

Conflicts of interest: How to avoid them, how to deal with them - Part 2

[<< BACK](#)

From Volume 2005, Issue 3 - 3 2005

Practical approaches for church boards

by: *Dan Busby, CPA*

Understanding real or perceived conflicts of interest goes right to the heart of one of the most important issues of properly governing a church - independence. Diligent board members must examine their independence and their need to disclose to interested parties information about matters that may undermine that independence.

Understanding conflicts of interest is important because these real or perceived conflicts color independence. Someone with close ties to a church may be the most diligent and independent acting individual on the board. But a church can ill afford to have its board members subjected to negative attention because of suspicion about their motives.

For too long many churches have relied on the conflicted board member to proactively take steps to protect the church - a self-policing by individual board members. The basic flaw in this approach is that if a board member doesn't see the conflict, they can't or won't declare it or avoid it.

We are not the best judges of our own conflicts of interest. We need someone else to be the judge and tell us how our relationships appear to others.

Shades of conflict

Churches should avoid conflicts of interest in their financial transactions. However, related-party transactions may be permitted if they meet certain minimum criteria.

A conflict usually occurs when the personal relationships, objectives or benefits of a board member make it virtually impossible for them to put the interest of the church above personal interests. The board member is trying to serve two masters - an untenable situation.

There may be degrees of conflict, from a very serious offense such as a board member receiving fees from the church for a contract that was not disclosed to the board, to one of less significance such as a board member's children working for a subsidiary of the church. But the effect is the same. Observers have ammunition to question your motives or decisions.

Impact of conflict

A board member's conflict of interest may expose the entire board to liability or negative publicity. It may require the church and its employees to respond to attacks and divert board and staff resources. The incident may harm the church's reputation. Even one negative press story may decrease donor confidence and thereby reduce gift income.

Develop a "sixth" sense

Avoiding conflicts of interest and even excessive related-party transactions occurs best when an entire board has developed a mindset - a sensitivity, a keen sixth-sense of awareness - enabling the board to readily identify potential minefields.

How can you tell if your board possesses that special sensitivity to conflicts of interest? The answer to these questions may provide some clues:

1. Has your board adopted a comprehensive conflicts of interest policy that encompasses not only the board but also key staff?
2. Does each board and key staff member annually complete a questionnaire to document potential conflicts of interest? Is this documentation reviewed by and disclosed to the board?

- chair, senior or executive pastor, and other appropriate individuals?
3. Do board members involved in related-party transactions not only recuse themselves from voting but also leave the boardroom during the discussion and the vote?
 4. Is leadership on issues of conflicts of interest provided by the board chair? Is he or she quick to point out potential conflicts when certain agenda items come to your board? Does the board chair practice recusal when the conflict relates to the chair?
 5. Are the pastors considered above the law? Does your conflicts of interest policy apply to all board members and key staff except the pastors?

Steps to clarity

Consider following this five-step process for dealing with conflicts of interest:

Full disclosure. Disclose all conflicts to the church and the board members no matter how minimal they may seem. This should be documented in the annual conflicts of interest questionnaire completed by each board member and verbally reinforced during board meetings ("As just a reminder, my wife is employed by the real estate firm the church is considering using as a broker.")

Continually raise the topic. Regularly discuss the topic of conflicts of interest in board meetings. What may not be a conflict today may become a conflict later on.

Establish a board policy. While policies do not always prevent conflicts of interest, they are a good start. A policy should establish a process to review and discuss conflicts. An annual report by the board chairman or secretary summarizing potential conflicts of interest reported by the board members on the annual conflicts of interest questionnaire may be very effective.

Related-party transactions vs. actual conflict of interest. Many routine related-party transactions may be beneficial and at the same time pose very low risk to the organization. However, if a conflict is disabling, the board must make a decision about the conflicted board member's continuing status.

Consider how those outside the board will view the conflict. Will the transaction, when disclosed, raise more questions than the board can adequately answer? Does the transaction have the best long-term interests of the church at heart? How would the media portray the situation? Church boards should note that conflicts of interest are messy and make good front-page news. They may become the news about your church, instead of the wonderful work your church is accomplishing with God's help. CE

Dan Busby, CPA, is vice president of the Evangelical Council for Financial Accountability (ECFA). His two books, *The Minister's Tax & Financial Guide* and *The Church and Nonprofit Tax & Financial Guide*, have been annually published by Zondervan since 1990. He may be reached at dan@ECFA.org.