



*Strengthening Oklahoma's Safety Net,
One Community At A Time*

Board Bulletin

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IRS Good Governance Practices for 501(c)3s

One of the four specific objectives of the 2005-2009 Internal Revenue Service (IRS) Strategic Plan focused on deterring abuse within tax-exempt and governmental entities. An outcome of this objective is the development of the IRS *Good Governance Practices for 501(c)3 Organizations*. IRS issued a draft of the document in February 2007 with the final version expected for release by the end of 2007. In the document introduction, IRS states, "If a governing board tolerates a climate of secrecy or neglect, charitable assets are more likely to be used to advance an impermissible private interest." The nine topics addressed in the document are issues being watched most closely by the IRS in their oversight capacity.

Good Governance Practices Outlined

- ◆ **Mission Statement** - Clearly articulated to show "why the charity exists, what it hopes to accomplish, and what activities it will undertake, where and for whom." It should serve as the guide to the organization's work and be understood by all within the organization.
- ◆ **Code of Ethics and Whistleblower Policies** - Boards should consider adopting a code of ethics that fully describes expected behavior. "The code of ethics should be a principal means of communicating to all personnel a strong culture of legal compliance and ethical integrity." Policies must be adopted that effectively handle employee complaints allowing staff to confidentially report suspected impropriety, also known as *whistleblower* policies. Boards must also understand that federal programs monetarily reward whistleblowers who expose financial impropriety - making it imperative to have policies that nip wrongdoing in the bud.
- ◆ **Due Diligence** - Exercise duty of care by acting in good faith, using the care of a reasonable, prudent person to direct in a way that promotes the best interest of the organization. Policies and procedures must ensure that each board member is familiar with organizational mission, goals and activities, knowledgeable of the CHC's financial status, and receives accurate information to make informed decisions.
- ◆ **Duty of Loyalty** - Board members must act in the interest of the CHC rather than personal interest or benefit to another person or organization, which should be reflected in the conflict of interest policy. Written procedures for determining relationships that may lead to possible conflicts and how to deal with a situation once a conflict is identified must be adopted. Board members should disclose annually in writing any known personal financial interest (or a family member's interest) in an entity that transacts business with the CHC.
- ◆ **Transparency** - Procedures should be adopted to ensure that the CHC's Form 990, annual reports and financial statements are complete and accurate and made available to the public upon request and via website.
- ◆ **Fundraising Policy** - CHC policy must ensure that fundraising activities are in compliance with federal and state laws and all materials used to promote the activity are "accurate, truthful, and candid." Monitor paid fundraisers closely and only those registered with the state and having good references should be used.
- ◆ **Financial Audits** - Board members must be good stewards with the CHC's financial resources by routinely reviewing financial reports and engaging an independent auditor to conduct an annual audit. An audit committee can be formed to select and oversee the auditor but all board members should be familiar with the audit report. Boards should change the auditing firm periodically to ensure a fresh financial review.
- ◆ **Compensation Practices** - 501(c)3 organizations should generally not compensate board members except to reimburse direct expenses related to service. Boards must carefully review compensation practices to ensure that staff are being reasonably paid for their services and not misusing funds with inflated salaries.
- ◆ **Document Retention Policy** - Written policy must be adopted that establishes standards for "document integrity, retention, and destruction." Board-approved policy should address electronic file retention and also include backup procedures, archiving documents and system reliability tests.

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