



The Accountable Board

The board sits on top of the hierarchical pyramid of an organization, and in that position bears the responsibility for the health and secure future of the nonprofit. This is a demanding task! The board not only acts as the fiduciary on behalf of the organization's stakeholders, but also must ensure compliance with laws and ethical integrity throughout the organization. To meet these daunting expectations, individual board members must do their share and accept and deliver on their personal commitments. Board members must reconcile demands for accountability both as a collective group and as individuals.

What is Accountability?

Accountability exists between one entity with a responsibility and another entity that has a legitimate right to expect specific results. In a group setting, accountability is a collective responsibility. The group must meet its stakeholders' justified expectations.

Board Accountability

An accountable board successfully links its role and duties, expectations, promises, and delivery. It assumes its responsibility and ultimate liability for the organization.

Stakeholders

As the legal representative of a nonprofit, the board must first be clear about to whom it is accountable. Public charity boards are first and foremost accountable to funders and private contributors. Additionally, every organization must be concerned about the legitimate needs of its staff.

Stewardship

Working closely with the chief executive, an accountable board must ensure that the organization meets the following three expectations:

Legal compliance – The board ensures that the organization meets all compliance requirements, obeys the law, and follows its own legal documents. The organization is mission-focused.

Integrity – The board ensures the integrity of the organization, that rigorous ethical standards serve as incontestable guidelines for the board and management. An appropriate balance between transparency and confidentiality must exist.

Efficiency – The board ensures that the resources entrusted under its care are not wasted and that the organization functions efficiently. Operational efficiency saves money, limits unnecessary expenses, leverages staff skills and contributions, and institutes alignment between all activities and efforts in the organization. As a result, more donor money reaches the intended purpose.

Individual Board Member Accountability

Individual board members accept their personal role in-the board's collective responsibility.

To meet their overall expectations, individual board members regularly attend meetings, come prepared, and actively participate in deliberations. To meet ethical expectations, board members should know right from wrong and disclose any potential and actual conflicts of interest. To be accountable, after accepting specific assignments, board members keep their promises. If their peers are relying on their commitment, they need to deliver results.

As part of a group structure, a board member 'owns' the performance of the full board or a committee and ensures that the team remains accountable as a body. A board member does not disregard malfunctions and performance concerns but addresses them openly. Every team member must keep fellow members accountable.

Mechanism To Ensure Accountability

Accountability is an organization-wide concept that becomes an attitude and an integral part of behavior as long as it begins with the top: The board and senior management must set the standards by personal example and help frame a systematic culture. The following mechanisms can help:

Clear goals – Without goals and stated expectations, the organization lacks direction and board and staff will function in perpetual misalignment. It is impossible to be accountable without being able to compare objectives with achievements. Accountability assumes a solid link between knowing what to aim for and accomplishing an agreed target.

Monitoring – Continuous monitoring and acceptance of feedback are keys to improvement and an essential part of accountable behavior. Performance evaluations and self-assessments are review mechanisms at individual levels. Targeted performance indicators at the organizational level and comments from the constituency will also help the board integrate improvements in its future directives.

Transparency – Openly sharing the accomplishments of the organization with the outside world leads to transparency of operations. Keeping donors informed of how their money has been dispensed is responsible reporting. Disclosing processes for decision making eliminates perception of conflicts of interest. Transparency impacts the public's trust and its willingness to continue its support – the strongest incentive there is for organizational accountability.



Role of the Board of Trustees

Role of the Board: Ultimate responsibility for the organization rests with the board of trustees. The responsibility is recognized by state and federal laws; legally the board is responsible for the activities and fiscal integrity of the organization. The appropriate role of the board is to set policies which will ensure that it fulfills its legal, financial, operational and professional responsibilities to the donors and grant recipients.

Term: Board members serve for 3 years

Responsibility: As a board member you are required to do the following:

- Be committed to the mission of the TREE Fund.
- Understand and observe the respective roles and responsibilities of the board and President/CEO.
- Recognize the role of staff in carrying out board directives and be careful not to interfere with the functions delegated to staff.
- Ensure the needs of the donors and grant recipients are met.
- Approve and evaluate programs and activities of the organization.
- Plan the future direction of the organization.
- Establish board policies to guide the operation of the organization.
- Set financial objectives and monitor their achievement – the board's fiduciary responsibility is to protect/ensure the organization's financial status.
- Recommend changes to the Trust Agreement.
- Attend all board meetings and committee meetings. Come to meetings well prepared and participate actively.
- Act and vote on behalf of the board mission and long-term interests. Abide by the vote of the majority.
- Support the decisions and policies of the board in discussion outside the boardroom.
- Take advantage of opportunities to become more educated about the TREE Fund.
- Enhance external communications by bringing important outside views to the board and, in turn, communicating board and TREE Fund policies to key external constituencies.
- Avoid conflicts of interest.

- Respect the confidentiality of board deliberations and information provided to the board.
- Engage in board self-evaluation.
- Serve on a standing committee.
- Participate in raising funds, by giving a personal gift annually, getting gifts through activities including but not limited to:
 - Being a champion of TREE Fund mission and programs
 - Cultivating current donors
 - Identifying prospective donors, and
 - Supporting the Tour des Trees and Raise Your Hand for Research through:
 - Event Sponsorships (purchasing or securing)
 - Underwriting (purchasing or securing)
 - Giving through a Tour Rider's campaign
 - Donating auction items
 - Selling raffle tickets
 - Purchasing auction registration(s)



Responsibilities of Individual Trustees

- (a) Each Trustee is expected to take personal responsibility for assisting in the execution of the Board's principal fiduciary and legal responsibilities.
- (b) Each Trustee is expected to actively serve on at least one standing and/or ad-hoc committee.
- (c) Each Trustee is expected to be present at all Board meetings (3 per year) and meetings of Committees on which he or she serves. Each Trustee can expect to spend the equivalent of one day (8 hours) a month on Board activities beyond scheduled Board meetings.
- (d) Each Trustee is expected to spend the necessary time to properly discharge his or her responsibilities as a Trustee, including reviewing any written materials provided to the Board or Committee in advance of Board or Committee meetings, participate on committee conference calls, and advise the President/CEO as requested.
- (e) The Board and each Board Committee shall conduct an annual self-assessment to determine whether the Board, its Committees and the individual Trustees are functioning effectively. The Governance Committee is responsible for developing Board and Committee self-assessments and implementing the process.
- (f) Each Trustee will actively secure resources by either 'giving or getting' sponsorships, contributions, auction items, in-kind services or any combination of the above.
- (g) Each Trustee is responsible for the financial success of the TREE Fund. Each Trustee shall make a personal financial gift annually to the best of their ability.
- (h) Each Trustee will assist in nominating officers and finding new Board candidates who will fill the needs of the TREE Fund Board as identified by the Governance Committee. Each Trustee may be called upon to assist in new Board member orientation.

STANDARDS FOR CHARITY ACCOUNTABILITY

PREFACE

The BBB Wise Giving Alliance *Standards for Charity Accountability* were developed to assist donors in making sound giving decisions and to foster public confidence in charitable organizations. The standards seek to encourage fair and honest solicitation practices, to promote ethical conduct by charitable organizations and to advance support of philanthropy.

These standards replace the separate standards of the National Charities Information Bureau and the Council of Better Business Bureaus' Foundation and its Philanthropic Advisory Service that were in place at the time the organizations merged.

The *Standards for Charity Accountability* were developed with professional and technical assistance from representatives of small and large charitable organizations, the accounting profession, grant making foundations, corporate contributions officers, regulatory agencies, research organizations and the Better Business Bureau system. The BBB Wise Giving Alliance also commissioned significant independent research on donor expectations to ensure that the views of the general public were reflected in the standards.

The generous support of the Charles Stewart Mott Foundation, the Surdna Foundation and Sony Corporation of America helped underwrite the development of these standards and related research.

Organizations that comply with these accountability standards have provided documentation that they meet basic standards:

- ♦ In how they govern their organization,
- ♦ In the ways they spend their money,
- ♦ In the truthfulness of their representations, and
- ♦ In their willingness to disclose basic information to the public.

These standards apply to publicly soliciting organizations that are tax exempt under section 501(c)(3) of the Internal Revenue Code and to other organizations conducting charitable solicitations. The standards are not intended to apply to private foundations, as they do not solicit contributions from the public.

The overarching principle of the BBB Wise Giving Alliance *Standards for Charity Accountability* is full disclosure to donors and potential donors at the time of solicitation and thereafter. However, where indicated, the standards recommend ethical practices beyond the act of disclosure in order to ensure public confidence and encourage giving. As voluntary standards, they also go beyond the requirements of local, state and federal laws and regulations.

In addition to the specific areas addressed in the standards, the BBB Wise Giving Alliance encourages charitable organizations to adopt the following management practices to further the cause of charitable accountability.

- ♦ Initiate a policy promoting pluralism and diversity within the organization's board, staff and constituencies. While organizations vary widely in their ability to demonstrate pluralism and diversity, every organization should establish a policy, consistent with its mission statement, that fosters such inclusiveness.
- ♦ Ensure adherence to all applicable local, state and federal laws and regulations including submission of financial information.
- ♦ Maintain an organizational adherence to the specific standards cited below. The BBB Wise Giving Alliance also encourages charities to maintain an organizational commitment to accountability that transcends specific standards and places a priority on openness and ethical behavior in the charity's programs and activities.

GOVERNANCE AND OVERSIGHT

The governing board has the ultimate oversight authority for any charitable organization. This section of the standards seeks to ensure that the volunteer board is active, independent and free of self-dealing. To meet these standards, the organization shall have:

1. A board of directors that provides adequate oversight of the charity's operations and its staff. Indication of adequate oversight includes, but is not limited to, regularly scheduled appraisals of the CEO's performance, evidence of disbursement controls such as board approval of the budget and fund raising practices, establishment of a conflict of interest policy and establishment of accounting procedures sufficient to safeguard charity finances.

2. A board of directors with a minimum of five voting members.

3. A minimum of three evenly spaced meetings per year of the full governing body with a majority in attendance, with face-to-face participation. A conference call of the full board can substitute for one of the three meetings of the governing body. For all meetings, alternative modes of participation are acceptable for those with physical disabilities.

4. Not more than one or 10% (whichever is greater) directly or indirectly compensated person(s) serving as voting member(s) of the board. Compensated members shall not serve as the board's chair or treasurer.

5. No transaction(s) in which any board or staff members have material conflicting interests with the charity resulting from any relationship or business affiliation.

Factors that will be considered when concluding whether or not a related party transaction constitutes a conflict of interest and if such a conflict is material, include, but are not limited to: any arm's length procedures established by the charity; the size of the transaction relative to like expenses of the charity; whether the interested party participated in the board vote on the transaction; if competitive bids were sought and whether the transaction is one-time, recurring or ongoing.

MEASURING EFFECTIVENESS

An organization should regularly assess its effectiveness in achieving its mission. This section seeks to ensure that an organization has defined, measurable goals and objectives in place and a defined process in place to evaluate the success and impact of its program(s) in fulfilling the goals and objectives of the organization and that also identifies ways to address any deficiencies. To meet these standards, a charitable organization shall:

6. Have a board policy of assessing, no less than every two years, the organization's performance and effectiveness and of determining future actions required to achieve its mission.

7. Submit to the organization's governing body, for its approval, a written report that outlines the results of the aforementioned performance and effectiveness assessment and recommendations for future actions.

FINANCES

This section of the standards seeks to ensure that the charity spends its funds honestly, prudently and in accordance with statements made in fund raising appeals. To meet these standards, the charitable organization shall:

Please note that standards 8 and 9 have different denominators.

8. Spend at least 65% of its total expenses on program activities.

Formula for Standard 8:

$$\frac{\text{Total Program Service Expenses}}{\text{Total Expenses}} \text{ should be at least } 65\%$$

9. Spend no more than 35% of related contributions on fund raising. Related contributions include donations, legacies and other gifts received as a result of fund raising efforts.

Formula for Standard 9:

$$\frac{\text{Total Fund Raising Expenses}}{\text{Total Related Contributions}} \text{ should be no more than } 35\%$$

10. Avoid accumulating funds that could be used for current program activities. To meet this standard, the charity's unrestricted net assets available for use should not be more than three times the size of the past year's expenses or three times the size of the current year's budget, whichever is higher.

An organization that does not meet Standards 8, 9 and/or 10 may provide evidence to demonstrate that its use of funds is reasonable. The higher fund raising and administrative costs of a newly created organization, donor restrictions on the use of funds, exceptional bequests, a stigma associated with a cause and environmental or political events beyond an organization's control are among factors which may result in expenditures that are reasonable although they do not meet the financial measures cited in these standards.

11. Make available to all, on request, complete annual financial statements prepared in accordance with generally accepted accounting principles.

When total annual gross income exceeds \$250,000, these statements should be audited in accordance with generally accepted auditing standards. For charities whose annual gross income is less than \$250,000, a review by a certified public accountant is sufficient to meet this standard. For charities whose annual gross income is less than \$100,000, an internally produced, complete financial statement is sufficient to meet this standard.

12. Include in the financial statements a breakdown of expenses (e.g., salaries, travel, postage, etc.) that shows what portion of these expenses was allocated to program, fund raising and administrative activities.

If the charity has more than one major program category, the schedule should provide a breakdown for each category.

13. Accurately report the charity's expenses, including any joint cost allocations, in its financial statements.

For example, audited or unaudited statements which inaccurately claim zero fund raising expenses or otherwise understate the amount a charity spends on fund raising, and/or overstate the amount it spends on programs will not meet this standard.

14. Have a board-approved annual budget for its current fiscal year, outlining projected expenses for major program activities, fund raising and administration.

**FUND RAISING AND
INFORMATIONAL MATERIALS**

A fund raising appeal is often the only contact a donor has with a charity and may be the sole impetus for giving. This section of the standards seeks to ensure that a charity's representations to the public are accurate, complete and respectful. To meet these standards, the charitable organization shall:

15. Have solicitations and informational materials, distributed by any means, that are accurate, truthful and not misleading, both in whole and in part. Appeals that omit a clear description of program(s) for which contributions are sought will not meet this standard.

A charity should also be able to substantiate that the timing and nature of its expenditures are in accordance with what is stated, expressed or implied in the charity's solicitations.

16. Have an annual report available to all, on request, that includes:

- (a) the organization's mission statement,
- (b) a summary of the past year's program service accomplishments,
- (c) a roster of the officers and members of the board of directors,

(d) financial information that includes:

- (i) total income in the past fiscal year,
- (ii) expenses in the same program, fund raising and administrative categories as in the financial statements, and
- (iii) ending net assets.

17. Include on any charity websites that solicit contributions, the same information that is recommended for annual reports, as well as the mailing address of the charity and electronic access to its most recent IRS Form 990.

18. Address privacy concerns of donors by

(a) providing in written appeals, at least annually, a means (e.g., such as a check off box) for both new and continuing donors to inform the charity if they do not want their name and address shared outside the organization, and

(b) providing a clear, prominent and easily accessible privacy policy on any of its websites that tells visitors

- (i) what information, if any, is being collected about them by the charity and how this information will be used,
- (ii) how to contact the charity to review personal information collected and request corrections,
- (iii) how to inform the charity (e.g., a check off box) that the visitor does not wish his/her personal information to be shared outside the organization, and
- (iv) what security measures the charity has in place to protect personal information.

19. Clearly disclose how the charity benefits from the sale of products or services (i.e., cause-related marketing) that state or imply that a charity will benefit from a consumer sale or transaction. Such promotions should disclose, at the point of solicitation:

- (a) the actual or anticipated portion of the purchase price that will benefit the charity (e.g., 5 cents will be contributed to abc charity for every xyz company product sold),
- (b) the duration of the campaign (e.g., the month of October),
- (c) any maximum or guaranteed minimum contribution amount (e.g., up to a maximum of \$200,000).

20. Respond promptly to and act on complaints brought to its attention by the BBB Wise Giving Alliance and/or local Better Business Bureaus about fund raising practices, privacy policy violations and/or other issues.

Legal Obligations of Non-Profit Board Members

According to nonprofit corporation law, a foundation trustee or director should meet certain standards of conduct and attend to his or her responsibilities to the organization—otherwise referred to as the duty of care, the duty of loyalty, and the duty of obedience. Many organizations circulate an explicit code of duties and responsibilities. Trustees review and sign the document upon taking office and review the document annually, with an oral pledge to uphold its tenets. (The TREE Fund has not yet established this document.)

Duty of Care. Foundation trustees have the duty to care for the interests of the foundation. The trustees must be diligent and prudent in the management of the organization, the investments of its funds and the pursuit of its charitable mission. The duty of care does not require that trustees make the right decision in all cases, only that they make decisions in a fashion in which another prudent person would act. The duties of care include:

Awareness. The trustee must be familiar with the following:

- The foundation's organizational documents
- Minutes of meetings
- IRS documents and filings
- Nature and extent of asset holdings
- How funds are invested and administered
- The performance of these investments

Participation. Care requires; that trustees take an active role in the foundation's activities. This includes attending meetings, reading reports, participating in committee work, and representing the foundation in the community. Trustees are responsible even for those meetings they do not attend. Participation also extends to acknowledging areas where the foundation and its work have not succeeded; being ignorant of a policy failure or violation is not a proper defense.

Duty of Loyalty. Foundation trustees must serve the best interest of the foundation, not their own well-being. This issue addresses but is not limited to, breaches such as:

- Conflicts of interest. Conflicts of interest arise when a trustee has a personal or professional interest in a proposed transaction. The duty of loyalty requires that the trustee excuse himself/herself from discussion, abstain from voting, and not attempt to influence the vote of other managers.
- Self-dealing. Self-dealing addresses particular transactions between the foundation and its "disqualified persons," such as a spouse, parent or child of a foundation trustee.
- Misuse of assets. Such actions (or inactions) include knowledge of theft, embezzlement, excessive compensation or rent, and/or personal use of the assets, facilities, or services of the charitable organization.
- Usurping opportunity. A trustee must not use her or his position of trust to take advantage of an opportunity presented to the foundation.

Duty of Obedience.

Trustees must follow the principles established in the organization's Trust Agreement and avoid any action that may jeopardize the organization's tax-exempt status. Duties of obedience include paying taxes and following the public disclosure rules.