

Justice Department Investigating Migrant Shelter Provider

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The Justice Department is investigating possible misuse of federal money by Southwest Key Programs, the nation's largest operator of shelters for migrant children, according to two people familiar with the matter.

The inquiry could upend shelter care for thousands of children, escalating government scrutiny of the nonprofit even as it remains central to the Trump administration's immigration agenda. The charity operates 24 shelters to house children who were separated from their parents at the border or arrived on their own.

The United States attorney's office for the Western District of Texas is examining the finances of Southwest Key, based in Austin, and whether it misappropriated government money, according to the people, who were not authorized to speak publicly about the inquiry. Prosecutors on the case are working with the Federal Bureau of Investigation.

The inquiry comes after a New York Times report this month detailing possible financial improprieties by Southwest Key, which has collected \$1.7 billion in federal grants in the past decade, including \$626 million in the last year alone.

The nonprofit has engaged in potential self-dealing with its top executives, stockpiled tens of millions of taxpayer dollars and lent out millions for real estate purchases, acting more like a bank than a traditional charity, according to records and interviews. It has funneled government money through a web of for-profit companies, converting public funds into private money for the organization, which has paid top executives millions of dollars.

In response to The Times's report, a spokesman for Southwest Key, Jeff Eller, acknowledged management mistakes but said there had been no criminal intent by the charity's officials or "a desire to game the system." Southwest Key also said it would commission an internal investigation.

Mr. Eller said on Thursday that the charity had not yet been contacted by the F.B.I. or the United States attorney's office, but that it had "a policy of working with any and all investigations."

Southwest Key, which became a focal point during the Trump administration's decision to separate migrant children from their families this year, now houses up to 5,000 children in its facilities. One of them is a converted Walmart Supercenter in Brownsville, Tex., that can hold 1,400 children, drawing complaints that it was warehousing them.

The organization is a linchpin in the shelter system, which is nearing a breaking point. A record 14,000 migrant children are now in federal shelters, housed across 100 permanent sites and a sprawling tent city in the Texas desert.



Casa Padre, a converted Walmart in Brownsville, Tex., that can hold 1,400 children. Tamir Kalifa for The New York Times

Federal prosecutors' interest in Southwest Key builds on a continuing inquiry by the F.B.I. into the finances of a smaller Texas-based shelter provider, International Educational Services. That nonprofit lost its federal contracts in February for possible self-dealing, including renting shelters owned by charity officials and using public funds to pay them well above what the government permits. Southwest Key's founder and chief executive, Juan Sanchez, helped start I.E.S. more than 30 years ago, though he is no longer affiliated with it.

Last year, at least eight of Southwest Key's executives earned more than the federal salary cap of \$187,000. Mr. Sanchez made \$1.5 million. His wife earned \$500,000 as a vice president, and the organization's chief financial officer made \$1 million.

Additionally, Mr. Sanchez and the chief financial officer have for years collected government money in rent as landlords of a Southwest Key shelter. The Department of Health and Human Services, which oversees migrant shelter grants, requires shelter employees to avoid “private financial gain,” or even the appearance of it. Asked by The Times about the payments this fall, the nonprofit’s leaders said they would sell their personal stakes in the property.

Though Southwest Key has come under scrutiny after a series of abuse allegations at shelters in Arizona in recent months, the organization has remained a critical partner to the government. Mr. Sanchez and the former Walmart have become symbols of the migrant shelter industry.

To get that former superstore up and running, Southwest Key engaged in a convoluted real estate transaction, lending \$6 million to a pair of South Texas developers to buy and renovate the property. Southwest Key now pays nearly \$5 million annually in rent — more than the property itself cost. It is unclear whether prosecutors are scrutinizing that deal, which has the potential to disguise kickbacks.

Officials at H.H.S. declined to comment Thursday on the Justice Department’s investigation into Southwest Key’s finances. H.H.S. has hired forensic accountants to review the finances of shelter operators. That review is continuing and could affect the government’s future grant decisions, a spokesman for the agency said. According to government records, H.H.S. last paid grant money to Southwest Key at the end of the past fiscal year, on Nov. 6.

Should Southwest Key’s contracts be in jeopardy, the government would need to find a new custodian for the children in Southwest Key’s shelters across Arizona, California and Texas. When the government revoked the contracts of I.E.S. this year, its shelters’ operations were transferred to another organization, Comprehensive Health Services, a for-profit company.

Mr. Sanchez founded Southwest Key in the 1980s to work with juvenile offenders. Over the years, he steered the organization into migrant shelters — which now constitute the bulk of its work — as well as charter schools and a range of for-profit businesses that even included a florist for a time.

As the federal investigation proceeds, Southwest Key is poised for growth. It has explored opening a shopping center in Austin and secured approval from Texas state authorities to open as many as 11 more charter schools.

“The fact that we have been a very successful organization upsets some people,” Mr. Sanchez said in an interview with The Times in October. “Whether it’s because they haven’t been able to do it or they’re jealous or they wish they could do it. For whatever reason, we just became part of that attack.”