



UNIVERSITY OF  
SAN FRANCISCO | School of  
Management

MASTER OF NONPROFIT ADMINISTRATION

*Change the World with Nonprofit Leadership*

[usfca.edu/mna](http://usfca.edu/mna)

### **Nonprofit Ethics Case**

Group: Nick Daher and Kia Harris

NPA 601: Nonprofit Ethical Leadership

Prof. Marco Tavanti, Ph.D.

Fall 2017

#### **1. Title**

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

#### **2. Summary**

The nonprofit ethics case we examined involved Scott Westerhuis' action 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.

#### **3. Applications**

In examining this case and the relevant subjects and areas that can be applied, it can be said that the case can be considered from areas in ethical leadership, nonprofit governance and nonprofit management. In chapter 6 of "Meeting the Ethical Challenges of Leadership" by Craig E. Johnson and the review of ethical action, it was stated that ethical action is the result of: (1) moral sensitivity, (2) moral judgment or reasoning, (3) moral motivation and (4) moral character. In regards to moral judgment, it can be said that the Westerhuis' did not utilize their moral compass to determine their obligation to discontinue their misconduct. It can even be said that at the initial stages of their decision to carry out acts of embezzlement, they did

not possess moral character which would have steered them away from their acts. In addition, it can be said that the Westerhuis' and associated individuals did not practice ethical integrity. It can also be said that the Westerhuis' and the individuals involved used their roles to deceive their constituents and even the board of MidCentral Educational Cooperative. Not only were they not applying integrity when it came to their actions regarding providing misleading information about the organization's finances, but they did not show integrity in the face of the people they served and worked with.

In Chapter 3 of "Meeting the Ethical Challenges of Leadership" by Craig E. Johnson the seven virtues of a leader were provided. Among the seven listed, an examination of courage and reverence can be applied to the Westerhuis'. The Westerhuis' could have chosen to cease their misconduct in the initial stages which would have taken a great deal of courage to confess to their dealings but it would have helped them maintain moral action and moral influence. Furthermore, if the Westerhuis' possessed the capacity to feel shame for what they did, then it could have eliminated the collapse of the organization and associated individuals.

When considering the governance aspect of this case, it can be said that the board could have detected the misconduct. However, it was stated in court records that the board was not informed of the misconduct and were ultimately deceived. If the board was informed of the misconduct, they would be legally responsible for the misconduct of their organization's employees. In addition, it is the board's role to oversee the organization and staff. It can be said that there was inadequate oversight which may have ensured the acts of the Westerhuis' could be discontinued. Furthermore, it can be said that there was a lack of transparency on the organization's behalf. Westerhuis' hid certain information regarding compensation and fund use which was not reflected on the organization's 990. Lastly, due to hidden information, the organization was not complying with federal regulations which requires accurate documentation.

In areas of nonprofit management, four components of accountability were addressed which includes transparency, answerability or justification, compliance and enforcement or sanctions. As a nonprofit leader, it is recommended that clear reasoning for actions and decisions be provided. If Westerhuis considered seeking counsel from colleagues, his acts could have been prevented. In addition, his acts could have been monitored and evaluated to ensure the correct procedures were being carried out and the appropriate outcomes would result. Lastly, Westerhuis and the involved individuals should have been held accountable to their funders, patrons and clients. Accountability would ensure adequate performance and adherence to the mission of the organization.

#### **4. Outcomes**

Moral integrity is essential to being in a position such as Executive Director. In this case, Scott Westerhuis did not uphold integrity. Instead, he was using MCEC and the partnering organizations to secure funds for personal benefit. In accepting the position at MCEC, Scott should have held his actions to a higher standard. To value moral integrity at a higher level, Scott could have realized the damage he was causing to his community, his family and himself before it got to the point where he felt his only option was to murder his family.

Unclear records can indicate illegal activity. From the perspective of an outside source, there were some red flags. It is possible that other staff members were aware of the activity that was going on. Another indication that there was something illegal happening in the organization is that Scott Westerhuis was transferring large amounts of money between organization accounts. In some instances, money was being payed out for contracted work that was not being fulfilled. The takeaway message from this case is that individuals should investigate red flag warnings when they present themselves. At the very least, individuals should notify the proper authorities to conduct an investigation.

An additional takeaway is that individuals should stay true to their organization's mission. This can be maintained by setting up checkpoints throughout the year to make sure things are on track and by making adjustments when necessary. If these checkpoints are being missed, it will serve as an opportunity to conduct research to understand why. This assists in mitigating damage. If the problem was caught early, there is the chance that Westerhuis would not have felt the need to take such drastic measures when his scandal was discovered.

Power and greed are a volatile mixture. In the first chapter of Craig E. Johnson's book, it discusses the dark side of leadership. In cases of embezzlement, there is clearly aspects of moral judgment that are being overlooked by the leaders themselves. For Scott Westerhuis, it seems that he allowed greed to get the best of his moral compass. In a news article that covered this story, it was discovered that he purchased a \$1.3M house and built a \$900K facility that was placed right next to his home. While these actions turned out to be completely illegal, it was not until he committed murder and suicide that his actions began to reveal themselves in more depth. In consideration of murder and suicide, it can be said that these acts are never a solution. It can potentially create disbelief and confusion in the community that is affected. There will never be a rational explanation as to why Westerhuis felt that his way was the only way out of the situation. In chapter four of "Meeting the Ethical Challenges of Leadership", Craig E. Johnson talks about combating evil. "On the surface, evil people appear to be successful and well-adjusted. In reality, they exert tremendous energy keeping up appearances." (p.117) This quote can be applied to the situation that Scott Westerhuis was facing as he dug himself into a hole. Also relating to this situation, the book talks about forgiveness as the way to break the cycle of evil. By forgiving the perpetrator the victim can find peace and purpose in their life. If the cycle of evil is broken, affected individuals will be able to forgive those that have committed the evil acts. If the individuals and youth that were affected by the misconduct of the Westerhuis' forgive them, they may be able to find peace.

## 5. Video

[https://www.youtube.com/watch?v=sOH4igaI\\_iw](https://www.youtube.com/watch?v=sOH4igaI_iw)

## 6. Description

MidCentral Educational Cooperative (MCEC) was a public nonprofit organization formed by rural school districts to collect resources for special education services and other school district programs. The organization was selected to administer the state's federal grant award under the Gear Up program. The objective of the Gear Up program was to assist Native American youth with preparation for success in college and provide scholarship support. In 2011, the South Dakota Attorney General began to have concerns about MCEC and Gear Up. The South Dakota Attorney General began to investigate MCEC's finances which led to an ongoing legislative audit of MCEC. In September of 2015, further investigation revealed that \$1.3 million was unaccounted for. Based on the results of an audit that revealed accounting concerns, on September 16, 2015, the state's educational department informed MCEC that it would not receive over \$4.3 million in Gear Up funds.

On September 17, 2015, Scott Westerhuis went to his home in Platte, South Dakota and with a 12-gauge pump shotgun, killed his wife and four children, set the house on fire and then committed suicide. Telephone records indicated that Scott Westerhuis spoke to someone on the phone about Gear Up that evening before the fire. The death of the family, opened up the door to further investigation of MCEC and Gear Up. Further investigations, revealed additional information about the organizations as well as other associated organizations and individuals.

According to reports, Scott and Nicole Westerhuis engaged in fraudulent and illegal business activities utilizing their positions at MCEC and their positions within American Indian Institute of Innovation (AIII) and the Oceti Sakowin Education Consortium (OSEC). Based on a review of financial records of MCEC and Gear Up, it was revealed that the business manager of MCEC, Scott Westerhuis and wife, Nicole Westerhuis had been embezzling over \$1 million for personal gain. The couple took money from MCEC's bank account without authorization to fund payroll for one of their nonprofits, payrolls in which they benefited from. Although the couple deposited some of the money back into the Gear Up account for the 'borrowed' funds, they still owed the organization over \$1 million. In addition, Scott Westerhuis founded two nonprofit organizations that received Gear Up funds. The nonprofit organizations included The American Institute for Indian Innovation and the Oceti Sakowin Education Consortium. Nicole Westerhuis was the business manager for OSEC in which she received an annual salary. The Executive Director of AIII, Stacy Phelps, who was also the former business partner of Scott Westerhuis received a regular salary based on his role. In 2014, AIII paid out \$1.6 million in salaries, but Scott Westerhuis did not claim a salary for himself on the organization's financial statements. Furthermore, AIII also received \$612,000 in Gear Up contracts which was used to purchase several vehicles and trailers worth \$122,000. In addition, the Westehuis' used federal grant funds to build a \$900,000 facility adjacent to their \$1.3 million home which they claimed recipients of their nonprofits could access. Lastly, the ongoing legislative audit of MCEC revealed that the organization claimed 500 computer software products it purchased cost \$4000 each, but were listed for retail sale of \$500 which the department of education contended were actually worth \$300 per student.

In a committee hearing in the case of MidCentral Educational Cooperative and Gear Up, it was disclosed that the Westerhuis' hid and destroyed all records and financial documents that detailed the use of federal funds for the first six years of operation at MCEC. As a result, board members were provided with "falsified and/or incomplete" information about the group's operations for years. Furthermore, the records for OSEC were described as non-existent and therefore could not be investigated. Due to the gravity of the case against MCEC and Gear Up, the organizations were investigated as a whole. Three other individuals that were associated with MCEC and Gear Up were charged with felony charges. Dan Guericke, the director of MCEC was charged with six felony counts. Stacy Phelps, the Executive Director of AIII was charged with four felony counts and Stephanie Hubers, a former business employee at MCEC, was charged with theft and receiving stolen property. On June 30, 2017, MCEC decided to terminate its provision of educational services to its member schools. On May 19, 2017, a Special Review of MCEC was released to the public by the Department of Legislative Audit.

## 7. 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 four 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?

## 8. Resources and References

A life of secrets ends in tragedy. (2016, March 17). Retrieved October 13, 2017, from <http://www.news.com.au/lifestyle/real-life/true-stories/couple-who-died-in-murdersuicide-with-their-four-children-stole-more-than-1-million-in-grant-funds/news-story/dce24406844fa83d9d5a8eb8c4f1416e>

CBS News. (2016, March 16). AG: S.D. couple who died in murder-suicide stole grant money. Retrieved October 06, 2017, from <https://www.cbsnews.com/news/ag-south-dakota-couple-who-died-in-murder-suicide-stole-grant-money/>

Documents detail Westerhuis' spending before murder-suicide. (2016, May 20). Retrieved October 13, 2017, from <http://www.washingtontimes.com/news/2016/may/20/documents-detail-westerhuis-spending-before-murder/>

Heidelberger, C. (2017, September 30). Scott Westerhuis Said Mom Helped Pay for \$900K Gym. Retrieved October 06, 2017, from <http://dakotafreepress.com/tag/scott-westerhuis/>

Johnson, Craig E. (Sixth Edition) Meeting the Ethical Challenges of leadership. Thousand Oaks, California: SAGE Publications, Inc.

Leestephen, L. (2016, March 17). New court documents reveal details of alleged crimes with GEAR UP fraud. Retrieved October 13, 2017, from [http://www.capjournal.com/news/new-court-documents-reveal-details-of-alleged-crimes-with-gear/article\\_7fe45b6a-ebf3-11e5-860f-4f64d359c71d.html](http://www.capjournal.com/news/new-court-documents-reveal-details-of-alleged-crimes-with-gear/article_7fe45b6a-ebf3-11e5-860f-4f64d359c71d.html)

Reports:, A. K. (n.d.). Westerhuis \$1.3M Property And Non-Profits That Took Grant Money. Retrieved October 06, 2017, from <http://www.keloland.com/news/article/news/westerhuis-1.3m-property-and-non-profits-that-took-grant-money>

S.D. dad killed wife, 4 kids, before setting house fire. (2015, November 04). Retrieved October 13, 2017, from <http://www.nydailynews.com/news/crime/s-dad-killed-wife-4-kids-setting-house-fire-article-1.2422710>

Wyland, M. (2015, October 08). Murder-Suicide Tragedy May Have Roots in Nonprofit Conflicts and Embezzlement. Retrieved October 06, 2017, from <https://nonprofitquarterly.org/2015/10/08/murder-suicide-tragedy-may-have-roots-in-nonprofit-conflicts-and-embezzlement/>