



Founding Fraudster:

The Case of Central Coast Kids &
Families



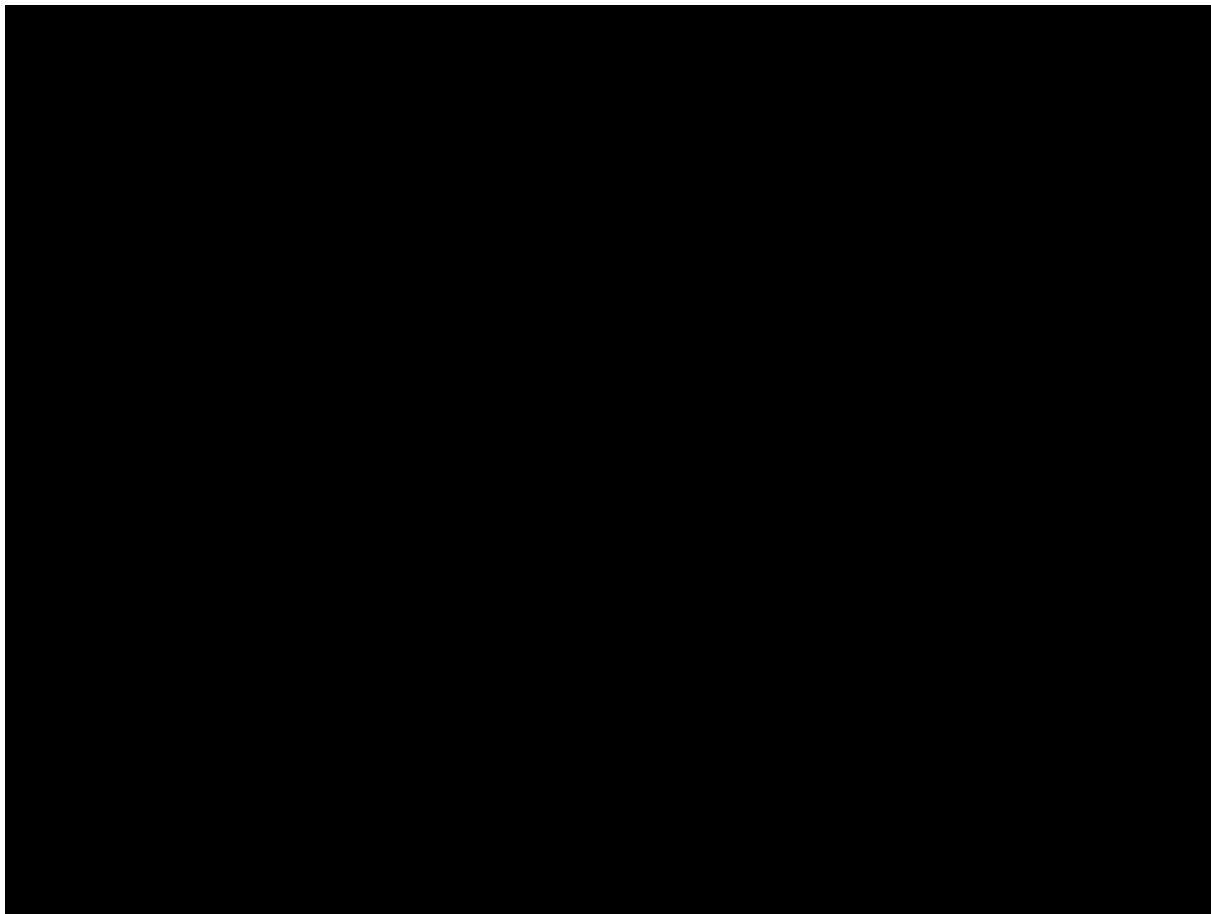
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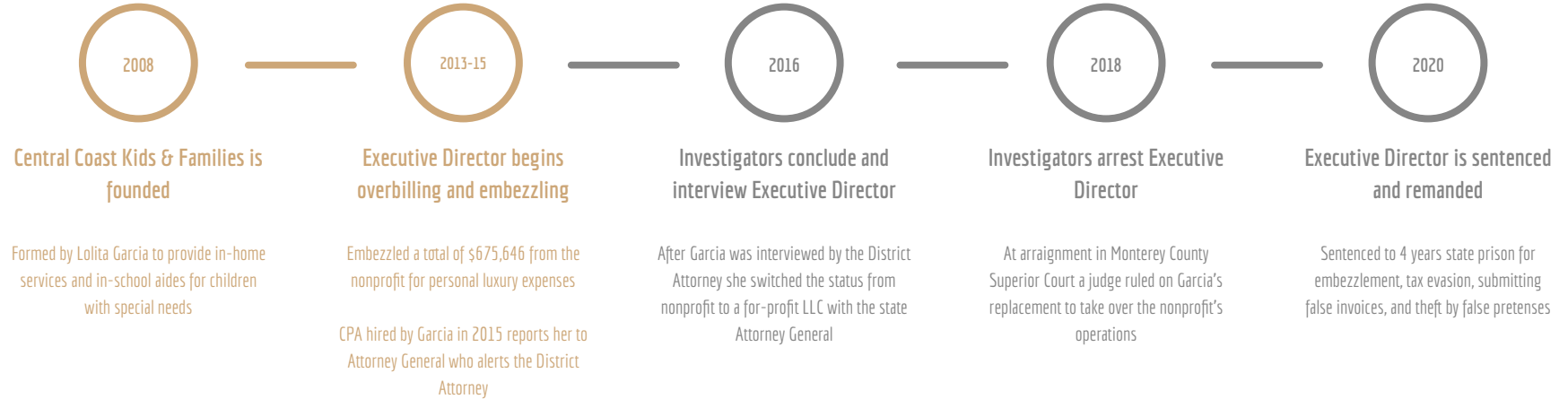
Background

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.



Timeline



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.



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

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

City/County

School Districts

Parents &
Students

Special Needs
Community

- Financial costs
- Legal costs
- County Office of Education distrust
- Overall community distrust

- Lost resources
- Lost budgeting
- Underserved students
- Accommodation gaps

- Lost time
- Lost morale
- Unfulfilled learning requirements

- Advocacy
- Need more protection

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) -

<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>

Nonprofit Resources

Central Coast Kids and Families Embezzlement by Nonprofit Ace Podcast -

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

How to Be a Leader Who Stays True to Their Ethics by Harvard Business Review -

<https://hbr.org/2021/09/how-to-be-a-leader-who-stays-true-to-their-ethics-2>

National Nonprofits Ethics Survey by Ethics Resource Center -

<https://community.corporatecompliance.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=a8dd604c-39cf-4039-88c2-5997f29126f8&forceDialog=0>

References

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