Eli's Hospice Insider

Compliance: Safeguard Your Reputation By Avoiding Insider Deals With Board Members

Non-profit hospice gets raked over the coals in the press for doing business with board members and their spouses.

How careful are you in avoiding the appearance of impropriety with your Board of Directors? You may want to get more diligent after seeing the case of **Hospice of the Bluegrass** in Lexington, Ky.

In a June 23 article, the Lexington Herald-Leader newspaper takes the nonprofit to task for spending about $1.8 million over five years on business deals with companies of their board members or their spouses.

For example: The hospice paid about a half million dollars for legal services from a firm that had two attorneys on the board; nearly $900,000 for insurance from a firm that had two employees on the board; nearly $400,000 for printing from a firm owned by the chief clinical officer's husband; more than $22,500 for heating and air conditioning from the CFO's husband; and more than $28,500 to the Herald-Leader while its editor sat on the board, the newspaper reports.

Deals with board members and their families aren't exactly illegal, but "if you can avoid it, you should," Assistant Attorney **General David Spenard** told the newspaper. "I don't think it's per se wrong, but it's something you should try to navigate around."

"Interested-party transactions are not illegal or improper as long as certain rules are followed and, in every case, Hospice has followed those rules," the hospice's attorney, **C. Timothy Cone**, wrote in an e-mail to the Herald-Leader.

Going the extra mile to find other vendors or to show you held an open bidding process, etc. may seem like an unnecessary and costly hassle. But "it's a perception issue as much as anything, and a lot of the time, as we all know, the perception of a situation can prove more problematic than the situation itself," **Danielle Clore**, founding director of the Non-profit Leadership Initiative at the **University of Kentucky**, told the Herald-Leader.

Perception of the practice may be colored by local custom. In a survey of more than 5,100 non-profits that was included in a 2007 **Urban Institute** report on nonprofit governance, 21 percent said they had done business with a board member in the previous two years. But in Lexington, only three of 40 non-profits in the city with annual revenues above $10 million made such deals, the newspaper says.

Opening the door: Negative attention from the press can lead to more problems for targets. Many commenters on the newspaper website supported Hospice of the Bluegrass, but there also were a number of comments that appeared to come from disgruntled employees complaining about management techniques, working conditions, and more.