

Nonprofit Ethical Case:

“AS LONG AS THERE IS PLENTY, POVERTY IS EVIL” RFK

Anti-Poverty Nonprofit Leader Leads YPI to Bankruptcy

Sara Abdel, Mariela Arriaga, Mirna Cervantes

YOUTH POLICY INSTITUTE

MISSION:

To transform LA neighborhoods using a holistic approach to reduce poverty by ensuring youth and families have access to high-quality educational and economic opportunities, enabling a successful transition from cradle to college and career.



TRANSFORMING PEOPLE & PLACES

SUMMARY



- Founded in **1983** with funds from the **Robert F. Kennedy Memorial**.
- In **1996**, Dixon **Slingerland** became YPI's **President & CEO**.
- YPI evolved from a **small nonprofit organization to a \$47 Million** nonprofit due to the aggressive government contract approach led by Slingerland.
 - YPI's approach allowed them to have **preferential advantage** over other nonprofits for competitive government contracts including those led by the White House Obama Administration.
- YPI's internal and external trust, funding revenues, and best-in-class anti-poverty programs including after school programs, job training, tax preparation, and other services to vulnerable communities placed YPI as **one of the best nonprofits in Los Angeles**.
- **YPI's lack of strong financial and governance** proved Robert F. Kennedy correct, *as long as there is plenty, poverty is evil*. An independent audit requested by the Board identified multiple deficiencies, including Slingerland's misuse of company funds for personal expenses and inappropriate lobbying activities since 2014.
- After over 30 resilient years, **YPI shocked the public in 2019 after it announced the firing of Slingerland**, hiring of a new CEO, Dan Grunfeld and subsequently **filing BANKRUPTCY**.

CASE
Pending
2:19-bk-23085-BB

FILED

11/05/19

DEBTOR

**Youth
Policy
Institute,
Inc.**

Official Form 201

Voluntary Petition for Non-Individuals Filing for Bankruptcy

04/19

If more space is needed, attach a separate sheet to this form. On the top of any additional pages, write the debtor's name and the case number (if known). For more information, a separate document, *Instructions for Bankruptcy Forms for Non-Individuals*, is available.

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Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address Scott F. Gautier (State Bar No. 211742) SGautier@RobinsKaplan.com Kevin D. Meek (State Bar No. 280562) KMeek@RobinsKaplan.com ROBINS KAPLAN LLP 2049 Century Park East, Suite 3400 Los Angeles, CA 90067 Telephone: 310 552 0130 Facsimile: 310 229 5800		FOR COURT USE ONLY	
<input checked="" type="checkbox"/> Attorney for: Youth Policy Institute, Inc.			
UNITED STATES BANKRUPTCY COURT CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION			
In re: Youth Policy Institute, Inc.		CASE NO.: ADVERSARY NO.: CHAPTER: 7	
Debtor(s).			
Plaintiff(s).		CORPORATE OWNERSHIP STATEMENT PURSUANT TO FRBP 1007(a)(1) and 7007.1, and LBR 1007-4	
Defendant(s).		[No hearing]	

Pursuant to FRBP 1007(a)(1) and 7007.1, and LBR 1007-4, any corporation, other than a governmental unit, that is a debtor in a voluntary case or a party to an adversary proceeding or a contested matter shall file this Statement identifying all its parent corporations and listing any publicly held company, other than a governmental unit, that directly or indirectly own 10% or more of any class of the corporation's equity interest, or state that there are no entities to report. This Corporate Ownership Statement must be filed with the initial pleading filed by a corporate entity in a case or adversary proceeding. A supplemental statement must promptly be filed upon any change in circumstances that renders this Corporate Ownership Statement inaccurate.

I, (Printed name of attorney or declarant) Daniel Grunfeld, the undersigned in the above-captioned case, hereby declare under penalty of perjury under the laws of the United States that the following is true and correct:

This form is optional. It has been approved for use in the United States Bankruptcy Court for the Central District of California.

December 2012

Page 1

F 1007-4.CORP.OWNERSHIP.STMT

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[Check the appropriate boxes and, if applicable, provide the required information.]

1. I have personal knowledge of the matters set forth in this Statement because:


- ☒ I am the president or other officer or an authorized agent of the Debtor corporation
☐ I am a party to an adversary proceeding
☐ I am a party to a contested matter
☐ I am the attorney for the Debtor corporation

2.a. ☐ The following entities, other than the Debtor or a governmental unit, directly or indirectly own 10% or more of any class of the corporation's(s') equity interests:

[For additional names, attach an addendum to this form.]

b. ☒ There are no entities that directly or indirectly own 10% or more of any class of the corporation's equity interest.

Date: 11/01/2019

By: 
Signature of Debtor, or attorney for Debtor

Name: Daniel Grunfeld
Printed name of Debtor, or attorney for Debtor

This form is optional. It has been approved for use in the United States Bankruptcy Court for the Central District of California.

December 2012

Page 2

F 1007-4.CORP.OWNERSHIP.STMT

“It’s astounding...I don’t even have the words to tell you how that really hurts.” YPI tutor

“The audit of YPI’s financial statements and internal financial controls [was completed]. It is a troubling picture that presents serious challenges for YPI’s new management team and Board of Directors.”

Court Filing Alleges Head of L.A. Anti-Poverty Nonprofit Misspent \$1.7M on Travel, Furniture, ‘Lavish’ Meals



A staffer carries a trash bag full of belongings out of the offices of the Youth Policy Institute on Oct. 25, the day the nonprofit abruptly closed. (Francine Orr / Los Angeles Times)

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Case No. 2:19-cv-23085-BB

Adversary No. CHAPTER 7

CORPORATE OWNERSHIP STATEMENT PURSUANT TO FRBP 1007(a)(1) and LBR 1007-4

Signature of Debtor or Debtor's Attorney: *Daniel Grunfeld*

Date: 11/01/2019

6464 Sunset Boulevard, Suite 600
Los Angeles, CA 90028
ypi.org

YOUTH POLICY INSTITUTE AUDIT FY17-18

THE AUDIT AND ISSUES IT UNCOVERED

The audit of YPI's financial statements and internal financial controls for the fiscal year ended June 30, 2018, was just completed. It is a troubling picture that presents serious challenges for YPI's new management team and Board of Directors.

Key take-aways from the audit are:

- That YPI had seriously insufficient financial controls throughout its operations.
- That YPI ended FY 2017/2018 with a net loss of \$1,326,803 and with current liabilities exceeding current assets by \$3,724,192.
- That it was necessary to restate results for FY 2016/2017 because transactions had been improperly recorded due to inadequate controls over financial reporting and grant management.
- That YPI made unauthorized payments to its previous President and CEO Dixon Slingerland and will seek reimbursement of those funds.
- That YPI's current management is moving aggressively to cure these issues.

The audit also concluded that there is substantial uncertainty about YPI's ability to continue as a going concern. YPI's management and Board of Directors are exploring all options regarding the future. Our programs help youth, families and communities overcome intergenerational poverty. Our overarching goal is to ensure that these programs continue uninterrupted to the schools and communities we serve. We are working aggressively to ensure continuity of these critical programs, either under the banner of YPI or by having other organizations assume responsibility for this important work.

WHAT WE'RE DOING ABOUT IT

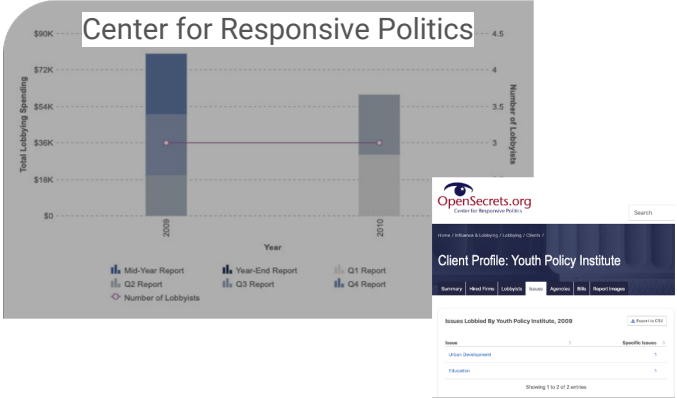
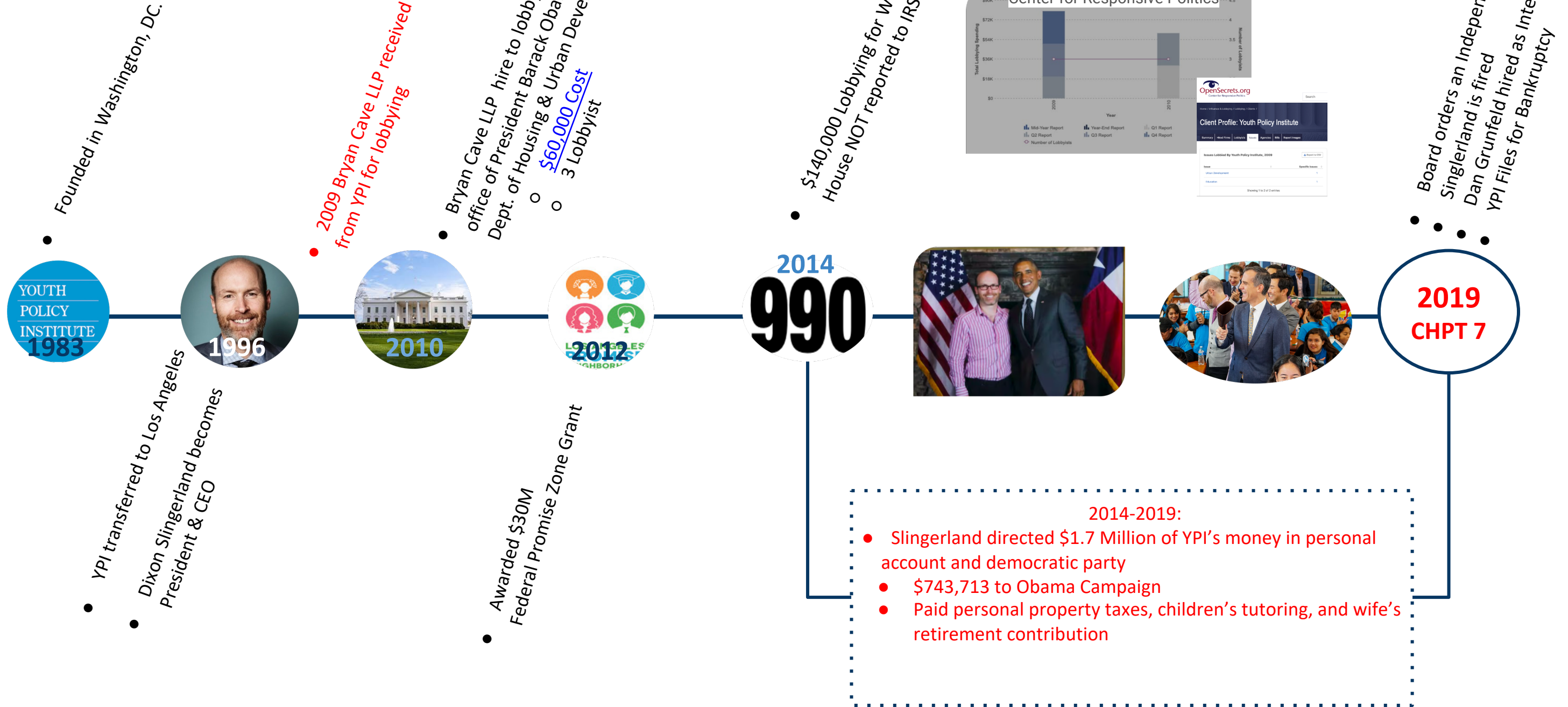
The Board became aware of potential problems this April after it hired a new independent outside auditor, Armanino LLP. Immediately after learning of these potential problems, the Board formed a Special Committee to investigate the issues. The Special Committee in turn engaged the law firm Covington & Burling LLP, which retained the forensic accounting firm Grobstein Teeple LLP, to assist with the investigation. On July 24, the Board hired Dan Grunfeld, who was previously unaffiliated with YPI, as Executive Chair. On Sept. 23rd, the Board terminated Slingerland as President and CEO and appointed Grunfeld to the additional role of Interim CEO.

Actions taken by the new management team in recent months to correct problems include strengthening safeguards and controls to ensure that funds are properly accounted for and that expenditures and reimbursements are appropriately reviewed and approved.

Among the actions underway are:

- A system of rigorous internal controls to address deficiencies raised by the auditor and others.
- Updated and revised policies and procedures for finance, accounting, and grants management.
- Newly implemented accounting systems.
- A multi-level pre-approval process prior to external reporting.
- Training to update finance staff on changes in government accounting standards and reporting requirements.
- A culture of rigorously self-reporting to funders of any issues that may emerge.
- Commitment to full cooperation with funders to investigate and remediate deficiencies.

FACTS



FACTS

Audit



Bankruptcy

After seven consecutive clean audits, the Board, determined to rotate the auditor for the 2017-2018 audit.

The Board conducted a RFP and selected Armanino LLP

Covington retained Grobstein Teeple, LLP ("Grobstein") to conduct a forensic accounting review of Mr. Slingerland's expenses

- Expenses & reimbursements reviewed from July 1, 2017 to July 31, 2018
- Committee determined that the information Mr. Slingerland provided was often incomplete, insufficient, and delayed;

7/29: Interim CEO Daniel Grunfeld is hired

8/26: after multiple follow-up requests, Mr. Slingerland began providing Covington with the requested documentation, purportedly in support of his expenses

9/16: YP's Board voted to terminate Mr. Slingerland
9/20: YPI's CFO resigned
9/23: terminated Mr. Slingerland

10/3: YPI files a voluntary disclosure to the Federal Election Commission

10/11: 26 Employees are laid off

10/24: Employees are notified

10/25: YPI CLOSES ITS DOORS

FEBRUARY
2018

APRIL
2019

MAY
2019

JULY
2019

AUGUST
2019

SEPTEMBER
2019

OCTOBER
2019

NOV.
2019

4/10: Armanino raised concerns

4/11: Armanino reports its concerns to the Chair

4/11: Special Committee was formed

4/12: Committee began contacting law firms

4/15: Covington & Burling LLP was retained

7/2: Covington and Grobstein conducted an initial interview of Mr. Slingerland;

Two members of the Committee then met with Mr. Slingerland to, among other things, instruct him to cease charging certain expenses to YPI and to direct him to suspend his use of the YPI American Express card for any personal expenses;

YPI decides to perform a "Five-Year-Review" from 2014-2019

8/12: YPI enact new Financial Controls

9/5: Covington and Grobstein interviewed Mr. Slingerland after review of the documentation he presented

9/16: Covington & Grobstein reported their findings to the Committee and the full Board

Following the Five-Year Review, the Committee concluded that Mr. Slingerland had been misusing YPI's funds for his personal use over an extended period of time, and at least since 2014

9/26:, YPI notified the Government Agencies of Mr. Slingerland's improper expenditures and potential compliance issues with record-keeping and cost-accounting related to the government grants

YPI FILES FOR BANKRUPTCY

COMPLIANCE

Lobbying



- Lobbying activities ended up being against Federal lobbying regulations
 - YPI did not report lobbying expenditures to the IRS
 - Owed IRS \$24,000 for this Fed. Tax violation
- Donations used to support the Democratic party
 - Giving money to companies that were then hired by the Democrats

Company Policy Violations



- Expense Reimbursement not approved by board
- Credit card for personal use
- Policies that were in place did not make sense to employees

Lack of Accountability



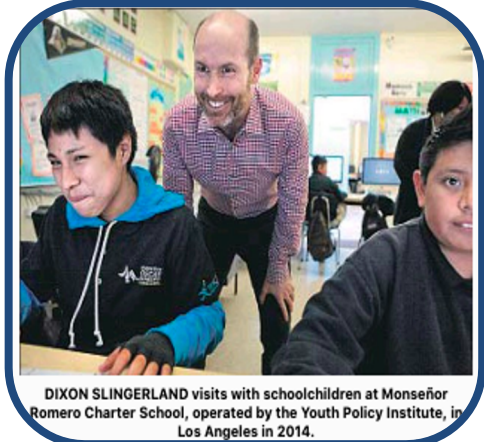
- For many years the board, IRS nor the government held them accountable
- Led to closure and bankruptcy

"Lacked the proper financial controls and the systems needed to manage its cash flow"-Los Angeles Times

INDIVIDUAL RESPONSIBILITY



“This is going to be the culmination of all our work, how do you bring all sorts of federal resources, private resources, we have more than 90 partners in this initiative. How do you bring all that together in and actually transform a community actually reduce the poverty rate?”



“I have made several attempts to meet with YPI Leadership to resolve any and all issues, including the fact that YPI still owes me money.”



“YPI has refused to engage in discussion or provide me with the necessary detail needed to clear up these matters.”

*“Strive not to be a success,
but rather to be of value.”*

Albert Einstein

INDIVIDUAL RESPONSIBILITY



Ari Lanin, USC
Partner @ Gibson Dunn



Tom Unterman, Princeton
Chairman, CA Comm.
Foundation & Executive Lawyer



Dr. Myung Ki Hong
UCLA - Chemistry



Brenda Freiberg, UCLA
Independent Philanthropist



STEVEN SCHULTZ, CFO
Managed finance, **risk management**,
payroll, and procurement operations



Richard Foos, Whittier College
CEO, Entertainment Industry



IRIS ZUNIGA, EVP
Worked for the CA State Senate District 20
as the Edu. & Health Field Deputy.



Amit Verma, NITIE Mumbai
Principal PwC



Yasmine Johnson, UCLA
Philanthropists & Political Activists



Mary O'Connell,
University of Missouri
Investment & Management



Bradford Pollard
UCLA, Stanford
Private/Corporate Banker



Steve Rindner, St. John
University
Corporate Dev. & Counsel


CARE... **LOYALTY..** **OBEDIENCE...**

“Directors should scrutinize the organization’s internal controls practices for weaknesses”
CA Attorney General’s Guidelines for Charities, 2019

Not pictured:
James Alva, Shari Leinwand, and David Messinger

ORGANIZATIONAL RESPONSIBILITY

March 29, 2018 Helpful (10)

 **"Toxic Culture and Zero Leadership"**

★☆☆☆☆ Former Employee - Anonymous Employee in Los Angeles, CA

Doesn't Recommend Negative Outlook Disapproves of CEO


I worked at Youth Policy Institute full-time

Pros
Great place to get some experience for someone in their early career. The learning curve is steep, but worthwhile experience for anyone with less than 5 years experience.

Cons
Senior Management does not trust one another which makes for an extremely toxic culture. There is no organizational focus and it appears that garden of greenback plants is growing out back. The lack of controls, frivolous spending, and the robbing of Peter to pay Paul will ensure that this organization will eventually end up insolvent. Most of these issues can easily be resolved with simple planning and a cultivation of leadership from within the organization. However, the purpose of its existence is to serve a political agenda under the guise of eliminating poverty. If you understand these principles, and get in and it under a few years, YPI may send you well. Otherwise good luck, and good riddance.

Advice to Management
Culture is set from the top, acknowledge rank and file with a simple hello, and take a look above you every so often, some puppet strings may be visible if you look close enough.

June 25, 2018 Helpful (10)

 **"Went Away From Their Mission"**

★☆☆☆☆ in Hollywood, CA

I worked at Youth Policy Institute

Pros
A start if you want to make a career in the non-profit sector. Opportunities are vast but don't expect to stay too long at least with this organization

Cons
Even as a non-profit, they try anything to operate on the minimum, assigning excess work to site-coordinators and analysts that are beyond their qualifications with unrealistic deadlines to meet with minimal to no OT compensation and undue stress. CEO's secretary passes off her assignments to other administrators then brags and claims credit for the work. As for the CEO, how did his recent approval rating go up a whopping 15 percent from 25 percent to almost 40 percent? This reeks of damage control from the HR Staff...The HR Staff that ACTUALLY was kept or stayed. So many good dedicated staff even all the way to lower to middle management has been let go or has left due to the high stress and low morale within the organization. Speaking of the

Employees used Glassdoor as a tool to express their concerns. Unfortunately, many of the documented posts do speak about the culture of lack of compliance and foresaw YPIs closing its doors.

ORGANIZATIONAL RESPONSIBILITY

1. Fostering of a culture that lacked rigorously self-reporting to funders and the Board of any issues that jeopardized YPIs funding/tax exempt status

1. Government/Grantors, Vendors, Partners

- a. Lack of full cooperation with Grantors to investigate and remediate deficiencies or delayed payment
- b. Inconsistent or inaccurate contracts with Vendors and Partners

1. Finance & Development

- a. Lack of reliable and dependable accounting systems for a \$47M budget organization
- b. Lack or not enforced safeguards and controls to ensure that funds were properly accounted for and that expenditures and reimbursements were appropriately reviewed and approved

1. Human Resources

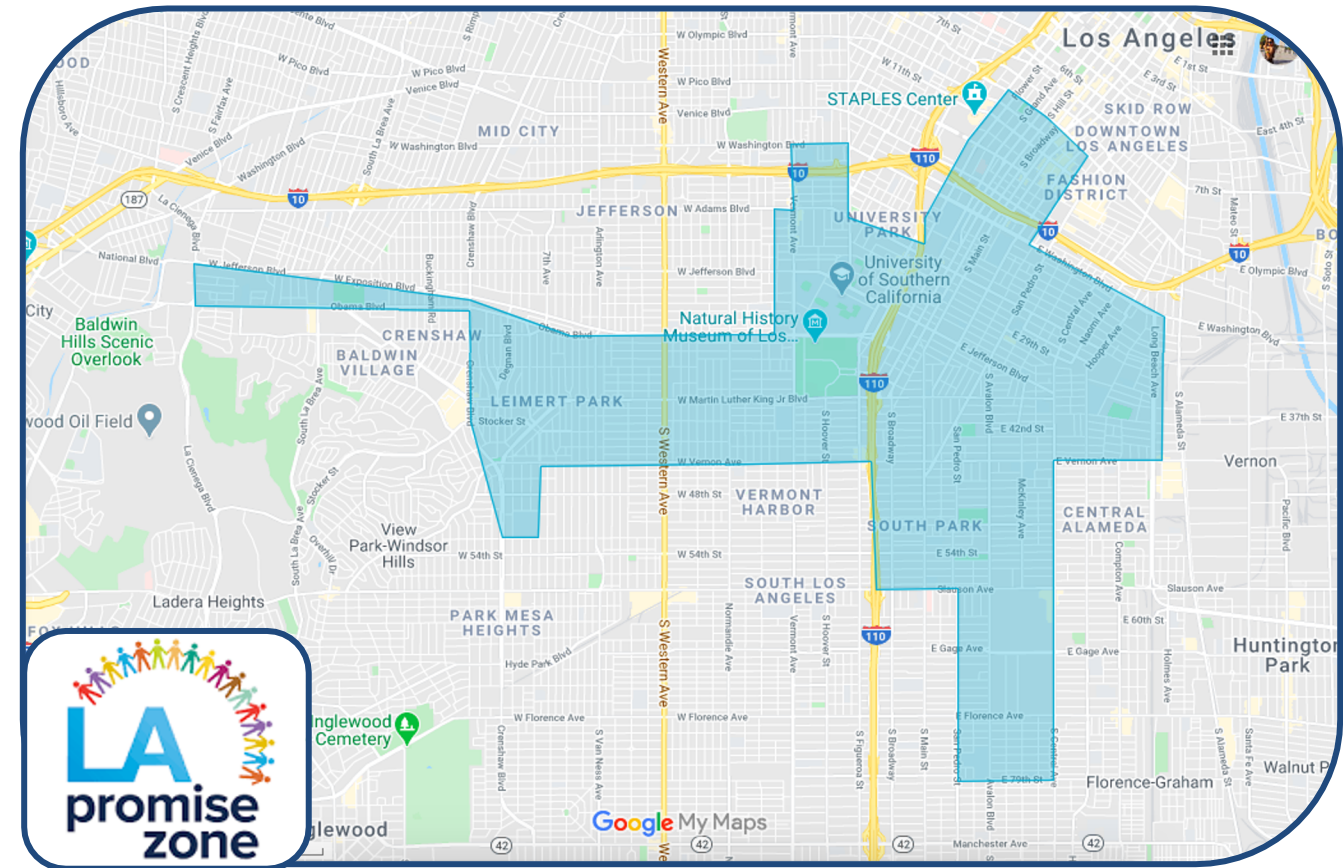
- a. Vague, unclear, and unenforced policies and procedures for finance, accounting, and grants management
- b. Key leaders hired from certain Universities and with certain work experience
- c. Performance Expectations, YPI focuses on program growth versus administrative support
- d. Lack of compliance training to train employees on grant requirement reporting, falsification of records and updated legal accounting changes



THE YOUTH POLICY INSTITUTE closed down on Oct. 25; two people hug outside its facility in Hollywood on its final day. The nonprofit's bankruptcy filing alleges that former Chief Executive Dixon Slingerland misspent some of the group's funds on personal expenses.

SYSTEMIC RESPONSIBILITY

- **Regional Bias**
 - Current policies create a regional bias in philanthropy, favoring parts of the country with concentrations of wealthy people.
- **Government Role**
 - Allocation of Government Funds: Oblivion on the taxpayers' dime
 - Government Funding Dependency: Consider additional regulations for nonprofits that are too dependent on federal money
 - White House Administration Agenda Pressure vs. Mission
- **“Social Changers”**
 - System Dominated by Elite “Social Changers”



STAKEHOLDERS ANALYSIS

“The closure of these locations creates a tremendous void for our youth, for our families throughout the city of Los Angeles, and it had an incredible ripple effect everywhere in the city”

-Los Angeles City Councilwoman Monica Rodriguez Feb. 2019



Program Participants

- Reduced services and funding for those in need
 - Individuals lost the support provided
 - Many even lost their connection to employment



Employees

- 450+ permanent laid off with less than 24 hours notice
 - Financial, Benefits (current medical conditions, Transition of Care)



Government

- More mistrust in nonprofits
 - Public's perception of Gov't involvement with certain non profits
- Sour feelings from other non profits that were denied Govt contracts that had stable financial management



& Nonprofits

- Think Together
 - Abruptly absorbed after school programs
 - TT had to rush resources (hiring, training)

ALTERNATIVE SOLUTIONS

Culture of Ethical Compliance:

Empowerment and encouragement to speak up and report wrongdoings



Policies & Procedures:

Clear and updated finance, accounting, lobbying Policies and Procedures



Compensation:

Review of data to substantiate salary increases and performance



Governance & Operational Activities:

Better Memorandums of Understanding with ongoing audits

Further review of govt reimbursements for services provided

Implement sustainable programs with no or limited government funding



REFLECTION QUESTIONS

1. **Does Dixon Slingerland know he made unethical decisions?**
 1. What power did Dixon Slingerland have at YPI besides being the President & CEO that Leadership failed to address the unethical practices he engaged in?
 1. There is substantial amount of feedback from current (at that time) and former employees on Glassdoor regarding YPI's upper management questionable practices, how should the Board use this type of feedback?
1. **When should a nonprofit “stop-and-evaluate” the amount of government funded programs? Who should initiate this evaluation?**
 1. Can you think of other nonprofits that were highly influenced by government or a specific administration?
 1. Is 23 years as President & CEO too long? What are the benefits and disadvantages of longevity in leadership and direct services roles?
 1. An organization shut its doors, all of the employees were directly impacted, the community was again defrauded, and Dixon Slingerland only requirement is to back-pay \$1.7M, should there be additional consequences to him and leaders who commit the same ethical violations?
1. **The Audit only reviews financials from 2014-2019, does the Board have an ethical responsibility to review additional information pre 2014?**



RESOURCES



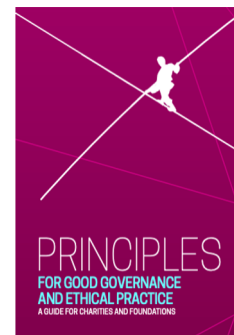
**THE LOBBYING SECTION OF THE IRS WEBSITE INCLUDES
NONPROFIT LOBBYING RULES AND ALSO TOOLS TO
MEASURE LOBBYING THROUGH THE SUBSTANTIAL PART
AND EXPENDITURE TESTS.**



**CA ATTORNEY GENERAL'S GUIDE FOR CHARITIES:
BEST PRACTICES FOR NONPROFITS THAT
OPERATE OR FUNDRAISE IN CALIFORNIA**



**ASSOCIATION OF FUNDRAISING PROFESSIONALS:
CODE OF ETHICAL STANDARDS**



**INDEPENDENT SECTOR:
PRINCIPLES FOR GOOD GOVERNANCE &
ETHICAL PRACTICE**

BoardSource®

**EMPOWERING STAFF LEADERSHIPS AND THE
BOARD OF DIRECTORS CAN HELP SOLVED
ETHICAL DILEMMAS BEFORE THEY COME UP**

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