

Social-Services Nonprofit: Pervasive Fraud Alleged

08.04.21 | Linda J. Rosenthal, JD



At the beginning of May 2021, behind its facade as one of San Diego's most prominent and powerful social-services agencies, Volunteers of America Southwest (VOASW) was poised to crumble spectacularly under the weight of self-inflicted wounds.

Will Huntsberry, an intrepid reporter with *Voice of San Diego*, documented this collapse (and, indeed, accelerated it) as he exposed the ugly facts. See [*Volunteers of America Southwest Accused of Double-Billing, Fraud and Conflicts*](#) (May 4, 2021); [*VA Pulls Funding From Volunteers of America Southwest in Wake of Fraud Allegations*](#) (May 24, 2021); and [*CEO and Board Are Out at Volunteers of America Southwest*](#) (May 26, 2021).

The organization in question was one of the dozens of affiliates of a respected national organization – Volunteers of America – that was founded in 1896 by the son of the couple who started the Salvation Army. As a Christian charity, its mission has long been assisting poor and vulnerable people with vital services including housing, meals, education, literacy programs, treatment for addiction, and veterans assistance.

Ordinarily, each local group has its own board of directors and operates separately. But in extraordinary circumstances, the national organization has the power to intervene. That's what happened here: The financial irregularities uncovered and splashed across the local headlines were so egregious that VOA cancelled the local's charter and took over its operations. See [*National office takes over local Volunteers of America chapter in wake of audit*](#) (May 31, 2021), Jeff McDonald, *The San Diego Union-Tribune*.

Egregious Financial Irregularities

For many years, Volunteers of America Southwest operated multiple facilities in the San Diego region. Overall, the funding came from several government agencies including the State of California, County of San Diego, and the Veterans Administration. There were also contracts with private agencies including some local hospital chains. In 2019, VOASW received some \$23 million from this mix of sources.

This type of situation offers many opportunities for unscrupulous insiders and staff to rip off funders for the benefit of the organization or for themselves. It's possible to double-bill *multiple* agencies for the *same* services – which is exactly what VOASW did here. But this practice was just one among many irregularities. And all of them were so sloppily carried out, it was almost inevitable they would be discovered.

Thanks to super sleuthing by honest employees as well as persistent probing by alert government auditors and diligent reporting by investigative journalists, the wrongdoing has now been stopped and the wrongdoers have been removed from positions of control. The government is demanding millions of dollars in restitution and there may be criminal prosecutions.

But it took a while to get to this point and if these perpetrators had covered their tracks better, it may not have been exposed at all.

Uncovering the Fraud

In the middle of 2018, James McGowan and James Harrell, two long-time “finance workers” at VOASW, “went into detective mode.” These trusted employees had noticed “some odd payments to new companies [they had] never seen” before.

Some relatively simple sleuthing led them right to their boss: the chief financial officer who had just been hired in about March of that year. Some basic digging uncovered several interesting facts. First, the new CFO wasted no time in hiring two of her sisters-in-law, plunking them down in the accounting department. Second, the new and unusual billings for a “confusing range of products” and at amounts “more than twice their market value” were from three unfamiliar start-up businesses. A simple search of the public online files of the California Secretary of State disclosed that the owners of these new business entities were the CFO’s sisters-in-law. They had formed the companies just after they were hired into the finance arm of Volunteers of American Southwest. Third, the billed and paid-for items often were never delivered at all.

What Mr. McGowan and Mr. Harrell had uncovered at their nonprofit was a web of “mismanagement, waste, misuse of public funds, conflicts of interest, potential fraud” and double-billing – (even triple-billing) – of some government funders including the County of San Diego and the Veterans Administration.

The two men told the CEO, Gerald McFadden, all about it. But the chief executive officer repeatedly blew off these alert and loyal workers. Eventually, Mr. McGowan and Mr. Harrell were fired; each filed a whistleblower lawsuit.

Audits Reveal More

Around the same time frame that the finance workers were hitting a brick wall with their discoveries and reporting of irregularities, auditors from San Diego County were independently sniffing around telltale (and not well-concealed) evidence of embezzlement. They were also concerned by apparent conflicts of interest involving not just the CFO but also CEO McFadden and the board chair. See [San Diego County demands \\$6.5 million repayment from local Volunteers of America charity](#) (May 5, 2021) Jeff McDonald, *The San Diego Union-Tribune*.

The Agency for Contract Support, the division of the County Health and Human Services Agency that oversees county contractors, had begun examining Volunteers of America Southwest's [spending and documentation](#) in January 2018. Initially, these auditors were interested in the charity's accounting for the 2016-17 fiscal year. But a lack of information and documentation prompted them to take a look at records for subsequent fiscal years. What these reviews eventually uncovered were "... [sweeping deficiencies and improprieties](#), including lax internal controls, unsubstantiated travel and hotel stays, overbilling for routine supplies and a host of other questionable practices, ..."

By early 2020, the County cancelled one Volunteers of America Southwest contract and ordered corrective actions related to four others. "Your immediate attention to this matter is required and we anticipate your cooperation in effectuating disentanglement," John Pellegrino, the county director of purchasing and contracting, wrote to CEO Gerald McFadden. "The county will also continue to pursue recovery of funds identified in the enclosed documents," Mr. Pellegrino added.

By October 2020, county officials [issued a follow-up report](#) demanding that a total of \$6.5 million be repaid, attributable to contract amounts from the 2018-19 and 2019-20 fiscal years. The county investigators had uncovered a "host of questionable findings." Among them were "more than \$274,000 paid to the three companies with direct ties to Volunteers of America" employees; that is, the CFO and her sisters-in-law. And, "due to the concern regarding apparent conflicts of interest," the auditors "researched fair market value for prices indicated on the invoices from these three vendors." As a whole, these audits uncovered years of "[systematically misspent funds](#)" and "overbilling the public treasury."

Ripple Effect

It was the publication of the local news stories in early May 2021 that alerted the Veterans Administration to the patterns of egregious misconduct. Within days, the VA [invoked contract provisions](#) to halt ongoing programs on account of failure by VOASW officials to fulfill their contractual duties to report irregularities when discovered. More particularly, the federal agency suspended "at least [\\$1.8 million](#) worth of grants to Volunteers of America Southwest. It also "identified nearly \$100,000 in fraudulent spending by the nonprofit" which can be expected to trigger additional adverse consequences.

At that time of the early May 2021 news reports, the national organization – Volunteers of America – was already "aware of" serious problems and allegations of wrongdoing. A spokesperson told reporters that they "have consulted with the local branch on accounting improvements" and "[continue to monitor the situation](#)." But by mid-May 2021, Volunteers of America understood it had to take firm and long-overdue action. It [tossed out the CEO](#) and the entire board, dissolved the local

affiliate's charter, and took the reins of the nonprofit's operations. VOA also publicly announced it is investigating any and all allegations and evidence "of mismanagement, improprieties, and fraud."

Conclusion

The downfall of Volunteer of America Southwest was swift and decisive. But it's far from over. The Veterans Administration's May 12th letter to the nonprofit included this ominous sentence: "It is anticipated that the overarching lack of internal controls and fraudulent activity will be exponentially higher once a review of current grant funds are audited from a forensic *criminal fraud* accounting review." (emph. added). So there may be much *more* restitution owed to various funders as well as the very real prospect of possible state *and* federal criminal exposure.

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