Guidelines for Governance of Non-Profit and Religious Organizations Seeking Support from Members of the Jewish Funders Network

Adopted by the JFN Board on November 19, 2009

Transparency and good governance are two critical components of any non-profit. They help create the very foundation on which the good works and reputation of a charitable organization can flourish while promoting a culture of trust among the non-profits' supporters and the public at-large.

However, even a strong commitment to transparency and good governance does not totally eliminate the possibility of wrongdoing. Moreover, given the wide range of differences among charitable organizations in terms of structure, mission, history, board responsibilities and size, how transparency and good governance are incorporated within the organization may vary, though some basic principles should be adhered to regardless of these differences.

The U.S. government recognizes the benefit accrued to society at-large by the flourishing of non-profit organizations through the granting of tax-exempt status. Beyond the tax exemption given to secular non-profits, Congress has gone further and enacted special tax laws applicable to "churches, religious organizations, and ministers" in recognition of their unique status in American society and of their rights guaranteed by the First Amendment of the Constitution of the United States. Churches and religious organizations are generally exempt from income tax and receive other favorable treatment under the tax law, including exemption from tax information filings required of other 501(c)(3) organizations.

Regardless of this special treatment, all non-profit organizations including religious organizations are wise to maintain the highest of standards of accountability and transparency. Jewish law places a high value on charitable accountability and forbids donors to contribute to charities where the administration is incompetent or untrustworthy. In addition, the American Bar Association notes, while "good corporate governance practices are no talisman for avoiding improprieties or scandal, implementing effective governance processes does make it more likely that decisions and practices will be appropriate."[1]

The following principles of good governance are recommended for the consideration of our members by the Jewish Funders Network as they assess organizations for possible contributions:

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[1] *Guide to Nonprofit Corporate Governance in the Wake of Sarbanes-Oxley,* ABA Coordinating Committee on Nonprofit Governance, p. vii, 2005.

(1) The organization should have a governing board with fiduciary oversight responsibility including responsibility for reviewing and approving the organization's mission and strategic direction, annual budget and key financial transactions, compensation practices and policies, and fiscal and governance policies.

(2) Even for a religious organization that is not required to file Tax Information Report 990, an independent audit or financial review by a Certified Public Accountant should be performed regularly in a timely manner appropriate to the organization's size and operations.[2] Current financial statements should be made available to the donor upon request. Every organization that has its financial statements independently audited should have an audit committee composed of directors or qualified outsiders who can assure the independence of the auditors, review the organization's accounting policies as well as the adequacy of internal control systems, and oversee the accuracy of financial statements and reports.

(3) Compensation of the chief executive should be determined by a compensation committee of the board comprising members who do not have a conflict of interest with regard to the chief executive. This committee should also determine the process to review compensation of other senior staff. The committee should assure that compensation is tied to performance and examine compensation paid by similarly situated organizations for functionally comparable positions.

(4) The organization should adopt and implement ethics and standards of practice codes applicable to the board and senior management that reflect a commitment to operating in the interests of the organization and at the highest levels of ethical practice. These typically include a code of ethics, conflict of interest policy, whistleblower policy, document retention and destruction policy, and gift acceptance policy. It is also important that the organization has policies and procedures to protect its financial assets, such as investment and expense reimbursement policies, and ensure that no one person bears the sole responsibility for receiving, depositing and spending its funds. If an organization does not currently have these policies, they should set a reasonable timeframe when said policies will be adopted and implemented.

[2] Certain governance standards organizations suggest that any organization with a budget of $250,000 to $300,000 should have an audit. Others suggest $1 million in gross revenues as a more appropriate threshold. Smaller charities might opt for a compilation, though this lower standard provides no assurance that the financials are in conformance with generally accepted accounting principles. Charities choosing this review must be able to justify its use rather than a higher standard.

Organizations should be able to provide evidence of these four elements when applying for support or provide compelling reasons why such evidence cannot be supplied.[3]

[3] For additional information, see *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*, Panel on the Nonprofit Sector, October 2007.