

*Guest Column
Spring 2008*

Year of the Policy Manual - 2008

by Bob Harris, CAE and Eric Westover

This will be the year that policy manuals are taken from bookshelves to undergo significant updates because the IRS's redesigned *Form 990 – Return of Organization Exempt from Income Tax*. The Form asks several questions about an organization's policies. The aim is to answer the questions affirmatively by the time the form is used in 2009 for the 2008-tax year.

Because policy development is a board responsibility – not staff – boardrooms around the US will intensify their focus on these issues.

Refresher on Policies

The purpose of a policy is to interpret the broader governing documents: the bylaws, articles of incorporation and purpose statement. The board adopts policy as motions recorded in the meeting minutes.

The policies are transcribed from the minutes so they can be archived and referenced in the organization's policy manual. They represent the wisdom of current board to be passed along to successive volunteer leaders.

Revised IRS 990

Form 990, issued December 2007, includes several questions about policies. The table identifies the policy questions, including the actual wording and suggestions for implementation. (IRS Form 990 question numbers are indicated.)

Policy	Actual Question	Recommendation
Record Retention (Part VI, Sect B, 14)	Does the organization have a written document retention and destruction policy?	Ideally, contact a CPA <i>and</i> attorney for record retention schedules. Carefully review it and add documents particular to the organization, for instance, continuing education records or grievance files. (Be sure to consider state requirements in addition to federal.)
Whistleblower (Part VI, Sect B, 13)	Does the organization have a written whistleblower policy?	Adopt a policy that encourages staff and volunteers to come forward with credible information on illegal practices, without retribution. The statement may also be included in a personnel manual.

Policy	Actual Question	Recommendation
<p>Conflicts of Interest (Part VI, Sect B, 12)</p>	<p>Does the organization have a written conflict of interest policy? If yes, are the officers, directors or trustees, and key employees, required to disclose annually interests that could give rise to conflicts? Does the organization regularly and consistently monitor and enforce compliance with the policy? If yes, ... how is this done?</p>	<p>Board should discuss the concept of conflicts of interest, how to give notice to leaders and its application through the year. The discussion should result in a COI policy applicable to volunteer leaders and staff. Some organizations ask at every board member while reviewing the agenda if any director has a conflict of interest to disclose.</p>
<p>Audit and Audit Committee (Part XI, 2)</p>	<p>Were the organization’s financial statements audited by an independent accountant? If yes, does the organization have a committee that assumes responsibility for the oversight of the audit, review or compilation ... and its selection of an independent accountant?</p>	<p>Seemingly broad enough to allow for a choice of an audit, review or compilation. Indicates need for a subgroup of the board to serve as the audit committee. A policy might indicate that the “finance committee also serves as the audit committee,” especially in organizations with limited volunteers.</p>
<p>Meeting Minutes (Part VI, Sect A, 8)</p>	<p>Does the organization contemporaneously document the meetings held or written actions undertaken during the year by the following: (a) the governing body; (b) each committee with authority to act on behalf of the governing body?</p>	<p>While most organizations are careful to record appropriate board meeting minutes, this IRS question may expand a policy so that committees must keep minutes.</p>
<p>Public Records (Part VI, Sect C, 18)</p>	<p>IRS Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990 and 990-T (501c3s only) available for public inspection. Indicate how you make these available. Describe in Section O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public.</p>	<p>This question promotes transparency and public awareness. The board should consider what is required to be public (distinguished from what should be treated with confidentiality) and establish policy and processes for compliance.</p>
<p>Compensation (Part VI, Sect B, 15)</p>	<p>Did the process of determining compensation of the following persons [for CEO, Executive</p>	<p>To ensure that compensation is comparable to other nonprofit organizations in the region --- and</p>

Policy	Actual Question	Recommendation
	Director, or top management official] include a review and approval by independent persons, comparability data and contemporaneous substantiation of the deliberation and decision?	commensurate with the mission and goals of the organization --- many organizations turn to their national and state society of association executives or chamber executives.

Policy Samples

To get started, a packet of samples is available as a single PDF, including information on the concepts of whistleblower, record retention, audit committee, conflict of interest, etc. To acquire a free copy by e-mail, write to bob@rchcae.com. The subject line *must* identify “Policy Samples Packet.”¹ [For more detailed information, Harris’ offers a 50-page spiral bound guide to policy development processes and examples that can be ordered for \$39 plus \$6 shipping and handling. The website is www.nonprofitcenter.com.]

Summary

The increased scrutiny on exempt organizations is a catalyst for updating the policy manual. Be sure to rely on legal and accounting counsel when adopting policy.

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Policy and the 990 REV 3-08.doc

¹ **Editor:** If you prefer to distribute the Policy Samples Packet on your own website, please save the PDF and direct readers to the page inside this article. This is the preferred distribution.

Graphic –Form 990 Issued December 2007

IRS Source – www.irs.gov/pub/irs-tege/f990rcord.pdf

the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	11		
Section B. Policies			
		Yes	No
12a Does the organization have a written conflict of interest policy? <i>If "Yes":</i>	12a		
b Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b		
c Does the organization regularly and consistently monitor and enforce compliance with the policy? <i>If "Yes," describe in Schedule O how this is done</i>	12c		
13 Does the organization have a written whistleblower policy?	13		
14 Does the organization have a written document retention and destruction policy?	14		
15 Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision:			
a The organization's CEO, Executive Director, or top management official?	15a		
b Other officers or key employees of the organization? Describe the process in Schedule O.	15b		
16a Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		
b If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable Federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?	16b		
Section C. Disclosure			
17 List the States with which a copy of this Form 990 is required to be filed.			
18 IRC Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you make these available. Check all that apply. <input type="checkbox"/> own website <input type="checkbox"/> another's website <input type="checkbox"/> upon request			
19 Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public.			