Recommended policies from the IRS 990 form:

Gift acceptance policy. The gift acceptance policy often originates in the development office and can be critical for the organization properly to handle donated items. The question on Schedule M of Form 990 focuses on nonstandard gifts, but generally, having a gift acceptance policy can protect the organization from risks, including public relations risks. For example, the policy should provide steps for protection against environmental liability prior to accepting real estate. Also, the policy can enable the organization to handle potentially controversial gifts, allowing it to refuse acceptance of a gift when appropriate. For example, a charity with a capital campaign in full swing would want the ability to refuse a gift that necessitated naming its new building after a notorious figure. The Bernie Madoff wing of a new building might not present the desired public image. The CPA should discuss this policy with the development office and with the organization's officers and board so they understand its value.

Whistleblower policy. A whistleblower policy typically provides simply that anyone reporting wrongdoing will not be punished for reporting it. The Sarbanes-Oxley Act was intended in part to address fears that employees who report corporate financial improprieties would be threatened with termination as a way to silence them. Having a well-publicized whistleblower policy gives all members of the organization the freedom to do what is right without fear of retaliation.

Clearly, that is a policy board members should support. Still, these whistleblower policies must be carefully crafted. To whom should someone report wrongdoing? What if the wrongdoer is the designated recipient of the report? How should the reported information be handled, both to assure adequate investigation but also to protect privacy to avoid damaging reputations or causing defamation actions against the organization? Part VI, Section B, Question 13 forces the organization to focus on such issues and to help assure that financial impropriety will be reported when discovered.

Document retention and destruction. The document retention and destruction policy is another seemingly boilerplate policy that the CPA should assist clients in understanding and making effective. It provides that documents may not be destroyed if they concern a matter under investigation—a logical Sarbanes-Oxley–type policy. Properly drafted, such a policy will also provide for routine destruction of superfluous documents. Ideally, the policy will have a schedule listing types of documents and how long they should be retained. Some documents, such as corporate minutes, should never be destroyed, but others, like routine purchase orders, can eventually be discarded. The CPA can help clients identify the relevant documents for the organization and, working with legal counsel, help establish appropriate retention or destruction policies tailored to the organization. The CPA generally has a much better working knowledge of client records than the attorney, and so the CPA's assistance in putting together the retention/destruction schedule can turn a boilerplate schedule into something truly helpful to the organization beyond simply permitting a "yes" answer to Form 990, Part VI, Section B, Question 14.

Conflicts of interest. Finally, no policy of an organization is as critical and as potentially emotionally charged for the board or its officers as the conflict-of-interest policy. The CPA has a vital but often difficult role in this area beyond simply responding to Part VI, Section B, Questions 12a, b and c. Schedule L of Form 990 focuses on transactions between interested persons (such as board members) and the organization. Schedule J reviews the procedures for establishing compensation. The CPA needs to assist clients in identifying reportable transactions and analyzing their ramifications. This independent professional judgment can be invaluable in determining and documenting the fairness of actions.

It is also worth noting that conflicts of interest are governed in several other ways beyond the conflict-of-interest policy. For example, many organizations are subject to state laws that specifically describe conflicts and other improper actions by boards and officers. Also, many tax provisions have conflict elements to them, such as the private inurement provisions for charities, the intermediate sanctions provisions for excess benefits to disqualified persons, or even the self-dealing rules for private foundations.

As a best practice, an organization should have a well-developed and carefully thought through conflict-of-interest policy. The IRS provides a sample form that is a good starting place for such a policy and

should be considered in preparing a conflict-of-interest policy. See instructions to Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*. The goals of a good conflict-of-interest policy are to identify conflicts and then to determine the risk of the conflict and how the organization should deal with it. Not all conflicts of interest are necessarily bad, but they do need to be identified and affirmatively considered by independent minds. The CPA can assist in this independent assessment as a service to the clients and their boards.

The CPA needs to educate the board on identifying conflicts of interest. Some conflicts are obvious. For example, if the organization pays excessive compensation to its president and that compensation is set by his brother who is chairman of the board, there is clearly a conflict. Most conflicts, however, are not that obvious. They can be a delicate subject. They may occur because a well-meaning board member is doing a favor for the organization. Is it a conflict of interest for the board chair to provide investment services to the charity? Does it alter the analysis if he or she charges less than any other investment adviser would for those services? Or that he or she is the best qualified person to provide specialized services within the geographic area? Sometimes a conflict-of-interest situation is necessary, and if so, the board and CPA should say so.

The organization needs to grapple with these difficult conflict issues. Part of this effort involves identifying issues but then bringing the right minds to bear on them to determine the best resolution under the applicable conflicts provisions. CPAs are often at the front line for this analysis. The CPA may be the one who identifies the conflict during work for the organization. Ultimately, the CPA may become the “bad guy” who has to report the conflict on Form 990, potentially embarrassing an important board member or even a donor. That reporting on the very public Form 990 could cause a good board member in an innocent situation to quit board service.

Form 990 also asks if board members are required to make annual disclosures of potential conflicts. Some board members may find this annual personal interrogation offensive. The CPA can help them understand the need to report this information and so may lessen some of the anger.

The CPA, while helping to prepare the Form 990, needs to be sensitive to the human elements of situations and disclosures. While the CPA has to answer tax return questions properly, the CPA and the organization should consider that an answer might create public embarrassment for the individuals involved. Further, the CPA might think about the proper discussion of a conflict. While the form may describe a conflict, it could go further in the answer or in an attachment and say that, for example, after the conflict was discovered, certain actions were taken to remedy it, or assure that it would not happen again, or that the conflict was essentially necessary and any compensation not excessive.