



UNIVERSITY OF | School of
SAN FRANCISCO | Management

MASTER OF NONPROFIT ADMINISTRATION

Change the World with Nonprofit Leadership

usfca.edu/mna

Nonprofit Ethics Case Study

Group: Amanda Tompkins & MNA Student

NPA 601: Nonprofit Ethical Leadership

Prof. Marco Tavanti, Ph.D.

Fall / 2017

Title

The Gregarious Gregorys: Wounded Warriors Support Group, Central Coast Equine Rescue & Retirement, and the Gregory Family

Summary

One family running two nonprofits, Wounded Warriors Support Group (WWSG) and Central Coast Equine Rescue and Retirement (CCERR), is accused of self-dealing, breach of fiduciary duty, and, impersonating and mirroring the structure of two legitimate nonprofits. Both nonprofits are completely and solely run and directed by immediate members of the Gregory family, and they have been accused of using an illegal raffle scheme to embezzle hundreds of thousands of dollars for their personal use. Despite the CA Attorney General's orders to cease and desist illegitimate raffles, the Gregory family has proceeded to blatantly disregard these orders and CA and Federal laws regarding charitable raffles since 2011 (AG, 2017, p.7). Although proper financial records were not kept, bank statements show that all funds were diverted to personal interests and the associated for-profit company, Gregory Motorsports, which is also run by the Gregory family. The State of California is currently suing all members of the Gregory family, Gregory Motorsports, WWSG, CCERR, and Does 1-100¹.

¹ Unless otherwise noted, all quoted material has been retrieved from the civil lawsuit filed by the Attorney General of California, Case No. RG 17856929 filed April 17, 2017 in and for the County of Alameda.

Applications

This case is relevant to governance, fundraising and leadership. In regards to governance, we discovered violations of state and federal laws in both nonprofit organizations as detailed in the AG lawsuit. In regards to fundraising, the Gregory family has been accused by the AG of having operated an illegal raffle scheme for personal financial gain (*Ibid.*, p.4). This case also incorporated various unethical leadership practices, including the alleged use of charitable funds for self-interests, misleading the public through false advertising and plagiarism, and illegal self-dealing for personal inurement (*Ibid.*, p.5).

These organizations were registered as charitable serving the following purposes: injured veterans and their families; rescue and rehabilitation of horses; public education on animal care, animal neglect and overpopulation; and, therapy programs for injured veterans using horses.

While the purpose of this assignment is to highlight unethically operated organizations and not unique individuals, these two organizations are family-run and managed. As a result, this analysis will highlight organizational and individual actions taken by members of the Gregory family as detailed in the lawsuit filed by the AG of California.

Outcomes

Nonprofit professionals reviewing this case study should anticipate learning specific examples that demonstrate the ways in which systems can be mismanaged and abused without proper oversight. This case should reinforce understandings of governance practices, legal obligations, how donations are to be used charitably, required fiscal reporting, and, most importantly, matters of conflict of interest.

In addition, it is important to note that the money raised by the Gregory family for charitable purposes was potentially being diverted from other reputable organizations, both directly and indirectly. The impact of this was that individuals needing the WWSG and CCERR resources were not being served, and other local nonprofits were left to compete with these allegedly illegitimate organizations for much-needed donations. When a nonprofit is caught acting unethically, the impact on the entire sector can be detrimental. For example, when potential donors learn of acts as outlined in the AG lawsuit against WWSG and CCERR, they may become resistant to donating to future causes, thereby reducing opportunities for individual contributions. The unethical and allegedly illegal actions of individual organizations have the potential to invite harm to the larger social sector. As noted in the AG lawsuit, “the Gregory family’s use of charitable funds for their personal benefit not only deceived the public but also diverted raffle funds that should have gone to legitimate charitable programs benefitting veterans” (*Ibid.*, p.9).

Video

Description

The Nonprofits and Parties Involved

Central Coast Equine Rescue and Retirement (CCERR) is a California charitable nonprofit originally registered with the state of California in August 2011 that became a certified 501(c)(3) in January 2012. CCERR's stated charitable purposes are to "(i) eliminate suffering and promote the welfare of animals by operating a rescue and retirement program for unwanted or poorly maintained horses; (ii) promote and encourage the public to undertake proper care of horses and other animals; (iii) educate the public about related issues such as animal neglect and overpopulation; and (iv) carry on other charitable and educational activities associated with these goals as allowed by law" (*Ibid.*, p.3). This organization is run and managed by members of the Gregory family, who board their horses in Livermore and list a post office box address in Carmel-by-the-Sea, CA.

Wounded Warriors Support Group (WWSG) is a California charitable nonprofit originally registered with the state of California in March 2013 that became a certified 501(c)(3) in August 2014. WWSG's stated charitable purpose is "to help as many physically and mentally wounded veterans as possible" (*Ibid.*, p.3). WWSG also aims to provide a "Therapeutic Riding Program" for veterans who have "suffered traumatic brain injuries, amputations, post-traumatic brain injuries, and other severe disabilities" (Gregory, 2015, p.2). The organization claims that therapeutic horse riding "has proven itself to help wounded veterans, who were deemed incapable of walking, to walk again" (Gregory, 2015, p.2). These statements are unsubstantiated by reputable research data. This organization is also run and managed by the Gregory family, and it too lists a post office box address in Carmel-by-the-Sea, CA.

The Gregory family has four key members who are directly involved in this case. They include dad Matthew G. Gregory, mom Danella J. Gregory, son Matthew J. Gregory, and daughter Gina D. Gregory. Dad Matthew, mom Danella and son Matthew reside in Fresno County, and daughter Gina resides in Alameda County according to public records. Dad Matthew, mom Danella and son Matthew are listed as officers and directors of CCERR and daughter Gina is "the agent responsible for the day-to-day operations of CCERR" (*Ibid.*, p.3). Dad Matthew, mom Danella and son Matthew are also listed as officers and directors of WWSG. For both organizations, dad Matthew is listed as the board President; mom Danella is listed as the Secretary; and, son Matthew is listed as the Treasurer. According to the California Attorney General, "all members of the Gregory family operate raffles, and engage in fundraising for WWSG" (*Ibid.*, p.3).

Gregory Motorsports is a for-profit auto retail company specializing in custom sport vehicles and parts. This company is owned and operated by dad Matthew G. Gregory. Gregory

Motorsports is listed as a defendant in the lawsuit filed by the California AG for allegedly providing, “in exchange for valuable consideration, one or more of the prize cars raffled off each year by WWSG since 2011” (*Ibid.*, p.6) (for raffle information, see violations section below).

Violations

The allegations filed by the AG against the Gregory family members, Gregory Motorsports, WWSG, and CCERR are numerous. Each of the Gregory family members has been accused of breaching their fiduciary duty, violating public trust, and violating several state and federal laws with their actions. Violations filed by the state include the following:

1. In or around 2011 (three years prior to receiving its 501(c)(3) charitable status) WWSG solicited charitable donations in order to conduct an illegal raffle. Ineligible to obtain a permit for conducting raffles, WWSG used CCERR’s raffle permit “in exchange for a percentage of the proceeds from the sale of raffle tickets. CCERR receives all of its revenue through raffles operated by WWSG” (*Ibid.*, p.4)². According to the AG, “WWSG has operated an illegal raffle as its primary source of revenue” (*Ibid.*, p.4) since 2011. This was in direct violation of state and federal laws as WWSG was not yet registered as a nonprofit charitable organization. WWSG and CCERR were served in 2016 with cease and desist orders by the AG to terminate raffle activities, and they eventually lost their raffle permit and permission to conduct raffles in the future. Included in the reasoning for the lost permits were claims of hosting an illegal internet raffle, event expenses exceeding revenue, and conducting a raffle without a legal permit. Despite the cease and desist orders, the Gregory family conducted another raffle in Chandler, AZ, on January 1, 2017 (*Ibid.*, p.11). Based on the lawsuit filed by the AG, raffle advertisements claimed that proceeds would benefit veterans vis-a-vis a therapeutic equestrian program and weekend family retreats, though “no such program has ever existed” (*Ibid.*, p.4).
2. Gregory Motorsports manufactures and sells replica Shelby Cobra kit cars. It is believed that Gregory Motorsports supplied the kit car as the prize raffled off by WWSG at the end of each raffle cycle. According to the AG lawsuit, withdrawals from WWSG bank accounts show that funds raised by the charity were used “to purchase goods, services, and materials for defendant Gregory Motorsports” (*Ibid.*, p.10). In addition, IRS Form 990 filings from 2015 show that WWSG spent \$97,387.00 on a Shelby Cobra prize car; the AG believes the car was purchased from Gregory Motorsports. The purchase of a raffle

² California law mandates that eligible nonprofit organizations interested in conducting raffles to support charitable purposes must be deemed qualified to conduct business within the state for at least one year prior to conducting a raffle. Furthermore, eligible organizations must register annually in advance of conducting a raffle and provide various documents to the AG (including an annual report detailing the aggregate gross receipts from raffle activities, aggregate direct costs required to operate the raffle(s), and a statement of the charitable purpose(s) toward which the proceeds will be used).

prize car from Gregory Motorsports is considered by the AG to be an illegal self-dealing transaction intended to benefit dad Matthew and Gregory Motorsports (*Ibid.*, p.6).

3. The AG claims that most, if not all, of the money raised by donors via raffles was ultimately used by members of the Gregory family to finance personal expenses, for-profit businesses, and hobbies (“none of the charitable donations received by CCERR or WWSG were used for a therapeutic equestrian program or to support injured veterans. Instead, the bank statements of CCERR and WWSG show that the money was used to pay for the Gregory family’s personal expenses” *Ibid.*, p.8). Bank statements for CCERR and WWSG illuminate the destination of these funds: Victoria’s Secret purchases, a \$10,000 debt for dad Matthew’s Cabela’s Hunting and Fishing credit card, traffic school fees, Nordstrom, Macy’s, Dillard’s, Marshall’s, Guitar Center, La Mundial dressage boots, Shelby American, Stevens Creek Volkswagen, Dublin Toyota, Fresno Chrysler Jeep, various restaurants, groceries, dental services, and other charges unaffiliated with either charity (*Ibid.*, pp.8-9). The funds alleged by the AG to have been used for personal benefit were donated with the understanding that they would support a therapeutic horse riding program for injured veterans.
4. The Gregory family is accused of failing to maintain accurate records or books reporting on the financial status of either WWSG or CCERR. As a result, the Gregory family stands accused of filing “false and misleading reports about revenue and program expenses with the IRS and the Registry” (*Ibid.*, p. 9). The AG believes that members of the Gregory family have retained all remaining donations for their own personal inurement.
5. The Gregory family is accused of misleading the public through false statements in order to solicit charitable donations, as well as utilizing “unattributed photographs, text, and quotes plagiarized from other websites” (*Ibid.*, p.9) to suggest that a therapeutic horse riding program was being operated to benefit wounded veterans. The WWSG website (which is no longer active) also falsely included the PATH International Certified Therapeutic Riding Center logo to appear as though WWSG was a member of PATH International; according to the AG lawsuit neither organization was ever listed by PATH International as a member, nor have the organizations ever provided direct service through therapeutic riding programs for wounded veterans (*Ibid.*, p.9). In producing false advertising for their organizations, the Gregory family may have steered donations away from legitimate organizations competing for donations.
6. In 2014, WWSG’s IRS Form 990 reported earned donations totaling \$381,416.00, of which \$93,855.00 was distributed to CCERR as a restricted grant designated for an equestrian therapy program for wounded veterans; a large portion of the remaining balance (\$152,459.00) was added to WWSG’s bank account according to the AG (*Ibid.*, p.8). Of the \$93,855.00 “awarded” to CCERR with the restricted grant, \$55,559.00 was spent on boarding, feed, and care of its horses, while \$38,296.00 was deposited into CCERR bank accounts. The AG contends that none of the restricted grant money was used to promote or create a therapeutic equestrian program for wounded soldiers. History repeated itself in 2015 when WWSG issued another restricted grant to CCERR in

the amount of \$108,689.00; CCERR acknowledged receipt of said funds, of which \$74,458.00 was spent on the board, feed, and care of its horses. Despite the sizable grants made from WWSG, at no point did CCERR create a therapeutic equestrian program for wounded veterans (*Ibid.*, p. 8). The status of the remaining dollars as a result of accounting discrepancies is, as of yet, unknown.

Attorney General Requests to the Court

The AG seeks nine “causes of action” against the various charities, individuals, and Gregory Motorsports based on the violations listed above. The requested causes of action below are summarized statements made in the lawsuit; for further details, please refer to the AG lawsuit.

1. *Against CCERR and WWSG - Involuntary Dissolution and Appointment of a Receiver.*
The AG is requesting that the court dissolve CCERR and WWSG and appoint a receiver to oversee the remaining assets currently being held by the nonprofits. The AG enumerates the following reasons as justification for the dissolution of the organizations: mismanagement of the corporations; misapplication and misappropriation of charitable assets by the Gregory family; failure to account for and protect corporate assets; fraudulent abuse of corporate powers and privileges; persistent breach of fiduciary duties; and, the ongoing failure to operate CCERR or WWSG according to their stated charitable purposes as reported to the State and IRS. The AG further requests that all members of the Gregory family be removed as officers and/or directors of both charities.
2. *Against all members of the Gregory family, and DOES 1-100³ - Breach of Fiduciary Duty.*
Dad Matthew, wife Danella and son Matthew as officers/directors are accused of breaching the duties of loyalty and care to CCERR and WWSG by “engaging in, participating in, and facilitating unlawful actions, or omissions” (*Ibid.*, p.12) The lawsuit also contends that due to her solicitation, acceptance, and spending of charitable donations, daughter Gina and DOES 51-100 “acted as agents of the officer/director defendants, and so owed fiduciary duties of due care and loyalty to CCERR and WWSG” (*Ibid.*, p.12). Gina and DOES 51-100 are further believed to have violated the duties of loyalty and care through engagement in, participation in, aid and abetment of, and facilitation of unlawful actions or omissions as described in the violations listed above.
3. *Against Gina Gregory, dad Matthew, Gregory Motorsports, and DOES 51-100 - Aiding and Abetting a Breach of Fiduciary Duty.* The aforementioned individuals and entities are accused of aid and abetment of and/or participation in the breach of fiduciary duty by way of advancement of their own interests or financial advantage. Gregory Motorsports

³ “Defendants DOES 1 through 100 are named as fictitious defendants who have participated with or acted in concert with one or more of the defendants, or who have acted on behalf of or as agents, servants or employees of one or more of the defendants, but whose true names and capacities, whether individual, corporate, or otherwise, are presently unknown to plaintiffs [AG]. Plaintiffs are informed and believe, and thereon allege, that defendants DOES 1 through 100 have directly or indirectly participated in and are responsible for the acts and omissions [listed throughout the lawsuit]” (*Ibid.*, p.6).

is believed to have received payments for the kit car used in the raffles conducted by WWSG; Gina Gregory is accused of using the funds from WWSG and CCERR to “fund her lifestyle” (*Ibid.*, p.18), as well as to maintain her horses and purchase equestrian-affiliated accoutrements. This allegation is believed to have resulted in an excess of \$500,000 worth of damages to CCERR, WWSG, and their charitable beneficiaries.

4. *Against all named defendants and DOES 1-100 - Deceptive and Misleading Solicitations.* In violation of Government Code section 12599.6 (a)(f)(2) and (a)(f)(4), the defendants are accused of misrepresenting the purposes of their charitable solicitations and of engaging in “unlawful, unfair, fraudulent or deceptive business practices through printed and verbal solicitations, and social media sites” (*Ibid.*, p.18) by claiming to utilize donated funds for charitable purposes. Furthermore, the defendants are cited for copying and plagiarizing images, quotes, and information from other websites to mislead donors. The AG assumes that damages are believed to be in excess of \$200,000, and requests that all penalties be paid by all defendants except for CCERR or WWSG.
5. *Against all named defendants and DOES 1-100 - Breach of Fiduciary Relationship.* The lawsuit explains that when individuals solicit and accept donations on behalf of charitable beneficiaries, the acceptance of those donations establishes a charitable trust and a fiduciary duty on the part of the recipient/solicitor of those donations. It is the responsibility of the receiver of donations to ensure that all monies are used for the charitable purposes stated during the solicitation for funds. All of the defendants named in this lawsuit are accused of soliciting and accepting donations on behalf of charitable purposes that were not funded. While it was not fully known at the time the lawsuit was filed, the AG believes the damages associated with this breach of fiduciary relationship exceed \$500,000 as a result of the defendants’ actions and omissions.
6. *Engaging in Self-Dealing Transactions - Dad Matthew and DOES 1-50*⁴. Dad Matthew is accused of purchasing a raffle prize car from his private for-profit business, Gregory Motorsports, for each of the raffles conducted by WWSG from 2011 - 2017 (although an automobile purchase only appears on the WWSG IRS Form 990 for FY 2015, it is not clear if any raffle winners were ever chosen or received a prize car in prior years). The suit claims that dad Matthew “had a material financial interest because he was receiving monies from Gregory Motorsports” (*Ibid.*, p.21). The AG lawsuit further contends the following: “Dad Matthew, Danella, son Matthew, and Gina knew or should have known that all of the transactions involving WWSG, dad Matthew, and Gregory Motorsports were self-dealing transactions. In the alternative, if the defendants other than dad Matthew did not know of the self-dealing nature of these transactions, it was because dad Matthew wrongfully concealed the transactions from the other defendants in bad faith and in breach of his duties of care and loyalty to WWSG” (*Ibid.*, pp.21-22). The AG

⁴ “Self-dealing transactions” are defined by the Corporations Code section 5233 as “those transactions involving the corporation in which one or more of its directors has a material financial interest” (*Ibid.*, p.21).

asserts that dad Matthew shall be responsible for paying all damages affiliated with the automobile purchase to WWSG.

7. *Against all named defendants and DOES 1-100 - Unjust Enrichment.* All charitable organizations granted 501(c)(3) status by the IRS are prohibited from allowing net earnings to inure to the benefit of any person with a personal or private interest in the charitable organization's activities. According to the AG and based on the aforementioned violations, the Gregory family used all or nearly all of the charitable donations earned from WWSG raffles and solicitations for their private and personal expenses. The AG requests that all funds unjustly spent for personal use be repaid to CCERR and WWSG for their charitable benefit.
8. *Against dad Matthew, Danella, son Matthew, Gina, and DOES 1-100 - Operating an Illegal Raffle*⁵. From 2011 - 2017, WWSG conducted illegal raffles where expenses exceeded revenues. Furthermore, none of the revenues from the raffles were ever used for the expressed charitable purposes. The family also illegally conducted its annual raffle online in violation of Penal Code section 320.5 (f)(2). The suit continues to assert that despite issuance of cease and desist orders, as well as a revocation of raffle permits, the defendants conducted another raffle on January 1, 2017 in Chandler, AZ (*Ibid.*, p.23).
9. *Against dad Matthew, Danella, son Matthew, Gina, and DOES 1-100 - Failing to Comply with Regulations and Orders of the Attorney General.* The AG asserts that the violations described throughout the lawsuit have violated Government Code section 12599.6 (f)(1). This was done through operating the organizations without a charity registration, operating WWSG without registering for raffles, soliciting raffle ticket sales, continuing raffle activities after revocation of raffle registration and denial of raffle permits, and engaging in raffle activities in express violation of the cease and desist orders filed by the AG. It is assumed that the civil penalties owed to the state of California as a result of each of these violations is in excess of \$200,000 under Government Code sections 12591.1(a) & (c).

Update. The lawsuit was originally filed in Alameda County on April 17, 2017. According to court records, the defendants will engage in a court ordered case management conference scheduled for 1/8/2018 at 3pm. Thus far, Gina Gregory, WWSG, CCERR, and the remaining Gregory family members have denied all allegations made by the AG (<https://publicrecords.alameda.courts.ca.gov/> Case #RG17856929).

Gregory Family Response to Allegations

⁵ According to Penal Code section 320.5 (a)(4)(A), "at least ninety percent of the gross receipts generated from the sale of raffle tickets for any given draw must be used by the organization conducting the raffle to benefit or support a beneficial or charitable purpose. The organization conducting the raffle may use the revenues to benefit another nonprofit organization, provided that the other nonprofit is an eligible organization" (*Ibid.*, p.23).

The Gregory family has categorically denied all allegations against them. Dad Matthew has told reporters, "I never intended to break any law, and never used a CPA, or any attorney. This has just been a family winging it, the way it should be" (Williams, 2017). It should be noted that Gina Gregory is a licensed CA attorney (CA Bar license #297007) and in good standing with the California Bar Association. In regards to accusations of funds being used at Victoria's Secret, dad Matthew explained that gifts were occasionally purchased for raffle volunteers: "We buy them a little gift, maybe a bra or panties" (Williams, 2017).

Resources/Citations

Although all websites associated with WWSG and CCERR have been disabled, there are ample news stories available online discussing this pending case:

(n.d.). Retrieved October 23, 2017, from <https://publicrecords.alameda.courts.ca.gov>

CN Advisory of Wounded Warriors Support Group. (n.d.). Retrieved October 23, 2017, from <https://www.charitynavigator.org/index.cfm?bay=search.summary&orgid=16962>

George Khoury, Esq. on April 21, 2017 1:00 PM. (n.d.). 'Wounded Warriors Support Group' Sued Over Classic Shelby Cobra Raffle Scam. Retrieved October 23, 2017, from http://blogs.findlaw.com/common_law/2017/04/wounded-warriors-support-group-sued-over-classic-shelby-cobra-raffle-scam.html

<http://www.guidestar.org/FinDocuments/2015/462/415/2015-462415750-0ce60eb1-9.pdf>

Horse Rescue Bilked Donors out of \$500K: California AG. (2017, April 21). Retrieved October 23, 2017, from <http://www.ratemyhorsepro.com/horse-rescue-bilked-donors-500k-california-ag/>

McCambridge, R. (2017, April 19). "Just Winging It": Are Faux DIY Nonprofits a New Thing? Retrieved October 23, 2017, from <https://nonprofitquarterly.org/2017/04/19/just-winging-faux-diy-nonprofits-new-thing/>

Mccann, N. (2017, April 19). 'Wounded Warriors Support Group' Called Giant Scam. Retrieved October 23, 2017, from <https://www.courthousenews.com/wounded-warriors-support-group-called-giant-scam/>

Shelby Cobra Charity Drawing CSX 6095 Win With A Cobra. (n.d.). Retrieved October 23, 2017, from <http://www.shelbyforums.com/threads/shelby-cobra-charity-drawing-csx-6095-win-with-a-cobra.16699/>

Staff, V. (2015, December 23). Cobra Raffle to Benefit Wounded Warriors. Retrieved October 23, 2017, from <https://vintageracecar.com/cobra-raffle-to-benefit-wounded-warriors/#comments>

State of California - Department of Justice - Office of the Attorney General. (n.d.). Retrieved October 23, 2017, from <https://oag.ca.gov/>

Williams, D. (2017, April 19). Horse Rescue Purchases Victoria Secrets With Donations. Retrieved October 23, 2017, from <http://newsofthehorse.com/2017/horse-rescue-purchases-victoria-secrets-with-donations/>

Endnotes

1. Some of the above resources and citations cannot be found without input of additional information. Requests for additional information can be directed to Marco Tavanti at mtavanti@usfca.edu.