

## Conflict of Interest Introduction

Since many family foundations want their Board and staff to be active participants in their communities, situations may arise that involve real or apparent conflicts of interest.

Conflict of interest exists when:

- Foundation board members serve as board members of grant applicant organizations
- Immediate family members of foundation board members are serving as board members of applicant organizations
- Foundation board members or their immediate family members are employed by or doing business with applicant organizations

Conflict of interest situations do not need to be avoided. They simply must be handled responsibly.

Why a foundation should avoid conflicts of interest:

- They can create substantial legal liability if it's a violation of the law.
- They carry the risk of negative public perception, which can reflect on the charitable sector as a whole at a time when congress is looking closely at foundation activities.
- They can compromise the decision-making process and in some cases prevent the board from acting in the best interest of the foundation or public.

Conflict of interest is handled responsibly when:

- The foundation is given notification by its board and staff members of any anticipated potential conflict of interest situations that may arise in the foundation's normal course of business.
- The board or staff member in conflict, or perceived conflict, discloses his or her situation to the other members of the decision-making body, prior to deliberation by the body of the issue in question.
- The board or staff member in the conflict, or perceived conflict, situation abstains from deliberation and voting on the issue in question. The abstention should be noted in the minutes of the meeting in which it takes place.

Questions a foundation should ask itself about a conflict.

1. Is the transaction a conflict of interest or could it be perceived as such by others?
2. Is it prohibited by the self-dealing rules under the IRS?
3. Is the transaction unfair to the foundation?
4. How would the transaction look on the front page of the newspaper?
5. Has the foundation followed its conflict-of-interest policy and documented that?

A Conflict of Interest Policy assists the foundation in educating its trustees and staff about their responsibilities and allows for full disclosure of such conflicts of interest situations responsibly. Each trustee should sign the policy document and the board should review the policy annually. In the attached document you'll find further guidance on this area along with a sample conflict-of-interest policy and questionnaire for trustees.

## **Conflict of Interest Policy**

The Sample Foundation depends upon a governing board and staff whose members give freely of their time for the benefit of the community, and recognizes that because of the varied interests and involvements of its members, board service may at times result in situations involving real or apparent conflicts of interest. Believing that service should not be rendered impossible solely by reason of these conflicts, the matter shall be handled through full disclosure of such interests and noninvolvement in any decision in which conflict is in question. The foregoing requirements shall not be construed so as to prevent a board or staff member from briefly stating his or her position on the matter, nor from answering pertinent questions of other members since his or her knowledge may be of great assistance.

To constructively participate in the governance process while handling conflict of interest situations responsibly, each board member, staff and committee member will annually file a conflict of interest survey with the President of the foundation, disclose conflict situations to other board members prior to deliberation of the issue in question, and abstain from voting or using his or her personal influence on the issue in question. Minutes of the meeting will reflect the abstention from voting.

### **Annual Conflict of Interest Disclosure Form**

Please disclose below any relationships, positions or circumstances in which you are involved that could contribute to a conflict of interest. Such relationships, positions or circumstances might include service as a trustee or consultant to a nonprofit organization, or ownership of a business that might provide goods or services to the foundation or a grantee.

List the names of any affiliations in which you or a close relative (parent, sibling, child, grandchild and any spouses thereof) may have a potential self-dealing or conflict of loyalty situation. Please include any position held within that entity. (Back of survey may be used.)

Name: \_\_\_\_\_

Present Occupation: \_\_\_\_\_

Title \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_