Every Church Needs a **Conflict of Interest Policy**

by Dan Busby, CPA, and John Pearson

BOARDS OFTEN BECOME CONVINCED THEY ARE MAKING A DECISION IN THE BEST INTEREST OF THE CHURCH. BUT THEY FAIL TO CONSIDER HOW THE DECISION WILL APPEAR ON THE INTERNET AND SOCIAL MEDIA.

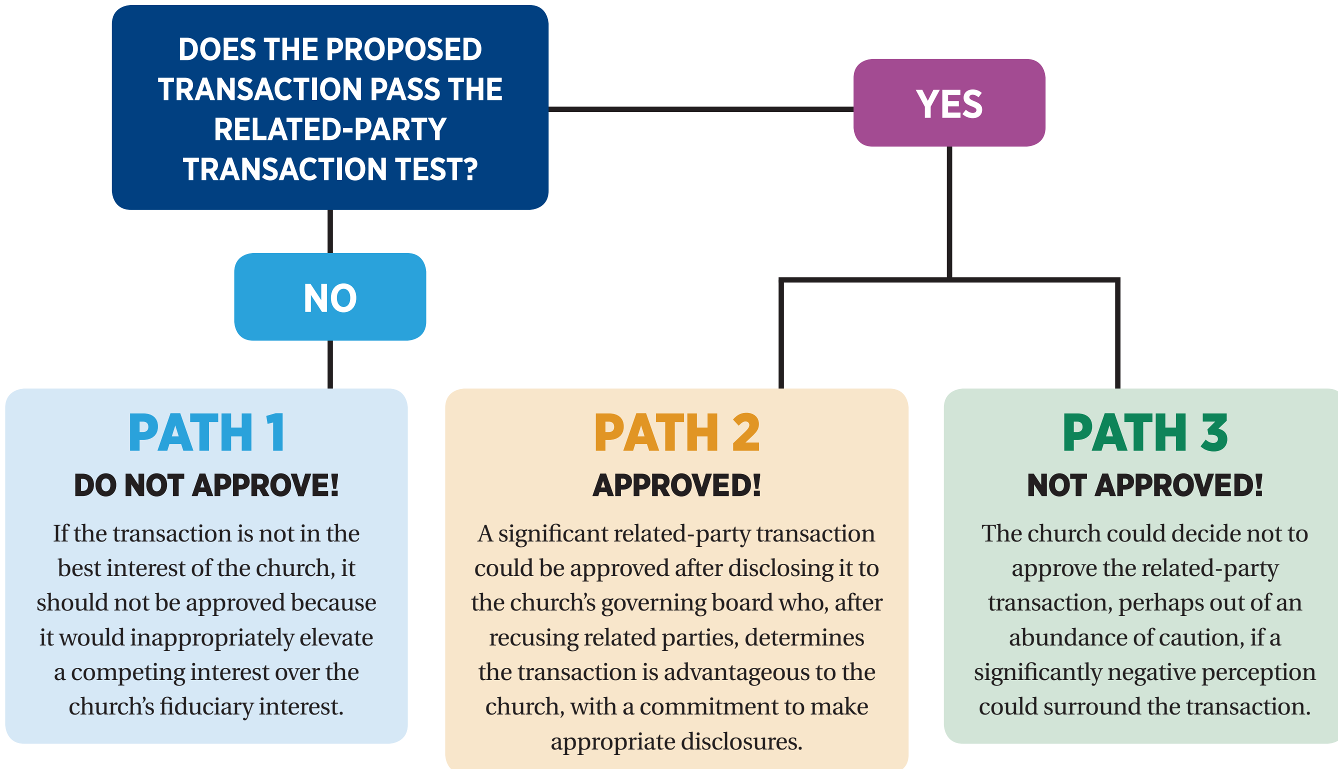
Churches often purchase services or products – from information technology to lawn service to facility maintenance, construction projects, and much more.

And when a church spends a significant amount of money with someone who is on the board or staff, or related to a board or staff member, the risk level goes up. Even if the transaction is in the best interest of the church, a perception of impropriety can easily arise.

For example, one church was in the initial planning stage of a multimillion-dollar capital campaign. Three consulting firms presented proposals to lead the campaign. One of the firms was led by the son of one board member.

The consulting services offered by the three firms were comparable, and the proposal by the board member's son was the least expensive to the church, but it was still well over $100,000.

The church had a well-written conflicts of interest policy. The board recognized that this transaction must comply with their policy. So they considered the three paths shown below. They approved a contract with the firm led by the son of a board member (Path 2), but later they wished



they had turned down the contract out of an abundance of caution (Path 3).

The capital campaign began well, but after a couple of the lead gifts were unexpectedly withdrawn, meeting the campaign goal became doubtful. Twelve months later, the campaign quietly ended with only 30 percent of the goal met.

The recrimination began. Some major givers to the campaign asked for a refund of their gifts. Soon the attention turned to the quality of the campaign consulting firm and whether the firm was a good choice. Next, the failed campaign and the choice of the consultant found its way to social media.

The facts about the campaign disappeared in the rearview mirror. Blog posts with many inaccurate assumptions about the campaign appeared. The major issue highlighted on the posts was the choice of the board member's son as the campaign consultant.

Conflicts of interest always sound more questionable on the Internet and social media. Social media threads became very nasty. Only a few of the comments were from campaign givers; most were from non-contributors who had never attended the church.

At this point, there were several decisions the board wished they had not made. At the top of the list: their choice of the consultant. They would love to have a mulligan on that decision. While the board followed the proper steps in approving the transaction, they did not adequately consider how the transaction could be viewed – especially on the Internet and social media.

The church survived the botched capital campaign, but it was painful and expensive. The issue consumed many hours of the board's time spanning two years of board meetings. A number of people left the church as a result of the campaign.

It was a lesson well-learned and a path they would not retrace – at least not until the current board members were off the board and new members filled their seats.

The board committed to carefully follow these four steps when considering significant transactions involving related parties:

1. **Exclude**
   All individuals with a conflict of interest, direct or indirect, should be excluded from the discussion and the vote related to the transaction.

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2. **Compare**
   Reliable comparability information from appropriate independent sources is considered, such as competitive bids, independent appraisals, or independent expert opinions.

3. **Determine.**
   Determine whether the transaction is in the best interest of the church, including determining whether the transaction could be misperceived by givers, constituents, or the public. Remember, the transaction will likely be publicly disclosed.

4. **Document**
   Document steps 1, 2, and 3 in a timely manner.

Even when the church takes those four essential steps, it may still be in the best interest of the church to avoid the transaction.

You can be sure that many churches would like to have a mulligan on related-party transaction decisions they have made. Even when the church checked all the boxes, they did not consider how the transaction would be viewed – especially on the Internet and social media.

BOARDROOM LESSON

When the boardroom doors are shut, transactions with related parties often take on a golden hue. When the same decision is subjected to the bright light of the Internet and social media, it can take on an entirely different look.

BOARD ACTION STEPS

1. Discuss
Review the church's conflict of interest policy for adequacy.

2. Determine
Next, determine if the board consistently follows the conflict of interest policy.

3. Discern
Ensure that the board considers the possible ministry impact if a related-party transaction is disclosed on the Internet or social media. (For more resources, download *ECFA Governance Toolbox Series No. 3: Conflicts of Interest*[1] *and 7 Essentials of Church Related-Party Transactions.*[2])

ENDNOTES

[1] *ECFA Governance Toolbox Series No. 3: Conflicts of Interest – Addressing Board and Organizational Conflicts of Interest: Avoiding Trouble, Trouble, Trouble with Related-Party Transactions* (Winchester, VA: ECFAPress, 2015. Visit http://www.ECFA.org/Toolbox.www.ECFA.Church/EBooks.aspx.

[2] ECFA, *7 Essentials of Church Related-Party Transactions*, www.ECFA.Church/EBooks.aspx.

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