Nonprofit Ethical Case:

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

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Summary

• Steve Pybrum CPA, operated an accounting firm under the name Pybrum and Company and Family Business Center in Santa Barbara California. In 1998 Mr. Pybrum created a nonprofit he called Foundation for Harmony and Happiness. Mr. Pybrum generated revenues of $380,000 per year from his accounting and tax practice, and used the nonprofit entity to deposit all the proceeds to avoid declare taxes.

• Prosecutors determined that The Foundation for Harmony and Happiness never did any charitable work and was simply a checking account for Mr. Pybrum’s own financial gain.

• Mr. Pybrum tried to tie his foundation for the sale of his book Money and Marriage, and said he was only helping couples avoid divorce.
Summary

• The Foundation for Harmony and Happiness work was supposedly created to guide troubled marriages reconcile their differences by tackling their financial problem first.
• Mr. Pybrum’s book Money and Marriage was meant to be given for free during his set up charitable work
• Pybrum’s clients came specifically to do their taxes, nobody asked for marriage counseling
• Clients and employees believed his office was a CPA firm.
Summary

• The Foundation for Harmony and Happiness scheme became so successful that Mr. Pybrum wrote a second book.
Facts

- December 5, 1981 Steve Pybrum passed his CPA license.
- 1998 Steve Pybrum files and starts Foundation for Harmony and Happiness
- 1998-2015 The foundation went undetected, making Mr. Pybrum a fortune, including purchases of private airplane, house in Montecito California and numerous personal assets
- September 6, 2016 Office of Administrative Hearings Law Judge Flores hears the case for tax evasion
- September 12, 2016 Mr. Pybrum is unable to obtain copies of tax return for periods 1994 to 1996 for his nonprofit
- December 28, 2016 Mr. Pybrum is ordered to pay fines and sent to 36 months in prision, CPA license is revoked for fraud and dishonesty
Tipline Investigation: Pybrum For Congress Fellow
Compliance

• Behind the ethical issues, are there some legal and compliance issues in this case?
• Mr. Pybrum never intended to do any charitable work under his nonprofit
• The nonprofit entity Foundation for Harmony and Happiness was misused for tax evasion for a period of 15 years.
• The Foundation was never asked to post their 990 form or create a website for the public.
Individual Responsibility

• Begin your ethical leadership (organizational) analysis by considering the ethical irresponsibility of the individuals involved in this case.
• Mr. Pybrum did not realize that by his actions of misusing a nonprofit entity, he indirectly harmed the reputation of other nonprofits who are doing charitable work.
• Mr. Pybrum’s responsibility was to maintain accounting records and provide transparency for the public.
Organizational Responsibility

- Board members that actually exist
- Individuals other than Pybrum to cross-check 990s and other documentation
- Role of accountants in Pybrum’s for-profit
  – Javier’s story
Systemic Responsibility

• Culture of corruption
  – Repetition of tax evasion via nonprofits across the nation
  – Privilege to gain access and avoid consequences
  – Corruption as a new normal
• Systems of accountability
  – IRS
  – Internal checks and balances
  – External stakeholder demands
Stakeholders Analysis

• Potential and current stakeholders may lose interest / motivation to contribute
• Loss of trust in nonprofit sector
• Increased demand for accountability and transparency
• Diversion of funds from nonprofit’s mission
Alternative Solutions

- Tighter/more specific regulations and check-ins on nonprofit activities
- Balance of power in nonprofit leadership structures
- Recruit leaders with proven track records of ethical decision making
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?

• From a moral standpoint, could Pybrum’s scandal be considered a lesser evil than other common nonprofit fund misuse examples, since the Foundation 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?
References
