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Nonprofit Ethics Case

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Title

The Downfall of the Vanguard Public Foundation

Summary

On August 5, 2010, police arrested Samuel “Mouli” Cohen on charges of fraud, money laundering and tax evasion. He was convicted and sentenced to 22 years in prison for stealing over \$30 million from the Vanguard Public Foundation and more than 50 individual victims (Webb, 2010). The Foundation’s charismatic president, Hari Dillon, was implicated as an accomplice and sentenced to 40 months in prison (U.S. Attorney's Office, 2013).

After 35 years working on the forefront of social justice grantmaking, the Vanguard Public Foundation imploded in scandal, casting a shadow across the progressive sector. The scandal left grantees in a lurch and damaged the personal finances and reputation of donors across the Bay Area and beyond. This paper explores the unethical practices and lack of board oversight that led to the defrauding of donors and the demise of the Vanguard Public Foundation.

Applications

The case of the Vanguard Public Foundation sheds valuable light on issues of organizational ethics, governance, accountability, board culture and financial management.

Outcomes

The demise of the Vanguard Public Foundation underscores the need for nonprofits to have strong governance mechanisms to monitor the CEO, provide financial oversight, investigate

whistleblower claims, and prohibit self-dealing. It also reveals the importance of transparency and the need for board members to meet regularly and not be afraid to ask tough questions.

Video: <https://www.cnbc.com/id/100732437>

History

In 1972, a group of wealthy, progressive young activists radicalized by the Vietnam War came together to create the Vanguard Public Foundation. Their goal was to create a progressive philanthropic organization that would distribute money they were inheriting (from companies such as Pillsbury and DuPont) to social justice organizations too far left to receive funding from mainstream foundations. Moreover, they wanted to start a new model of philanthropy that was controlled by grassroots community members and those affected by social injustice. (Tracy Gary, 2012).

Over time, Vanguard shifted from collective decision-making to a consolidated board of directors and a grants allocation committee. The group hired Hari Dillon to become its executive director in 1990. Dillon was a well-known civil rights activist who had made a name for himself during a student strike at San Francisco State in 1968 and later went on to befriend Nelson Mandela, Dolores Huerta, and other heroes of the progressive left (Murray, 2012).

Downward Spiral

In 2002, Vanguard donor, civil rights activist and donor Danny Glover introduced Dillon to Samuel “Mouli” Cohen. Cohen was co-founder and former employee of a digital entertainment company called Ecast. He went to great lengths to successfully convince Glover, Dillon and those around them that he was a successful billionaire investor and philanthropist. Once he earned their trust, Cohen convinced Dillon, Vanguard donors, and others to purchase shares in Ecast, which he claimed would soon be acquired by Microsoft. Between 2002-2007, he swindled them into purchasing millions of shares that were virtually worthless, using both Foundation and personal assets. In a classic Ponzi scheme, he coned them into providing additional funds to protect their investment. Some, including the Vanguard Public Foundation, took out loans to purchase more shares. Cohen used money from other donors to pay back those who wanted out. He cautioned investors that they would lose their investment if they sought legal help. Meanwhile, he was funneling their contributions into more than 36 personal accounts in the U.S. and Switzerland. For his part, Dillon admitted to skimming off the top of the money that he was passing to Cohen, keeping \$2.5 million or more to cover his own expenses and lavish lifestyle (Murray, 2012).

How Could This Happen?

According to Vanguard donor and former board member Leslie Wozniak (sister of Apple co-founder, Steve Wozniak), racial tensions on the board created fractures shortly after Dillon began his tenure. Board members, particularly those with racial and financial privilege, found it difficult to question or confront Dillon, a highly respected and well-connected civil rights leader of color. Conflicts erupted when board members disagreed with Dillon or questioned his use of funds. Some board members, including Wozniak, resigned. One employee, who calls herself a

whistleblower for confronting Dillon, was fired. According to interviews, fear of being labeled racist or “counter-revolutionary” induced silence from the board. Ultimately, they failed to fulfill their duties and provide appropriate oversight of the organization’s executive director and finances. In her in-depth investigation, journalist Laura Rena Murray concluded that, “Cohen’s scams depended on silence, complicity, and trust...the combination of racism, classism, and white guilt culminated in a disaster of accountability (Murray, 2012).”

Who is to Blame?

Cohen and Dillon defied ethics, the social justice values they espoused, and the law. Yet they are not alone in bearing responsibility for what happened. Former donors on the board admit that they did not conduct proper due diligence or oversight because they were duped by Cohen, a talented con man who promised them the chance to cash in on the tech boom and make quick money for themselves and the Foundation. Other board members who represented community groups said they were afraid their organizations would no longer be funded if they objected to Dillon or Cohen’s activities (Cohen, 2011).

All of this amounted to a board afraid to uphold its duty of care and responsibility to provide oversight. Because several board members invested their personal wealth with Cohen, they were unable to look at the risk to the Foundation objectively. They had already bought into Cohen’s scam, and rather than contemplate the loss of their personal assets, they ignored warning signs, instead choosing to hope that the deal he promised would eventually bear fruit. Reporter Rick Cohen’s review of board documents revealed that board members and staff were knowingly spending money the organization did not have, as they held out for the payday he had promised them. Furthermore, the board trusted Dillon and took a passive approach to management. According to Rick Cohen, “Board meetings became scarce, with rarely more than one face-to-face board meeting in a year, and agendas were more focused on political discussions than board oversight (Cohen, Blue Avocado, 2010).”

Efforts to raise money to fulfill the unpaid grants of the Vanguard Public Foundation were only minorly successful. A small group of former donors contributed \$46,000 and made small grants of \$2,000 each as a symbolic gesture to the nonprofits promised funds by Vanguard. The United States government is still trying to recover stolen money sitting in Cohen’s Swiss bank accounts (Sieniuc, 2016).

Discussion Questions

- 1) From a personal (leadership) perspective:
 - a) Which leadership shadows did Hari Dillion cast and how were his followers challenged by his leadership? (Johnson, 2018)
- 2) From an organizational (nonprofit) perspective:
 - a) In light of the utmost relevance of trust for nonprofit organizations, it is valuable for nonprofit officials to devote particular attention to the management of organizational trustworthiness. Moreover, “doing good” does not curb irresponsible behavior (Lin-Hi and Müller 2013). Who was ultimately responsible for the foundation's demise?

- b) What recommendations would you make to balance power and transparency in nonprofit organizations?
- 3) From a systemic (sectors) perspective:
 - a) In contrast, there is a significantly smaller number of watch dogs in the nonprofit domain (Lin-Hi and Müller 2013). Who were the watch dogs and what role did they play in the Vanguard scandal?
- 4) From one or more ethical perspective (theory):
 - a) Would the application of the ethical approaches we have learned in class have mitigated the impact of accusations of racism that were leveled at whistleblowers?
 - b) According to attribution theory, people interpret and evaluate observed behaviors in relation to already available assumptions and expectations about how a particular actor is likely to act in a given situation (e.g., Jones 1990; Trope 1986). Based on the attribution theory was Vanguard an easy mark for a Ponzi scheme?

Resources

- Reclaiming the Spirit of Vanguard, <http://public.vanguardjustice.org/home>
This website was created by former members of the Vanguard Public Foundation to learn from what happened and try to raise money for the grantees who were promised funds they never received. It includes links to information about what happened.

Endnotes

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