

Nonprofit Risk Management Center
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Ethics and Conflict of Interest Policies

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presented by
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Definition of Ethics

- Decisions, choices, and actions that reflect and enact our values;
- Guiding philosophy;
- Set of principles or values.

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Code of Ethics

- Purpose – to convey...
 - organizational values,
 - commitment to standards, and
 - a set of ideals.
- Impact

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Common provisions in Codes of Ethics

- Employment practices
- Public information/communications
- Relationships with vendors or clients
- Environmental issues
- Ethical management practices
- Conflicts of interest policies

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What Makes a Conflict of Interest?

- position of trust
- required to exercise judgment
- interests or obligations that might interfere with the exercise of judgment
- required to either avoid or openly acknowledge the conflict

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Conflicts Are Not Just About Boards

- Staff
 - duty of loyalty
 - outside activities
- Volunteers

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Appearance of Conflict

- Often as damaging as a true conflict
- Assessment of whether a true conflict exists
- Encourage disclosure of concerns about an appearance of a conflict - even if it's not a "real" conflict.

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Recognizing Conflicts

- Actual conflict
 - Operations/Management
 - Business related
 - Non-business related
 - Personal
 - Business related
 - Non-business related
- Appearance of a conflict

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Risks from conflicts

- Loss of public and donor confidence
- Damage to employee morale
- Damage to reputation and good will
- Loss of tax-exempt status
- Board member alienation
- Surprise
- An insider receives inappropriate financial benefit

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Managing Conflicts

- Recognition
- Management
- Documentation
- Education and training

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Should all conflicts be avoided?

- Impossible to avoid all conflicts
- Requirement of full disclosure and the nonprofit's needs are met
- Avoiding a conflict might have a net negative result for the nonprofit

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Cultivating a Culture of Integrity

- A Code of Ethics/Code of Conduct
- A written conflicts policy that is communicated and enforced
- At meetings develop a culture where discussions are open, honest and safe – no personal accusations

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Impact on risk of fraud

- Extent of risk for nonprofits
 - 29.3% - Corruption (bribes, conflict of interest)
 - 28.6% - Billing frauds
 - 28.6 - Expense Reimbursements
 - 24.5% - Check tampering
- Managing the risks
 - Ethics policy
 - Internal controls

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Managing Conflicts

- Require disclosure by everyone
- Actively assist board members in recognizing conflicts
- Discuss conflicts - Determine who participates in the discussion
- Limit voting to non-interested directors
- Document all steps taken

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Conflict Policy Provisions

- Reporting conflicts
 - Executive Director
 - Chair
 - Compliance officer
 - Audit Committee
- Impact of not reporting

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Disclosure Statements

- Annually circulate
- Report all conflicting interests
- Use of information
- Impact of process

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Managing Awareness

- Publish the conflict policy
- Document decisions
- Revise as needed

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Other resources from the Center

Pillars of Accountability:
A Risk Management Guide for Nonprofit Boards

Ready or Not:
A Risk Management Guide for Nonprofit Executives

New Software Tool:
My Risk Management Policies
www.myriskmanagementpolicies.org

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Next month's Webinar
April 7, 2010 2 p.m. eastern

Risk Management, Budgeting and Forecasting

This webinar will offer a risk management approach to budgeting and forecasting, highlighting practical strategies to position both activities as assets to the overall risk management program.

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Any questions?

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