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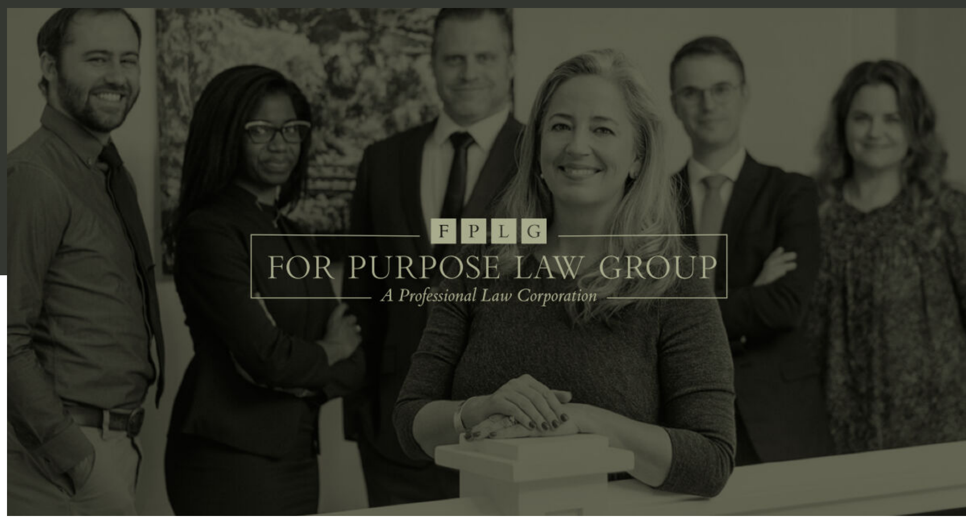
NONPROFITS: BOARD GOVERNANCE

Conflicts of Interest Can Lead to Big Problems

10.31.17 | Linda J. Rosenthal, JD



“The last shoe may have dropped,” according to The Nonprofit Quarterly in late July, which has been following the tumultuous tale of troubles from conflicts of interest at Kentucky’s University of Louisville Foundation.

It’s not uncommon for major nonprofit institutions like universities and healthcare facilities to form foundations to help raise funds and support the important work of the main organization. Many of these relationships proceed for decades with harmony and success, but there are sad exceptions.

Conflicts from Overlapping Boards

As far back as 2009, there have been problems. Since that time,

> *the U of L Foundation has been overspending. Their expenses were higher than revenue each year, steadily eating at their endowment. It is a mystery why the financial officer was the last to be let go when the financial woes of the organization were so pronounced.*

“Any year with expenses over income is an anomaly,” observes Marian Conway of NPQ, “that a nonprofit should address. Seven years of fiscal imbalance is irresponsibility equally shared by staff and board.”

Because of the extensive and highly damaging problems, the University of Kentucky commissioned an independent forensic audit that was released to the board in early June 2017 as well as the general public. The audit was restricted to the years 2014-2016, but it describes earlier relevant events.

An independent forensic audit is "significantly different than a typical financial audit." The report is some 269 pages; the "specific findings … are a simple statement of transactions and issues resulting in a complex and destructive situation."

A critical problem was that James Ramsey was ***president of the university as well as of the foundation at the same time***. There were ***additional overlaps of senior staff***. The situation was ***rife with "conflicts of interest"*** yet "[d]espite this coziness, there was a "lack of communication and transparency." Many board members were left out in the cold and remained unaware of key decisions, commitments, and transfers of assets.

Eventually, there were wholesale changes of personnel, but these actions dragged out over a period of time. In September 2016, President Ramsey was forced out; later his top aide was also removed. There was a full-board turnover along with the addition of some 12 new members. Many months later, the chief financial officer of the foundation was finally terminated.

Over this troubled period of time, there were significant losses in the foundation's endowment "but the true value of the endowment was concealed by the foundation's accounting practices, which included reporting gifts by the foundation to the university as loans on the foundation's financial records."

As a result of this turmoil, donations plunged also, threatening the long-term stability of foundation.

Lessons to be Learned

The Nonprofit Quarterly's Michael Wyland makes the important point that publicly rehashing the sordid details, while unpleasant, has value not only to the institutions directly involved but to others. "As always, a tale of abuses like those that occurred at the University of Louisville and its foundation can be educational—and cautionary—for similar public and nonprofit organizations."

Conclusion

The ultimate lesson to be learned from this situation is that "[w]hat is *convenient* for management may become *tempting* to management, and overreliance on an individual leader, coupled with neglect of group accountability and oversight, can be seriously damaging to an institution."