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The Buck Stops with the Board of Directors -- or at Least it Should

By Pablo Eisenberg
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The shadow of William Aramony still looms over the nonprofit world. Mr. Aramony, the former president of United Way of America, the umbrella group for roughly 1,400 local United Ways, was sentenced to prison in 1995 for defrauding the charity while on the job. His actions left the public's confidence in nonprofit groups badly shaken and local United Ways struggling to overcome his legacy.

Like some corporate CEO's, Mr. Aramony lived the high life, enjoyed expensive perks, established separate project accounts that he used for private purposes, and swindled charitable dollars from his organization's coffers. His board, composed primarily of corporate CEO's, permitted him to run the United Way unchecked and unaccountably. To a great extent his do-nothing board shares the blame for what happened.

Since the Aramony scandal broke, little seems to have changed in the nonprofit world. Many boards of directors of foundations and charities, both large and small, are still failing to exercise their responsibility in ensuring the financial and programmatic health of the organizations they oversee. While the public is demanding increased accountability and transparency from nonprofit organizations, a number of them continue to operate as though they are immune from scrutiny and impervious to ethical standards of behavior.

Nonprofit boards are the first and last line of defense against poor performance, corruption, and lack of accountability. They are supposed to be the protectors of the public interest. The buck stops with them. That, at least, is the theory. In practice, it often doesn't work that way.

Consider, for example, the United Way of the National Capital Area, in Washington, which has been under fire for well over a year. In the summer of 2001, Ross W. Dembling, then a member of the organization's board, questioned the group's expenditures and practices. Around the same time, the head of the United Way's corporate-donation division was terminated because she had complained to the CEO, Norman O. Taylor, that the organization was claiming credit for donations it had never received. Subsequently, Mr. Taylor and his top executives fired four other key staff members after they raised questions about the way the organization was run. In addition, Mr. Dembling and two other board members, who also challenged organizational practices, were forced out.

To counter allegations of executive credit-card abuses and questionable accounting practices, Mr. Taylor and the board commissioned a routine audit despite a senior staff member's recommendation that a more comprehensive, investigative audit be conducted. Mr. Dembling called the routine audit, which was based solely on the United Way's paperwork, a whitewash.

Further inquiries by the news media revealed serious malpractice by the United Way organization: inflating contributions by as much as $2-million, withholding money earmarked for certain local charities, and grossly overcharging for administrative costs.

In addition, the organization, with the encouragement of Mr. Taylor, had approved a $72,000-a-year consulting contract for Mr. Taylor's predecessor, Oral Suer, who, while on the job at the United Way of the National Capital Area, had taken an early pension that netted him an estimated $200,000 -- an action not authorized by the pension's rules, according to *The Washington Post.*

At first Mr. Taylor denied knowing about the accounting problems, improper financial practices, and Mr. Suer's contract, and he refused to listen to staff members who wanted to reform organizational procedures. A key official of the Washington United Way accused Mr. Taylor of lying about his knowledge of the arrangement with Mr. Suer. Throughout this ordeal, the board of directors -- minus the critics who had been forced out -- did little but support Mr. Taylor's leadership.

The board might have spared itself the trouble had it exercised due diligence in hiring Mr. Taylor in the first place. That had been done largely on the recommendation of Mr. Suer. Mr. Taylor had been terminated as president of the United Way of Central Maryland, in Baltimore, in 1995 for what its board members called "sustained unsatisfactory performance," according to *The New York Times.*

Under pressure from the news media, donors, and local leaders, the board -- after almost a year and a half of turmoil -- finally adopted the recommendations of an outside ethics committee to help resolve the crisis. It also accepted Mr. Taylor's resignation.

The acting president of the board, A. Neil Barkus, called Mr. Taylor's resignation a noble thing. A noble thing? After what he had done to the United Way, Mr. Taylor should have been suspended or fired long before the situation got out of hand.

Where was the board during this period? Instead of taking tough action, it preferred to drive off the few members who questioned the organization's practices and responsibly exercised their oversight duties. Board members did not investigate allegations of financial improprieties. They circled the wagons against their growing number of critics. Their inaction and irresponsibility have resulted in a national scandal, further harm to the United Way network, the loss of donors, and the erosion of public confidence.

The dissolution this month of the board of the Washington United Way and the proposed selection of a new board are promising developments, but only if the new trustees are broadly representative of the total community, and not simply corporate officials or major donors.

Circumstances at the John and Mary R. Markle Foundation, a major developer of *Sesame Street* and long known as an innovative supporter of education and communication programs, provide another example of a board that has failed in its fiduciary and oversight responsibilities.

Zoë Baird, the foundation's president, has spent only $40-million of the $100-million she promised to spend in five years. Half the $40-million has been spent on administrative costs, including salaries, consultants, and public-relations help, according to The New York Times. She also spent a good deal of the money on projects that did not materialize. Her administration has come under attack from outside organizations, some of them Markle grant recipients, as well as from many former employees.

In fact, at least 30 employees have left the organization in the past couple of years, and some of them have openly criticized the foundation, further undermining its reputation.

To make matters worse, a number of departing staff members were asked to state in writing that they would not criticize the foundation as part of their severance agreements. In addition, Ms. Baird's management policies include a rule that staff members not speak to board members without first receiving permission. Those who do so inadvertently are then required to notify Ms. Baird about such conversations.

One would have thought that the Markle board would have demonstrated some concern about the huge staff turnover and the criticism of outside groups, not to mention the high-handed administrative policies typical of autocratic regimes.

Nor has the board been disturbed by the spending practices of the foundation. High travel costs, luxurious hotels, high-priced consultants, and an expensive redesign of its offices have been marks of the foundation's activities. So were the extravagant expenditures of Ms. Baird's former chief planner, who resigned, but only after the press raised questions about her behavior. Large expenses for public relations, some of it to burnish Ms. Baird's image, also seem to have escaped the purview of the board.

Indeed, the board, chaired by Joel Fleishman, a law professor at Duke University, has defended the foundation's practices without equivocation. Had it not apparently had its head in the sand, the board might have prompted some changes that could have avoided the criticism the foundation has drawn.

Nonprofit groups such as the United Way in Washington and well-known foundations are not the only institutions that have been tainted by the brush of questionable administrative and investment practices. A few years ago, one of the pilot ships of the community-development movement, Eastside Community Investments, in Indianapolis, went down in flames because of poor program investments and management, abetted by an inattentive board of directors that didn't do its job.

Many charities have been stung by the high fund-raising costs of their programs, none more so than some of the AIDS charity bike rides. The locally sponsored bikeathon in Washington, D.C., organized by the for-profit Pallotta TeamWorks, in Los Angeles, returned only 14 percent of all the money raised last year -- $3.6 million -- to charity. The company, which recently suspended operations, had been sued for several years by AIDS groups in California because of the enormous costs of its fund-raising operations. The use of high-priced, for-profit fund raisers whose costly operations net only a small percentage of the funds raised for the charities they serve should be carefully monitored and investigated by prospective nonprofit clients. The latter's boards need to be heavily engaged in this process to ensure sound fund-raising practices and public accountability.

Nonprofit organizations need board members who will take the time and effort to oversee the organizations' policy and planning activities, exercise fiduciary responsibilities, and evaluate the performance of the director and staff members.

That means board members must be working board members, not names on a roster, and must be fully prepared to take responsibility for their groups' successes and failures. Being a good board member is often hard work, not fun, but it is a volunteer job that is crucial to society.

Good, tough board members are the force that can eliminate the dark cloud of William Aramony that still hovers over the nonprofit world.

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