

Ethics and Accountability for Nonprofits

America's charitable nonprofits rely on the public trust to do their work. That is why it is so important that charitable nonprofits continuously earn the public's trust through their commitment to ethical principles, transparency, and accountability. If only one donor loses confidence in a charitable nonprofit because the nonprofit behaves unethically, that's one too many. That's why the National Council of Nonprofits has many resources on its website that showcase ways that charitable nonprofits can express and demonstrate the core values of accountability and transparency.

What practices demonstrate accountability and transparency?

- [Code of ethics and statement of values](#)
- [Conflict of interest policy](#)
- [Cybersecurity](#)
- [Document retention policies](#)
- [Ethical fundraising](#)
- [Ethical leadership](#)
- [Executive compensation](#)
- [Financial management](#)
- [Financial transparency](#)
- [Financial literacy for nonprofit boards](#)
- [Good governance policies for nonprofit boards](#)
- [Internal controls](#)

- [Public disclosure policy](#) - State laws may independently require nonprofits to disclose various documents to the public.
- [Saying 'thank you' to donors](#)
- [Leading \("best"\) practices](#) for charitable nonprofits, state by state.
- [Whistleblower protections](#)

LEGAL REQUIREMENTS OF ETHICAL CONDUCT

- IRS regulations require that charitable nonprofits may not be “[operated for the benefit of private interests](#).” This prohibition is the foundation of the “public benefit” requirement, and the legal, as well as ethical, guiding principal for all charitable nonprofits.
- The [Sarbanes-Oxley Act of 2002](#) includes two provisions that apply to nonprofits: (1) a prohibition against destruction of documents that are tied to a criminal investigation, and (2) a prohibition of retaliation against whistleblowers. As a result of the Act (and questions posed on the IRS Form 990) most nonprofits are now aware of the "best practices" of having a board-approved whistleblower protection policy, and a document retention/destruction policy.
- The [IRS Form 990](#), Part VI, includes several questions focusing attention on governance practices that while not legally required, demonstrate accountability and transparency. These questions ask whether the nonprofit has a written [conflict of interest policy](#), as well as procedures for managing conflicts, and whether the full board approves [executive compensation](#), as well as the IRS Form 990 prior to filing; Other questions ask whether the nonprofit has a [whistleblower protection policy](#) and a [document retention](#) policy.

STATE LAW REQUIREMENTS

State laws may also address accountability and transparency practices. For example, some state nonprofit corporation laws dictate the procedures a board of directors must follow to address conflicts of interest, and several states' laws prohibit loans to board members. State laws fundraising regulations also typically dictate a threshold level of financial transparency through annual corporate (state) filings and [charitable solicitation registration](#) requirements. While many nonprofits adopt [codes of ethics](#), we are unaware of any state law that requires a nonprofit to adopt one. (Many of [state-specific best practices](#) for nonprofits address codes of ethics and ethical conduct in general.)

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[Accountability](#)

[Transparency](#)

[Best Practices](#)

[Guidelines](#)

[Principles](#)

[Practices](#)

[Code Of Ethics](#)

[Conflict of Interest](#)



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