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ARE THE RIGHT PEOPLE ON YOUR BOARD?

By John Garesche', Associate



Getting the right people on your board is arguably as important as getting donors to commit to your cause. Too many organizations allow board members and administrators to simply recruit their friends, and the result is passive boards with attendance problems, conflicts of interest, and poor oversight. The board's primary unique purpose is to make sure that the organization is worthy of trust and support. Without an active board debating policy, evaluating outcomes, and planning for the future, it is impossible to maintain a healthy organization.

There are six important steps to ensure that you are getting the best people to represent your organization at the highest level: take stock of your resources, define the role, identify candidates, and cultivate, cultivate, cultivate.

Step 1: Take stock of your existing resources – especially your board

A nominations committee of the board should be established to design the strategy, direct staff, and take a major role in the cultivation efforts. This committee should develop a standard process that ensures that due diligence is done in respect to prospective board members, such as researching individuals to ensure their appropriateness as leaders, checking references, and monitoring their success on committees or task forces.

Step 2: Define the role

Board members should not be specialists who focus on a specific area of the organization. Those individuals are better suited for specialized committees. The best kind of person is one who can take a broad view of the organization and contribute to active discussion and debate on the overall strategic direction. Develop a job description that includes the specific requirements (how many meetings required, total time commitment, financial commitment expected, etc) along with an outline of the broad needs for strategic direction of the organization, along with any specialized expertise necessary or desired.

Step 3: Identify potential candidates

Identifying the right people for your board is as important as (if not more important than) identifying new prospective major donors for the organization. Develop a list of potential board members that

includes both current and prospective major donors, along with other leaders that represent the diversity of experience the organization needs. Although it is not appropriate to invite an individual to be a board member simply because of a donation, these people should be considered if they demonstrate ability to provide expertise in directing the organization, as well as their capacity to attract other major donors.

Ideally, you should have a long list of potential board members to choose from at all times. Your committees and task forces should be composed of talented and committed volunteers – and you ought to be grooming some of these individuals for roles as future board members.

Step 4: Cultivate Step 5: Cultivate Step 6: Cultivate

If you expect quality people to commit themselves voluntarily to the governance of your organization, the staff leadership must show that the volunteers' time will be well spent. The strategy involved in cultivating board members should be similar to the strategy in cultivating prospective major donors. Invest the appropriate amount of time with them. Be sensitive to their other commitments. Answer their questions. Listen to their concerns. Use the personal relationships of staff, executives, and other board members to your advantage in this cultivation process.

Effective cultivation should also include constant education. One does not become a champion of an organization by attending one dinner or listening to one lecture. Education must be ongoing in a variety of forms. Participating on committees is one way to introduce individuals to the some of the operational details. The leadership must spend the time to sit down with key volunteers, updating them and bringing them in closer to heart of the organization. Send them material that is focused and highlighted - don't simply give them all your publications. Work on lighting a spark of interest and provide the resources for discovery on their own.

What about term limits?

One final note about getting the right people on your board – set and enforce term limits. While there are always some volunteers who could continue to contribute beyond their term limit, rotating them off the board allows them to rejuvenate and perhaps contribute to another aspect of the organization. Keeping new individuals with fresh ideas rotating through your board will provide your organization with the best leadership and energy to guide you into the future. Truly outstanding board members can be elected to emeritus positions.

Getting the right people on your board requires constant work and searching. Define the role, identify candidates, and cultivate, cultivate, cultivate. The rewards of a strong involved board will pay dividends long into the future.

WHAT BOARDS NEED TO KNOW ABOUT SARBANES-OXLEY

By Audrey Y. DeLoffi, Senior Associate



Enron. Tyco. WorldCom. Arthur Andersen. These scandals eroded public trust in America's corporate community. Investors lost billions. Thousands of people had their retirement plans wiped out. In an effort to ensure this could not happen again, Congress passed the Sarbanes-Oxley Act (SOX) in 2002. The highlights of the landmark bill require that publicly traded companies have:

- Auditor independence and certification of internal audit work by external auditors

- Ethics codes & conflicts of interest
- Disclosure
- Whistle blower & document destruction protection

While most of SOX was a direct and specific response aimed at closing loopholes in the governance of for-profit corporations, two of its provisions – whistle blower protection and document destruction – apply to charitable organizations. Additionally, many state governments have passed or are considering legislation containing elements of SOX that will have implications on non-profit governance.

We all know the non-profit sector has not been immune to scandal - whether it was perks for foundation boards, personal loans to directors and management, or exorbitant executive compensation. SOX should be a wake-up call to the non-profit community to effectively govern themselves or risk having the government impose similar regulations.

DID YOU KNOW?

Legislative bills that mirror pieces of SOX have been filed in 14 states, and laws have already been passed in Connecticut, Massachusetts, Rhode Island, New Hampshire, Maine, Kansas, California, and New York. To understand the state laws governing charitable organizations, be sure your board remains updated by contacting the State Office of the Attorney General. Their public charities division may also inform you of any pending legislation.

What do nonprofits need to DO about SOX?

Ruotolo Associates recommends that non-profit boards design policies and procedures that meet their state laws and support best governance practices. To protect the confidence and trust of their constituents, non-profit boards should address the following key areas:

Audits

- Conduct an independent audit by outside auditor (for organizations with revenues over a certain threshold -- depending on state requirement)
- Establish separate audit committee with at least one “financial expert” that selects, oversees, and reviews the work of the audit company
- Require approval of the audit by the full board
- Rotate auditor or lead partner at least every five years

Adopt additional policies covering:

- Certified financial statements
- Conflict-of-interest
- Whistle blower protection
- Code of ethics
- Financial disclosure
- Document retention
- Executive compensation
- Board term limits
- Directors & Officers liability insurance
- Board training in financial literacy and self-assessment.

Many resources exist to assist in implementing best practices of board governance— books and articles are available through membership organizations, such as the Association of Fundraising Professionals, National Association of Corporate Directors, Child Welfare League, etc. Some of these may be found at the websites listed below.

Board governance: www.afpnet.org, www.nacdonline.org, www.cwla.org, www.boardcafe.org, www.managementhelp.org

Sarbanes-Oxley: www.guidestar.org/news/features/sox_states.jsp;
www.guidestar.org/new/features/sarbanes_oxley.jsp;
www.independentsector.org/PDFs/sarbanesoxley.pdf

CONFLICTS OF INTEREST ON THE BOARD: PROTECT YOUR ORGANIZATION

By Pam DeLuca, Senior Associate



While much of the Sarbanes-Oxley Act focuses on financial regulation, a key component that translates directly to the non-profit sector concerns conflicts of interest on the part of board members. While conflicts of interest can be real or perceived, both can affect the overall public perception of your organization. As a non-profit, your primary responsibility is to your donors. You must ensure their trust and support is well-placed.

What constitutes a conflict of interest for a non-profit?

The most straightforward answer is when an employee, board member, or other volunteer receives a financial benefit because of their association with your organization.

Take this brief quiz: Which of the following are genuine conflicts of interest that should be avoided by any non-profit?

- A. Your organization is hiring a Vice President for Human Resources who will be responsible for making salary decisions. Your Director of Development recommends his spouse, who has over 20 years in human resources, for the position.
- B. Your organization is considering purchasing a building from XYZ Corporation. The head of XYZ Corporation has offered his beach house to your Board Chair for a family vacation.
- C. Your organization publishes a quarterly newsletter. Board member Smith, who owns a printing company, has agreed to print it at 20% below cost.

What do you think?

Situation A is a pretty clear conflict of interest, unless there are very unusual circumstances. To accept this would mean the Director's spouse would be in the position of making salary decisions that would directly or indirectly have a financial impact upon the Director.

Situation B is also problematic (assuming the value of the use of the beach house is more than \$100) because it could create a perception that your board chair received this benefit in exchange for some concession in the negotiation of the sale.

And what about Situation C?

This presents a challenging set of circumstances many non-profits face. Professional expertise, business relationships, and access to the community are vital contributions board members make to an organization. It could be a mistake to totally prohibit working with board members as vendors, but these agreements must be safeguarded by appropriate policies and full disclosure to prevent real or perceived conflicts of interest.

For example, say board member Smith

- Promoted his company at a board meeting when would-be competitors did not have the same opportunity,
- Did not abstain from discussion or voting on securing a printing company, and
- Charged your organization full market value on all jobs.

This would leave your organization vulnerable to the following perceptions by your donors and the public:

- Board member Smith was able to gain an inside track to secure the business.
- Your board members are not soliciting multiple bids on major expenditures, and thus not effectively stewarding donor dollars.
- Even if board member Smith was the lowest bidder, the question may arise: did he have undue influence and/or vote on the awarding of the contract?

How could you remedy this conflict to create a situation that is both beneficial to your organization's bottom line and protective of its integrity? First, make sure you a written

- Conflict of Interest policy that:
- Defines conflict of interest;
- Specifies the persons who will be covered by the policy;
- Requires regular disclosure of information related to conflicts of interest; and

Specifies procedures for handling potential or actual conflicts of interest when they arise.

To effectively handle the type of situation we've outlined above, the policy could contain all or some of the following statements:

- A. All expenditures over \$X require a minimum of number of bids;
- B. Any board member who has ties to a bidding company (owner, principal, partner, relative, etc.) must recuse themselves from the discussion and voting on that contract;
- C. No business with direct ties to a board member (owner, principal, partner, immediate relative, etc.) will be considered for services unless provided at or below cost (in-kind donation) and will be recognized as such;
- D. Agree that no solicitation of business will be conducted at a board meeting.

Having a written conflict of interest policy is one of the key recommendations made by the Nonprofit Coalition that met in the winter of 2004-2005. (See "Stamping Out Charity Abuses," Chronicle of Philanthropy, March 17, 2005). The above policy is meant as a guideline to you and your board of trustees.

Many states have laws that govern conflict of interest situations and all organizations should consult their state laws to ensure that their conflict of interest policy affords them the necessary protections.

More information on conflict of interest and other components of the Sarbanes-Oxley Act 2002 and how they may affect your organization can be found at the following:

- National Association of Corporate Directors (www.nacdonline.org)
- Independent Sector (www.independentsector.org)
- National Council of Nonprofit Associations (www.ncna.org).

STAFF HIGHLIGHTS

AUDREY DELOFFI, SENIOR ASSOCIATE



As a Senior Associate in the New England office, Audrey DeLoffi is in her seventh year with Ruotolo Associates. She conducts feasibility and planning studies, directs capital campaigns, major gift initiatives and annual appeals, provides counsel to executive directors and non-profit boards, and conducts development office assessments. Audrey also has extensive grant writing experience.

Working with our clients in the private and public sectors, she has directed campaigns ranging from \$400,000 to \$4 million. A sampling of clients she has assisted include Harvard Public Library, Harvard, MA; Scranton Memorial Library, Madison; CT, Glastonbury Abbey, Hingham, MA; St. Philomena's School, Portsmouth, RI; Cromwell Children's Home, Cromwell, CT; Girls Inc. of New Hampshire; South Church, Andover, MA; and St. Joseph's Manor, Trumbull, CT.

Prior to her career as a fundraiser, Audrey worked in healthcare as a hospital CEO, program director for the MA Medical Society and director of training and emergency services for a mental health center. She also has years of volunteer service with non-profit community organizations and her church.

Ms. DeLoffi attended Chatham College, received a BA from the University of New Hampshire and her MSW from Boston College. In 2001, she received the firm's Tim Manning Culture of Excellence Award. Audrey is on the board of the Massachusetts Chapter of the Association of Fundraising Professionals (AFP) and currently chairs the 2005 Conference Sponsorship Committee of AFP and chairs her church's personnel committee. Prior volunteer work includes serving as President of the Ocean Park Association, (a Chautauqua summer community in Maine), steering committee member of the annual Walk for Help for Abused Women and Children, and board member of Boston College School of Social Work.

Audrey and her husband Tom and their golden retriever, Bradford live in Salem, Massachusetts and enjoy a summer cottage in Ocean Park, Maine.

RECENT HAPPENINGS

National Catholic Development Conference

America's Center, St. Louis, Missouri

October 2-5, 2005



Archdiocese of Newark Annual Stewardship Day

RA was a Primary Conference Sponsor
Seton Hall University, Newark, New Jersey
Workshop Presenters:
Theresa A. Shubeck, Senior Vice President
James S. Friend, Jr. Church Division Director
October 29, 2005

National Catholic Development Conference: New York Area Chapter

“Planning for Success...Best Practices in Development & Fund Raising”

Workshop Presenters:
George C. Ruotolo, Jr., CFRE, Chairman and CEO
Theresa A. Shubeck, Senior Vice President
Dominican Convent, Sparkill, New York
Wednesday, November 2, 2005

2005 Conference on Philanthropy

Association of Fundraising Professionals
New Jersey Chapter
The Hanover Marriott, Whippany, New Jersey
RA was a Conference Sponsor
November 3, 2005

ANNOUNCEMENTS

Join us at one of these upcoming shows...

2005 AFP - Eastern PA Chapter

Association of Fundraising Professionals
Holiday Inn Conference Center, Fogelsville, Pennsylvania
November 15, 2005

Lay Leaders Development Congress

Archdiocese of Newark
Newark, New Jersey
RA is a Primary Conference Sponsor
November 18/19, 2005

2005 Conference on Philanthropy

Association of Fundraising Professionals
Workshop Presenter:
Jay Caporale, CFRE, President and COO will lead a workshop on
"The conduct of a feasibility study"
Massachusetts Chapter
The Marriott Hotel, Copley Place Boston
RA is a Conference Sponsor
November 30, 2005

132nd Annual Diocesan Convention

Episcopal Diocese of Newark

Hilton Hotel, Parsippany

January 27/28, 2006

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CURRENT CLIENT LISTING

- Archbishop Stepinac High School, White Plains, NY
- Blessed Stephen Bellesini, O.S.A. Academy, Lawrence, MA
- Brooklyn Friends School, Brooklyn, NY
- Casita Maria Inc., Bronx, NY
- Cathedral High School / John XXIII Middle School, St. Cloud, MN
- Cathedral Preparatory Seminary, Elmhurst, NY
- Children's Therapy Center, Fair Lawn, NJ
- Church of St. Michael & St. George, St. Louis, MO
- Church of the Presentation, Upper Saddle River, NJ
- Clapp Memorial Library, Belchertown, MA
- Community FoodBank of NJ, Hillside, NJ
- Devereux Foundation, Villanova, PA
- Diocese of Brooklyn, Brooklyn, NY
- DOORS, Inc., New Brunswick, NJ
- E.C. Scranton Memorial Library, Madison, CT
- Estes Park Medical Center Foundation, Estes Park, CO
- Green-Wood Historic Fund, Brooklyn, NY
- Institute for Violence Prevention, Inc., New York, NY
- International Brain Research Foundation, Inc., New York, NY
- Merrimack Valley Hospice, Lawrence, MA
- Mount St. Charles Academy, Woonsocket, RI
- Mount St. John Home and School for Boys, Deep River, CT
- Mu Alumni Association, Hoboken, NJ
- Nazareth Regional High School, Brooklyn, NY
- New Jersey SEEDS, Newark, NJ
- Niagara University, Niagara Falls, NY
- Notre Dame High School, Easton, PA
- Our Lady of Perpetual Help Parish, Oakland, NJ
- Palisades Medical Center Foundation, North Bergen, NJ
- Pilgrim United Church of Christ, Durham, NC
- Raritan Valley Community College Foundation, Somerville, NJ
- Richard's Memorial Library, N. Attleboro, MA
- Ste Jeanne d'Arc School, Lowell, MA
- St. James Episcopal Church, Cambridge, MA
- St. John the Evangelist Parish, Dunellen, NJ
- St. John the Evangelist Parish, North Chelmsford, MA
- St. John Villa Academy, Staten Island, NY
- St. Joseph Parish, Jim Thorpe, PA
- St. Joseph Parish, Washington, NJ
- St. Peter Episcopal Church, Osterville, MA
- St. Raphael Academy, Pawtucket, RI

- The Children's Home, Cromwell, CT
 - The De La Salle School, Freeport, NY
 - The Friendship Service Center, Inc., New Britain, CT
 - The Susan G. Komen Breast Cancer Foundation - North Jersey Affiliate, Summit, NJ
 - Woods Services Foundation, Langhorne, PA
 - YMCA Northeast Family - Haverhill / Newburyport, Haverhill, MA
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For more information about our services to religious organizations,
visit us at www.churchdivision.com

For a complete listing of services to all non-profits,
visit our main site at www.ruotoloassoc.com

Contact one of our regional offices:
Mid-Atlantic * New England * Midwest * Washington D.C.

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