

## **Nonprofit Ethical Case:**

# **Dirty Work: Ripping Out The Rot in The University of Maryland Medical System (UMMS)**

## **Board Member Selection: Ethical Implications**

Case Study 1:

Sean Peterson and Shelby Dillingham

NPA 601: NONPROFIT ETHICAL LEADERSHIP

Prof. Marco Tavanti. Ph.D.

Spring 2022

# Summary: Use Case Topic - Board of Director Conflicts of Interest

This case study applies an ethical evaluation regarding the importance of nonprofit board of director appointment and the risks introduced through conflicts of interest...



Figure 1: National Council of Nonprofits - Board Roles and Responsibilities

# Summary: About University of Maryland Medical System

- Website description: UMMS is a university-based regional health care system focused on serving the health care needs of Maryland
- Business Model: Private, not-for-profit corporation [501(c)(3)] founded in 1984 and based in [Baltimore, Maryland](#)
- Operates health insurance plans serving Medicare and Medicaid members
- Scale: 29,000 employees; 4,600 physicians, 12 hospitals and over 150 locations
- FY 2019 operating revenue and expenses at \$4.24 billion and \$4.16 billion



**Table 1**  
**State Funding to UMMS**  
**Fiscal Year 2016 through 2020**  
**(Amounts in Millions)**

Fiscal Year	Capital Funds	Operating Funds	Totals
2016	\$42.2	\$3.2	\$45.4
2017	37.9	18.2	56.1
2018	24.5	31.2	55.7
2019	63.3	30.3	93.6
2020	63.7	18.3	82.0
<b>Totals</b>	<b>\$231.6</b>	<b>\$101.2</b>	<b>\$332.8</b>

Source: Department of Budget and Management Records

Link: [Better State of Care: Delivering Academic Medicine to Maryland - YouTube](#)

# Summary: Ethical Issue

## Background

### News Articles

In March 2019 various news articles published describing financial relationships between UMMS and 10 members of board of directors

## Situation

### State Audit for Financial Transactions

State Audit performed June 2019 finds ~\$115M payments made by UMMS to 27 board members over 3 year period - with limited documentation or accountability. Various board members and CEO resign (including Mayor of Baltimore)

## Follow Up

### Legislation: Driving Accountability


Chapter 18 and 19 of Maryland Law established to (i) revise governance of UMMS; (ii) establish conflicts of interest policy




Former Baltimore Mayor Catherine Pugh leaves the federal courthouse after pleading guilty to conspiracy and tax evasion related to her "Healthy Holly" books on Nov. 21, 2019. A report on Dec. 13, 2019, found that board members often sought favors from the system for businesses they were involved in. (Jerry Jackson/Baltimore Sun/TNS)

# Summary - Local News Coverage


Videos: [What you need to know about the Catherine Pugh book controversy \(wbaltv.com\)](http://wbaltv.com)

**HOGAN STATEMENT** 

"...members of the board should remove any and all conflicts of interest or resign. There cannot even be the appearance of impropriety."



**LARRY HOGAN**

**I-TEAM** 


**WYLAND MEDICAL SYSTEM**  
**Relationships Questionnaire**  
June 30, 2013

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Section of the chart in which you answered "yes" include the name of the Medical System entity, Immediate Company involved, the role held, the description of the activity and the monetary value of the relationship and goods and/or services supplied. If you need additional space, a separate page is included for your use.

Family	Industry Company	Description of Financial Relationship and/or Management Relationship
		UMMS purchased 20,000 Healthy Herbie books by a third party and \$100,000 was my profit.

named by this Questionnaire that you believe the Medical System should be aware of (e.g., previous Medical System, former Board member of a Medical System competitor)? If yes, please

**UMMS BOARD MEMBER CONCERNS** **I-TEAM** 

# Facts: UMMS Board of Director Financial Awards



OFFICE OF LEGISLATIVE AUDITS  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

- State Audit findings: \$114.9 million in payments from UMMS to 27 board members
  - 94% of payments made directly to board member or entity with which board member has direct financial relationship
  - Payments subject to lack of documentation
  - Payments subject to lack of competitive process
- *Alternative Perspective:* Payments did not directly contradict board policies or legal requirements at time of issue and may have benefit the hospital (e.g. services that were technologically advanced or offered at reduced rates relative to competition)

# Compliance

Behind the ethical issues, there are some compliance issues in this case:

- **Private Inurement Doctrine:** none of the income or assets of a tax-exempt organization may be permitted to directly or indirectly unduly benefit an individual, when that person is in a position to exercise a significant degree of control over the entity.
- **Governance:**
  - *Duties of Directors:* maintaining the organization's tax-exempt status, its ability to attract charitable contributions; protecting the organization's resources; formulating the organization's budget; hiring and evaluating the chief executive; generally overseeing the organization's management; and supporting fundraising that the organization undertakes.
  - Unrelated Business Rules, Personal Benefit Contracts, etc. could lead to IRS audit and/or compliance checks

# Individual Responsibility

- Board lacks ability to regulate, apply coercive power, and control systems and process that have a broader impact on society.
- *Moving forward:* Include integrity leadership in the profile for managers at all levels of an organization, as well as a requirement for selection, appointment or promotion to a management position, and assessing the performance of managers with respect to the public integrity system at all levels of the organization.



# Organizational Responsibility

- Elements that pertain to the collective / organizational level of responsibilities that would have prevented, corrected, or detected the ethical issue:
  - Greater emphasis on communication, role modeling, and direct assessment of conflict of interest before appointment
  - Policies and procedures such as a Whistleblower Policy to ensure that all members are clear on ethical framework
  - Supporting Managers in their role as ethical leaders by establishing clear mandates, providing organizational support (internal control, HR, and legal advice)
  - Delivering periodic training and guidance to increase awareness of, and develop skills concerning the exercise of appropriate judgment



# Systemic Responsibility



- What are some of the issues that pertain to the institutional level of responsibilities?
  - Perception of entitlement and exploitation of power; UMMS is responsible for ensuring competitive award process
  - Public expressions to greed: all over the news - poor public perception (impacting the entire healthcare network)
  - Culture of corruption: 27 board members found to receive financial gain... direct result in cutting board member seats and voting privileges

# Stakeholders Analysis

## Consequences of this case for the community and stakeholders:

- Direct:

- After The Sun's revelations, Pugh resigned from the board and as mayor. The FBI raided her houses and City Hall in late April, she pleaded guilty to conspiracy and tax evasion in November, and was sentenced last month to three years in prison.
- In response to the scandal, state lawmakers last year passed sweeping reform legislation, sponsored by Sen. Jill P. Carter of Baltimore and late House of Delegates Speaker Michael Busch, both Democrats, that included requiring the audit.
- The scandal led to the network's CEO and four other executives resigning.
- The State audit findings resulted in new legal provisions for UMMS, including board of director membership requirements, conflicts of interest rules, and reporting requirements to State government officials.

- Indirect:

- Lack of public trust in nonprofit organizations
- Reputational risk
- More regulatory scrutiny



# Remedies

- What are some of the alternative solutions that would have either prevented this situation or that can remedy this situation?
  - Disclosure and Conflict of Interest Statements / Policies
  - Identify the ethical issues that are or could be controversial. Examine how proposed courses of action are or are not consistent with organizational values, personal values, and ethical principles and guidelines. Make the decision and document the decision-making process. Monitor and evaluate the outcome.
- What has the organization done after the scandal to remedy the situation and to avoid future abuses? (if applicable)
  - Removed “rotten” board members, established new legislation and regulatory guidelines, third party financial evaluations, and checks and balances for board member appointment



# The Concept of Conflict of Interest with Dan Ariely



# Discussion Questions

1. **Personal (integrity):** As a board member, who should you report / speak out against misconduct and illegal / inappropriate behavior to? Should the chair of the board be held responsible?
2. **Personal (leadership):** In this case study many of the historical behaviors of board members evaluated neither conflicted with UMMS board policies or legal requirements. When behavior isn't technically against any rule/law but raises an ethical dilemma, how do you approach it?
3. **Organizational (nonprofit):** In addition to establishing policies regarding board member selection and practices, are there other steps that UMMS can take to help mitigate the issues highlighted in this case study?
4. **Systemic (sectors):** As a result of the State audit findings, UMMS was required to annually undergo third party financial audits and report regularly to the State. Should private nonprofits in general be subject to additional regulations regarding financial transparency and accountability?
5. **Ethical theory (Aristotle - Moral Obligation):** Should the UMMS board members that benefited financially from their unethical board activities return the money to the hospital, state, and/or others? What retribution should occur, if any?
6. **Stakeholder (perspectives):** It is likely that others in the UMMS organization had awareness of the financial practices of its board, though the issues did not escalate to audit until ~3 years after they began. How can stakeholders create a climate in which staff feel able to report breaches of rules, policies, and guidelines - and act promptly and visibly to such reports?

# Resources

- What are some resources that can be helpful to nonprofit organizations and/or nonprofit leaders that may encounter similar situations and ethical dilemmas as expressed in this case?

1. [National Council of Nonprofits - Board Roles and Responsibilities](#)
2. [A Board Member's Code of Ethics | Bridgespan](#)
3. [Nonprofit Board Member Codes of Conduct and Ethics - BoardSource](#)