

Nonprofit Ethical Case:

Embezzlement and Murder: An Examination of MidCentral Educational Cooperative and Gear Up

Kia Harris and Nick Daher

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Prof. Marco Tavanti. Ph.D

Summary

The nonprofit ethics case we examined involved Scott Westerhuis' actions to murder his family, burn down their house and commit suicide. All of this was completed after being caught in one of South Dakota's biggest nonprofit scandals. He was the business manager for MCEC, which had access to a number of nonprofit organizations that received grants from MCEC. An audit uncovered funds that were not accounted for on various accounts, discrepancies in financial statements and concealed information. It was determined that he was embezzling money from federally funded programs and putting it into his pockets and a few staff member's pockets, including his wife.



KVLY News-SD Deaths Ruled Murder-Suicide



<https://www.youtube.com/watch?v=O-ui7RCPWHs>

Facts/Timeline

- 2007-2015**: \$7.8M was transferred from MCEC to other organizations
- 2011**: South Dakota's Attorney General began to have concerns about MCEC and Gear Up
- September 2015**: Discovered that \$1.3M was unaccounted for
- September 16, 2015**: State's Educational Department informed MCEC it would not receive over \$4.3 M in Gear Up funds due to accounting concerns
- September 17, 2015**: Scott Westerhuis killed his wife and four children, set the house on fire and then committed suicide
- June 30, 2017**: MCEC terminated its provision of educational services to its member schools
- May 19, 2017**: Special Review of MCEC by the Department of Legislative Audit was released to the public



Additional Facts

- **MidCentral Educational Cooperative (MCEC):** 501(c)(3) state-recognized local educational agency formed by rural school districts to collect resources for special educational services and other school district programs
- **Gear Up:** A program to prep Native American youth for success in college
- **Two nonprofit organizations founded by the Westerhuis':** American Indian Institute of Innovation and Oceti Sakowin Education Consortium



Compliance

- Financial reporting requirements
- Accurate reporting to the IRS
- Scott and Nicole Westerhuis engaged in self-dealing
- Lack of board meeting minutes



Employees:

Scott Westerhuis
Nancy Westerhuis
Stacy Phelps

Name/Year	Salary Payments by Organization		
	MCEC	NPOs	TOTAL
Employee 1			
2009	\$ 51,783.32	\$ 87,000.00	\$ 138,783.32
2010	\$ 57,566.64	\$ 96,750.00	\$ 154,316.64
2011	\$ 61,400.00	\$ 75,750.00	\$ 137,150.00
2012	\$ 61,650.00	\$ 72,000.00	\$ 133,650.00
2013	\$ 61,813.50	\$ 107,000.00	\$ 168,813.50
2014	\$ 64,681.54	\$ 84,249.50	\$ 148,931.04
Employee 2			
2009	\$ 14,366.64	\$ 87,000.00	\$ 101,366.64
2010	\$ 56,144.39	\$ 96,750.00	\$ 152,894.39
2011	\$ 53,500.00	\$ 75,750.00	\$ 129,250.00
2012	\$ 53,166.68	\$ 57,000.00	\$ 110,166.68
2013	\$ 57,475.03	\$ 96,021.00	\$ 153,496.03
2014	\$ 61,434.83	\$ 91,477.50	\$ 152,912.33
Employee 3			
2009	\$ 66,225.03	\$ 91,450.00	\$ 157,675.03
2010	\$ 68,250.00	\$ 80,000.00	\$ 148,250.00
2011	\$ 68,750.00	\$ 72,000.00	\$ 140,750.00
2012	\$ 68,250.00	\$ 72,000.00	\$ 140,250.00
2013	\$ 68,250.00	\$ 72,000.00	\$ 140,250.00
2014	\$ 69,615.00	\$ 76,200.00	\$ 145,815.00

Individuals Responsible



Scott Westerhuis, manager at MidCentral Educational Cooperative and founder of OSEC & AIII

Nicole Westerhuis, business manager for Oceti Sakowin Education Consortium

Individuals Responsible (Continued)



Stacy Phelps, Chief Executive at the American Institute for Indian Innovation



Stephanie Huber, former business employee at MidCentral

Individuals Responsible (Continued)



Dan Guericke, Director at MidCentral Educational
Cooperative

Organizational Responsibility

- Responsibility of MidCentral to complete regular audits
- Organizational accountability
- Engagement of the board if presented with information about employee misconduct

**You cannot escape the
responsibility of tomorrow
by evading it today.**

Abraham Lincoln

Systemic Responsibility

- Westerhuis' intent on self-dealing- greed
- Financial accountability- poor record keeping
- Scott Westerhuis took responsibility for the finances
- The conflict of interest among board and staff members created a culture of corruption.



Stakeholders Analysis

- Native American youth prevented from receiving services to prepare them for college
- Loss of trust by community for Board of Education, Mid Central Educational Cooperative, and Gear Up
- Future organizations that may be funded by the federal grant may have to adhere to higher regulation
- Loss of trust by donors
- Families of youth affected
- Neighbors affected by the murder-suicide



Alternative Solutions

- establishment of an audit committee to complete audits regularly
- Integrity on behalf of the individuals involved
- MidCentral assessment of if the two nonprofits owned by the Westerhuis' were eligible to receive the grant money
- review of policies and procedures related to the organization's banking and payment systems
- requirement of effective performance and financial reporting for all of an organization's programs and activities



Questions

1. How did the Westerhuis couple appear to serve their community? In reality, what leadership skills were they neglecting?
2. Why do you believe the other members of the nonprofit didn't expose them for the scandal?
3. Are the other board members at fault if they claim ignorance? Are they at fault if they knew something was going on but did nothing about it?
4. Why did it take 4 years before the Attorney General began to investigate the situation? What was the effect on the youth that were supposed to be benefiting from Gear Up?
5. Was Scott Westerhuis' moral character ever questioned?
6. What steps could Scott Westerhuis have taken to mitigate his misconduct if he was using his moral compass?

Resources

Financial Accountability in Charitable Organizations: Mandating an Audit Committee Function

-<http://scholarship.kentlaw.iit.edu/cgi/viewcontent.cgi?article=3371&context=cklawreview>

Accountability Matters

-https://www.blackbaud.com/files/resources/downloads/WhitePaper_Accountability_Full.pdf

Panel on the Nonprofit Sector: Strengthening Transparency Governance Accountability of Charitable Organizations

-<http://www.kiplinger.com/members/taxlinks/071505/Nonprofit-Sector-report.pdf>

* Special Review of Mid Central Educational Cooperative released by State of South Dakota Department of Legislative Audit

<http://legislativeaudit.sd.gov/reports/School/MidCentralCoopSpecialReview.pdf>

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Thank you!

