

Nonprofit Ethical Case:

# The Vanguard Public Foundation Nightmare

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# Case Summary

After 35 years working on the forefront of social justice grantmaking, the Vanguard Public Foundation imploded in scandal, casting a shadow across the progressive sector. This presentation explores the unethical practices and lack of board oversight that led to the defrauding of donors and the demise of the Vanguard Public Foundation.



# Facts of the Case



# What Happened?

## 70's

- Vanguard Public Foundation founded.

## Late 90's

- Dillon Group created.
- Cohen convinces Dillion to invest in Ecast.



## Mid to Late '00

- Vanguard is broke. Shut down in 2008.
- Dillion, convicted, files for bankruptcy.
- Cohen sentenced to 22 years in prison.
- Some donors lose almost entire net worth.



Danny Glover, Jerry Varnado, Hari Dillon

## Early to Mid 90's

- Hari Dillion hired as Executive Director.
- Vanguard is restructured.

## Early '00

- Board/Dillion ramp-up investment in Ecast.
- Fundraising focus declines.
- Few board meetings.

# What is a Ponzi Scheme?





# Different Perspectives

## Donor

- "They were political people who deeply cared about these issues and movements."

## Grantee

- "We were getting grants from Vanguard. We didn't want to lose that."

## Former Board/Staff

- "Critics on the board left, were eased out, told to hush up."

## Public (media)

- "Mouli's deal was better than anything Bernie Madoff ever pitched.  
It should have been obvious."

## Government

- "Sleepy press, sleepy government."

# Governance & Legal Compliance



Self-Dealing

Insider Trading

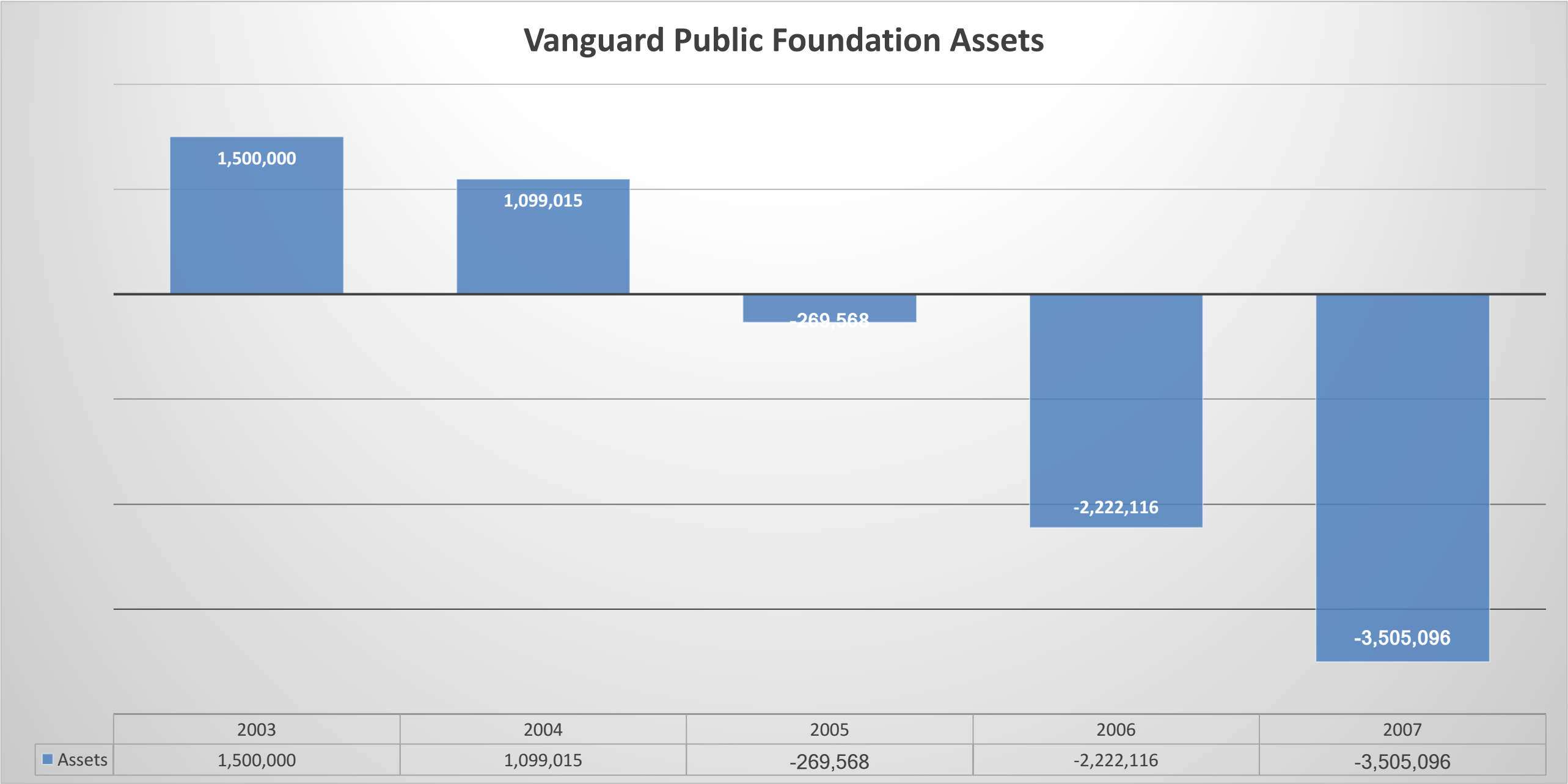
Tax Evasion

Money Laundering

Wire Fraud

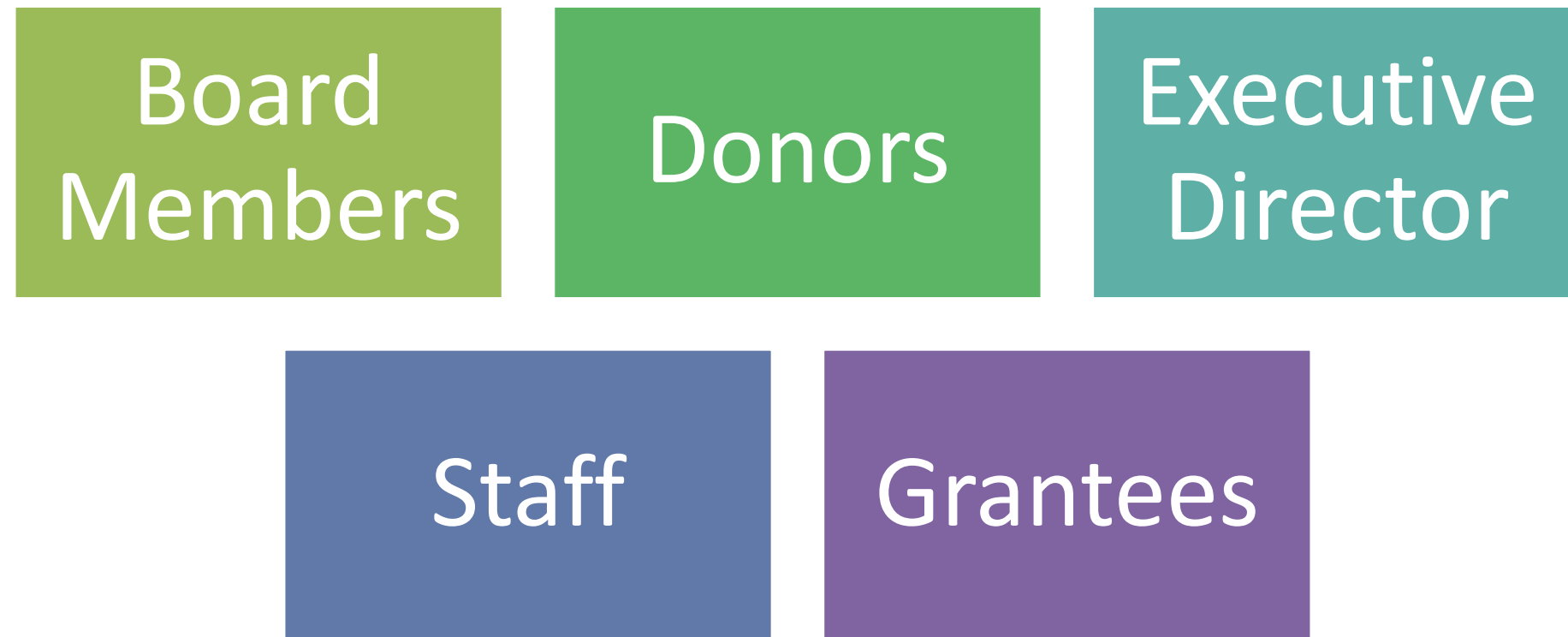
Embezzlement

# Who Is Responsible for This?

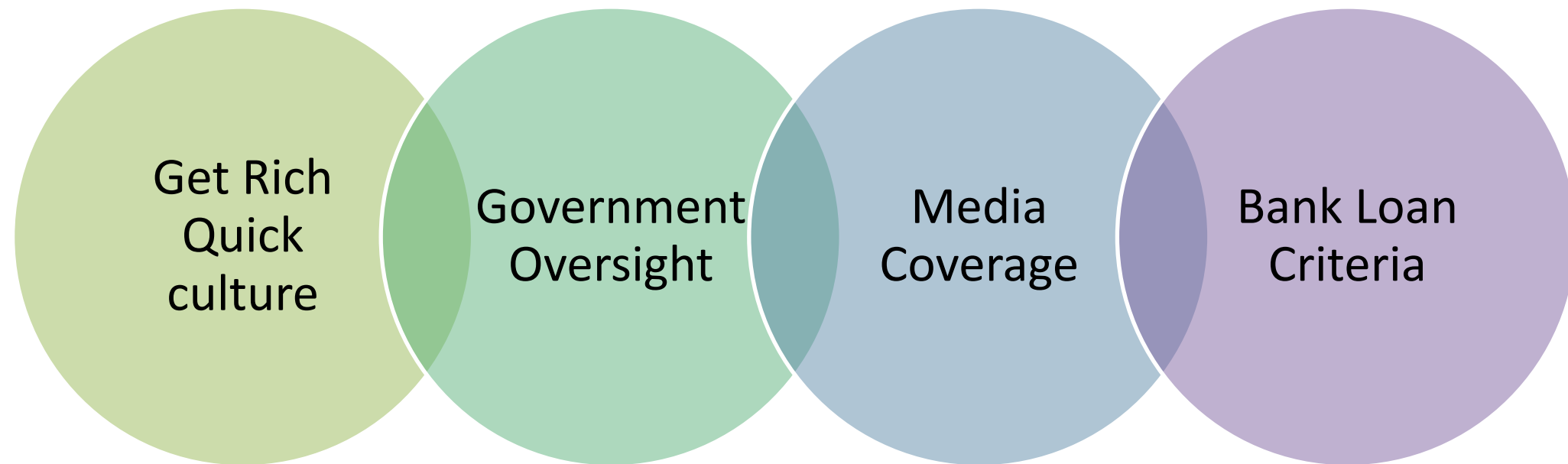




# Organizational & Individual Responsibility



# Systemic Responsibility



# Stakeholders Analysis



Public



Donors



Grantees

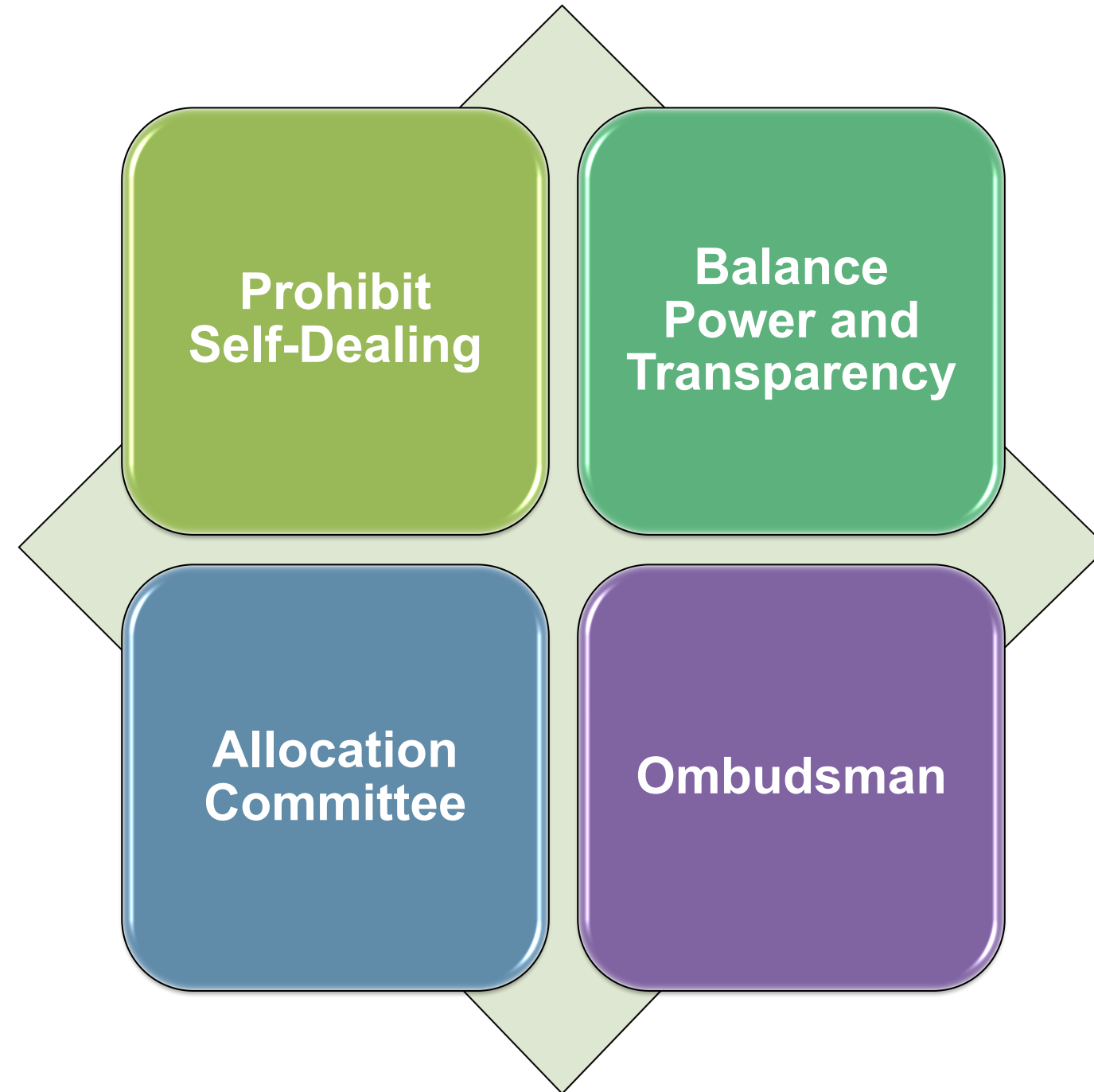


Former Board  
and Staff



Executive  
Director

# Alternative Solutions



# Discussion Questions

- 1) Based on the attribution theory was Vanguard an easy mark for a Ponzi scheme?
- 2) “Doing good” does not curb irresponsible behavior (Lin-Hi and Müller 2013). Who was ultimately responsible for the foundation's demise?



# Discussion Questions

- 3) Who were the watch dogs and what role did they play in the Vanguard scandal?
- 4) Which leadership shadows did Hari Dillion cast and how were his followers challenged by his leadership?
- 5) What recommendations would you make to balance power and transparency in nonprofit organizations?
- 6) Would the application of the ethical approaches we have learned in class have mitigated the impact of accusations of racism that were leveled at whistleblowers?

# Sources

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- Cohen, R. (2011). *Blue Avocado*. Retrieved from <http://www.blueavocado.org/content/vanguard-foundation-update-leader-pleading-guilty-truth-and-reconci>
- Murray, L. R. (2012, July 18). The Vanguard Foundation's Great Con. *SFWeekly*.

# Additional References

- **FBI Website** - [Former President and Executive Director of Vanguard Public Foundation Sentenced to 40 Months in Prison for Fraud and Money Laundering](#)
- **Vanguard Justice Community Council** - The Vanguard Justice Community is an ad hoc group formed after Samuel “Mouli” Cohen and Hari Dillon engaged in fraudulent activities that led to the demise of the once-proud Vanguard Public Foundation. [Determined to Rebuild and Help](#)

# Case Study Timeline

| YEAR        | EVENT  |
|-------------|--|
| 1972        | Vanguard Public Foundation founded   |
| 1990        | Hari Dillion hired as Executive Director   |
| 1993 – 1997 | Vanguard is restructured to eliminate the Allocations Committee, “the firewall” created to ensure autonomy from the board  |
| 1997 – 2000 | Board member and a member of the board of a venture capital firm helps Dillon set up the Dillon Group, a vehicle for Vanguard-associated folks to invest in tech companies during a dot-com boom   |
| 2002        | Dillion introduced to Samuel “Mouli” Cohen and he convinces Dillion and other donors to invest in Ecast (Cohen’s company) at a discount so that when Microsoft acquires them in six months they’ll make a killing for the foundation and themselves                        |
| 2003 – 2009 | Board and Dillion ramp-up investment in Ecast deal as focus on fundraising for foundation declines stop making grants and no board meetings  |
| 2009 - 2011 | Vanguard is broke with the endowment gone and the donor-advised funds spent. Board admits to “not exercising fiduciary responsibility and letting Dillon make reckless decisions.” Vanguard Public Foundation nonprofit status suspended by California Secretary of State. |
| 2010 - 2012 | Dillion files for bankruptcy and convicted of wire fraud, money laundering and embezzling \$2.5 million between 2004 and 2007 from foundation patrons<br>Cohen sentenced to 22 years in prison for his role in fleecing scores of investors of \$31.4 million              |