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A Foundation Collapsed. Its Money Is Gone. What Happened Is Shrouded in Mystery.

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For the ZeroDivide Foundation, a San Francisco grantmaker founded in 1998 to bring the benefits of information technology to the poor, the end came suddenly. During its brief lifetime, ZeroDivide had brought in more than $50 million from telecommunications companies, federal grants, and philanthropies, including the Ford, Hewlett, and Packard foundations. But when ZeroDivide collapsed in 2016, it left debts, a trail of hurt, and troubling questions in its wake.

Consider:

- ZeroDivide provided office space, financial management, and other administrative services for an organization called Renaissance Journalism, which had raised money from the Ford Foundation and three smaller grant makers. When ZeroDivide shut down, about $600,000 of that money was gone.
- ZeroDivide got a $249,000 grant from the California Wellness Foundation in 2015. Some $20,000 was supposed to be set aside to be distributed to smaller nonprofits, but it was spent for other purposes.
- ZeroDivide failed to file tax returns for 2015 or 2016, leaving it unclear how it spent its money and why it ceased operations. It failed to follow California law when it dissolved.
- ZeroDivide had not paid $35,000 in credit-card charges when it folded, according to two former staff members.
- These employees also say they were laid off at the end without notice and not paid for vacation time they were owed.

No one, it appears, has been held responsible. No staff or board members at ZeroDivide have been accused of personally enriching themselves.

The foundations whose money was not spent for its intended purposes say they got neither an accounting nor an apology from ZeroDivide's senior leaders or board.

"It's distressing, to say the least," says John Esterle, co-executive director of the Whitman Institute, who has worked in philanthropy for more than 30 years and never has come across a similar situation. "It would be good to know what happened. People were hurt by it."

The Ford Foundation, the Whitman Institute, and the Vesper Society, which entrusted ZeroDivide with grants intended for Renaissance Journalism, filed complaints in 2016 with the attorney general's office of California, which regulates nonprofits. They don't know what action, if any, was taken. The attorney general's office declined comment, but a lawyer from the office just this week requested documents regarding ZeroDivide from Whitman Institute.

Lack of Accountability

The ZeroDivide story spotlights a couple of trouble spots involving foundations. The first is that, as a practical matter, they are accountable to no one. Neither federal nor state regulators have the resources to pay close attention. The second is the failure of some boards of directors — it's hard to know how many — to do their job of overseeing senior leaders and stewarding a foundation's resources.

Tessie Guillermo, who sat on the foundation's board for its entire life and served as it chief executive from 2002 until six months before it shut down, declined repeated requests for an interview. So did nearly all of those who sat on ZeroDivide's board during 2015 and 2016.

One exception is Elizabeth Bremner, a philanthropic adviser who served briefly as board chair before leaving the board in June 2015, in part because she believed that ZeroDivide, whose assets were dwindling, should have planned for an orderly shutdown. "I felt strongly that it was time to wind it down," Bremner says. Others, including Guillermo, disagreed at the time, saying they would try to keep the operation afloat.

Guillermo is prominent in philanthropic circles, particularly in California. She chairs the board of CommonSpirit Health, a nonprofit Catholic health-care system created in February by the merger of Catholic Health Initiatives and Dignity Health. As board chair of CommonSpirit Health, which operates 142 hospitals and employs about 150,000 people in 21 states, Guillermo holds an important job; she was paid $80,500 for her board service in fiscal 2017. CommonSpirit declined to disclose her current salary or otherwise comment.

Late in 2015, as ZeroDivide was running out of money, Guillermo was named to the board of the Marguerite Casey Foundation, where she has been paid about $40,000 annually in salary and deferred compensation. She also holds unpaid board positions at the Nonprofit Finance Fund and the Center for Asian American Media. She is former board chair of the California Endowment and has served on a White House panel and spoken at the Aspen Ideas Festival. "Tessie is a rock star," Bremner said.

Expanded Mission

ZeroDivide grew out of the 1997 merger of two big telecom companies, Pacific Telesis and SBC Communications. To help persuade California regulators to approve the deal, SBC promised a broad-based coalition of more than 100 community groups that it would spend $50 million to help deliver the benefits of phone and internet service to poor communities.

Those funds seeded what was originally known as the Community Technology Foundation of California, which hired Luz Vega-Marquis as its first executive director in 2000. The foundation made $6.2 million grants to 86 California charities that year — a level of grant making it would never again reach. When Vega-Marquis left in 2002 to lead the Marguerite Casey Foundation, Guillermo, who had been vice chair of the Community Technology Foundation board, became its CEO.

At first, the foundation operated as a conventional grant maker, doling out dozens of small and midsize grants each year, most to grassroots organizations in California. It originally said it would spend all of its $50 million endowment over 10 years.

Soon, though, Guillermo and the board embraced a mission that went well beyond delivering the benefits of phone and internet access to the poor.

"We view technology not as an end in itself but as the key that unlocks communication, knowledge, and access to services that promote social justice and improve critical educational, economic development, health, employment, political, and cultural dimensions of community life," the foundation said.

Ray Colmenar, a director from 2007 to 2014, said by email: "We believed that [the foundation] was playing an important role. There was a recognition that if [the foundation] was to continue to provide services to the community, then it needed to attract significant new infusions of grant dollars, shift strategy, or both."

In the argot of Silicon Valley, the foundation pivoted. In 2008, it rebranded itself as ZeroDivide. It repositioned itself as a nonprofit, social-impact consulting firm that advises nonprofits. Fundraisers and proposal-writing experts were hired.

Over the years, ZeroDivide brought in money from the Hewlett and Packard foundations, the California Endowment, and the corporate foundations of Aetna, Levi Strauss, and Vodafone. (The Hewlett Foundation is a financial supporter of the *Chronicle of Philanthropy.)*

In 2010, ZeroDivide secured two grants worth $2.1 million from the Obama administration's stimulus program: One supported "a major regional training and broadband access program for low-income youth ... that will encourage the development of a new generation of broadband users," and the other was to provide "broadband training, awareness and adoption programs" to about 11,000 people living on or near tribal lands in rural San Diego County. Later, as ZeroDivide began working on what it called e-Health equity, the foundation received a federal grant to help libraries deliver digital information about health.

Other programs ranged across the map, including a Hip Hop and Social Justice Initiative designed to unlock the power of hip hop and technology to drive social change; training in social media for next-generation Bay Area social-justice leaders as part of an effort called Pioneers in Justice; and a so-called Electronic Backpack that digitized and stored key documents for young people caught in the juvenile-justice and child-welfare systems.

The programs may or may not have succeeded — few were rigorously evaluated — but they weren't able to stem ZeroDivide's slide toward insolvency. Grant making slowed to a trickle: ZeroDivide gave away $70,000 in 2013 and just $35,500 in 2014. Nevertheless, net assets fell steadily, from $9.4 million in 2010 to less than $1.5 million in 2014. Soon after, Bremner, the board chair, warned that "the runway had been exhausted."

Several former employees told the *Chronicle* that Guillermo struggled to make the transition from leading a foundation that gave away money to leading an organization that needed to bring in revenue.

"There's a power dynamic when you are head of a foundation," says a former staff member, who asked not to be identified. "When you have to be the one asking for funds, it's very different."

People who were ready to listen to advice from ZeroDivide when it was funding them were not as eager to pay for it, it turned out.

'Mysterious and Confusing'

Guillermo was also slow to rein in spending, these former staff members say. ZeroDivide rented prime office space in downtown San Francisco. A fengshui consultant redesigned the office. Guillerm was paid just under $230,000 in 2014, the last year for which data is available. Her sister also worked at the foundation. Only in its final months did ZeroDivide lay off most of its staff and move to shared office space in Berkeley, Calif.. Guillermo stepped down as CEO (while staying on the board), and the few remaining employees were told in May 2016 that ZeroDivide was closing down.

It was then that Jon Funabiki, executive director of the startup Renaissance Journalism, was told that the foundation could no longer pay its bills. Funabiki, a veteran reporter, journalism teacher, and former program officer at the Ford Foundation, had started Renaissance Journalism in 2009; it offers training and support to reporters and news organizations, to "advance equity, give voice to the voiceless, illuminate injustice, and move people to action."

Funabiki initially approached ZeroDivide to ask for a grant. Instead, Guillermo proposed that ZeroDivide become the fiscal sponsor of Renaissance Journalism. Fiscal sponsors provide fiduciary oversight, financial management, and administrative services to organizations or individuals without nonprofit status and then charge a fee for those services. In the case of Renaissance Journalism, ZeroDivide also provided office space. In return, Renaissance Journalism agreed to pay ZeroDivide a share of its revenues, which amounted to about 9 to 10 percent, comparable to the fee charged by other fiscal sponsors.

Renaissance Journalism was working its way through about $1.5 million in grants — $1.2 million from Ford, $150,000 from the Whitman Institute, $100,000 from the Vesper Society and $100,000 from the Wyncote Foundation — when ZeroDivide closed. It financed such programs as the Detroit Journalism Cooperative, a group of news organizations that reports on social and financial issues in Michigan, and the Equity Reporting Project, an effort to stimulate journalism about inequalities in the U.S. education system.

Funabiki estimated that ZeroDivide was holding more than $600,000 belonging to Renaissance Journalism when the foundation closed. But the money was nowhere to be found. He had a brief conversation with Guillermo, who was vague about what happened, Funabiki says. "I've never been able to get an accounting from ZeroDivide, despite repeated requests," he says.

Renaissance Journalism was then operating a program to teach journalism and multimedia storytelling skills to young people in California's Imperial Valley, a rural area that suffers from poverty and a lack of jobs. Students were scheduled to attend a workshop at San Francisco State, where they would learn to tell their stories. But the funding was gone, to the dismay of Miyoko Oshima, president of the Vesper Society, a San Francisco foundation that funded the program. "We were angry," she says. Like Funabiki, Oshima got neither an explanation nor an apology from Guillermo.

Pia Infante, co-executive director at Whitman, described the collapse of ZeroDivide as "mysterious and confusing." Even the Ford Foundation was unable to obtain much information out of ZeroDivide. Says Josh Cinelli, Ford's media-relations chief: "We followed up directly with the leadership and the board members there to get some answers and accountability. The information we received was insufficient."

The California Wellness Foundation also got no answers when it asked about $20,000 that it had donated to ZeroDivide, which had promised to use the money to make $3,500 grants to six community groups. When the California Wellness Foundation learned that the $20,000 was unaccounted for, it came up with another $20,000 to fulfill the promises made to the six community groups. "The situation was unfortunate," says Sande Smith, the foundation's director of communications

Soon after, Funabiki was surprised when a collection agency pursued him for $20,000 in credit-card charges that were supposed to have been paid by ZeroDivide. Another staff member had $15,000 in work-related credit-card charges that the foundation had failed to pay. Two former staff members, who asked not to be identified, say they were owed smaller amounts for unused vacation days.

In a sign of their confidence in Funabiki, the supporters of Renaissance Journalism — Ford, Vesper, and Whitman — made up some of the money. "Each of the four of the foundations helped us get through the crisis," he says. He paid some expenses out of his own pocket and persuaded some of the journalistic organizations whose work Renaissance Journalism was supporting to accept less than they were promised.

Defunct Charities Seldom Fined

Guillermo and board members all declined to answer questions about what went awry. David Veneziano, ZeroDivide's longtime chief financial officer, did not respond to a request for comment. It's unclear who sat on the board at the end because ZeroDivide did not file IRS Form 990s for 2015 or 2016. Legal experts say that, besides failing to follow state and federal law in its final years, the foundation appears to have violated what's called the charitable trust doctrine, which requires that gifts accepted by a charity must be used for the declared purpose of donors — in this case, Ford, Vesper,Whitman, Wyncote, and the California Wellness Foundation.

Carladenise Edwards, who is now an executive vice president at Providence St. Joseph Health, a nonprofit health system based near Seattle, was identified as ZeroDivide's board chairman by the California attorney general after ZeroDivide closed. Edwards did not respond to emails. Kelvin Quan, the former board treasurer of ZeroDivide, who is now director of operations of the University of San Francisco School of Nursing, did not respond to emails or phone messages. In an email to Jon Funabiki, Quan defended the board, noting that trustees were all volunteers and "did not engage in any day-to-day operating or accounting functions of ZeroDivide." As it happens, unpaid directors of nonprofits are shielded from claims of liability by federal and state law so long as they don't engage in willful misconduct or gross negligence.

But if board members aren't responsible, who is? "In theory, there are many kinds of recourse," says Cynthia Lewin, chair of the nonprofit law practice at Venable. But none came into play at ZeroDivide after the money ran out.

Foundations that fail to file federal tax returns can be fined $100 a day, up to a maximum of $50,000, but the government ordinarily doesn't try to collect fines from defunct charities, says Marcus Owens, a partner at Loeb & Loeb and former director of the exempt organizations division of the IRS.

Nor was suing ZeroDivide an option for the victims. "There was nothing to sue," says Pia Infante of the Whitman Institute. "They dissolved everything and erased their website."

Marc Gunther is a veteran journalist, speaker, and writer who reports on foundations, nonprofits, and global development and has a blog called Nonprofit Chronicles. He has written Chronicle of Philanthropy articles on the 2018 Silicon Valley Community Foundation scandal and on philanthropic support of psychedelics in mental-health research, among others.

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