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Hot Topics in Governance
Voices From the Field and Implications for Research

Below are two cases, Wounded Warrior Project and American Legacy Foundation, that focus on similar issues. In both cases, a lack of governance and oversight led to misuse of funds and fraud. These cases may be used together or individually. The sections on implications for theory and policy, suggestions for classroom instruction, activities, discussion questions, and resources apply to both cases. In addition, instructors may choose to zero in on the governance issues, fraud and financial oversight, or both of these topics.

What Went Wrong at the Wounded Warrior Project?

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The Wounded Warrior Project (WWP) is the largest veteran's charity in the United States. John Melia, a Somalia-wounded Marine veteran initiated the WWP when he started giving backpacks full of items to returning Iraq war veterans in 2003. The WWP was incorporated on February 23, 2005, for "the purposes of providing vital programs and services to severely wounded service members and veterans to support their transition to civilian life as well-adjusted citizens, both physically and mentally" (see WWP, n.d., FY 2014).

On March 9, 2016, the WWP Board of Directors terminated Chief Executive Officer Steve Nardizzi and Chief Operations Officer Al Giordano. The termination of Nardizzi and Giordano occurred after multiple news reports highlighted lavish spending, including extravagant parties and events, and cited dozens of former staff members describing a toxic leadership culture at the popular veterans charity (Cahn, 2016). Before the termination of its top two executives, the organization vigorously defended itself against accusations of extravagant spending on staff conferences and events, too little spending on programs for veterans, and too much spending on fundraising (McCambridge, 2016).

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Responding to the May 2016 findings of the Senate Judiciary Committee's investigation of the WWP, whistleblower Erick Millette expressed his satisfaction: "It really validates Wounded Warrior Project's claims that we're not disgruntled employees, because we're not. . . . We were just upset about the way money was spent, and we're passionate about those that have served our country" (Gardner, 2016a, para. 4). Millette and six other WWP employees went public in late 2015 with claims of lavish spending and the wasting of donor funds.

John Melia hired Nardizzi, who was head of the United Spinal Association, to join the WWP. Soon, Nardizzi and Melia were fighting for control of the organization's direction. In 2009, Melia resigned from the organization he created and Nardizzi became president. Nardizzi envisioned an aggressive metric-driven organization modeled after corporate America: "I look at companies like Starbucks — that's the model. You're looking at companies that are getting it right, treating their employees right, delivering great services and great products, then are growing the brand to support all of that" (Philipps, 2016, A For-Profit Model section, para. 4). Under Melia's leadership, the organization experienced incredible financial growth, with total revenues increasing from $26.1 million in 2008 to $342 million in 2013. At the end of the 2013 fiscal year, the WWP had $22 million in cash on hand and $212 million invested in securities. Net assets now exceeded $248 million (see WWP, n.d.).

In March 2016, following intense media scrutiny, the WWP Board issued a statement claiming that an independent audit found the organization spent 81% of donations on programming. The board also noted the use of joint cost allocation, common among nonprofits but disregarded by organizations that monitor charity spending. Joint cost allocation is considered a Generally Accepted Accounting Principle (GAAP).

Table 1

WWP Revenue, Expenses, Assets, and Fundraising Costs

Tax year	Revenue $	Expenses $	Net assets $	Fundraising cost $
2005	1.0	0.9	3.0	0.4
2006	18.6	15.6	6.0	2.0
2007	21.5	19.2	8.2	3.5
2008	26.1	26.6	7.8	6.2
2009	40.9	34.3	14.6	9.3
2010	74.0	57.7	30.3	13.8
2011	154.9	95.5	90.2	20.5
2012	234.6	158.1	166.6	31.7
2013	342.0	248.0	248.2	43.4

Note. Figures in millions. Data from IRS Form 990 for each respective tax year (see WWP, n.d., https://www.woundedwarriorproject.org/mission/financials/financials-archive).

After their termination, Nardizzi and Giordano asked the WWP Board of Directors to release the report. However, in a written statement, the board indicated a written report did not exist, noting that the investigators' findings were given orally to the board and that such reviews typically do not result in written reports.

In 2014, the WWP claimed it supported 398 veterans and their caregivers, assisted 302 veterans in gaining employment, and coordinated 4-day cycling opportunities, known as Soldier Rides, for an additional 156 veterans (Schuette, 2014). A review of perceived criticisms of the WWP stated that for an entity generating nearly $235 million in revenue, "numbers like those seem curiously low. Still another question is raised by just how some of the services that it [WWP] funded actually helped veterans recover from post-traumatic stress or rehabilitate from combat-related wounds" (Schuette, 2014, Impact Hard to Measure section, para. 5). A fourth of the $5.5 million in grants issued were utilized by receiving organizations for recreational activities, and an additional $5.7 million was spent producing the highly visible Soldier Rides. Other grants provided by the WWP included $300,000 for a parade, $50,000 for a monument, and $25,000 that one nonprofit used to lobby and negotiate for postal rates for nonprofit organizations (Schuette, 2014).

In 2014, veterans' advocates and veterans themselves criticized the WWP, stating the WWP is more concerned with image and public relations impact than it is with the long-term well-being of those it claims to serve (Mak, 2014). A double-amputee who served in Iraq expressed, on the condition of anonymity, not only a fear of retribution but also a feeling of disappointment:

> They are such a big name within the veterans' community. I don't need to start a war in my own backyard. . . . They're more worried about putting their label on everything than getting down to brass tacks. It is really frustrating. (Mak, 2014, para. 5–6)

The veteran, who survived an IED destroying his supply truck, continued,

> Everything they do is a dog-and-pony show, and I haven't talked to one of my fellow veterans that were injured . . . actually getting any help from the Wounded Warrior Project. I'm not just talking about financial assistance; I'm talking about help, period. (Mak, 2014, para. 8)

A significant part of the WWP's revenue strategy is the result of branded partnerships, and Mak (2014) noted this includes "everything from ketchup to paper towels to playing cards — something that rubs other veterans' groups the wrong way" (para. 13). One alumni member stated,

> I receive more marketing stuff from them, [and see more of that] than the money they've put into the community here in Arizona. It's just about numbers and money to them. Never once did I get the feeling that it's about the veterans. (Mak, 2014, para. 26)

The same member said there were times he could have used a ride to a Veterans Affairs medical facility. Instead of a ride, he received a "fleece beanie" (Mak, 2014, para. 27).

In 2013, the WWP reported $189 million in program services expenses including $42 million in program grants to third-party organizations. Of the $42 million in program services grants, the WWP included $28 million it transferred to the newly created Wounded Warrior Long-Term Trust (see WWP n.d.). Excluding this transfer of cash, only 9% of all program services expenses were direct grants to third-party organizations.

Table 2

WWP Reported Program Expenditures and Grants (2013)

Program	Expenses $	Program grants $	Grants/ expenses %
Alumni Association	37,093,075	4,700,682	12
Combat Stress Recovery	27,946,118	4,670,046	17
Physical Health & Wellness	16,033,248	644,108	4
Soldier Ride	15,738,906	85,809	1
Benefit Services	10,280,128	487,528	5
Track	7,600,723	852,136	11
Family Support Services	6,481,174	651,233	10
International Services	5,762,792	236,919	4
WWP Packs	1,577,473	7,986	1
Warriors to Work	9,149,559	280,745	3
Transition Training Academy	6,207,938	196,892	3
Peer Support	4,464,335	162,952	4
WWP Talk	1,731,217	17,208	1
Independence Program	5,415,463	217,739	4
Warriors Speak	2,102,805	0	0
Education Services	3,154,146	898,438	28
Wounded Warriors LT Trust	28,000,000	28,000,000	100
Total	189,558,100	42,100,421	22
Less WWP Long Term Trust	161,558,100	14,110,421	9

Note. Data from IRS Form 990 FY 2013 (see WWP, n.d., https://www.woundedwarriorproject.org/mission/financials/financials-archive).

In December 2015, the WWP's national alumni director, Ryan Kules, described upcoming events for veterans across the United States to WWP staff members, which included the following:

- family members receiving haircuts and spa services (Minnesota),
- 25 veterans and family members attending *A Christmas Carol* (Alaska),
- 35 veterans spending an evening bowling (Colorado),
- 20 veterans participating in a holiday Lego club night (Hawaii),
- 100 veterans and a guest attending a winter wonderland (California), and
- veterans attending a healthy holiday cooking class (Utah). (Mak, 2016)

The WWP drew the attention of the Senate. U.S. Senator Charles Grassley (R-Iowa), chairman of the Senate Finance Committee, asked interim CEO Anthony Odierno to provide an account of spending not provided on IRS tax forms, including expenses for travel, meetings, public relations, lobbying, and the Charity Defense Council. The WWP cooperated with Sen. Grassley's request. On August 10, 2016, the Senate Judiciary Committee chairman's staff met with the WWP's new CEO, retired Army Lieutenant General Michael Linnington. The ongoing investigation includes the following:

- 33% of program services claimed by the WWP was free media and advertising.
- $37.1 million was transferred to the Wounded Warrior Long-Term Support Trust, which the organization included as program expenses on behalf of veterans.
- 94% of program services to veterans in 2013 and 2014 consisted of tickets to sporting events. (Gardner & Wallace, 2016; Grassley, 2016)

In 2014, of the $242 million the WWP spent on program expenses, approximately $150 million was not devoted to veterans and a large portion of it was in-kind donations.

In June 2016, the WWP Board of Directors selected Michael S. Linnington, a decorated veteran, retired Army lieutenant general, and former employee of the Defense POW/MIA Accounting Agency (DPAA), as the permanent CEO of the organization. Linnington inherited a nonprofit organization experiencing the effects of negative public relations. By September 2016, the WWP reduced its workforce by 15%, over 600 employees, and it estimated lost revenues of close to $100 million due to a 25% decrease in donations (Gardner, 2016b; Hrywna, 2016). As the WWP rehabilitates its image, Linnington has indicated the need for an increased focus on veteran mental health concerns, specifically post-traumatic stress and traumatic brain injuries, and for enhancing organizational transparency and accountability ("Investigation Inspires," 2016).

The Legacy of the American Legacy Foundation

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Fraud and embezzlement has moved beyond the corporate sector and infiltrated the nonprofit sector, according to Stephens and Flaherty (2013), who reported that between 2008 and 2012 more than 1,000 nonprofit organizations revealed losses of hundreds of millions of dollars to theft, fraud, embezzlement, and other illegal behaviors. This translates to nonprofit and religious organizations experiencing one sixth of all major embezzlements, second only to the financial services industry. In 2014, over 1.6 million registered nonprofits had $0.5 trillion in assets (not including the estimated 700,000 churches and other organizations not required to file with the IRS); this equates to approximately $100 billion/year in forgone tax revenue (GBQ, 2014). Since 2008, nonprofit organizations have been required to report diversions of more than $250,000 or those that exceed 5% of the annual gross on the Form 990 filed annually with the Internal Revenue Service (IRS). This public disclosure enables the public to more easily evaluate how nonprofits handle their finances. A list of nonprofits that have indicated on the Form 990 that they have diversions was compiled by GuideStar (a nonprofit watchdog organization) and the *Washington Post* (see "Millions Missing," 2013).

One nonprofit on the diversion list was the American Legacy Foundation (Legacy), based in Washington, DC. In 2011, in response to the question about diversion of funds on the IRS Form 990, Legacy officials answered yes, but provided only a minimal explanation, stating that they became aware of a diversion in excess of $250,000. Legacy officials indicated that the diversion was due to fraud committed by a former employee. Only subsequently was it revealed that the organization incurred an estimated $3.4 million loss.

Introduction

When the American Legacy Foundation (Legacy) officially opened its doors in 1999, it already controlled $1 billion in assets emanating from the November 1998 Master Settlement Agreement reached between attorney generals from 46 states, five U.S. territories, and the tobacco industry. Legacy's mission was dedicated to building a world where young people reject tobacco and where anyone can quit. As noted on the now defunct Legacy website, the foundation developed programs that address the health effects of tobacco use, especially among vulnerable populations disproportionately affected by the toll of tobacco, through grants, technical assistance and training, partnerships, youth activism, and counter-marketing and grassroots marketing campaigns. With revenues exceeding $320 million and annual expenditures of $50 million (Stephens & Flaherty, 2013), Legacy set about fulfilling this mission by publicizing the adverse effects of smoking through massive anti-tobacco campaigns. Perhaps the most visible of these efforts was the so-called Truth campaign and its controversial ads. For example, during the 2000 Olympics, Legacy launched a broadcast showing individuals emptying trucks of 1,200 body bags and dumping them outside the headquarters of Philip Morris in New York; the body bags represented the number of Americans who die each day because of tobacco use. The organization enjoyed early success when teen smoking started dropping, and Legacy was given much of the credit.

On its website, Legacy informed the public that "being an honest and dependable source of information is our bread and butter, because the minute we start bending and manipulating the truth, we're no better than the tobacco industry." Moreover, the organization put together a high-profile board with significant political wallop including Idaho Attorney General Lawrence Wasden (R), Missouri Governor Jay Nixon (D), Utah Governor Gary R. Herbert (R), Iowa Attorney General Tom Miller (D), former U.S. Secretary of Homeland Security Janet Napolitano, and Senator Thomas R. Carper (D-Del.; Stephens & Flaherty, 2013).

Key Issue: Fraud

In 2011, after 12 years of being a celebrated nonprofit, the following statement was found on Legacy's Form 990:

> In fiscal year 2011, Legacy became aware of an unauthorized diversion of assets in excess of $250,000 committed by a former employee . . . Foundation leadership notified both its board of directors and law enforcement, with whom the Foundation has cooperated fully in the ongoing investigation. A subsequent insurance claim was filed by Legacy and in fiscal year 2012, was successfully settled.

The employee in question was computer specialist Deen Sanwoola. Hired in 1999 shortly after Legacy began operations, Sanwoola was tasked with creating the IT department. Sanwoola quickly became a highly appreciated employee and valued colleague, and over the years he developed close personal ties to many of Legacy's leaders, including CFO Anthony T. O'Toole. "Everybody loved Deen," O'Toole once acknowledged (Stephens & Flaherty, 2013, Legacy's Big Loss section, para. 17).

The board acknowledged the importance of a strong IT apparatus for the organization to fulfill its mission. Because the agency had strong finances from the beginning, the board was willing to allocate significant resources to the new IT department for computers, monitors, and software. Much of this equipment was purchased from a single Maryland company, Xclusiv.

Apparently, there was a lack of internal financial controls, because the board and Legacy management granted Sanwoola the responsibilities for both ordering and recording the purchasing of electronic equipment. From 1999 to 2007, Sanwoola generated as many as 255 invoices for computer equipment sold to the foundation before he decided to leave Legacy. In 2007, Sanwoola moved to Nigeria where he operated Fun City, a gaming and entertainment center in Lagos. During his 8 years with Legacy, Sanwoola's actions appear to not have raised any red flags. He rose to the position of assistant vice president with a $180,000 compensation package, prior to the detection of the fraud.

In late 2007, an executive at Legacy approached the CFO, O'Toole, with concerns regarding computers inventoried as purchased, but not in the Legacy offices. O'Toole, a good friend of Sanwoola, whose compensation package totaled $568,000 in 2012, ignored the complaint without investigating and failed to inform the CEO or the board. Three years later, the same employee took his concerns to a staff person closer to CEO Cheryl Healton. Within days after the second complaint, Legacy hired forensic examiners to investigate and Healton notified the board. A concurrent internal investigation determined that fraud had indeed occurred and determined the amount to be $3.4 million. Legacy board members notified the Washington, DC, Attorney General's office.

The forensic audit detected the first signs of trouble starting almost immediately after Sanwoola's arrival in December 1999, when a computer processor and other equipment was purchased for more than $18,000, yet the auditors concluded that it should have retailed for less than half of that cost. Thereafter, both the number and size of purchases to the IT department continued to rise, peaking with 49 expenses recorded in 2006. The audit found that Legacy often paid many times the market price and in other cases made "phantom purchases" of computer equipment that never arrived. Of the 255 invoices generated by Sanwoola, two thirds of them were deemed to have been fraudulent, translating into $3.4 million.

Despite finding that millions of dollars were believed to be missing, the board and/or management kept the affair internal until the 2011 annual disclosure, signed by O'Toole, which appears to downplay the total loss by only identifying a fraud of more than $250,000. The disclosure also indicated that the organization had filed an insurance claim that had been "successfully settled," but the board never said anything regarding the size of the settlement nor whether it fell far short of the loss. Legacy commented that the absence of a total dollar figure in its public filing was the foundation's way of being restrained in describing its loss, in deference to the then-continuing federal investigation. Legacy general counsel, Ellen Vargyas, reported to the *Washington Post* that the organization "had no obligation to identify the full estimate of the loss" on the 2011 Form 990 or currently (Stephens & Flaherty, 2013, Disclosure section, para. 3). Additionally, she stressed that more information was in the foundation's 2012 Form 990 filing with the IRS. That filing included a reference to $1.3 million in miscellaneous revenue from an insurance settlement. The day after declining to reveal the amount of the loss to the *Washington Post*, Vargyas wrote in an e-mail that the loss estimate was $3,391,648.

The FBI visited Legacy in February 2012, but within weeks closed the investigation because, despite warnings, the leadership of Legacy had taken more than 3 years to report the missing computers and lacked reliable records of what it owned. The U.S. Attorney General's office for the District also suspended its case after citing that there would be not criminal prosecution related to the fraud. "Healton said she had expected the criminal case to clear the way to recover its money. But now there also will be no civil lawsuit seeking repayment," because "as with the criminal case, the statute of limitations has passed" (Stephens & Flaherty, 2013, Disclosure section, para. 10)

On October 30, 2012, O'Toole again signed a federal disclosure form for Legacy showing that it received more than $1 million from an unspecified insurance settlement. The form does not mention the $3.4 million loss. In a final comment to the *Washington Post*, CEO Healton declared, "No excuses. It's a terrible loss, and it shouldn't have happened. If we lost $3.4 million, that's $3.4 million that did not go to save lives" (Stephens & Flaherty, 2013, Disclosure section, para. 11).

American Legacy Foundation Rises Again

On September 8, 2015, Legacy changed its name to Truth Initiative (truthinitiative.org). Truth Initiative (n.d.) continues do the work of the American Legacy Foundation, striving toward "achieving a culture where all youth and young adults reject tobacco" (Our Mission section, para. 1). Truth Initiative concentrates its efforts in three areas: (1) Truth®, a national prevention counter-marketing campaign; (2) the Schroeder Institute for Tobacco Research and Policy Studies, which researches effective means to reduce the harms of tobacco, measures effectiveness of interventions, and identifies best practices for tobacco control; and (3) working with community partners to counter the influence of tobacco, especially within communities of color and low-income populations.

Instructor/Trainer Guide

Context and Theoretical Background

The Wounded Warrior Project (WWP) tragedy could have been avoided by understanding nonprofit governance in terms of separation between principals (board chair and members) and agents (CEOs; Fama & Jensen, 1983). Governance issues such as CEO and board relationships, board performance, leadership, and operations are frequently studied using two principal–agent theories: agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) and stewardship theory (Davis, Schoorman, & Donaldson, 1997; Sundarmurthy & Lewis, 2003). Both theories are based on a contractual relationship between principal and agent, but with agency theory each actor has different goals and interests. The principal delegates control to the agent yet is dependent on the agent to provide services and information on his or her behalf. Unfortunately, the agent may not always act in ways that are beneficial to the principal, creating information asymmetries, agent opportunism, and goal conflict (Eisenhardt, 1989). According to this theory, the perspectives of CEOs and the board members regarding effective governance diverge because of the conflicting roles, goals, and interests of principals and agents (Caers et al., 2006). Caers et al. (2006) noted that the application of agency theory to board–management relationships is complex and may be influenced by weak or strong board control, CEO power, information asymmetry, and the influence of the CEO on board elections and nominations, among other things. This divergence may have resulted in the WWP board members being distant from the CEO and contributed to a lack of oversight of the CEO and other top leadership actions, providing the opportunity for the agent to commit fraud.

Possibly, the CEO and the board operated in separate environments, one where the CEO accommodates the complexity of overseeing the operation of the nonprofit organization and another where the board members are removed from the day-to-day operations and interact primarily with other board members. Agency problems frequently occur in nonprofits in which a discrepancy exists between the objectives of those setting vision and those executing it (Du Bois et al., 2009).

If the WWP Board and CEO had adopted a stewardship theory approach, the outcome may have been different. Stewardship theory, which also addresses the principal–agent relationship, assumes that collaboration and trust (rather than control and distrust) exist between the principal (board members) and agent (executives) in part because of their high identification with the organization. Stewardship theory may be viewed two ways (Van Puyvelde, Caers, Du Bois, & Jegers, 2012): (a) agents will act in the best interest of the principal even if their interests diverge, because in doing so they will accomplish higher personal outcomes of achievement, affiliation, and self-actualization (Davis et al., 1997), or (b) the principal's and agent's goals are in fact perfectly aligned because of commonality of interests (Sundarmurthy & Lewis, 2003). In either case, stewardship theory suggests that the governance perspectives of CEOs and the board will mostly overlap because they have compatible or aligned goals. If the WWP Board and the top leadership were more in alignment, it is unlikely that the top leadership would have felt that they had the right to abuse the organization's funds.

In the case of the WWP, the board of directors had an apparent lack of knowledge of the executive leadership behaviors. This disconnect may be explained by (1) the failure of the board to educate themselves as to their roles and responsibilities, individually and collectively, as board members; (2) information asymmetry; and (3) CEO power (perceived or actual) over the board of directors. Scholarly and practitioner literature (e.g., Axelrod, 1994; Miller, 2002; also see the BoardSource website for many other resources) has converged on a set of suggested board member roles and responsibilities. These responsibilities apply to both the individual board members and the board as a collective. These roles and responsibilities include the evaluation and oversight of the CEO, the protection of assets, and the provision of financial control. The board should have ensured that new members were informed of their roles and responsibilities during the recruiting and orientation process.

Board members rely on the CEO to provide the information necessary to make informed decisions and provide adequate organizational oversight. When the CEO holds back information, this action challenges the board to uncover unknown discrepancies and issues. In the case of misuse of funds, board members should carefully examine the annual audit report and IRS Form 990. These actions would have enabled the board members to question the fraudulent use of the funds. During new board member orientation, the treasurer should teach those who are not familiar with reading financial documents how to do so. When an organization has a CEO who is perceived as powerful and competent, board members may become trusting and lazy with respect to CEO oversight, which provides the CEO the opportunity to engage in fraudulent behaviors. Brown and Guo (2010) used CEO tenure as a proxy for CEO power and found that boards for which CEOs have greater power were less likely to talk about their monitoring and oversight functions. Finally, when CEOs have too much influence on selecting new board members, the board may feel less able to confront the CEO on issues of concern.

Although it is important to distinguish between the CEO and the board because of the need to separate governance and management, CEO and board member behaviors often contribute to ambiguity, confusion, and conflict (Otto, 2003). Nonprofit board members tend to believe that their CEOs will not pursue interests of their own and act in ways aligned with the organizational mission in support of stewardship theory. According to agency theory, the possibility exists that the agent or CEO has a personal agenda and acts independently of the board. This independence may be exacerbated when the board provides weak CEO control and oversight (Miller, 2002). Conversely, boards that exert too much control or power may lead to misperceptions and distrust between the board and the CEO. The notion that the board is solely responsible for organizational governance may be too narrow and needs to be replaced with the idea that governance is a set of responsibilities and actions that emerge from multiple actors (Stone & Ostrower, 2007). This may result in a blurring of board and CEO boundaries contrary to the delineation of nonprofit governance regarding agency theory and the separation between the principals and the agents.

Suggestions for Classroom Instruction

The WWP and Legacy fiascos provide two primary teaching opportunities: governance and fraud. Governance issues of particular relevance are the lack of governance of the organization by the board of directors because of a failure to understand board member fiduciary duties and a poor understanding of individual and collective board member roles and responsibilities. The second topic focuses on fraud and the board members' lack of financial literacy. This section includes a discussion of the need for internal and external controls.

Governance

The role of the board of directors is to provide governance for the organization. Many definitions of governance exist, and Cornforth and Brown (2014) define it as "the systems and processes concerned with ensuring the overall direction, control, and accountability of the organization" (pp. 4–5). Activity 1 focuses on the fiduciary duties of board members. A clear understanding of the fiduciary responsibilities may have encouraged the WWP and Legacy board members to engage in CEO and financial oversight and voice concerns when needed.

Scholarly journals (e.g., Axelrod, 1994; Bernstein, Buse, & Slatten, 2015; Miller, 2002) and the practitioner literature (e.g., see the BoardSource website) identify suggested roles and responsibilities for board members individually and collectively (see Activity 2). The significance of board members understanding of their unique and distinct roles and responsibilities implies that deliberate action must be taken to explain and identify the nature of these functions. Specific practices, such as board orientation and board training, have been identified as contributing factors leading to high-quality board performance and organizational performance (Herman & Renz, 2000).

Governance models. Once students understand the board members' fiduciary duties and their roles and responsibilities, the stage is then set for a more advanced analysis of governance models and principal–agent theories. Carver's (2011) Policy Governance model is a board-centered model of governance based on assumptions of separation between the CEO and the board of directors. In this model, a clear line is drawn between the board's responsibility for policy making (as the "moral owners" of the organizations) and the executive's responsibility for implementation and day-to-day operations. The board's role is to establish stewardship through vision, mission, values, strategic planning, secure resources, defining clear roles and responsibilities, overseeing the articulation and documentation of board policies, and accountability to the stakeholders for organizational direction and performance.

A second governance model is Chait, Ryan, and Taylor's (2005) Governance as Leadership model that supposes the board is reactive to staff initiatives. Instead of focusing on organizational vision, the board is mired in managerial details and routine technical work, and the CEO is articulating the visions, beliefs, values, and cultures of the organization. The Governance as Leadership model is predicated on the board operating in the fiduciary (oversight), strategic (foresight), and generative (insight) modes of governance simultaneously. This model forces the board and CEO to work closely together on "what matters most."

The third governance model is based on the philosophy of "psychological centrality" (Herman & Heimovics, 2005), with the CEO leading the organization, but using a board-centered leadership style that is designed to support the board in meeting its governance responsibilities. In other words, the CEO is considered responsible for the organization's success or failure by taking a role that ensures "that the board fulfills their legal, organizational, and public roles" (Herman & Heimovics, 2005, p. 156). However, this does not imply that the CEO holds more formal responsibility or authority than the board, but that the CEO is perceived as responsible, even by board members. Herman and Heimovics (2005) concluded that CEOs who have developed these board-centered leadership skills are effective in their roles and also have hardworking, effective boards.

Governance theories. Although there are a number of governance theories, the principal–agent theories are most relevant to this case. A presentation of both agency and stewardship theory and their application to these cases highlights the ease in which rogue CEOs may act independently of the board and potentially destroy the organization (see Context and Theoretical Background section).

Fraud and Financial Literacy

The WWP and Legacy cases highlight the need for board and organizational fiscal responsibility. The board must, according to the duty of care, provide financial oversight and protect the organization's assets and reduce the potential for fraud. Amazingly, nonprofit board members often lack even a modicum of financial literacy. Board members should have the ability to read the essential financial documents, including the statement of cash flow, income statement or statement of activities, statement of financial position or balance sheet, budgets (including the cash budget), and variance reports. The board treasurer or the organization's chief financial officer should take responsibility for educating board members who lack basic financial literacy skills. With, according to the Harvard University Hauser Center, $40 billion lost to fraud annually in the nonprofit sector, students should explore the Fraud Triangle (see Association of Certified Fraud Examiners, n.d.). Activity 3 focuses on the Fraud Triangle, which highlights how fraud occurs when individuals experience financial pressures, can rationalize the act, and have an opportunity.

Internal controls. A nonprofit organization's first line of defense against fraud is the establishment of internal controls. Have the students watch the following videos (Ulvog, 2011a, 2011b) in class or as an assignment: *Once Upon Internal Control Part 1* (see Ulvog, 2011a) and *Part 2* (see Ulvog, 2011b). The Committee of Sponsoring Organizations of the Treadway Commission (2013) divides internal controls into five components: control environment, risk assessment, internal control activities, information and communication, and monitoring.

Control Environment
1. Demonstrate commitment to integrity and ethical values
2. Exercise oversight responsibility
3. Establish structure, authority, and responsibility
4. Demonstrate commitment to competence
5. Enforce accountability

Risk Assessment
6. Specify suitable objectives
7. Identify and analyze risk
8. Assess fraud risk
9. Identify and analyze significant change

Internal Control Activities
10. Select and develop control activities
11. Select and develop general controls over technology
12. Deploy through policies and procedures

Information and Communication
13. Use relevant information
14. Communicate internally
15. Communicate externally

Monitoring
16. Conduct ongoing and/or separate evaluations
17. Evaluate and communicate deficiencies

The idea behind organizations employing these policies, practices, and procedures is to achieve the following objectives:

- to safeguard assets of the firm,
- to ensure accuracy and reliability of accounting records and information,
- to promote efficiency of the firm's operations, and
- to measure compliance with management's prescribed policies and procedures.

Discussion Questions

1. What happened? Was there dishonesty present—embezzlement, theft, diversion of funds, nepotism, partiality, abuse of trust, lying, self-serving misspending, or just plain incompetence?
2. Now that the organization has been exposed for fraudulent behavior, with whom did the "fault" lie? Is it with the staff, CEO, board, funders, or other individuals or groups? Or was the "fault" embedded in the very structure and setup of the organization as a whole? Was it due to a failure of imagination, planning, implementation, management, leadership, or accountability? Was more than one kind of fault apparent or were different faults the responsibility of different actors?
3. What is the responsibility of the board of directors in this fraud? What actions should the board now take? What actions can the board take to prevent this type

of fraud from happening again? At what stage in the case might intervention have prevented the fraud? Who should have identified the problems?

4. What legal duties do board members need to abide by? How would knowledge of these duties potentially have eliminated the opportunity for fraud?
5. What are the board members' roles and responsibilities, both individually and collectively? How would knowing these help the board members potentially avoid the fraud?
6. What are internal controls and how could they have been utilized to prevent fraud in this case?
7. The IRS may levy intermediate sanctions against board members. What are these sanctions? When can they be levied? Do you think that the board members should have received these sanctions? What should external regulatory authorities have done? Do laws and processes that apply to the nonprofit sector need reforming in light of this case?
8. Many other nonprofit organizations have had serious public relations issues and have been investigated by Senator Grassley and continued to raise money and serve their mission. An example is the American Red Cross. How have the WWP and Legacy continued to survive?

Questions Particular to the WWP

1. At the time the WWP crisis was exposed, reporters noted that the organization had $250 million in reserves. The 2014 budget was $330 million. Do you agree or disagree with the reporters that having this amount in reserves is problematic? Why or why not? How much reserves are recommended for nonprofit organizations? Why do you think this amount is suggested?
2. What does this case teach us about the power dynamics that existed in the WWP or between the board of directors and the senior leadership prior to March 9, 2016? A follow-up question would be, who in the WWP used power to influence the governance process and how was it deployed? Was there an obvious power struggle between the CEO and the board of directors?

Student/Training-Participant Activities

Activity 1: Duties of Care, Loyalty, and Obedience

Tell the story of the Sibley Hospital Case (e.g., Worth, 2014, pp. 78–79). Introduce the duties of care, loyalty, and obedience. Write on the board each of the three board duties and ask the students to identify from the following list (from Worth, 2014) which activities are associated with each of the three duties:

- Paying attention
- Complying with the law (federal, state, and local)
- Exercising due diligence in monitoring the organization's finances
- Board members not using their board position to enhance their own business or personal interests
- Exercising common sense and not losing organizational assets due to recklessness, indifference, or failure to seek appropriate advice
- Decisions made are consistent with the organization's mission

- Attending board meetings
- Assuring that business done with board members' companies are paid appropriately for the goods and services received
- The organization's founding documents and charter drive decision making
- Reading board materials
- Not accepting unreasonable benefit from the organization's funds
- Bylaws of the organization are abided by
- Not using organization funds to pay unreasonable amounts to other board members or executives
- Making independent decisions
- Putting the organization above self
- Voting without understanding the issues

Activity 2: Board Roles and Responsibilities

Ask the students to identify what they think are the roles and responsibilities of an individual board member. Record their responses on the board. Ask students to identify the collective roles and responsibilities of the board. Record these responses. Prompt the students to identify the accepted responsibilities (Bernstein et al., 2015; also see the BoardSource website). Compare where these two lists differ and overlap. Use this discussion to highlight the significance of board training.

Activity 3: The Fraud Triangle

Present the Fraud Triangle (see Figure 1). Define fraud (e.g., the intentional deception, misappropriation of assets, manipulation of financial information with the intent to deceive).

Figure 1. Fraud Triangle. Image from "What Is Fraud," by Association of Certified Fraud Examiners, n.d. (http://www.acfe.com/fraud-101.aspx).

1. Give students time to look at "The 10 Worst Corporate Accounting Scandals of All Time" (see Accounting Degree Review, n.d.).
2. Present the following concepts:
    - **Fraudulent Statements:** misstating financial statements in a way that benefits the perpetrator

- **Corruption:** an executive, manager, or employee in collusion with an outsider (bribery, illegal gratuity, conflicts of interest, extortion)
- **Asset Misappropriation:** assets diverted in a way that benefits the perpetrator

3. Ask students to identify the types of misappropriation (e.g., skimming, cash larceny, credit card abuse, fictitious vendor schemes, check tampering, theft of cash, payroll schemes, expense reimbursement, conflicts of interest, and misappropriation of non-cash assets).
4. Brainstorm the pressures that promote fraud (e.g., drug, gambling or shopping addictions, outstanding loans or other debts, marital affairs [e.g., the United Way scandal, see Glaser, 1994], declining revenues).
5. Examining fraud may create the opportunity for a lively discussion as students begin to think about situations they have personally experienced when they resisted the temptation to engage in fraud and the frequency of such opportunities.

Activity 4: Internal Controls

It is 2014 and you are the board chair of WWP or Legacy. The board has voted to keep $1,000 in cash in the office to meet incidental cash requirements of under $100 per incident. An example is to provide cash for a quick trip to Office Depot to buy computer paper. You know that you need to implement internal controls on the cash so that it is not misappropriated. Watch NovellChalkTalk's (2010) video on the separation of duties. For each of the internal controls listed below, describe what measures you would put in place to protect the cash:

- Establish responsibilities
- Maintain adequate records
- Double signature, authorizations, and backup documents
- Supervision
- Segregation of duties
- Control access
- Independent verification of processes and records
- Fixed asset inventories
- Automated controls
- Background checks
- Audits and board-level oversight
- Encourage whistleblowers
- Strong compliance program
- Self-audits

Activity 5: Internal Controls

Read and discuss the *Nonprofit Quarterly* article by Cohen (2013). This article puts a different perspective on the *Washington Post* investigation into fraud within the nonprofit sector.

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