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Nonprofit Ethics Case

Founding Fraudster: The Case of Central Coast Kids & Families - Lauren Williamson

NPA 601: Nonprofit Ethical Leadership

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1. Title

Founding Fraudster: The Case of Central Coast Kids & Families

2. Summary

Central Coast Kids & Families was founded to provide in-home respite care and in-school aides for special needs students. The nonprofit was discovered to be overbilling nonprofits, schools, and districts in-need of these services for unprovided hours and employees. The Executive Director that founded the nonprofit was also embezzling funds over \$675k for her own personal consumption. Upon discovery of this, the Executive Director then attempted to evade investigators by providing incomplete information and changing the nonprofit's status to a for-profit. Despite her efforts and claims of innocence, she was found guilty of all charges.

3. Applications

Schools & Local Organizations - Schools and nonprofit organizations have limited budgets, time, and resources. In this case, the school districts Garcia defrauded are in very

wealthy and well-funded communities, which made the nonprofit scheme extremely lucrative. Nonetheless, these efforts and resources were diverted away from students with disabilities and left unfulfilled. Schools and communities have a responsibility to ensure all students have equal access to education and academic accommodations. If the needs of students with disabilities are to be outsourced to nonprofits as an alternative to providing the programming in-house, schools have a responsibility to ensure the needs are being met. Additionally, partners should have the due diligence to ensure those they are working with and/or paying are fulfilling their obligations.

Oversight - This case also demonstrates the complete lack of validation of oversight of organizations, both nonprofit and for-profit. Garcia listed having a board of five members for Central Coast Kids & Families, then after filing as a for-profit to evade investigators listed herself as sole management without a board. Garcia's ability to submit so many fraudulent expenses and documents to various partners and officials, yet avoid detection for so long means there needs to be more oversight of business leaders and compliance.

Rights - The violation of human rights is a glaring factor in this case. The special needs community, particularly children, are one of the most vulnerable populations that deserve dignity and protection. The nonprofit that was intended to empower this group was in fact stealing from their locally allotted and legally protected resources. The consequences of special needs students losing their support can range from losses in individual development to overall collective morale which nonprofits are meant to uplift, not set back.

4. Outcomes

Organizational Engagement - The importance of researching and engaging throughout the relationship with a nonprofit, be it as a donor or any partner, not only protects constituents, but also stakeholders from any liability or loss. Ideally, with greater engagement there would have been more suspicions around Garcia resulting in earlier discovery of the fraud. Donors and partners were misled, but internal organizational knowledge would also show an inactive board and noncompliance indicating to steer clear of the nonprofit and Garcia's lies.

Whistleblowers - Staff play an integral role in stopping unethical and illegal nonprofit activities. Another lesson learned from this case is the need for individuals to have heightened awareness of this behavior and their power to stop it. Although Central Coast Kids & Families claimed to have a whistle blower policy in place according to its 990, employees reported feeling hesitant when they noticed something was amiss and accepted Garcia's explanations. However, none felt a responsibility or understanding to be able to question the structure or operations of the organization either, which also indicated Garcia was misusing her power.

5. Video

“Monterey woman going to prison for embezzling from students with special needs”

Retrieved from

<https://www.ksbw.com/article/monterey-woman-going-to-prison-for-embezzling-from-students-with-special-needs/34854249>

“Schools, organizations to receive restitution after Central Coast nonprofit director convicted of embezzlement” Retrieved from

<https://kion546.com/news/2021/08/13/schools-organizations-to-receive-restitution-after-central-coast-nonprofit-director-convicted-of-embezzlement/>

6. Description

Central Coast Kids & Families was formed by Lolita Garcia in 2008 to provide in-home respite services to families of children with special needs. These services were paid for by the San Andreas Regional Center (“SARC”), a nonprofit funded by the State of California to serve people with developmental disabilities. The nonprofit also provided in-school aides to children with special needs through the Salinas City Elementary School District, Greenfield Unified School District (“USD”), North Monterey County USD, Carmel USD, Pacific Grove USD, as well as the Monterey County Office of Education. These in-school services were paid for by the school districts and offices.

Central Coast Kids & Families brought in a revenue of just over \$1 million in 2012 for providing “support for 434 special needs and medically fragile students in the community, schools, and home,” according to tax filings. However, the filings show no record of any donation made to the charity during the available period from 2008 to 2012. Garcia stopped filing 990s and tax returns in 2013. At this time she also begins overbilling schools to increase funds and embezzling money from the nonprofit, stealing a total of \$675,646 from 2013 to 2015.

In 2015, Garcia hired a CPA to complete the delinquent tax returns for the nonprofit, but they became concerned by transactions that appeared to show diverted funds out of the nonprofit to her personal benefit. The CPA reported their suspicions to the California Attorney General’s Office, who then contacted the District Attorney’s office that began an investigation.

DA investigators found she was embezzling money from the nonprofit for luxury cars, jewelry, private school tuition, a band for her daughter’s school, vacations, cosmetic surgeries, and previous credit card debts. Investigators poured through statements and found she was making her profit by overbilling schools for unprovided staff hours and services. The DA called Garcia in for an interview, however, she provided incomplete

information and documentation according to forensic experts. In her DA interview, Garcia admitted she was the only bookkeeper despite having no previous experience. Immediately after her interview with the DA in 2016, Garcia filed for Central Coast Kids & Families to be registered as a for-profit LLC with the Attorney General to avoid prosecution. Although the nonprofit's 990 listed five board members, after filing as a for-profit, she listed herself as sole management without a board. "I believe Garcia is purporting to do business under the LLC currently and she does not currently have a board of directors overseeing this business," reported District Attorney Meroney in court documents (Marino, 2018).

Despite her efforts to evade investigators, Garcia was arrested in 2018. At her arraignment that same year, a Monterey County Superior Court judge ruled on Garcia's replacement, Linda Bell, to take over the nonprofit's operations. In 2020, Garcia was sentenced and immediately remanded to 4 years of state prison for embezzlement, tax evasion, submitting false invoices, and theft by false pretenses. Restitution was paid to the affected schools, districts, nonprofits, and local offices, a total of nearly \$330,000.

The interim Executive Director appointed in 2018 is the last director of Central Coast Kids & Families currently. Despite stating its purpose is still special needs, the organization continued operation as a for-profit LLC with no change in the organization status according to Bell's early filings in 2020. The organization's website was deleted and was not ever made available again, but the organization continued to operate with some improved employee relations according to professional websites and profiles. Central Coast Kids & Families finally became inactive by late 2020 and was suspended by the Franchise Tax Board by the end of the year.

7. Questions

- 1) If you were a staff member, do you think you would have noticed something was wrong or would do something? Can we trust people to a fault?
- 2) Why do you think Lolita Garcia founded this nonprofit? Did she always plan to use it for crime or just later realize it could pave her way to the local high life?
- 3) Should any stakeholders have had more responsibility to hold the nonprofit accountable or realize earlier billed services were missing? (eg. partners, schools, parents, etc.)
- 4) Was justice served in this case? What more could be done? What would you have done first as the new interim Executive Director?
- 5) Unethical people will target the vulnerable and exploit goodwill, are nonprofits unique playgrounds for the unethical? How do we prevent this?
- 6) What is our moral responsibility to special needs communities? What does it mean if our sector that is a primary safety net is also the one causing harm?

8. Resources

Guidestar Warning - <https://www.guidestar.org/profile/26-0163376>

Company Profile - <https://www.linkedin.com/company/central-coast-kids-&-families>

Last 990 Form (2012) -

https://www.causeiq.com/organizations/view_990/260163376/dbd573178a7a42854b385040c869fdd3

LLC Filing Documents (2016, 2019-20) -

<https://businesssearch.sos.ca.gov/Document/RetrievePDF?Id=201602910441-20276617>

<https://businesssearch.sos.ca.gov/Document/RetrievePDF?Id=201602910441-26620296>

<https://businesssearch.sos.ca.gov/Document/RetrievePDF?Id=201602910441-27476531>

District Attorney Press Release -

<https://www.co.monterey.ca.us/Home/Components/News/News/7865/9444>

Central Coast Kids and Families Embezzlement by Nonprofit Ace Podcast -

<https://www.cnrgaccountingadvisory.com/Central-Coast-Kids-and-Families-Embezzlement/>

9. Endnotes

Johnson, A. (2021, August 14). Schools, organizations to receive restitution after Central Coast nonprofit director convicted of embezzlement. KION546. Retrieved March 7, 2022, from <https://kion546.com/news/2021/08/13/schools-organizations-to-receive-restitution-after-central-coast-nonprofit-director-convicted-of-embezzlement/>

Marino, P. (2018, March 27). Nonprofit director pleads not guilty to embezzlement, money laundering and tax evasion. *Monterey County Weekly*. https://www.montereycountyweekly.com/blogs/crime_blog/nonprofit-director-pleads-not-guilty-to-embezzlement-money-laundering-and-tax-evasion/article_272df96e-3515-11e8-ba79-5b5f23743709.html

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