Ethics and Conflict of Interest Policies

March 3, 2010 2 p.m. eastern

presented by

Carlye Christianson
Senior Counsel and Director of Special Projects
carlye@nonprofitrisk.org

Definition of Ethics

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

Code of Ethics

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

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

Conflicts Are Not Just About Boards

- Staff
  - duty of loyalty
  - outside activities
- Volunteers
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.

Recognizing Conflicts

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

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
Managing Conflicts

• Recognition
• Management
• Documentation
• Education and training

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

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
Impact on risk of fraud

- Extent of risk for nonprofits
  - 29.3% – Corruption (bribe, conflict of interest)
  - 28.6% – Billing frauds
  - 28.6 – Expense Reimbursements
  - 24.5% – Check tampering

- Managing the risks
  - Ethics policy
  - Internal controls

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

Conflict Policy Provisions

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

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

Managing Awareness

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

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
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.

Any questions?
Carlye Christianson
Senior Counsel and Director of Special Projects
carlye@nonprofitrisk.org
202 785 3891