

Case 2: Coping With Scandal: Individual Redemption and Organizational Recovery

Janis Balda
George Fox University

When Harry called, Heather was glad to hear from him. Harry, the vice president for human resources at CareED, Inc., was a long-time acquaintance. They had worked together at another nonprofit organization earlier in their careers, and Harry left to join CareED when it was a fairly young and small educational organization providing training and technical support in targeted areas of the world. At the time of the phone call, Harry had been with CareED for more than 15 years and had been instrumental in increasing the size of the staff and improving its professionalism.

CareED in the U.S. was primarily responsible for recruiting, preparing, and placing trainers in the developing world and newly industrialized countries. The organization viewed itself as a Christian entity and adopted an evangelical statement of faith. It did not call a great deal of attention to its evangelical orientation, however, believing that it could be more effective in its mission throughout the world without doing so.

In 2003, CareED had revenues of just under \$14.5 million. The organization received no government grants or funding, and since 1989, it had been a member of the Evangelical Council for Financial Accountability (ECFA). CareED had approximately 83 administrative employees in its main office in the United States, with small teams in seven satellite offices within the U.S. and Canada. The staff had supported the work of between 500 and 700 trainers a year, as well as some smaller and newly created initiatives, for the last several years.

Heather was an attorney and sole practitioner. Her client load consisted primarily of nonprofit religious organizations with a few business start-ups and a real estate development company thrown in. Having provided legal counsel to CareED for almost 13 years, she knew most of the board members and the senior staff. While there had been occasional issues causing consternation for the professional, especially with regard to some employee concerns and with the international nature of the organization and the accompanying risk, their legal

exposure had not been high. The most significant issue confronting the organization in recent history had been its involvement in the New Era Foundation debacle in the early 1990s.¹ Unlike some who faced possible collapse because of their participation, CareED had had relatively limited financial involvement, and management was able to “rescue” the organization with effective outside legal assistance and involvement of their key donors. On the whole, Heather felt comfortable with the mission and management of the organization and believed that it was stable, responsible, and accountable to the appropriate constituencies.

CareED was founded by a former missionary who had a “heart” for countries where missionaries were forbidden and was visionary enough to recognize the advantages of having well-qualified trainers willing to spend time in difficult locations. Being astute enough to see that their training would be a tool that even the most inward-looking country would probably recognize as needed by some part of the population, he exerted his own persuasive gifts, passion, and finances to push the enterprise. He had the good fortune to enlist the support, financial and otherwise, of some significant Christians in the United States. He personally conducted tours for supporters, resided part-time with his family overseas to promote the work of the organization, devoted his own resources extensively to furthering its work, and currently served as CareED’s president.

His commitment and ability to attract capable and loyal staff made the organization fairly stable, although, like all nonprofit organizations, it struggled to match resources with vision. Not surprisingly, trainer turnover was high since most volunteers viewed their time overseas as a “short-term” missions experience – an opportunity to see a foreign country while “sharing” their gifts and their faith. Very few trainers stayed for a term of four years, and even fewer renewed for eight. That meant that there was always pressure on the recruiters to meet the quota of trainers needed.

The president’s friendship with wealthy individuals meant that there was a fair representation of them on the board of directors, and they served without term limits. They made up the majority of the board with the remainder of the positions held by representatives of the church and the professions. The bylaws provided that the president and executive vice president were *ex officio* members of the board, although it was not

clear whether they counted toward the total number of directors comprising a variable board of between nine and 15.

When Harry called, Heather was expecting to respond to one of the more usual issues affecting the organization. Instead, Harry invited her to have lunch with him and Keith, the organization's independent accountant and auditor, the next day if at all possible. From the tone in his voice, Heather suspected that something serious was afoot but could sense that Harry did not want to discuss it on the phone. She attended the meeting the next day, though with more curiosity than concern.

Shortly after the opening pleasantries, Harry got right to the point. "Heather," he said, "we believe that Dave has embezzled money from the organization, and we are attempting to substantiate it and determine how much he took." Heather was dumbfounded. She had worked more with Dave than anyone else in management. He was the COO, and like most in that position, was overworked, overweight, and stressed, but he always had a kind word for his staff and demonstrated a humorous streak and a genuine interest in others. She liked his direct but kind manner and the way he was considerate of those with whom he worked. She could be equally direct with him and not have to worry about how her advice would be received. So it was a shock on several different levels to hear the charges. She responded with a series of questions for both Harry and Keith (Keith was already working on reviewing receipts, expense reports, and financial records).

Surprisingly, the discovery had been made by an outside party. Dave had paid his son's college tuition for the semester with a check written on the organization's account rather than on his own. An alert bookkeeper at the university found this puzzling, called the CareED human resource department, and asked to speak to Harry. The organization made regular payments to the university for the use of training facilities and other services, and so it was not uncommon to have a check from CareEd, but she was curious why a check from the organization would be used to make tuition payments.

Once Harry had absorbed the information, he and Keith went to work. It seemed that the bookkeeper's concern was merited, and Harry prepared to confront Dave that evening. Harry spoke with the board chair and the president (who was traveling) that afternoon, and they left the task to Harry and Keith to gather the information and then to confront Dave. The chairman of the board would join them in this task

if necessary. Harry now looked to Heather for suggestions on what he should say in confronting Dave and also sought general advice on the next steps. Heather raised concerns about accountability, privacy, and proof and noted that further research would be necessary over the next several days, depending on what they would learn from Dave. All agreed that they needed to get at the truth, but they wanted to do this without assumptions and in Christian love. Heather and Harry both hoped that it was an "oversight" and that Dave had perhaps "borrowed" the amount because of an emergency, had forgotten to alert anyone, and then neglected to repay it as he should have.

These hopes turned out to be an exercise in denial. By the next day, Dave had confessed to stealing funds which went well beyond the single payment discovered by the university. When confronted, he confessed, was remorseful, expressed deep regret, and communicated a desire to make restitution. He had been unable to support the lifestyle that he and his family had become accustomed to and used the organization's money to support these wants. He admitted to obtaining other items such as household furnishings, jewelry for his wife, and additional "minor" purchases. He thought the total was between \$35,000 and \$40,000. He told his wife of the theft, and she accompanied him to the meeting with Harry and Keith. Harry called Heather to let her know the details and explained that the president was on his way home and the board chairman was coming that day to have a follow-up meeting with the couple. Harry asked Heather to join them. Heather agreed and continued researching the legal issues facing the organization.

It was a difficult meeting that involved coming face-to-face with a broken and desperate man who had abused his position and been caught. Heather had mixed feelings. She was angry that he would abuse the trust of those who worked for him and their beneficiaries and use donated funds to maintain his own standard of living. But she also knew how hard he had worked, and after listening to him began to see how desperate he had become. His morals were obviously clouded by his desire to act out a role he thought society demanded of someone in his position, and now he knew that the shame and public ridicule he would be facing would only demean him more in the view of others. He was apologetic and stated at the outset that he would make full restitution – "no matter what it took." At the same time, he was unrealistic. Dave

thought he ought to be able to stay in his position, after full confession to his staff, and that greater controls and accountability to the board would continue to make his role tenable. Heather and Harry both knew that this would probably not be possible. Dave agreed to provide a list of amounts stolen, to let the board decide his fate, and to do whatever else was asked of him. That was a relief to Heather, although she knew that what people sometimes said when they were emotionally distraught often changed in the light of day and after speaking to their own attorney.

Together they explored the following items and reached agreement on them:

- 1) Dave would not return to the office.
- 2) All files, keys, and other company property would be handed over to Harry that day.
- 3) Dave would acknowledge that the wording of the letter to be shared with the staff was accurate and fair.
- 4) Dave would meet with a financial counselor within two days to explore a strategy and methods for repayment and provide a rough plan within 48 hours of that meeting.

Heather explained to Dave the importance of demonstrating an immediate good-faith effort, the need to make restitution, and that concrete steps would need to be taken.

It was agreed that the CFO would coordinate all organizational communication with Dave, including conversations the auditor or other professionals might want to have with him. Harry was assigned to handle internal questions related to the matter and to inform the staff that they should not directly contact Dave or his family at this time.

Heather told the board's executive committee that it was the board's responsibility to act in the best interests of the corporation. This included exercising the appropriate level of care and making the necessary inquiries before taking action.

The next day a "crisis" team was formed to discuss how to inform the staff, trainers, and donors about the criminal implications of Dave's behavior; his future; and the legal and financial issues for the organization. Many different approaches and possible scenarios were discussed. Some immediate steps were taken. The executive committee

of the board met and decided that Dave must resign or be fired. The total for actual amounts stolen grew daily as the accountant and finance vice president investigated further. They discovered that not only had Dave used CareED's checks, but he had also paid for personal items on the corporate credit card and had forged receipts. When confronted, Dave admitted to the additional thefts, though it was growing difficult to believe his initial remorse was genuine when he had not been forthcoming about the amounts he stole. He belatedly agreed to go through receipts and credit card statements and indicate what was for personal use.

Prior to the meeting at which Dave's resignation was accepted, the leadership team, Heather, and a public relations/crisis management expert met to prepare responses to the various interested parties that would be seeking answers – donors, staff, and media, among others – and to outline the information that would need to be communicated.

The senior managers were briefed and prepared to respond to issues as they arose, including the wide range of

The total for actual amounts stolen grew daily ...

emotions the staff would feel and the frustration and criticisms that key donors might express upon hearing the news. They were charged with working to protect the organization legally and responding fully so that it was clear that the organization was taking decisive action.

By the end of the next week, a board representative, the president, and Heather met with Dave and his wife to discuss the decision reached by the board and to answer questions they might have about the actions of the organization. Heather explained that the board did not intend to pursue criminal charges against him at that particular point in time but that a final decision would not be made immediately. The organization was still gathering additional information which the board would need to discuss. She stated that the integrity of the organization and the board's responsibility to retrieve any amounts stolen were the most important issues and that his ability to make restitution would be a significant factor in any decision made. She suggested that Dave retain his own legal counsel not only to understand the issues related to his termination, but also to explore his tax implications and potential criminal liability. She had learned from a criminal defense attorney that where funds are available for restitution by the embezzler or his family,

it was possible to make a case to reduce the charges significantly and perhaps resolve the matter.

The board wrestled with whether it was appropriate to file criminal charges against Dave. The statute of limitations for grand larceny was four years, and it was important that the board take the time to gather the facts before determining whether to pursue criminal charges or even to file a civil action. The board learned that if they reported the crime, the investigation and handling of the matter would be taken out of their hands and controlled by law enforcement and the district attorney. They also learned that a prison term for Dave was probable and that while restitution might help reduce his sentence, it would not affect the criminal charge itself. Finally they discovered that criminal charges are rarely pursued by nonprofit organizations against such individuals.²

The board was unwilling to concede that additional action, including the bringing of criminal charges, would not occur. It was further possible that a third party, such as the Attorney General, the Internal Revenue Service, or others, might independently decide to bring action against Dave, as well as against the organization itself. Although it was unlikely, the possibility reinforced the need for the organization to recover the stolen funds, to put in place safeguards against other potential abuses, and to overhaul the system of checks and balances within the organization.

Janis Balda, J.D.

Assistant Professor of Management
School of Management
George Fox University
414 N. Meridian Street
Newberg, OR 97132
503-554-2824
jbalda@georgefox.edu

ENDNOTES

¹As reported in *The Wall Street Journal* and *Christianity Today*, John G. Bennett Jr., head of the Foundation for New Era Philanthropy, defrauded donors, including Laurence S. Rockefeller, William E. Simon, and charities, of \$135 million by means of a pyramid scheme, promising to double the amount of a donor's gift in six months with funds from anonymous wealthy benefactors. In reality, he used incoming donations to pay off his outstanding double-your-money pledges and diverted substantial amounts to personal use and his for-profit companies. He was sentenced to 12

years in federal prison for carrying out what many believe to be the biggest charity fraud case in American history. A charismatic individual, he was described by acquaintances as a religious man committed to the Lord and his church. Considering he owed Rockefeller and Simon \$11.4 million and \$6.5 million, respectively, the loss by CareED was not monumental.

²For a discussion of the types of scandals and the repercussions upon the individuals committing them, see a series of articles by Gibelman and Gelman:

Gibelman, M., & Gelman, S. (2004). A loss of credibility: Patterns of wrongdoing among nongovernmental organizations. *VOLUNTAS*, 15(4), 355-381.

Gibelman, M., & Gelman, S. (2002). Should we have faith in faith-based organizations. *Nonprofit Management and Leadership*, 13(1), 49-65.

Gibelman, M., & Gelman, S. (2001). Very public scandals: Nongovernmental organizations in trouble, *VOLUNTAS*, 12(1), 49-66.

Tables 1-3 are taken from these articles.

JBIB

Exhibit 1

Letter to Staff

Dear _____,

A serious emergency has required my unexpected return to the United States from overseas.

Our board of directors has become aware, and our COO has admitted, that he has violated basic tenets of biblical stewardship, non-negotiable policy, and core values, as well as the trust of our donors and staff, by misappropriating CareED's ministry assets.

As a result, the board and Dave have decided that he can no longer remain with this ministry. Dave's letter of resignation has been accepted and is effective immediately.

This week, following a conference call with the board of directors, I spoke with Dave in person. Dave, his wife, and a CareED board member, were present. It was a redeeming time for Dave as he has asked forgiveness and is genuinely repentant.

Specifically, transitional steps are now being taken as CareED continues the search for new leadership. Dave's predecessor here at CareED has agreed to return from retirement as an interim replacement. His competence and integrity are above reproach.

Presently, we have asked two individuals to act as our designated sources of information. They are the vice president of finance and vice president of human resources here in our national office. It will be their responsibility to gather the latest information. You can reach them at 611-6333.

Obviously this is heartbreaking for everyone, including Dave's family. Please remember Dave, his wife, and their family as they seek counsel and support from friends. Likewise, your remembrance of CareED would be dearly appreciated as the board of directors continues to deliberate regarding the next steps to be taken.

If you have any questions which you would like to have addressed, please feel free to write me at the following e-mail address: pres@careed.org.

With thanksgiving for your service and remembrance, I am,

Sincerely and sorrowfully yours,

H.P. Smith
President

Exhibit 2
Organizational Chart

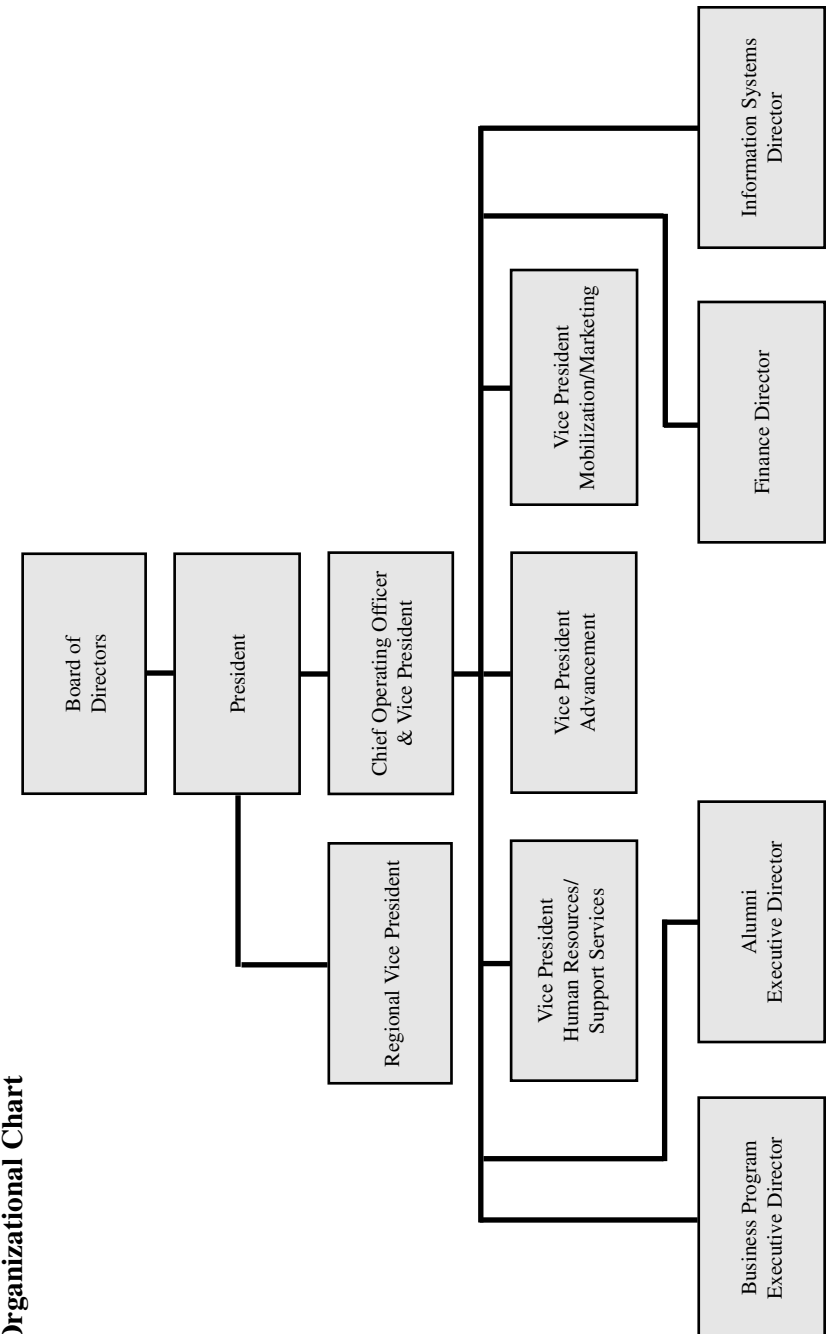


Table 1
Major Nonprofit Scandals in the United States (Pre-1998)
 (Taken from Gibelman and Gelman as cited in endnotes)

<i>Year</i>	<i>Organization</i>	<i>Allegation</i>	<i>Wrongdoer</i>	<i>Outcome</i>
1996	American Parkinson Disease Association	Embezzlement	CEO	Prison; Restitution
1996	Evangelical Lutheran Church	Embezzlement	Treasurer	Prison
1996	Episcopal Church (National)	Misappropriation of funds	Treasurer	Prison; Restitution
1996	Hellenic American Neighborhood Action Committee (HANAC)	Unauthorized contracting by parallel entity	Senior Administrator	Fired
1994	Jewish Community Center of Greater Washington	Embezzlement; Misuse of funds; Satellite business operations	CEO & Three Top Aides	Prison; Restitution
1996	March of Dimes	Conflict of interest; Misappropriation of funds	Board Member	Resigned
1994	National Association for the Advancement of Colored People (NAACP)	Misappropriation of funds	CEO	Removal; Restitution

Sources: Arenson, 1995; Babcock, 1992; Berry, 1994; Duke, 1994; Finder, 1996; Fried, 1996; Glazer, 1994; Greenberg, 1994; Greene, 1994, 1995; Hall, 1996a, 1996b; Halla, 1996; Hanley, 1996; Kay, 1994; Locy, 1995; Meier, 1996a, 1996b; Melillo, 1992; Moorar, 1995; Murawski, 1995; Niebuhr, 1996; Richardson, 1996; Sexton, 1996; Simross, 1992; Staff, 1992; Staff, 1995; Staff, 1997; Walsh, 1995; Williams, 1996.

Table 2
Recent Nonprofit Scandals in the United States (1998-2000)
 (Taken from Gibelman and Gelman as cited in endnotes)

<i>Year</i>	<i>Organization</i>	<i>Allegation</i>	<i>Wrongdoer</i>	<i>Outcome</i>
1999	Allegheny Health Education & Research Foundations (PA)	Theft; Conspiracy	CEO; CFO; Board Members	
2000	American Cancer Society (OH)	Theft	CFO	
1999	Baptist Foundation of Arizona	Lost investments; Fraud	Officers	Reorganization
1998-2000	Bishop Estate (HI)	Mismanagement; Conflict of interest	Trustees	Removal; Restitution
1999	Federation of Puerto Rican Organizations (NY)	Embezzlement; Money laundering	Executive Director & Controller	
2000	Freeport Day Care Center (NY)	Misappropriation of funds	Director	
1998	Goodwill Industries (CA)	Systematic looting of funds	Director & Six Co-federates	Suicide; Prison
1999	Head Start (NY)	Embezzlement	Director	
1999	National Baptist Convention	Grand theft; Racketeering	President	Prison; Restitution
2000	Operation Smile	Misappropriation of funds; Flawed recordkeeping	Founder/Chair	Change in board
2000	Toys for Tots	Theft	Founder/CEO	Prison; Fines

Sources: Abelson, 2000; Billitter, 1998; Bragg, 1999; Fried, 1999; Greene, 1998, 1999a, 1999b, 2000; Lipman, 2000; Pear, 1999; Smith, 1999; Staff, 1999a; Staff, 2000a; Staff, 2000b; Weiser, 1999.

Table 3
U.S. Cases of Wrongdoing (2000-2004)
 (Taken from Gibelman and Gelman as cited in endnotes)

<i>Year</i>	<i>Organization</i>	<i>Allegation</i>	<i>Wrongdoer</i>	<i>Outcome</i>
2001	United Way of the National Capital Area (DC) ¹	Defrauded organization of \$1.6 million	Oral Sauer, CEO	Plead guilty; Restitution; Fine; Imprisonment
2002	Hale House (NY) ²	Larceny and forgery involving \$1 million	Lorraine Hale and Husband (CEO & CFO)	Removal from office; 72-count indictment
2002	United Way of the National Capital Area (DC) ³	Misstating revenues; Questionable overhead and credit card charges	Norman O. Taylor, CEO	Resignation
2002	Easter Seals (IA) ⁴	\$230,000 theft	Martha Wittlowski, Bookkeeper	Fired
2003	American Head and Neck Society (MD) ⁵	Embezzlement of \$200,000; Forgery	Bridget Wallace, Secretary for CEO	Two years in jail and five years probation
2003	Capital Area United Way (MI) ⁶	Theft of \$1.9 million	Jacqueline Allen-MacGregor, CFO	Fines; Imprisonment
2002	National Alliance for the Mentally Ill (WA) ⁷	\$169,000 missing	Julie Warren, Office Manager	President replaced; Board members dismissed; Office manager charged with 40 felony counts of theft
2003	Goodwill Industries (CA) ⁸	\$26 million embezzlement; Money laundering; Fraud	Andrew Liersch, Former President, and Seven Others	Arrested; Grand jury; Indictment; Assets frozen

2003	Worldwide Association of Specialty Programs and Schools (MT, UT, SC) ⁹	Misconduct; Abuse; Misrepresenting itself as a nonprofit agency	Robert Lichfield, Founder	Some affiliates closed
2003	Kid Care (TX) ¹⁰	Misuse of \$640,000 for personal expenses	Carol and Hurt Porter (CEO & COO)	Resignation; Agency assets frozen
2003	Community Coordinated Child Care (NJ) ¹¹	Theft of \$100,000 by deception	Leyda Mora and Tenesha Leak, Directors	Jailed
2003	Safe Space (NY) ¹²	\$2.2 million mishandled; Inadequate records; Alleged embezzlement	Dispute between former program director and CEO over expenditures	Funding suspended; Shelter closed
2003	American Heart Association (NJ) ¹³	Theft of \$186,000	Neil Volant, Former Financial Administrator	Restitution; Jailed for one year
2003	Odyssey House (NY) ¹⁴	\$2.3 million embezzlement	Aaron Lugo, Former Operations Manager	30 months in prison; \$1.19 million restitution
2003	Pipe Vine, Inc. (CA) ¹⁵	\$18 million lost; \$11 million owed United Way Bay Area; Financial statements did not reflect amounts owed charity	Was a spin-off of the United Way that collected contributions	Pending
2003	The Chimes (MD) ¹⁶ (serves the developmentally disabled)	Excessive compensation; Failure to disclose business relationships among principals and subsidiaries	Teri Pearl, CEO	IRS investigating
2004	United Planning Organization (DC) ¹⁷	\$200,000 pleasure boat; \$2.9 million consultant; Contracts; Travel; Cell phone charges; Credit card purchases; Deficit of \$1.1 to 1.5 million	Benjamin Jennings, CEO; Richard Hamilton and Therman Walker, Board Members	Resignations
2004	Project Homestead (NC) ¹⁸	\$5 million in personal purchases	Rev. Michael King, Former President/CEO	Committed suicide

2004	Health Education Resource Organization (MD) ¹⁹	Misuse of funds	Salary and benefits of Leonardo Ortega, Executive Director, under scrutiny	Investigation ongoing
2004	Senior Citizen Counseling and Delivery Service (DC) ²⁰	\$300,000 unsubstantiated expenses	Selling free meals; Poor monitoring and oversight	Funding withdrawn
2004	Economic Opportunity Board (NV) ²¹ (Anti-Poverty Org.)	\$2.1 million missing; \$300,000 deficit	Fraud; Waste; Mismanagement	Board pleaded ignorance
2004	Tucker Centre (NJ) ²² (Preschool)	\$400,000 in tax money unaccounted for	Assemblyman Donald Tucker (Founder)	Repayment ordered
2004	Camillus House (FL) ²³	Used agency funds and employees to renovate personal residences	Dale A. Simpson, Executive Director	Resigned
2004	Reuben Lindh Family Services (MN) ²⁴	\$600,000 embezzled	Margaret Thompson, Financial Manager	Charged with nine felony counts
2004	AmeriDream, Inc. ²⁵	Diversion of millions from charity to themselves	Co-founders and Chairman of Board	Pending
2004	Goodwill Industries (MI) ²⁶	\$750,000 stolen from agency over 23 years	Linda Battagello, Executive	Plead guilty; Restitution; One year in jail

¹Markon (2004); Salmon (2004b).

²Getlin (2003).

³Johnston (2002); Raghunathan and Levine (2002); Salmon (2002a, 2002b, 2002c, 2004b); Strom (2002, 2003a); Whoriskey (2002); Whoriskey & Cho (2002); Whoriskey & Salmon (2002); Wilhelm (2002).

⁴Stanton (2002).

⁵Willis (2003).

⁶Associated Press (2003a).

⁷Martin (2003).

⁸Associated Press (2003b); Ex-charity head indicted (2003); Mintz (2003); Morin (2003).

⁹Weiner (2003).

¹⁰Snyder (2003a, 2003b).

¹¹Hughes (2003).

¹²McIntire (2003).

¹³Davis (2003); Yellin (2003).

¹⁴Reeves (2003).

¹⁵Boudreau (2003); Strom (2003c, 2003d, 2004a).

¹⁶Hancock (2003).

¹⁷Moreno, et al. (2004).

¹⁸Associated Press (2004a).

¹⁹Shatzkin & Anderson (2004).

²⁰Woodlee & Labbe (2004).

²¹Associated Press (2004c).

²²Rimbach (2004).

²³Associated Press (2004d).

²⁴Associated Press (2004a).

²⁵Strom (2004d).

²⁶Mullins (2004).