Title

Using a Good Name for Self Gain: Pybrum and the Foundation for Harmony and Happiness

Summary

In 1998, Steve Pybrum founded the Foundation for Harmony and Happiness (FFHH) as a 501 (c)(3) charitable organization in Santa Barbara, California with the stated purpose of conducting social research and counseling married couples with financial advice. Pybrum was primarily an accountant through his for-profit business Pybrum & Company CPAs that filed tax returns and offered legal support for clients. For 15 years, Pybrum was able to evade tax payments by documenting his personal income as a CPA into the FFHH, paying employees through the FFHH’s bank account, and making extravagant personal purchases in the name of his charity. Pybrum’s years of tax evasion and misuse of nonprofit benefits for personal gain offer insights into the consequences that follow poor leadership and unethical choices, and the cruciality of keeping nonprofit leaders accountable for their actions in order to maintain the progress of mission-oriented activities of an organization.

Applications
This case study offers an opportunity to reflect on the importance of nonprofit transparency and accountability practices, financial tracking, and the morals and ethical judgments of nonprofit leaders. The use of a nonprofit entity for personal benefit directly contradicts the definition of a nonprofit organization. Pybrum’s moral decision to move forward with tax evasion activities through the FFHH calls into question the ethics of nonprofit leaders and the usage funds that are legally bound to efforts towards the public good. The FFHH never made evidenced strides towards its written mission statement, and was solely used as an institution that Pybrum could funnel personal profits through while receiving nonprofit tax breaks. Nonprofit leaders are meant to be bound to their organization’s mission and ensure that every activity and action taken on behalf of the nonprofit is geared towards advancing the mission and contributing to the public good. When leaders sidestep the organization’s core values and leave the boundaries of what is considered ethical and most beneficial to the nonprofit, the legitimacy of the organization will be questioned and public support will fade.

The fact that Pybrum was able to continue his tax evasions for 15 years also begs the question of the efficiency of annual Form 990 filings, IRS enforcement practices, and nonprofit accountability tools. The FFHH’s application as a tax-exempt organization was accepted by the IRS, yet for years, the organization failed to comply with the legal requirements to maintain its 501(c)(3) status. Within the FFHH, there was also seemingly no internal system of accountability or present individuals, such as a board of directors, that could keep the FFHH in check with nonprofit duties and its mission. Nonprofits do not have control over the enforcement of external accountability tools, especially presiding legal requirements; however, internal policies and acting on core ethical values can serve as guiding tools for maintenance of accountability and transparency.

Outcomes

Nonprofit professionals may examine this case to understand the necessity of finance documentation and transparency, the importance of strong ethics and integrity for those in positions of power, and the need for internal systems of checks and balances to maintain power distribution within an organization. Detailed tracking of a nonprofit’s activities and finances is crucial to the long-term survival of an organization, from a legal standpoint and in terms of public support. Nonprofits should have systems of accountability in place to ensure compliance with legal nonprofit requirements and to maximize the productivity of the organization’s funds and efforts towards its mission-driven activities.

The necessity of strong morals and ethical values in leadership positions becomes clear as we examine the negative effects of people in positions of power abusing their privileges. Pybrum is certainly not the only individual who has taken advantage of nonprofit resources meant for public benefit and redirected gains towards himself through tax evasion strategies. Although the FFHH supposedly never received any
donations or grants for its supposed mission, any funds that passed through the nonprofit should have immediately been redirected towards the nonprofit’s charitable activities. The core value of acting with integrity becomes central to ensuring that leaders are guiding their nonprofits with honesty, openness, and true desire to work towards the nonprofit’s mission.

Nonprofit organizations should also take note of how controversies and scandals, such as the case with Pybrum and the FFHH, impact the reputation of the nonprofit sector as a whole. More than ever, external stakeholders are holding a critical magnifying glass to the actions and decisions of nonprofits before deciding to contribute or collaborate. As other examples of corruption emerge, nonprofits must respond to address the concerns of their audiences about the impact of their activities and how funds dedicated to the public good are truly being spent.

**Video**

“Tipline Investigation: Pybrum for Congress Fellow” by KEYT – KCOY – KKFX News

https://www.youtube.com/watch?v=eRv55Lt2SI

**Description**

Steven Pybrum operated a for-profit business in Santa Barbara, California called Pybrum & Company that offered services preparing tax returns for clients and court representation in the case of audits and IRS investigations. Affluent Santa Barbara clients that could afford representation paid Pybrum in court fees and compensation for his time, and often their cases were resolved. All of the proceeds from Pybrum’s accounting cases were funneled into a nonprofit organization that Pybrum created called the Foundation for Harmony and Happiness (FFHH). This foundation supposedly generated revenue through marriage counseling services and sales, but no traceable charitable activities could be identified throughout the nonprofit’s existence. The FFHH nonprofit scheme operated from 1998 to 2015.

Pybrum gradually began reporting his accounting and tax practice revenues into his nonprofit’s paperwork. Year after year, the IRS did not question the FFHH’s charitable activities. In the last four-year period starting in 2011, Pybrum reported nearly all of the income he earned as a CPA in the FFHH’s 990 tax returns. He falsely characterized almost all of his income during this period as money the FFHH received through lawful charitable activities, when in fact this was income earned for the accounting services he provided for private accounting clients. All of Pybrum’s accountants and employees were paid through his nonprofit’s checking account.

Pybrum’s accountants were strategically hired fresh out of college with little or no experience. If and when staff members questioned his tax practices, he often fired
them with the notion that they were not learning his tax training. In the files of the FFHH, these young accountants were documented as volunteers or research participants without the knowledge and approval of the employees themselves.

In 2013, Pybrum created a website in an effort to attract more clients to his CPA firm. IRS agents could not find anything wrong with Pybrum’s for-profit activities, but they started to zero in on the connection between his nonprofit and his accounting practice once the link between the two entities became more apparent through Pybrum’s marketing. The IRS and the California Board of Accountancy found no registration of his accounting firm with any auditing standards such as peer review, nor did they find any reasonable connection between the firm’s practices and the nonprofit’s mission. It became clear that the FFHH was only an entity that existed for the sole purpose of tax evasion and enabling Pybrum’s personal profits.

During the California Board of Accountancy board hearing in October 2012, Pybrum stated that the IRS was well aware that the FFHH would perform tax related services, including preparation of tax returns for individuals and corporations. In Pybrum’s application for tax-exempt status under IRS Code section 501(c)(3) on behalf of the FFHH, he stated that the purpose of the FFHH was to "conduct basic social research in the emotional and psychological differences between men and women, to increase public awareness about the importance of achieving and maintaining effective communication between married couples and adults generally, and to instruct married couples about the multiple methods and techniques for wealth accumulation which may lead to a more stable and enduring marriage or relationship" (Office of Administrative Hearings, 2013, pg. 8). The Board of Accountancy found nothing in the 19-page application that stated or remotely indicated that the FFHH intended to perform tax return preparation services for individuals and corporations. The stated sources of income for the FFHH included "admission prices for seminars, ... grant funds received from other tax exempt foundations, gifts from the public, and contributions" (Office of Administrative Hearings, 2013, pg. 3) but there was no traceable proof or documentation of these revenue sources or contributions.

The IRS tax court discovered that Pybrum, over the course of three years, used the FFHH’s funds to purchase a Cessna dual prop airplane, a Hummer h2 vehicle, a home in Montecito, California, and multiple series of expenses in vacation spots throughout California. Pybrum could not legally justify the misuse of the FFHH’s funds for his own personal expenses.

In March 2013, Pybrum was charged $7,730 in enforcement costs to the California Board of Accountancy and sentenced to 36 months in prison for conviction of a substantially related crime, dishonesty and fraud, fiscal dishonesty, knowing preparation of false financial information, and willing violation of accountancy act (Office of Administrative Hearings, 2013, pg. 6). Pybrum was released from prison on July 31, 2015 (Ward, 2016) and unsuccessfully attempted to campaign for a seat
in the U.S. Senate in 2016. Today, neither Pybrum & Company nor the FFHH appear to exist online.

Questions

- Why was Pybrum able to continue his tax evasion and misuse of funds for so many years? What systems of accountability, or lack thereof, allowed his activities to go undetected by the IRS for 15 years?
- How can we improve the formation of nonprofits to prevent tax abuses? Are there aspects of the for-profit sector that could be also be addressed to improve financial accountability?
- From a moral standpoint, could Pybrum’s scandal be considered a lesser evil than other common nonprofit fund misuse examples, since the FFHH never received donations or funds exclusively for its mission?
- What proactive measures can nonprofits and boards of directors take to strategically rally together a leadership team that will act with integrity and in the best interest of the organization?
- Considering the severity of Pybrum’s actions, was his sentence of 36 months in prison and $7,730 fine a just consequence? What factors do you anticipate contributed to the determination of his punishment, and is this consequence severe enough to deter Pybrum or other individuals from practicing the same tax evasion strategies in the future?

Resources


US Attorney’s Office of the Central District of California. (March 5, 2013). Santa Barbara Accountant Sentenced To Three Years In Federal Prison In Tax Fraud Case Involving Sham Non-Profit Organization. United States Department of Justice.