

October 2008 – “Transactions with Board Members”



Our staff experts conduct “special investigations” into your questions.

*Dear 501(c)SI Investigator,*

*We need to have our parking lot re-paved. One of our board members is the Paving King of Prince George's County. His firm has an excellent reputation for quality service and fair prices. When I suggested to management that we use the Paving King to do our lot, the Finance Director turned white and started babbling about transactions with related parties appearing on our audit and 990. Did I do something bad?*

*Facilities Maven in Fort Washington*

Dear FM in FW,

The staff of a nonprofit organization should try to use the nonprofit's resources in the most effective way possible. If the Paving King can provide the best quality parking lot at the lowest price, then it is appropriate to use him for the job. However, you cannot select him just on reputation and word of mouth. You need to prepare a request for proposal and solicit at least three bids for the job to be done. Since the Paving King is a board member, the final decision for contracting needs to be made by the board as a whole. The Paving King needs to recuse himself (not be involved) in any of the selection process or vote concerning the contract. The vote needs to be recorded as part of the minutes of the board meeting including a statement on why the Paving King was chosen (low bid, able to do in the timeliest fashion.) Your Finance Director is correct that this transaction will be reported on both the audit and the 990. However, the Finance Director should include the following language on both documents. At the xx/xx/08 board meeting, the board of directors approved a contract with the Paving King to redo the parking lot. The Paving King has been a member of the board since 2007. The decision was based on the Paving King having submitted the lowest of three bids. The Paving King recused himself from all board discussions on the issue and from the final vote.

Note: If your organization is a group home receiving state funds, the State of Maryland prohibits these organizations from doing any business with board members.