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### **Nonprofit Ethics Case**

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NPA 601: Nonprofit Ethical

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#### 1. **Title**

Dirty Work: Ripping Out The Rot in The University of Maryland Medical System

#### 2. **Summary**

This case study explores the importance of ethical decision-making within an organization's board of directors and risks introduced through conflicts of interest. To illustrate this topic, we focus on a case in which the board of directors for the University of Maryland Medical System (UMMS) leveraged their positions within the hospital system for their own monetary gain. A State audit on UMMS finances revealed significant financial dealings between board members and their organizations. Board members had either promoted their own companies or directly benefited from promotion of their products through their positions at UMMS. Many of the payments made to board members or their companies lacked documentation or did not follow a competitive process for justification of award (Maryland General Assembly, Office of Legislative Audits, 2020).

As a result of these findings, various board members and the CEO resigned. One board member also resigned from her appointment as Mayor of Baltimore and was later sentenced to three years

in prison for conspiracy and tax evasion. The State of Maryland implemented emergency legislation in response to UMMS which included laws regarding UMMS board of director selection processes and required UMMS to create a formal policy for conflicts of interest (Maryland General Assembly, Office of Legislative Audits, 2020).

### **3. Applications**

This case is relevant for board member selection and the impact on organizations (including assessment of conflicts of interest and/or board member objectives). Ethical and integrity leadership are not demonstrated due to: unlawful practices, exploitation of power, public expression to greed, and noncompliance. Increasingly blurred boundaries between public sector organizations and their complex partnerships with other sectors can pose further ethical dilemmas.

### **4. Outcomes**

#### **Accountability**

Accountability and due diligence around promoting a board whose ethics align with organization objectives, as opposed to solely focusing on those that further economic outcomes, helps to ensure sustainability of nonprofit operations.

A nonprofit board of directors is expected to maintain financial responsibility in a manner that progresses the organization's mission (National Council of Nonprofits). In this instance, select members of the UMMS board neglected that responsibility and instead focused on their own personal financial gains. The board failed to maintain accountability for the greater organization which resulted in significant public scrutiny as well as a set of new legal requirements directed at UMMS, effectively limiting the organization's ownership of certain governance and board member selection. Had the board-maintained accountability for UMMS expenditures the money would have gone to projects that contribute to its mission, "To be the healthcare system of choice recognized for clinical, academic and service excellence through compassionate and innovative healthcare."

#### **Transparency**

The State audit observed financial awards that were made to board members between January 1, 2016 and April 18, 2019. The lack of transparency in company and financial filings allowed the UMMS board to continue its practices for over three years prior to broader awareness. Financial transparency regardless of organization type can help to ensure that organization operations are aligned with its mission or objectives.

## **Compliance - Checks and Balances**

Compliance with the law ensures nonprofits are doing their best and trust is restored in our government practices. When trust is continuously demonstrated, people are more willing to cooperate with one another. Accountability is thus reinforced through government regulation and creates a sense of ease within society. There must be a greater emphasis on communication and role modeling to ensure that all members are clear on ethical framework and supported to make the right ethical decisions.

### **5. Video**

[Local News Coverage](#)

[Beware - Conflicts of Interest Ted Talk](#)

### **6. Description**

#### **Background**

University of Maryland Medical System (UMMS) is a large university based regional health care system that operates as a private, not-for-profit organization [501(c)(3)]. UMMS serves a variety of patient bases including medicare and medicaid members. The organization operates at considerable scale, employing 29,000 staff who operate out of 12 hospitals and over 150 locations (The University of Maryland Medical System). UMMS fiscal year 2019 operating revenue and expenses were also considerable at \$4.24 billion and \$4.16 billion, respectively. The state of Maryland provides funding to UMMS for purposes of capital projects, allocating nearly \$333 million over FY 2016 - FY 2020 (Maryland General Assembly, Office of Legislative Audits, 2020, p.7). The hospital system operates under the direction of various teams including its executive branch and board of directors.

In 2019, UMMS was the subject of an ethical dilemma related to board member conflict and promotion of self-interest. A State audit on UMMS finances revealed significant financial dealings between board members and their organizations. Board members had either promoted their own companies or directly benefited from promotion of their products through their positions at UMMS.

#### **Situation**

In March 2019, various articles were published describing financial relationships between UMMS and 10 members of its board of directors. Per these news articles, UMMS had made significant payments to board members and their businesses for a wide variety of goods and services. Later in 2019, a State audit was performed on UMMS to evaluate its board of directors'

financial dealings. This audit was enabled through emergency legislation in June 2019 (Chapters 18 and 19, Laws of Maryland 2019), which included provisions to review historical information regarding board members and UMMS financial dealings and recommend necessary improvements as determined through the evaluation.

State audit findings included the following: “We identified approximately \$114.9 million in payments made by UMMS to 27 Board members or their associated businesses between January 1, 2016 and April 18, 2019,” ...Approximately 94 percent (\$108.2 million) of these payments were made either directly to a Board member or to an entity with which the Board member (or immediate family member) had a direct financial relationship.” (Maryland General Assembly, Office of Legislative Audits, 2020, pp. 17-18). The payments made either lacked documentation and/or did not follow a competitive process for justification of award (e.g. awards were not evaluated against other bids from potential vendors). Regarding documentation, UMMS was unable to provide contract terms and conditions and in some cases was unable to verify that all goods/services were provided. Many emails were withheld by UMMS during the investigation as it claimed the emails could contain confidential correspondence between employees and legal counsel.

### **Follow Up**

The Governor of Maryland requested resignation from select UMMS board members involved in this event. UMMS initially put its CEO on temporary leave; as the investigation progressed the CEO resigned after 35 years of executive employment with the hospital system. Another member of the board, Baltimore’s Mayor Catherine Pugh, also resigned from both the board and her position as Mayor after the investigation revealed she had profited in hundreds of thousands of dollars from selling her self-published children’s book to the University of Maryland Medical System. The FBI later raided her house and City Hall; she pleaded guilty to conspiracy and tax evasion and was sentenced to three years in prison (Baltimore Sun, 2020).

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 (Maryland General Assembly, Office of Legislative Audits, 2020). Prior to board member selection, UMMS now requires advice and consent of the Senate for voting members appointed by the Governor. In addition, UMMS was required to create and implement a conflict of interest policy for the board, which included restrictions on awards to board members or their businesses (University of Maryland Medical System, 2019). Finally, the legislation required UMMS to contract with independent certified public accounting firms annually to audit financial management practices.

## 7. 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?

8. **Resources** Add a website of the organization(s) and program(s). Add any other link to helpful and relevant readings to analyze the case.

[UMMS Website](#)

[UMMS Board Policy \(2019\)](#)

[National Council of Nonprofits - Board Roles and Responsibilities](#)

[A Board Member's Code of Ethics | Bridgespan](#)

[Nonprofit Board Member Codes of Conduct and Ethics - BoardSource](#)

## 9. References

Baltimore Sun. (2020, March 13). *University of Maryland Medical System paid \$115M to companies tied to 27 board members, state review reveals.*

<https://www.baltimoresun.com/politics/bs-md-pol-umms-audit-20200314-vmt2y6e3kbbaheen6vs6ckafi-story.html>

Maryland General Assembly, Office of Legislative Audits (2020, March 13). *University of Maryland Medical System Corporation Board of Director Activities.*

<https://www.ola.state.md.us/umbraco/Api/ReportFile/GetReport?fileId=5e6bd69ea1ce580b6c4f7061>

National Council of Nonprofits. (n.d.) *Board Roles and Responsibilities.*

<https://www.councilofnonprofits.org/tools-resources/board-roles-and-responsibilities>

Nonprofit Quarterly. *Conflict of Interest: Recusal Is Not Enough*

<https://nonprofitquarterly.org/conflict-of-interest-recusal-is-not-enough/>

The University of Maryland Medical System. (n.d.). *About Us.* <https://www.umms.org/about>

University of Maryland Medical System. (2019, July 1). *Board Policy.*

[Microsoft Word - UMMS COI Policy - May 30 2019 Final.docx](#)

**Disclaimer:** The case study here analyzed is made for educational purposes only and it is based on publicly available documents. The case is publicly shared to advance the collective consciousness of the nonprofit social sector and to develop nonprofit ethical leadership practices. The case does not reflect an official position of the university toward the interested parties. Although formulated with sound academic and critical analyses methods, the case does not claim to represent the full realities of the organizations and people involved, especially in their most recent developments or internal remedies. For questions and concerns please contact the USF Office of General Counsel [generalcounsel@usfca.edu](mailto:generalcounsel@usfca.edu) or Dr. Marco Tavanti [mtavanti@usfca.edu](mailto:mtavanti@usfca.edu)