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Nonprofit Ethics Case

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NPA 601: Nonprofit Ethical Leadership
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Spring 2021

1. **Title**

AIDS Research Alliance: The Scandal of Donnelly “Donor Manipulator” Montenegro

2. **Summary**

This case study examines the AIDS Research Alliance (ARA) and the unethical practices of its former Chief Operating Officer, Donnelly Montenegro. ARA was a Los Angeles-based nonprofit organization founded in 1989, and later dissolved in 2015. Montenegro’s deceitful actions against the organization’s donors continued for two years after the dissolution of the ARA. This case study explores the failure of ethical leadership and the safeguarding of confidential organizational records and access. Montenegro was later charged by the Attorney General’s office and was sentenced to two years in jail for his actions against the public.

3. **Applications**

Failure of ethical leadership and fiduciary responsibility

This case provides a clear example of unethical leadership in Donnelly Montenegro, the former COO of the AIDS Research Alliance. After the organization disbanded, Montenegro falsely portrayed himself as an acting staff member in order to steal \$316,000 from donors for personal expenses. Such fraud and theft are blatantly unethical, especially in the context of conducting charity.

Montenegro's unethical actions reflect upon the fiduciary responsibilities of a nonprofit leader. Duty of loyalty, care, and obedience were all breached when Montenegro decided to deceive the ARA's donors by furthering his own personal agenda and not contributing to the nonprofit's mission, purpose, or good will.

According to the California Department of Justice (2020), "the assets of a public benefit corporation are considered irrevocably dedicated to charitable purposes, and cannot be distributed for private gain" (p. 7). In this case, ARA's assets were unethically directed to Montenegro's private gain.

Safeguarding organizational records and access

This case demonstrates the need for nonprofit organizations to safeguard their sensitive information, especially during the process of disbanding. In this case, the Board and executive leadership failed to keep secure their donor information, allowing the COO Donnelly Montenegro to take advantage of his access and conduct his unethical scheme. Nonprofits are especially vulnerable to digital intrusions due to their lack of IT resources and limited institutional knowledge of how to prevent or respond to these incidents (Roadmap Consulting, 2015, p. 12).

Governance oversight

This case shows the need for the government to conduct oversight of charities. The IRS and State regulatory bodies such as the California Attorney General's Office should aim to curtail abuses of fraud such as this as quickly as possible. Montenegro conducted his unethical actions between 2015 and 2017, yet he was not held accountable until 2021. With additional resources for oversight efforts, the government could help avoid outcomes like this in the future.

4. **Outcomes**

Nonprofit leaders need to take care and provide follow-up when disbanding an organization.

When disbanding a nonprofit organization, it is essential for the leaders to safeguard sensitive information such as donor lists. It is not enough to merely vote for dissolution and file the necessary paperwork; as Montenegro's unethical actions illustrate, nonprofit leaders disbanding an organization should also make efforts to protect donor information as well as to inform donors that the organization is disbanded so that they are not vulnerable to manipulative requests for further fraudulent donations. As RoadMap Consulting (2015) explains, strong internal administrative and personnel policies and practices can help prevent situations of internal fraud and make responding smoother (p. 16).

The government should conduct better oversight.

This case provides a reminder of the important responsibility the government has to monitor and regulate nonprofit activities. In order to dissolve, a nonprofit must file a dissolution packet with the California Attorney General and a certificate of dissolution with the California Secretary of State. It would be helpful for these state agencies to conduct follow-up oversight in order to ensure unethical actors such as Montenegro are not taking advantage of the dissolved nonprofit's donors.

Risks to the public trust.

It is especially vital to safeguard donor information and avoid donor abuses because public charities depend upon the public's trust. A recent survey, the Give.org Donor Trust Report: An In-Depth Look into the State of Trust in the Charitable Sector, found that while 73 percent of respondents said it was very important to trust a charity before making a donation, only 19 percent said they "highly trust" charities (BBB Wise Giving Alliance, 2018, p. 4). Unethical actions such as Montenegro's harm not only the donors directly manipulated in the scheme, but also more broadly discredit the public trust upon which charities rely to fulfill their missions.

5. **Video**

<https://www.youtube.com/watch?v=BA11wSL8AzE>

6. Description

The AIDS Research Alliance (ARA) was a national 501(c)(3) nonprofit organization dedicated to developing a cure for HIV/AIDS, implementing medical strategies -- such as microbicides and vaccines -- to prevent new HIV infections, as well as providing better treatments for people living with HIV/AIDS. It was founded in 1989 in Los Angeles, California by a group of Southern California physicians and philanthropists. Their initial goal was to hasten the discovery and development of effective treatments against HIV and HIV-related complications. During its years in operation, ARA conducted over 150 clinical and pre-clinical studies. Its research was funded by using a business model that involved contract research, as well as tax-deductible donations, from private individuals, corporations, and foundations. After 16 years in operation, ARA eventually dissolved in 2015.

Although the organization dissolved in early 2015, Donnelly Montenegro, the former Chief Operating Officer of AIDS Research Alliance at the time of dissolution, retained access to the organization's private records. With this information, he remained in contact with major donors and people of the public, and led people to believe that the ARA was an active organization and was still in operation. Montenegro continued this charade for two years, from 2015 to 2017. He falsified claims to ARA donors and continued to receive donations that amounted to hundreds of thousands of dollars.

Over the course of two years, Montenegro was able to obtain and launder \$316,000 worth of donations that were intended for AIDS research. He used these stolen donations for personal purchases and expenses, including payment of credit card bills, personal investments, as well as the purchase of firearms.

California Attorney General Xavier Becerra's office prosecuted the case. Montenegro pleaded guilty in December 2020 to grand theft. According to the Attorney General's press release, "Attorney General Becerra Announces Sentencing in AIDS Research Alliance Fraud Scheme," Montenegro was charged with "22 separate felony counts, which includes 6 counts of grand theft, 3 counts of identity theft, and 13 counts of money laundering." He was charged with a two-year jail sentence in early February 2021.

7. Questions

- Did the leaders of the nonprofit who were in charge when it disbanded in 2015 bear any responsibility for Montenegro's subsequent unethical actions?

- Should the donors who were defrauded be made whole, and by whom? Is that Montenegro's responsibility alone, or does society have a duty to help those donors?
- Why did it take so long for the government to recognize and take enforcement action against Montenegro's unethical behavior?
- Do you think Montenegro's unethical actions had consequences for other AIDS research nonprofits? How?
- Do you think ethical trainings or organizational culture could have prevented Montenegro from acting this way?
- How can the nonprofit sector maintain public trust and integrity after organizations like this one take advantage of donors?

8. **Resources**

BBB Wise Giving Alliance. "Give.org Donor Trust Report: An In-Depth Look into the State of Trust in the Charitable Sector." (2018).

<https://www.give.org/docs/default-source/donor-trust-library/give-org-donor-trust-report.pdf>

California Department of Justice, Charitable Trusts Section (2020). *California Attorney General's Guide for Charities*. Retrieved from

https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/publications/guide_for_charities.pdf

RoadMap Consulting. "Weathering the Storms: Building Social Justice Resilience Against Opposition Attacks." (2015).

<https://roadmapconsulting.org/resource/weathering-the-storm/>

9. **Endnotes**

"AIDS Research Alliance." *AIDS Research Alliance - GuideStar Profile*, www.guidestar.org/profile/95-4264845.

"Attorney General Becerra Announces Sentencing in AIDS Research Alliance Fraud Scheme." *State of California - Department of Justice - Office of the Attorney General*, 8 Feb. 2021, oag.ca.gov/news/press-releases/attorney-general-becerra-announces-sentencing-aids-research-alliance-fraud.

BBB Wise Giving Alliance. "Give.org Donor Trust Report: An In-Depth Look into the State of Trust in the Charitable Sector." (2018).

<https://www.give.org/docs/default-source/donor-trust-library/give-org-donor-trust-report.pdf>

California Department of Justice, Charitable Trusts Section (2020). *California Attorney General's Guide for Charities*. Retrieved from

https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/publications/guide_for_charities.pdf

Editor, Contributing. "Good-Hearted People' Ripped Off As \$316,000 AIDS Research Donation Stolen To Pay Credit Cards, Buy Firearms: Two Years In Jail!" *MyNewsLA.com*, 8 Feb. 2021,

mynewsLA.com/crime/2021/02/08/good-hearted-people-ripped-off-as-316000-aids-research-donation-stolen-to-pay-credit-cards-buy-firearms-two-years-in-jail/.

RoadMap Consulting. "Weathering the Storms: Building Social Justice Resilience Against Opposition Attacks." (2015).

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