Founding Fraudster:
The Case of Central Coast Kids & Families

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Background
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 not guilty defense, she was found guilty of all charges.
2008
Central Coast Kids & Families is founded
Formed by Lolita Garcia to provide in-home services and in-school aides for children with special needs

2013-15
Executive Director begins overbilling and embezzling
Embezzled a total of $675,646 from the nonprofit for personal luxury expenses
CPA hired by Garcia in 2015 reports her to Attorney General who alerts the District Attorney

2016
Investigators conclude and interview Executive Director
After Garcia was interviewed by the District Attorney she switched the status from nonprofit to a for-profit LLC with the state Attorney General

2018
Investigators arrest Executive Director
At arraignment in Monterey County Superior Court a judge ruled on Garcia’s replacement to take over the nonprofit’s operations

2020
Executive Director is sentenced and remanded
Sentenced to 4 years state prison for embezzlement, tax evasion, submitting false invoices, and theft by false pretenses
The Case
State of California vs. Lolita Garcia

- Used her Executive Director position to conduct a noncompliant nonprofit for an illegal scheme
  - 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.
  - The filings show no record of any donation made to the charity during the available period from 2008 to 2012.
- CPA hired by her in 2015 to complete delinquent tax returns for the nonprofit became concerned by transactions that appeared to show diverted funds out of the nonprofit to benefit herself
  - CPA reported suspicions to the California Attorney General's Office, who contacted the DA’s office.
  - DA investigators found she was embezzling from the nonprofit for luxury cars, jewelry, private school tuition, a band for her daughter’s school, vacations, cosmetic surgeries, and previous debts.
  - Investigators also found she was overbilling schools for unprovided staff hours and services.
Restitution

- Salinas City Elementary School District - $2,427.42
- North Monterey County Unified School District - $8,352.57
- Greenfield School District - $244.87
- Carmel Unified School District - $5,414.11
- Pacific Grove Unified School District - $105,045.32
- Monterey County Office of Education - $15,758.24
- San Andreas Regional Center - $76,721.62
- Monterey County Special Education Local Plan Area - $17,610.19
- California Franchise Tax Board - $96,417.52
Compliance

State

- **Filing** - No 990 forms submitted for 3 consecutive years

Legal

- **Embezzlement** - Pocketed nonprofit funds for individual gain
- **Tax evasion** - Unreported income and failed to pay taxes owed
- **False invoices** - Submitted fraudulent invoices for services not rendered
- **Theft (false pretenses)** - Misrepresented herself and the nonprofit to obtain money
Applications & Outcomes
Individual Responsibility

- **Greed** - Priority for personal gain and enrichment
- **Apathy** - Denial of special needs programmatic services for individual financial gain
- **Deceit** - Evasion of lawmakers and investigators
- **Unapologetic** - Plea of not guilty and no expression of remorse
Organizational Responsibility

- **Board & Oversight**
  - Garcia admitted she was the only bookkeeper (no previous experience)
  - 990 listed (5) board members then after filing as a for-profit listed her 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” - DA

- **No Whistleblowers**
  - DA interviews show staff questioned the luxuries, but Garcia claimed they were from inheritance
  - None questioned the organization structure or her total control

- **Low Stakeholder Engagement**
  - Donors and partners were misled, but organizational knowledge would show an inactive board and noncompliance
Systemic Responsibility

- **Affluence** - Founder was chasing luxury lifestyle, her exuberant personal spending didn’t raise eyebrows among community members
- **Privilege** - Hubris in the fact this is a wealthy county with high protection and low crime
- **Accountability** - Supporting the special needs community, while also overlooking it
# Stakeholders Analysis

<table>
<thead>
<tr>
<th>City/County</th>
<th>School Districts</th>
<th>Parents &amp; Students</th>
<th>Special Needs Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial costs</td>
<td>Lost resources</td>
<td>Lost time</td>
<td>Advocacy</td>
</tr>
<tr>
<td>Legal costs</td>
<td>Lost budgeting</td>
<td>Lost morale</td>
<td>Need more protection</td>
</tr>
<tr>
<td>County Office of Education distrust</td>
<td>Underserved students</td>
<td>Unfulfilled learning requirements</td>
<td></td>
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<tr>
<td>Overall community distrust</td>
<td>Accommodation gaps</td>
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</tbody>
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Potential Solutions

- Board oversight
- Conflict of interest statements
- Policy validation
- Performance evaluations
- Audits
- Compensation committee
Remedies

- New management appointed by court in 2018
- Still under interim executive director and continued operation as a for-profit LLC from 2018-20
- No new website or change in organization status by early 2020
- Became inactive by late 2020 and was suspended by the Franchise Tax Board by end of the year
Conclusion
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.)
Additional Questions

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?
A Founder’s Imbalance of Power

Acted as the president, but also treasurer and secretary because she wanted to be an unchecked ruler.
Case Resources

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

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

Final 990 Form (2012) -
https://www.causeiq.com/organizations/view_990/260163376/dbd573178a7a42854b385040c869fdd3

LLC Filing Documents (2016, 2019-20) -


District Attorney Press Release -
https://www.co.monterey.ca.us/Home/Components/News/News/7865/9444
Nonprofit Resources


References
