alliance’s “house churches” when interviewed by Investigative Research Inc. volunteered that they received no funding from the BGCT.<sup>100</sup>

E. Allegation: New Church Development Guidelines Not Followed

The Baptist General Convention of Texas State Missions Commission initially adopted the *New Church Development Guidelines Assigned to the Church Starting Center* on August 20, 1998. These guidelines were later revised in August 2001.<sup>101</sup>

There were many allegations of specific instances when the New Church Development Guidelines were not followed. There was evidence that in some instances these allegations are true. Four examples follow. For the sake of simplicity, assume that all four examples take place in September 2001.

1. New Church Resource Covenant Meeting

The purpose and scope of the New Church Resources Covenant Meeting are detailed at II.A.3. above. A New Church Resources Covenant Meeting was required by the guidelines.<sup>102</sup> The meeting included four people – the Sponsor Church Pastor (or representative), the New Church pastor, the Director of Missions (Rick Hagar) for the Rio Grande Valley Baptist Association (“RGVBA”) and the BGCT Church Consultant (David Guel) – sometimes called the “Strategic Planning Team”.<sup>103</sup>

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<sup>99</sup> Fax from Dr. Otto Arango to Michael Rodriguez dated October 13, 2006. The fax and all of the checks included therein are attached as Exhibit 4.

<sup>100</sup> Investigative Research Report.

<sup>101</sup> As stated above, both versions are substantially the same with regard to the matters being discussed in this report.

<sup>102</sup> 2001 New Church Development Guidelines, p.10.

<sup>103</sup> *Id.* at p. 8.

This meeting was an important part of the approval process for a new church.<sup>104</sup> Numerous witnesses, however, indicated that during the time period being investigated, this meeting was often held without the new pastor being present, or it was held in mass with multiple new pastors.<sup>105</sup> This breach of written guidelines may explain in part why:

- Some cell groups were approved as a “church” and received funding, even though the group leader said there was never any intent for the group to become a church.<sup>106</sup>
- Some new pastors did not know that they were pastoring a church.<sup>107</sup>
- Some new churches were fictitious.<sup>108</sup>
- Some Covenant Agreements contain a forged signature.<sup>109</sup>

## 2. Monthly New Church Report

The content and purpose of the Monthly Report are described at III.C.2.a. above. A brief review of some of these reports reveals that many of the reports are identical, nearly identical or implausible.<sup>110</sup> Pastor de la Torre told investigators that none of the Monthly Reports used to obtain monthly funding for any of the “New Church” starts attributed to Community Baptist were prepared by the “New Church pastor.” In fact, he admitted that his Monthly Reports were fictitious. He said that he filled out all of the monthly funding reports and submitted them to the BGCT or submitted partially filled out reports to Dr. Arango. Pastor de la Torre suspects that Dr. Arango mailed in the monthly funding reports. However, Pastor de la Torre said he did not know what happened to the monthly funding reports once he gave them to Dr. Arango.<sup>111</sup>

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<sup>104</sup> Rick Hagar, the Director of Missions of the RGVBA from January 1997 to May 2002, in a September 26, 2006 interview, said the rule was that you did not do anything until the Covenant Agreement was fully signed.

<sup>105</sup> David Guel interview on September 25, 2006. Rick Hagar interview on September 26, 2006. E.B. Brooks interview on September 29, 2006. Aaron de la Torre interview on September 13, 2006.

<sup>106</sup> *Investigative Report*, Investigative Research, Inc., dated September 11, 2006.

<sup>107</sup> *Id.*

<sup>108</sup> *Id.* at Exhibit 2 and September 13, 2006 interview of Aaron de la Torre.

<sup>109</sup> Interview of Aaron de la Torre on September 13, 2006. Interview of David Guel on September 25, 2006.

<sup>110</sup> After viewing the Christian Alliance reports, Armando Vera said that the similarities were a coincidence. Interview of Armando Vera dated September 21, 2006.

<sup>111</sup> The investigators questioned Dr. Arango regarding the Monthly Reports Pastor de la Torre claimed to have given to Dr. Arango. Dr. Arango denied ever receiving those Monthly Reports from Pastor de la Torre.

### 3. Growth Review Meeting Report

Periodic Growth Review Meetings were also required by the Guidelines. Although the presence of the new pastor seems critical, witnesses have indicated that this meeting was frequently held without the new pastor being present.

After the meeting, Dr. Guel would prepare and file a Growth Review Report. A review of some of these reports indicates that many of the reports are identical, nearly identical or implausible due to the consistencies from report to report.<sup>112</sup>

### 4. Funding without a Covenant Agreement

Before funding could occur, a Covenant Agreement was required to be approved by the State Mission's Committee. A Covenant Agreement should have been signed by the:

- New Pastor
- Sponsoring Pastor
- Church Consultant
- Director of Missions for the local Baptist Association
- Moderator of the local Baptist Association, after approval by its Mission's Committee
- Committee Chair of the State Missions Funding Committee after approval by the Committee

BGCT records, however, indicate that some new churches in the Valley received funding with a partially signed Covenant Agreement.<sup>113</sup>

#### F. Allegation: Some people at the BGCT knew that New Church Start Up Guidelines were not followed

It appears that some people in the BGCT knew that the New Church Resources Guidelines were not followed in all instances.

#### 1. David Guel

David Guel, the BGCT Church Consultant for the Valley, did not always follow the Church Starting Guidelines. He stated in an interview with Diane Dillard and Michael Rodriguez on September 25, 2006 that there were so many applications he could not get his work done. He said that he met with Dr. E. B. Brooks, his boss, Dr. Otto Arango, and Rick Hagar, the Director of Missions for

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<sup>112</sup> See Exhibit 15. After viewing the Christian Alliance reports, Armando Vera said that the similarities were a coincidence. Interview of Armando Vera dated September 21, 2006. David Guel indicated that they were "sloppy work". Interview of David Guel on September 25, 2006.

<sup>113</sup> BGCT Final Valley Data Base spreadsheet provided October 18, 2006.

the RGVBA. The meeting took place at the Harlingen airport. The meeting was held to decide whether the mass applications for new churches should be accepted. According to David Guel, Dr. Books approved a relaxation of the Guidelines for four pastors: Dr. Otto Arango, Pastor Aaron de la Torre, Pastor Armando Vera and Pastor Eliud Guzman.<sup>114</sup>

What guidelines were “relaxed”? The Church Consultant no longer had to meet with the New Pastor at the Covenant Meeting or at the Growth Review Meetings. Dr. Guel was allowed to discuss all of the New Churches with the Minister of Missions for the sponsor church. In the case of Community Baptist, the Minister of Missions was Marisela de la Torre, the wife of the pastor. In the case of Christian Alliance, the Minister of Missions was Luz Vera, the wife of the pastor. This was designed to allow the Minister of Missions to communicate with the New Pastors. The decision to no longer require the church consultant to meet with the new pastors, however, bypassed critical accountability measures built into the Guidelines.

Even with the relaxed guidelines for the prolific church starters, the paperwork required was still overwhelming. When shown some of the reports he prepared, Dr. Guel indicated that it was “sloppy work”.<sup>115</sup> He characterized the unusually large number of similarities as coincidence. He later laid the blame to great extent on his Ministry Assistant.<sup>116</sup> A review of these reports led others to believe they were fabricated.<sup>117</sup>

Dr. Guel admitted that he knew that some of the pastors may have signed the name of the moderator for the RGVBA in order to get funding.

## 2. Abe Zabaneh

Dr. Abe Zabaneh, a church consultant and later the successor to E. B. Brooks at the Church Starting Center, was interviewed on at least three occasions regarding his knowledge of the Valley problem. Abe Zabaneh took over as head of the Church Starting Center when Dr. Brooks became the head of the Church Missions and Evangelism.

Dr. Zabaneh stated that he agreed, in the case of three pastors, to allow new church starts to be approved without the signature of the RGVBA representative. When the investigators questioned him about this decision, Dr. Zabaneh stated, “We thought the objections by the local association were unreasonable because they were objecting to the strategy.”<sup>118</sup> In essence, as the

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<sup>114</sup> September 25, 2006 interview with Diane Dillard and Michael Rodriguez.

<sup>115</sup> See Exhibits 15 a, b, & c.

<sup>116</sup> E-mail from David Guel to Diane Dillard and Michael Rodriguez dated October 16, 2006.

<sup>117</sup> Dr. Charles Wade interview with Diane Dillard, Michael Rodriguez and Carlos Barrera, on September 27, 2006. *Summary Observations of Valley New Church Starts*, authored by Dexton Shores in December 2006.

<sup>118</sup> Interview of Abe Zabaneh on September 27, 2006

complaints grew louder from the Valley pastors and the local association, the head of the Church Starting Center authorized a deviation from the accountability measures due to the complaints.

Dr. Zabaneh was also questioned regarding the Covenant Meeting reports located in Exhibits 15 a, b, & c. Dr. Zabaneh stated that all four members of the Strategic Planning Team should have been required to be present at the Covenant Meeting. He said that he never suspended that standard. However, Dr. Zabaneh did state that an exception was made by Dr. Brooks to allow Dr. Guel to conduct the Church Growth Review Meetings without the new pastor being present due to the nature of the increased workload. However, a review of Covenant Meeting reports in Exhibits 15 a, b, & c, belie this statement. In fact, there appear to be numerous instances when the Covenant Meeting was held without the presence of all four members of the Strategic Planning Team.<sup>119</sup>

Dr. Zabaneh stated that when he first became the leader of the Church Starting Center he believed in the new vision for starting churches in the Valley and that Dr. Brooks strongly believed in the work as well. For this reason, he allowed some sponsor pastors of new church starts to circumvent the local association and Guidelines. He additionally stated that he never suspected any wrongdoing or misconduct by anyone involved in starting new churches in the Valley. However, Dr. Zabaneh eventually had concerns about the Valley project: “As I started seeing the information coming through because of the volume, the number of churches and using lay people, I stopped believing in the Valley project.” Dr. Zabaneh stated that, as a consequence of his concerns, he took action to rectify the issues related to new church starts in the Valley. He also stated he wishes he had taken action sooner. However, Dr. Zabaneh did not explain what actions he took.

Dr. Zabaneh believes that 5% to 10% of the Valley churches started by the three pastors are still active today. Ultimately, Dr. Zabaneh feels, “that the project was a failure and definitely not worth it. Not sure there were many people won to Christ.” Nevertheless, Dr. Zabaneh stated, “I take full responsibility for what happened during my tenure.”<sup>120</sup>

### 3. Dr. E. B. Brooks

Dr. Brooks indicated that the BGCT had procedures and guidelines that must be followed. However, due to the large number of new church starts, he suspended normal procedures in the Valley. David Guel and Abe Zabaneh have

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<sup>119</sup> Rick Hagar became upset when he was shown copies of the Covenant Meeting reports containing his purported signature. Mr. Hagar indicated that he did not sign some of the reports which were shown to him. Rick Hagar Interview on September 26, 2006, with Diane Dillard and Michael Rodriguez. Also in attendance were his attorneys, Mr. William D. Houser and Miss. Tanya Rodak.

<sup>120</sup> Interview of Abe Zabaneh on September 27, 2006.

also indicated that Dr. Brooks altered the Guidelines for four pastors: Dr. Otto Arango, Pastor Aaron de la Torre, Pastor Armando Vera, and Eliud Guzman.<sup>121</sup>

4. Dr. Charles Wade

There is no evidence that Dr. Wade was aware that BGCT personnel relaxed the Guidelines for starting new churches in the Valley.

5. What difference did it make?

Is the failure to follow the Guidelines significant? Dexton Shores<sup>122</sup> answers this question in his *Summary Observations of Valley New Church Starts*, prepared in December 2005, at p.1-2.

Having served myself as an associational church planter strategist for eight years prior to coming to BGCT, I am convinced that had our own BGCT policies been practiced by our church starting consultant, (David Guel) we would not be reviewing a list of over 280 funded church starts that no longer exist. The consultant's hunger to produce numbers and his failure to conduct regular church growth reviews with representatives from the sponsor, new church, and association set up a system that processed hundreds of new church covenants for funding to a handful of leaders that were never held accountable for their actions.

G. Allegation: Some people at the BGCT knew that some church start up funds were not being used as intended

1. David Guel

With regard to misuse of New Church funding by applying designated funds for one New Church to other New Churches, Dr. Guel said that there was an unspoken understanding that it was acceptable to do this. The Guidelines did not address what was required to be done with left over new church money. Dr. Guel did not tell the churches that applying funds for one new church to another new church was acceptable. He said, however, that he knew the BGCT would not question the use of the money if it was used for other missions of the sponsor church.<sup>123</sup> When presented with this scenario, Dr. E. B. Brooks and Dr. Charles Wade indicated that the money should have been returned to the BGCT.<sup>124</sup>

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<sup>121</sup> Interview of E. B. Brooks on September 29, 2006. Interview of David Guel on September 25, 2006. Interview of Abe Zabaneh on September 27, 2006.

<sup>122</sup> Dexton Shores is a BGCT employee – River Ministry Director – who prepared and submitted a summary of his observations with respect to new church starts in the Valley.

<sup>123</sup> *Id.*

<sup>124</sup> Interview of Dr. Charles Wade on September 27, 2006. Interview of Dr. E. B. Brooks on September 29, 2006.

Near the end of his interview with Diane Dillard and Michael Rodriguez, Dr. Guel said: “I’m the guy who should have stopped this. I trusted these pastors. . . .They used me.”

The investigators found no evidence that Dr. Guel knew of the arrangement between Dr. Otto Arango and Pastor Aaron de la Torre regarding the 50/50 split of church start up gifts or the 50/50 split of monthly checks for new churches that were co-sponsored.

2. Abe Zabaneh

Dr. Zabaneh did not know what a new church should have done with any leftover funds in the event that it failed. He indicated that the new church might have an ethical obligation to return the money to the BGCT but added that there was no specific policy regarding funds.

The investigators found no evidence that Dr. Zabaneh knew of the arrangement between Dr. Otto Arango and Pastor Aaron de la Torre regarding the 50/50 split of church start up gifts or the 50/50 split of monthly checks for new churches that were co-sponsored.

3. Dr. E. B. Brooks

In his interview on September 29, 2006, Dr. Brooks said that he did not know of anyone who took money for personal use. However, he also said that some people used money “to follow the dream for their church”. When asked for an explanation and example, Brooks indicated that Armando Vera and Luz Vera started many new churches. However, his concern was that the new churches lacked autonomy. He indicated that the Vera’s were still controlling who the pastors were in each new church. He also stated that the fact that they did not give the new churches authority over their own finances.<sup>125</sup>

The investigators found no evidence that Dr. Brooks knew of the arrangement between Dr. Otto Arango and Pastor Aaron de la Torre regarding the 50/50 split of church start up gifts or the 50/50 split of monthly checks for new churches that were co-sponsored.

4. Dr. Charles Wade

The investigators found no evidence that Dr. Wade knew of the arrangement between Dr. Otto Arango and Pastor Aaron de la Torre regarding the 50/50 split of church start up gifts or the 50/50 split of monthly checks for new churches that were co-sponsored.

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<sup>125</sup> For an example of the financial control the Vera’s maintained over the new churches they sponsored, see footnote 93.

H. Allegation: Some people at the BGCT received money for personal gain.

The investigators found no evidence that anyone at the BGCT received money for personal gain.

VI. How did the BGCT respond to the allegations?

It is impossible to determine exactly when the BGCT first knew of complaints made about the church starting program in the Valley.

1. Red Flags

There were many red flags over the years that should have sparked a thorough review of the allegations being made. Hind sight is 20/20; however, it is difficult to understand why the overall longevity of the complaints and their volume did not attract more serious attention. For example:

- FBI investigation begins in late 2000 – According to E. B. Brooks<sup>126</sup>, in 2001 the FBI requested copies of files and checks related to one of the sponsor churches involved in the BGCT's church starting program in the Valley. BGCT provided them to the FBI. In December 2002, David Nabors, the BGCT CFO, E. B. Brooks and Scott Moran, the attorney representing the BGCT, met with the U.S. Attorney in Brownsville to answer questions regarding the possibility that the BGCT was the victim of fraud in connection with the funding of house churches. The FBI requested more documents in June 2003.

The BGCT cooperated fully with the FBI and the U.S. Attorney; however, the allegations by federal authorities of fraud did not generate an internal investigation of these issues.<sup>127</sup>

- Examples of Mass Applications for New Churches 2001 – The following non-exclusive examples represent 109 new church starts in a nine month period in 2001 by Dr. Arango and his protégés Pastors Aaron de la Torre and Armando Vera.

The Mission Funding Committee minutes for February 20, 2001, reflect the approval of thirty new churches in the Valley to be sponsored by Gethsemane.

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<sup>126</sup>Memo to Diane Dillard from E. B. Brooks regarding his recollections of the investigation by the FBI into BGCT church starting work in the Rio Grande Valley, dated July 26, 2006, and received September 29, 2006. This memo is attached as Exhibit 20.

<sup>127</sup>No internal investigation was produced to the investigators.

On May 10, 2001, the Mission Funding Committee minutes reflect the approval of twenty-eight new churches in the Valley to be sponsored by Community Baptist.

On June 5, 2001, the Mission Funding Committee minutes reflect the approval of seven new churches in the Valley to be sponsored by Community Baptist.

On September 17, 2001, the Mission Funding Committee minutes reflect the approval of nine new churches in the Valley to be sponsored by Community Baptist.

On October 9, 2001, the Mission Funding Committee minutes reflect the approval of four new churches in Hidalgo to be sponsored by Community Baptist.

On November 5, 2001, the Mission Funding Committee minutes reflect the approval of five new churches in the Valley to be sponsored by Christian Alliance.

On December 10, 2001, the Mission Funding Committee minutes reflect the approval of sixteen new churches in the Valley to be sponsored by Institute for Church Planting.

- November 2001 notification that “new churches” were actually cell groups – In November 2001, Azael de la Garza notified Dr. David Guel that the Southmost Baptist Church was leaving the program.<sup>128</sup> A week later, Dr. Guel met with the Southmost pastor, Cuauhtemoc A. de la Garza. Pastor de la Garza told Dr. Guel that he signed up for the project to expand his own congregation. He did not know that the sponsoring pastor, Aaron de la Torre, represented that the groups were new churches. Dr. Guel encouraged Pastor de la Garza to consider making the cell groups into new churches. Pastor de la Garza did not change his mind. He withdrew his cell groups from the new church start up program and returned \$3,900 to the BGCT for funds that were not spent.<sup>129</sup>
- April 23-24, 2003 Memorandum titled “Select Interviews with RGVBA Leadership” – BGCT internal documents contain an April 23-24, 2003, memorandum which appears to list numerous issues and questions regarding new church starts in the Valley during interviews of Ellis

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<sup>128</sup> Investigative Report, Investigative Research, Inc. at Exhibit 8 attached thereto.

<sup>129</sup> *Id.*; see also Memo from David Guel via E-Mail dated September 27, 2006, at Exhibit 21. Aaron de la Torre confirmed that these groups were not new churches; however, he filled out “Monthly Reports” with fabricated numbers so that he would get monthly funding from the BGCT. He indicated that Dr. Arango told him that it did not matter what was in the forms, they just needed to be filled out to get the monthly funding. Aaron de la Torre interview on September 13, 2006.

Orozco, Mike Gonzalez, Domingo Chapa, Robert Rodriguez, and Daniel Rangel. The memo does not disclose the author.<sup>130</sup> The memorandum did not generate any further investigation of which the investigators are aware.

- May 19, 2003 listening session with BGCT personnel – The minutes of the May 19, 2003, RGVBA meeting with BGCT personnel clearly show that allegations of fraud were well known by the BGCT as well as the Valley pastors and the RGVBA staff. At this meeting Dr. Charles Wade and Dr. E. B. Brooks were notified that many of the new churches were not contributing to the Cooperative Program.<sup>131</sup>
- July 17, 2003, Letter from Fidencio Vasquez, pastor of Primera Iglesia Bautista La Joya – Pastor Vasquez wrote to Dr. Abe Zabaneh regarding a new church he tried to start called “Manantial de vida”. The RGVBA informed him that Primera already sponsored three new churches including one with the requested name. The pastor explained that Primera never authorized these three new churches, that he did not know anything about them, and that they do not appear to exist.<sup>132</sup>
- August 1, 2003, Memorandum on conversations about Otto Arango<sup>133</sup> – A memorandum dated August 1, 2003, found in Dr. E. B. Brooks’ BGCT files, indicates that the author, who is not identified on the document, had spoken with David Montoya and Ellis Orozco about some of the allegations raised in the Valley. The memorandum indicates that David Montoya was considering asking for an “independent investigation”. The author advised that if this matter “continues to fester in significant enough ways” then the BGCT will need to show “these folks” that “Otto is legit.” No other options were outlined by the author.
- April 8, 2004, Letter from Pastor Avigail Hernandez -- On April 8, 2004, Pastor Avigail Hernandez addressed a letter to Dr. Charles Wade, Dr. E. B. Brooks, and others in the BGCT, the RGVBA, the *Baptist Standard* and the *Valley Voice* describing his visit to the BGCT offices in March of 2004.

While at a meeting in Dallas, Pastor Hernandez asked Dr. Wade if the BGCT was sure that all of the new churches being reported really physically existed. He indicated that Dr. Wade confirmed that he was

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<sup>130</sup> The April 23-24 Memo is attached as Exhibit 22. This memo was provided by the BGCT to the investigators with no explanation.

<sup>131</sup> Rio Grande Valley Baptist Association listening Session with BGCT Personnel dated May 19, 2003. The minutes are attached as Exhibit 23.

<sup>132</sup> Abe Zabaneh responded on July 22, 2003 by stating that a \$1,000 check was sent to each one of the three new churches in August 2000. He then stated that he would report these three churches as disbanded. Pastor Vasquez’ letter and Abe Zabaneh’s letter, including the English translations, are attached as Exhibit 24.

<sup>133</sup> See Exhibit 25.

aware of problems in the Valley and that an investigation was being conducted.

After the meeting Dr. Brooks asked Pastor Hernandez what information he had. Through an interpreter, Pastor Hernandez explained that he had worked as a new pastor for a mission sponsored by Gethsemane. He turned over the mission to another pastor when he moved to Mexico for a year. When he returned to the United States he noticed that a student at Rio Grande Bible Institute was listed as the pastor of this mission. When he asked the student about the mission, the student confessed that he had never been to the mission.

The day after Pastor Hernandez talked with Dr. Brooks, Dr. Otto Arango called Pastor Hernandez and threatened him. According to Pastor Hernandez, Dr. Arango said: “te voy a hacer garras” which in English literally means “I will make rags out of you”. This phrase is roughly equivalent to “I will destroy you.”<sup>134</sup>

## 2. Investigations

Upon first being hired, Diane Dillard was provided a copy of Dr. Brooks’ May 4, 2006 statement. According to this statement, there were several investigations regarding the substance of the allegations being made. She immediately asked the BGCT for any reports or memoranda prepared in connection with these investigations. The investigators were told on June 2, 2006 that there were no reports or memoranda in connection with the investigations.

Later, as the investigators continued to press for any information regarding investigations, the BGCT produced various spreadsheets that appear to have been prepared sometime in 2003 in response to a RGVBA Study. No reports, memoranda or summaries were produced with the spreadsheets, other than a tally of churches started in 2003 by Dr. Otto Arango, Pastor Aaron de la Torre and Pastor Armando Vera.

BGCT staff informed the investigators that the State Missions Committee had investigated this matter. No report or memorandum regarding his findings was produced to the investigators.

There was an FBI investigation that began in 2000 and continued through 2003 regarding some of the new churches started in the Valley. The investigators sought the FBI file pursuant to a Freedom of Information Act request. The request did not yield any documents. There was little, if anything produced by BGCT to the investigators about this investigation, other than the fact that Dr. Brooks, David Nabors, the BGCT CFO, and Scott Moran met the U.S. Attorney

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<sup>134</sup> This April 8, 2004, letter and its English translation are attached as Exhibit 26. Dr. Arango’s threat was later confirmed by both Dr. Guel and by Dr. Arango.

in Brownsville to answer questions regarding possible fraud in connection with BGCT funding of house churches. The investigators were told that the BGCT produced boxes of documents to the FBI.

3. Lack of thorough investigation

The BGCT should have recognized at least some of the red flags. However, no evidence of a thorough investigation of these matters was provided to the investigators. The lack of written investigation reports, summaries or memoranda in the BGCT files, suggests that the allegations were not seen as credible.

When asked, the BGCT witnesses had no logical explanation why there was not a thorough BGCT investigation into the allegations.

VII. Recommendations

A. The Guidelines for church starting should be reviewed and revised

- The policies for church starting must be clear and unequivocal.
- Accountability measures built into the church starting system should not be suspended or relaxed for special pastors.
- Accountability measures built into the church starting policies should not be suspended or relaxed due to a heavy work load.
- If a sponsor church with existing “new churches” seeks funding for a new church, the BGCT should review the progress of each of the existing new churches before funding the new church.
- The policies must explicitly address the issues of when, how and what a sponsor church is expected to do in connection with BGCT funds provided for the new church. The policies should require bank account information with regard to the account where the funds will be deposited. The account must be a separate account that is segregated from funds belonging to the sponsor church or to other new churches.
- The accounting department should explore requiring the funding to be directly deposited into a segregated account for each new church.
- The accounting department should adopt requirements for funding and review the required documentation prior to releasing funds.

- The policies must specifically address what is required when there is “leftover” funding. The accounting department must have a mechanism for tracking returned funds.

B. More accurate and accessible mortality rates are needed

The investigators asked the BGCT to provide the mortality rate of new churches in the Valley. It was difficult for the BGCT to extract this information from its system; however, this information was eventually provided. The underlying data is skewed because it is derived in large part from voluntary reporting.

The mortality rates reported by the BGCT for the new churches in the Valley for the period of time beginning in 1999 and ending in 2005 are as follows:

Total new churches

357 – with 157 active. (44% active and 56% inactive).

Total new churches sponsored by Dr. Arango, Pastor de la Torre, and Pastor Vera

258 – with 100 active. (39% active and 61% inactive).

Based on interviews, it appears that the actual numbers are closer to following estimates:

Total new churches

357 – with 62 active. (17% active and 83% inactive).

Total new churches sponsored by Dr. Arango, Pastor de la Torre, and Pastor Vera

258 – with 5 active. (2% active and 98% inactive).

The success of the new church starting program is measured by the number of churches it develops that remain active. The mortality rates, the percentage of new churches that failed and the percentage of new churches that remained active, were only calculated statewide. These calculations should be available by region, by local association, and by sponsor church. This information is essential so that decision makers are able to make informed decisions about funding and methodologies for starting churches. There also needs to be a more aggressive method for collecting this information from churches that do not respond to the annual survey.

C. Record keeping needs to be integrated and coordinated

The Church Start Up Center’s record keeping system, including the file numbering system, must be coordinated with other departments in the BGCT. The inability of the BGCT to correlate data kept under three different numbering systems impeded the progress and dramatically increased the costs for the

investigation. It also prevents the presentation of meaningful data to decision makers. The BGCT should have a system whereby all data regarding the funding of a new church, including all transactions, can be easily accessed in one location or reporting mechanism.

The BGCT records regarding the number of new churches started in the Valley and the amount of funding provided to them are untested, inconsistent and disparate from department to department.

D. Better internal controls are needed

There needs to be better internal control over disbursements to assure that all necessary support documentation is being verified. Controls were lacking in support documentation and procedures between the Church Starting Center and Accounting. An internal auditor might be useful in this regard as well as in the implementation of other recommendations.<sup>135</sup>

E. Accounting design and control of reporting system

If the accounting system of the BGCT is to work and function properly, the control and design of the reporting system should be performed by the Accounting department. All other departments should have input; but the final design and control of what is implemented, including the internal control over documentation, should be the Accounting department's responsibility.<sup>136</sup>

F. Response to allegations must be immediate

All allegations of improprieties must be considered serious and deserving of immediate attention. An internal auditor would serve a useful purpose by investigating these allegations.

G. Trust, but verify

One of the main accountability issues in relation to New Church Start Ups is the fact that much of this work is based upon trust. It is apparent that relying on trust is a central tenant of the BGCT's faith based ministry and development. Relying on trust, although an admirable trait, does not serve accountability measures well. The church starting center is not a business and some may argue that it should not be viewed nor policed like a business. However, the BGCT is the steward of the money given for missions work; therefore, those funds and their use should be monitored, documented and controlled.

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<sup>135</sup> October 20, 2006 Report by A. Carlos Barrera, CPA, CFE for Long Chilton, L.L.P.

<sup>136</sup> *Id.*

## VIII. Conclusion

The BGCT is committed to the principle of developing new churches in the State of Texas through the work of the Church Starting Center. Between 1999 and 2005, the convergence of Dr. Arango's promising new vision for planting new churches and the failure of the BGCT to strictly adhere to its Guidelines provided an opportunity for misappropriation and misuse of BGCT funds. Between 1999 and 2005, Dr. Arango, Pastor de la Torre and Pastor Vera sponsored 258 new churches in the Valley, which received over \$1,300,000 in start up and monthly funds from the BGCT. Some of the new churches they started became churches and are active today; however, many of the new churches arguably were not churches but were extension units. Some were phantom churches that did not exist at all. Others ceased activity but still received funds or ceased activity and ceased receiving funds.

The BGCT had controls in place to prevent these issues from occurring. However, there are additional controls that, if implemented, can aid in the prevention of similar issues from occurring again in the future. The BGCT should implement as many of these controls as possible to the extent they are consistent and can be reconciled with the BGCT mission of starting new churches. Finally, whether reinforcing the existing controls or supplementing them with new ones, the BGCT through its staff, management and board must remain vigilant and monitor all programs and funds.