



PPWG: NONPROFIT BEST PRACTICES AND PRINCIPLES

Ethics Review and Evaluation

PPWVG is a 501(c)(3) Corporation

- What does that mean?
- An entity, that is organized and operated exclusively for purposes set forth in section 501(c)(3) of the IRS Code. These organizations may not participate in campaign activities for or against political candidates, may not attempt to influence legislation, and none of their earnings can accrue to a private shareholder or individual. Meeting these standards allows the organizations to obtain federal tax-exempt status and to receive tax-deductible contributions.

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Board of Directors Responsibilities

- The Board of Directors is the governing body for the 501(c)(3) corporation, and has 4 general responsibilities:
 - 1) Setting organizational policy
 - 2) Monitoring the corporation's operations
 - 3) Serving as public figures for the corporation
 - 4) Fulfilling other Board duties

Setting Organizational Policy

- 1) Creating or updating the mission and vision statements.
- 2) Determining the organization's programs and services.
- 3) Approving strategic plans/procedures.

Monitoring the Corporation's Operations



- 1) Approving the annual budget, annual report, etc.
- 2) Approving major contracts and grants.
- 3) Soliciting and reviewing program evaluations.
- 4) Troubleshooting as necessary.

Serving As Public Figures for the Corporation

- 1) Fundraising, by directly donating to the non-profit and/or soliciting donations from others.
- 2) Advocating for the organization.
- 3) Representing the organization in a positive light/protecting the organization's reputation.

Fulfilling Other Board Responsibilities

- 1) Documenting policies and decisions to create an organizational memory.
- 2) Preparing for and attending board meetings.
- 3) Researching and discussing issues before decisions are made.
- 4) Replacing and orienting board members when a vacancy arises.
- 5) Working with the organization in a supportive manner even when outvoted on a proposition or issue.

LEGAL RESPONSIBILITIES

- The Board of Directors of a 501(c)(3) corporation also has several legal responsibilities called **Duties**.
- These are governed by state and federal statute and must be adhered to.
- *(CRS § 7-128-401)*

Duty of Care

- Exercise responsibilities in good faith and with diligence, attention, care, and skill, thus carrying out the purposes and mission of the nonprofit
- Comply with federal and state law
- Complete required filings, and
- Comply with the organization's governing documents (articles of incorporation, bylaws, and standing rules)
- This includes both decision making and oversight responsibilities, and is fulfilled by such things as attending board meetings regularly, entering discussions, reading minutes, learning about the organization's programs, maintaining a careful oversight of finances, and questioning unclear or troubling activity

Duty of Loyalty



- A nonprofit director must meet the duty of loyalty by placing the interests of the organization before his or her private interests and avoiding the use of organizational opportunities for personal gain.

Duty of Obedience



- A nonprofit director must meet the duty of obedience by acting in accordance with the organization's mission statement.

Duty of Recusal

- A nonprofit director must stand aside when there is a conflict of interest

Board Conflicts (Healthy)

- Conflict is healthy if dealt with directly but can become destructive if allowed to fester.
- Conflict can be helpful to an organization when it leads to a better understanding of the perspectives of others.
- Conflict is beneficial when it leads to the development of solutions to problems that involve input from everyone.
- Conflict that leads to consensus is key to the organization's sustainability and growth
- Conflict can help Boards clarify important issues and strategies.

Board Conflicts (Destructive)

- Conflicts can become destructive when they become a personal attack on another individual or individuals.
- Conflicts can become destructive when they detract from the important issues at hand.
- Conflicts can become destructive when they undermine board and member morale and lead to greater differences rather than fostering improved team building.

Most Common Sources of Conflict

- ❑ Poor communication
- ❑ A desire for control or power on the part of one or more members
- ❑ Lack of clarity as to the role and responsibilities of the Board
- ❑ Lack of clear cut standards of behavior for Board members.
- ❑ Ineffectual leadership

Strategies for Conflict Resolution

- Clarification as to the roles and responsibilities of the board- this can be accomplished through a thorough board orientation and job descriptions
- Selection of an effective board chair who will be attuned to conflict and will address it directly and objectively
- Job descriptions for Board members
- Establish standards of behavior for the Board (i.e., Ethics Policy)
- Address conflict head on when it occurs – remind members that disagreement and open dialogue are necessary and healthy when done with respect and honesty
- Foster sound interpersonal communication
- View conflict as a “win win” and opportunity for growth

Colorado Nonprofit Association Best Practices and Principles

- CNA strongly recommends that every Colorado 501(c)(3) construct and implement a Code of Ethics for its Board members.
- CNA strongly recommends that every Colorado 501(c)(3) construct and adopt a Conflict of Interest Policy
- The IRS is currently asking for both of the above on some of its forms for 501(c)(3)s

Definition of Ethics

- Ethics are written and unwritten codes of principles and values that govern our decision making and subsequent behaviors.

Code of Ethics

A written Code of Ethics is important because it:

- Guides a nonprofit organization's decision making and activities, as well as the behavior of its Board members
- Provides Board members with guidelines for making ethical choices in the conduct of their work on behalf of the organization
- Ensures honesty, integrity, and fair practices which in turn create a solid foundation that earns trust
- When board members of a nonprofit adopt a code of ethics, they are expressing their commitment to ethical behavior.

Six Step Ethics Test for Decision Making

- Is my decision a truthful one?
- Is my decision fair to everyone affected?
- Will it benefit and strengthen the organization?
- Is my decision beneficial to all parties who have a vested interest in the outcome?
- Would I feel comfortable with transparency and public knowledge of my actions and decisions?
- Do I have any actual or potential conflicts of interest?

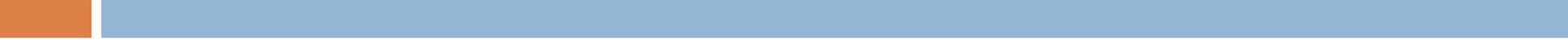
Conflicts of Interest

- The recently revised IRS Form 990 includes several questions focusing on accountability and transparency, such as questions about the composition of the board of directors, and questions specifically designed to elicit whether the organization has a written conflict of interest policy, procedures for managing conflicts, a whistleblower protection policy, and a document retention policy.

How does a nonprofit safeguard against organizational conflict of interest?

- When the personal or professional concerns of a board member affect his or her ability to put the welfare of the organization before personal benefit, conflict of interest exists.
- Nonprofit board members are likely to be affiliated with many organizations in their communities, both on a professional and a personal basis, so it is not unusual for actual or potential conflict of interest to arise

Why be concerned about conflicts of interest?



- Board members have a legal responsibility to assure the prudent management of an organization's resources.
- Board members can be held legally liable for conflict of interest because it constitutes a breach of their fiduciary responsibility.

Does conflict of interest involve only financial accountability?

- No. Conflict of interest relates broadly to ethical behavior, which includes not just legal issues but considerations in every aspect of governance.
- Conflict of interest is important in: 1) obeying the law; 2) when decisions where the right action is clear, but one is tempted to take a different course; and 3) in making decisions that require a choice among competing options.
- Number 3 above can pose especially difficult ethical dilemmas for nonprofit board members.

What can we do to prevent conflict-of-interest situations?

- Self monitoring
- Create a carefully written conflict-of-interest policy based on the needs and circumstances of the organization
- Ask each Board member to sign a conflict of interest policy.
- A conflict of interest policy should be given to each new Board member and reviewed annually by all Board members.

What should be included in a conflict-of-interest policy?

- FULL DISCLOSURE.
Board members in decision-making roles should make known their connections with other organizations or individuals that could lead to a conflict of interest. This information should be provided annually.
- BOARD MEMBER ABSTENTION FROM DISCUSSION AND VOTING.
Board members who have an actual or potential conflict of interest should not participate in discussions or vote on matters affecting transactions between the organization and the other group(s) or individuals.
- ABSTENTION FROM DECISION-MAKING.
Board members who have an actual or potential conflict should not be substantively involved in decision-making affecting any transactions that may occur

What are some examples of actual and potential conflict of interest?

- A Board member is a member of several organizations having the same type of interests and finds herself in the position of voting on a topic that will affect the organization upon whose Board she serves. (Duty of Loyalty)
- A Board member votes on matters that could adversely affect the organization without disclosing that the vote would benefit another organization of which the Board member is a member.
- A Board member contracts with a personal friend for services to the organization without disclosing the relationship to the Board for prior discussion and/or approval.
- What are some others that could arise? Have any of these occurred with PPWG?

Importance of a conflict of interest policy

- The key for nonprofit boards is not to try to avoid all possible conflict-of-interest situations, but to identify and follow a process for handling them effectively.
- How an organization manages conflicts of interest and assures open and honest deliberation, affects all aspects of its operations.
- Having a clear conflict of interest policy is critical to making good decisions, avoiding legal problems and remaining focused on the organization's mission.

Resources

- <http://www.suite101.com/nonprofitmanagement>
- http://business.lovetoknow.com/wiki/A_Definition_for_Business_Ethics
- <http://www.boardsource.org>
- The Colorado Nonprofit Association
- The National Nonprofit Association