

Are the Red Flags Waving?

Your land trust's executive director has just been indicted on fraud charges, federal agencies are demanding repayment of misspent funds, and your board must decide whether to raise \$500,000 to repay debt, forfeit thousands of acres of land, or dissolve the land trust. The local paper is relentlessly covering the scandal, and you hope the land trust won't lose the land it has protected, donors won't withdraw support, and that you will not be held personally liable.

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"I'm disappointed; if anyone should have seen the red flags, it's you."

When charity scandals hit the news, they are often surrounded by questions such as "where was the board?" and "how could the board not see the warning signs?"

Many board members are not financial or management experts, and yet one of the board's primary governance responsibilities is to protect the public trust by performing oversight. So, how can you as a board member make sure that

you will never read about a scandal involving your organization in the local newspaper? By looking for and paying attention to red flags, and by making sure that the board of your land trust fosters a culture of candid inquiry and discussion. Following are a few questions that will help you spot the red flags. Any "No" answers should be a cause for immediate concern, discussion and board action.

- **Are the financial statements timely, easy to understand, complete and accurate?**

At a minimum, board members should receive internal financial statements quarterly and after the end of the fiscal year to make strategic decisions and plan for the future. The best ones compare current statements to previous periods and to the annual budget to highlight trends and significant deviations.

- **Do the monthly or quarterly financial statements match the audited reports?**

Internal financial statements are not intended to replace, but to supplement the audited financial statements, and they should be accurate. If there are major variances in account balances, this is a red flag that needs further investigation.

- **Are expenditures in line with the board-approved budget and spending authority?**

Based on annual organizational goals, the budget should be approved by the full board prior to each fiscal year. The budget links long-range and annual plans to daily operations and enables the board to provide clear spending guidelines to the staff and committees without micromanaging. Budget and actual revenues should exceed expenses.

- **Do two or more unrelated persons divide financial duties?**

A good way to limit spending authority, implement financial controls and prevent conflicts of interest is to separate responsibilities for deposits, payments and account reconciliation. This greatly reduces the temptation and likelihood of embezzlement and fraud.

- **Does the board choose a qualified CPA to conduct an annual audit or review?**

An essential financial safeguard, a committee of the board should be responsible for contracting with an outside CPA to conduct the audit or review annually, and for selecting a different auditor at least every few years. The auditor must be familiar with



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"After a long commute home from metropolitan Washington D.C., the return to the Virginia countryside is a visual martini."
—Birge Watkins, President of the Land Trust of Virginia

BY Megan Taaffe

nonprofit accounting commensurate with the scope of operations and the board or a board committee should meet with the auditor to discuss the findings.

• Does the organization carry adequate insurance, including Directors and Officers coverage?

Insurance is part of risk management, a tool to protect the assets of the land trust. Directors and Officers Insurance protects the personal assets of board members from possible lawsuits, minimizing the risk of board service.

• Does the board provide oversight for grants?

The board should approve any grant-funded projects and oversee the use of restricted and donor-designated funds. Federal, state, local and foundation grants often come with a significant administrative burden. The board should ensure that accounting systems, reports and recordkeeping policies are adequate to track and account for restricted funds.

• Does the board review the executive director's performance annually?

The board of directors is responsible for maintaining the public trust and protecting the land trust's assets regardless of whether it chooses to delegate daily operations to an executive director. In a staffed organization, the board is responsible for reviewing the executive director's annual performance and for defining the limits of delegated authority.

• Has the board approved all of the policies cited in IRS Form 990 and *Land Trust Standards and Practices*?

Boards govern through policies, leaving operations to the staff (or volunteers who fulfill staff duties). Policies outline responsibilities and limits to authority, and provide efficient guidance to those who manage daily operations. The IRS and the Land Trust Alliance have each identified a set of policies that, if implemented properly, will prevent most red flags from flying.

PROFILE OF A BOARD MEMBER CHALLENGE GROUP

Virginia is for (Conservation) Lovers

The Land Trust of Virginia (LTV), based in Middleburg, is dedicated to protecting Virginia's rich heritage. In its 10 years of service, LTV has protected 10,860 acres of farmland, rolling hills, pristine forests and treasured historic sites. Executive Director Don Owen is proud of what his land trust is able to accomplish, despite growing threats from Washington D.C.'s urban sprawl. "In 2009, we achieved three goals that only five years ago seemed like impossible dreams: we became accredited, we acquired our 100th easement, and we protected our 10,000th acre," says Don.

Since 2009 LTV has become even stronger, focusing on outreach to the communities that it serves and partnering with other environmental organizations. Through both statewide and local efforts such as the Rural Village and Community Conservation Initiative and the Goose Creek Conservation Priorities Initiative, LTV is making tremendous advances in land protection. Don explains that both LTV's top priority and its biggest challenge for 2011 is financial sustainability. "It's a tough time for everyone right now, and especially for nonprofit organizations. We're happy to say that people are still supporting us in our work to protect Virginia's significant natural and cultural resources."

LTV marks its second year at 100% participation in the Board Member Challenge, a program through which land trust board members are encour-

aged to support the Alliance's work as individual members. Don and his board of directors support the Challenge because of their positive experience with accreditation, a process that, Don explains, "helped us mature into a strong, vibrant organization."

Don says, "thanks to LTV's Board Chairman Turner Smith, who led the accreditation effort, each and every member of our board now understands what it means to run a professional land trust. With all of us on the same page, our programs are more focused and every aspect of our operations is done to professional standards. Accreditation may have been the hardest thing we've ever done, but it was also the best thing that we've ever done."

Thank you to the Land Trust of Virginia and all of this year's Board Member Challenge participants [see www.lta.org/bmc].

• **Does the board review the organization's policies regularly?**

Policies are only relevant if they are used; regular review and revision keep them current.

• **Are land transactions based on policies and plans?**

The board or the land committee should standardize land transactions through policy and procedures, making exceptions only after thoughtful discussion of costs and benefits.

• **Is the board comfortable asking difficult questions? Is information shared freely?**

The board should know the names of major donors, be aware of projects that are underway, hear stories of successes and failures, and understand the current position and trajectory of the organization. An officer, committee member, other board member or executive director (if any) refusing to share information with the board or stifling respectful discussion and disagreement is a red flag.

• **Does the board represent the community it serves and have a process to regenerate itself?**

The board should reflect the diversity of its community and bring a variety of perspectives to the collective vision of the organization. Like any organism, the board must "regenerate" itself, welcoming new leaders who represent the diverse socio-economic groups, abilities, ages and ethnicities of our ever-changing communities. Land conservation is increasingly viewed as one component of healthy communities—linked to health, social justice and a strong economy. Strive to make your board reflect the diverse landscapes, ecosystems and communities in which you live.

• **Does the land trust have good standing with its donors and with the regional and national land trust community?**

Sometimes the first individuals to suspect problems are the land trust's partners, especially if they are involved in grant-funded projects and reporting. If partners begin to voice (or whisper) concerns, then listen carefully and address the issues raised with the board, staff (if any) and partners.

Land trust board members are talented individuals who are passionate about

conservation, and donate countless hours of service. As if they didn't have enough to do—setting mission and vision, developing policy, providing fiscal oversight, attracting resources and hiring and overseeing the executive director—they must also be ever vigilant and aware of widely accepted standards for good governance. *Land Trust Standards and Practices* can help board members detect warning signs that should trigger additional investigation. No one can stop a dishonest person from stealing, but the board can foster an environment where this is less likely to occur by looking for and paying attention to red flags, and by fostering a culture of candid inquiry, openness and discussion. 🌿

CAROL MAYES AND SARA WILSON, PRINCIPALS OF MAYES WILSON & ASSOCIATES, LLC (WWW.MAYESWILSONASSOCIATES.COM) COMBINE A PASSION FOR CONSERVATION WITH EXPERTISE IN SCIENCE AND ORGANIZATIONAL DEVELOPMENT TO HELP LAND TRUSTS SUCCEED. FREQUENT TRAINERS AT LAND TRUST ALLIANCE CONFERENCES, THEY PROVIDE WEBINARS AND CUSTOM TRAINING SESSIONS FOR THE VOLUNTEERS AND STAFF OF CONSERVATION ORGANIZATIONS THROUGHOUT THE COUNTRY.

TIPS

HERE ARE TIPS TO CREATING AND SUSTAINING A BOARD WITH A CULTURE OF INQUIRY THAT WILL KEEP THE ORGANIZATION AWAY FROM TROUBLE.

Encourage everyone to talk when decisions are made; ask for comments.

Appoint a "devil's advocate" for each meeting to represent other perspectives.

Develop a process of inquiry by deciding what questions must be asked prior to making a decision.

Routinely evaluate programs, policies, plans, board and staff (if any) to reveal problems, opportunities, successes and failures.

Use evaluation results to get the training needed, address the problems, follow opportunities, celebrate the successes or make the changes necessary to improve the organization.



LAND TRUST
Board Member Challenge

AS OF JULY 2011

Board Member Challenge

When 50% or more of your land trust's board members join the Land Trust Alliance as individual members, your land trust will be recognized and celebrated nationally for providing leadership for America's land conservation community. To learn more, contact Bryan Martin (bmartin@lta.org, 303-519-2027) or visit www.lta.org/bmc.

100%



Renewed Success at 100% Level

- Alachua Conservation Trust
- Bainbridge Island Land Trust
- Coastal Mountains Land Trust
- Columbia Land Conservancy
- Hudson Highlands Land Trust
- Land Trust of Virginia
- Minnesota Land Trust
- Orient Land Trust

Renewed Success at 50% Level

- Cayucos Land Conservancy
- Feather River Land Trust
- Genesee Valley Conservancy
- Kiawah Island Natural Habitat Conservancy
- Land Trust for Santa Barbara County
- Land Trust for Tennessee
- Natural Lands Trust
- Palmer Land Trust
- Peconic Land Trust
- River Fields
- Southbury Land Trust
- Thousand Islands Land Trust
- Tri-Valley Conservancy
- Tug Hill Tomorrow Land Trust
- Woodstock Land Conservancy