

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
BOARD OF TRUSTEES**

**Report of the  
Ad Hoc Governance Committee**

**Approved by the National Trust Board of Trustees**

**May 16, 2004**



**CONTENTS**

**Report of the Committee**

Transmittal Memorandum from Committee Chair Jonathan Kemper.....	ii
I. Introduction.....	1
II. Conflicts/Code of Conduct Policies.....	4
III. Accountability through Audit Committees and Internal Control Procedures.....	6
IV. Corporate Relationships, Disclosure and Review.....	8
V. Formalizing Board Oversight of Governance Issues.....	9
VI. Conclusion.....	9



**NATIONAL TRUST**  
for HISTORIC PRESERVATION

**TO:** Board of Trustees  
**FROM:** Jonathan Kemper (Chair, *Ad Hoc* Governance Committee)  
**CC:** Michael Andrews; Spencer Crew; Dealey Herndon; Bruce Judd (Committee members)  
**DATE:** May 10, 2004  
**SUBJECT:** Report of the *Ad Hoc* Governance Committee

Following up on the interim report on the work of the Ad Hoc Governance Committee that I provided to the Board at the February 2004 meetings in Indianapolis, I am pleased to submit the attached Report of the Committee.

The Committee's recommendations, described in detail in the attached Report, may be summarized as follows:

- The Committee recommends that the conflict of interest policies used by the National Trust should be updated to better protect the organization against potential conflicts, and that a key element of those policies should be a general rule restricting transactions between the National Trust and members of its Board of Trustees. (Report, Section II, pages 4-5.)
- The Committee recommends that the policies and procedures relating to the Audit Committee's responsibilities be updated to better reflect current corporate governance standards, and that the Committee itself be elevated from a subcommittee of the Business & Finance Committee to a standing committee of the Board. (Section III, pages 6-7.)
- The Committee recommends that the National Trust President and Vice President for Finance certify that the National Trust's financial statements fairly present the financial conditions and operations of the organization. (Section III, page 8.)
- The Committee recommends that the National Trust adopt a "whistle-blower" protection policy to facilitate and protect individuals who wish to report possible financial and other irregularities. (Section III, page 8.)
- The Committee recommends that additional steps be undertaken to ensure that corporate relationships entered into by the National Trust do not present potential conflicts of interest with the mission and programs of the National Trust. (Section IV, pages 8-9.)
- The Committee recommends that the committee structure of the Board be revised to provide a permanent oversight function to address governance issues by adding a governance oversight function to the Trusteeship Committee, so that it would become the Trusteeship & Governance Committee. (Section V, page 9.)

If the Board approves the recommendations of the Committee, the following actions will be needed to implement the recommendations:

- The Board will approve revisions to the Bylaws to make the Audit Committee a standing committee of the Board of Trustees and to change the name and function of the

*Protecting the Irreplaceable*



Trusteeship Committee to the Trusteeship & Governance Committee. Paul Edmondson, as Corporate Secretary, will prepare Bylaws revisions for approval by the Board in October.

- The Board will approve the Charters for the Audit Committee and the Trusteeship & Governance Committee. The Report includes proposed drafts for each of these two charters, and the Committee proposes that final versions be adopted by the Board at the October meeting simultaneous with the establishment of the new standing committees.
- The Board would finalize and adopt a revised Conflicts of Interest policy and a “whistle-blower” protection policy. The Report includes working drafts of these policies (at Attachments B and E respectively) based on the discussions of the Committee, and these will be finalized for Board approval, either at the October meeting or earlier through the Executive Committee.
- The Department of Finance, under Greg Coble, would take the following steps prior to the October meeting of the Board:
  - Develop a system for tracking and reporting corporate relationships of the National Trust through a Registry of Corporate Relationships. The other department heads would be instructed by the President to work with the Finance Department to ensure that all relevant information is provided. It is anticipated that the registry would be in place before the October meeting of the board.
  - Finalize a form for certification of the National Trust’s financial statements by the President and Vice President for Finance.

It is important to note that these recommendations—if adopted by the Board of Trustees and implemented as described above—would not drastically alter the corporate governance functions or practices of the National Trust. They will, however, create new responsibilities and standards, both for the Board and for management.

At the Board level, this would, in particular, include new responsibilities for the Audit Committee and the Audit Committee Chair. For example, the Audit Committee would not only be responsible for retaining the Trust’s independent auditor, but would also have to approve any non-audit work to be carried out by the Auditor. The Audit Committee Chair would have a role in (1) the review of potential conflicts of interest or restricted transactions under the National Trust’s Conflict of Interest Policy, and (2) the review of matters raised by any “whistle-blower” complaint.) The Chairman and the Executive Committee would also have a direct role in approving certain restricted transactions.

At the management level, the President and the Vice President for Finance would have additional responsibilities for certifying the financial statements, and all the Vice Presidents would have additional duties relating to tracking and reporting corporate relationships. The Vice President & General Counsel, who currently serves informally as the National Trust’s Ethics Officer, would have that role formalized, and would be responsible for the initial review of potential conflicts of interest. The Office of the General Counsel would be responsible for communicating the revised policies described above to those individuals with roles affected by these revised policies.

All in all, while these changes will not mean any major realignment of the National Trust’s governance functions, the Committee members believe that they will result in improvements that will serve the organization well in the long term.

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
BOARD OF TRUSTEES**

**Ad Hoc Governance Committee Report**

**I. Introduction**

**Background**

During the May 2003 meetings of the Board of Trustees, Chairman Bill Hart announced his intention to appoint a new *ad hoc* committee of the Board to address governance issues. He subsequently asked Vice Chairman Jonathan Kemper to chair the committee, and asked Trustees Mike Andrews, Spencer Crew, Dealey Herndon, and Bruce Judd to serve on the committee. Paul Edmondson, Vice President & General Counsel, and Greg Coble, Vice President for Administration, Finance, and Information Services, assisted the committee, and additional advice was provided by Suzanne Ross McDowell of the law firm of Steptoe & Johnson, an attorney who practices in the area of not-for-profit law.

Chairman Hart's decision to form this new committee followed an active board discussion at the May 2003 meeting that centered around a series in the *Washington Post* on The Nature Conservancy, which raised a number of questions about conflicts of interest (both real and perceived), and about specific actions taken by The Nature Conservancy on financial and real estate matters. That series, however, only reflected the significant amount of public attention now being given to the issue of corporate governance and public accountability, following the collapse of Enron in 2001 and the enactment of the Sarbanes-Oxley Act of 2002.<sup>1</sup> While much of this public attention—and most of the regulatory reforms that have followed—has been directed to corporate governance and accountability in the for-profit sector, many organizations in the nonprofit sector have recognized that nonprofit governance practices also have room for improvement, and that the standards being promulgated in the for-profit sector may be looked to as useful benchmarks for all types of corporations. As Independent Sector has stated:

The passage of [the Sarbanes-Oxley Act] should serve as a wake-up call to the entire nonprofit community. If nonprofit leaders do not ensure effective governance of their organizations, the government may step forward and also regulate nonprofit governance. Indeed, some state attorneys general are already proposing that elements of the Sarbanes-Oxley Act be applied to nonprofit organizations. Nonprofit leaders should look carefully at the provisions of Sarbanes-Oxley and determine whether their organizations ought to voluntarily adopt particular governance practices.

All of these things have—quite correctly—encouraged the National Trust to review its governance structure and practices to see that the organization is well-positioned to identify and address any concerns before they become problems. We are not alone in this regard: many other nonprofit organizations have either undergone, or are in the process of undergoing, a similar governance review. And, as a result, many other nonprofit organizations are making changes to

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<sup>1</sup> The Sarbanes-Oxley Act (formally entitled the “American Competitiveness and Corporate Accountability Act of 2002”), was passed by Congress to impose a number of significant corporate governance standards for publicly-traded companies, particularly with respect to the internal processes used by corporations and their auditors to account for and review financial information. Many of these standards (and similar standards adopted by the Securities and Exchange Commission, the New York Stock Exchange, and NASDAQ) are now being considered for implementation in some form by nonprofit corporations. These various standards were considered by the Governance Committee in examining the National Trust's own governance structure, as described in this report.

their internal governance structure, policies, and practices similar to those being recommended in this report.

## The Committee's Charge

Chairman Hart's charge to the ad hoc Governance Committee was as follows:

*The ad hoc Governance Committee will be responsible for reviewing and addressing issues that relate to the governance of the National Trust, including the roles and responsibilities of, and relationships between, trustees, management and staff, advisors, historic sites councils and boards, affiliated statewide and local organizations, licensees and corporate partners, and affiliated corporations. In particular, the committee will assist the board and management of the National Trust to ensure that the activities and decisions of the National Trust adhere to the highest standards and will hold up to public scrutiny as being fully consistent with the organization's congressional charter and its fiduciary responsibilities to its membership, its donors, and to the public. The committee should evaluate current policies and practices to see how the organization may strengthen the effectiveness of the board, its committees, and other internal control and risk management systems. The committee should take into account not just legal and regulatory requirements, but other measures to improve the operation of the institution, including national standards and practices in the field of corporate governance. Finally, the committee should consider permanent steps to be taken to ensure continued board oversight on issues of governance.*

## Focus of the Ad Hoc Governance Committee

Although Chairman Hart's charge was a broad one, the members of the Governance Committee decided fairly early in the process that the committee, given its ad hoc nature, should not try to tackle the wide range of governance issues that might relate to the operations of a large nonprofit such as the National Trust, but instead should identify and address several major issues of importance and current interest.

First, given the attention given to the subject in the *Washington Post* series, the committee members decided that the subject of **conflicts of interest** should be a major area for review, and particularly how conflicts issues should be handled in the specific context of an organization with a web of affiliated persons (i.e., not just trustees, but also advisors and others), and affiliated organizations such as subsidiaries.

Second, the committee felt that the general principles derived from Sarbanes-Oxley (and related standards) relating to **financial oversight and accountability** should be considered, particularly as regarding: the adequacy of the board's structure for financial oversight and accountability through the Audit Committee (including qualifications and independence of board and key committee members); procedures designed to bring issues to the attention of the board, particularly about financial impropriety or misconduct ("whistle-blower" procedures); and ways in which to enhance the capacity of board members to carry out their governance roles. While most of the requirements of Sarbanes-Oxley do not apply to the nonprofit sector, many of the principles are viewed as a source of possible benchmarks for "best practices" in the nonprofit sector.

Third, the committee members decided that another important issue for consideration should be the need to avoid **mission conflicts** that might occur due to our increased corporate sponsorship programs.

Finally, there was a consensus that that the ad hoc committee should formulate a recommendation for ensuring that the **governance oversight function** is permanently made a part of the board structure.

### **Good Corporate Governance: Some General Principles**

While much has been written on the subject (particularly following the enactment of Sarbanes-Oxley), there is no single definition for what constitutes “good” corporate governance, particularly for nonprofit corporations. At the same time, a number of organizations that focus on nonprofit management and accountability have developed standards or guiding principles, which are useful to consider.

For example, the Better Business Bureau Wise Giving Alliance has developed some 20 detailed standards designed to further the following four principles for nonprofit organizations: (1) that the organization’s board is active, independent and free of self-dealing; (2) that the organization has defined, measurable goals and objectives in place and a defined process in place to evaluate the success and impact of its programs and that also identifies ways to address any deficiencies; (3) that the organization spends its funds honestly, prudently and in accordance with statements made in fund raising appeals; and (4) that the organization’s representations to the public are accurate, complete, and meaningful.

Another set of principles, developed by the Maryland Association of Nonprofit Associations but now in use by similar organizations in many other states, lays out eight guiding “Standards for Excellence” for nonprofit corporations. Paraphrased, these eight standards are as follows:

**Mission and Program:** A nonprofit should have a well-defined mission, and its programs should effectively and efficiently work toward achieving that mission. Nonprofits have an obligation to ensure program effectiveness and to devote the resources of the organization to achieving its stated purpose.

**Governing Body:** An effective nonprofit board should determine the mission of the organization, establish management policies and procedures, assure that adequate human and financial resources are available, and actively monitor the organization’s financial and programmatic performance.

**Conflicts of Interest:** Nonprofit board and staff members should act in the best interest of the organization, rather than in furtherance of personal interests or the interests of third parties. A nonprofit should have policies in place, and should routinely and systematically implement those policies, to prevent actual, potential, or perceived conflicts of interest.

**Human Resources:** A nonprofit’s relationship to its employees and volunteers is fundamental to its ability to achieve its mission. An organization’s human resource policies should address both paid employees and volunteers, and should be fair, establish clear expectations, and provide for meaningful and effective performance evaluation.

**Financial and Legal:** Nonprofits must practice sound financial management and comply with legal and regulatory requirements. A nonprofit’s financial system should assure that accurate financial records are kept and that the organization’s financial resources are used in furtherance of the organization's charitable purposes.

**Openness:** Nonprofits are private corporations that operate for public purposes with public support. As such, they should provide the public with information about their mission, program activities, and finances. A nonprofit should also be accessible and responsive to members of the public who express interest in the affairs of the organization.

**Fundraising:** An organization’s fundraising program should be maintained on a foundation of truthfulness and responsible stewardship. Its fundraising practices should be consistent with its mission, compatible with its organizational capacity, and respectful of the interests of donors and prospective donors.

**Public Affairs and Public Policy:** Nonprofits should represent the interests of the people they serve through public education and public policy advocacy.

As reflected in the Governance Committee’s interim report to the Board in February 2004, it is the sense of the Governance Committee that the National Trust’s existing governance structures, policies, and practices have adequately protected the organization and the interests of the Trust’s membership and the general public. A short questionnaire that the Committee asked Trustees to fill out at the last board meeting appears to confirm this: of all the respondents, most either “agreed strongly” or “agreed somewhat” that the National Trust met the “Standards for Excellence” criteria.

Nonetheless, every nonprofit corporation—like any for-profit corporation—can be improved, and the Committee has several suggestions in each of the areas of focus noted earlier.

## **II. Conflicts/Code of Conduct Policies**

By any standard, one of the basic tenets of good corporate governance is that steps should be taken to identify and avoid conflicts of interest and ensure proper conduct by board members, staff members, and other affiliated individuals. The National Trust, like most other nonprofit organizations of its size, has long had separate conflicts of interest policies for staff, for the Board of Trustees, for members of the National Trust’s Board of Advisors, and for members of Sites Council boards. The conflict of interest policy for the Board of Trustees (which is a part of a broader board-approved statement on the roles and responsibilities of Trustees) is set out as a policy on business transactions between individual trustees and the National Trust. (The Advisor’s and Sites Council member conflicts policies are based on the Trustee policy, and the same policy has recently been adopted by the boards of the National Trust’s taxable subsidiaries, the National Trust Community Investment Corporation and NTCIC II.) The policy does not prohibit transactions between Trustees and the National Trust, but requires that they be subject to “close scrutiny.” The policy also states that nonprofit organizations in which a Trustee holds a position should be entitled to participate in transactions with the National Trust on the same basis as any other nonprofit organization, so long as full disclosure is given.

The members of the committee discussed several different aspects of the conflicts of interest policy at length, including (1) whether transactions between the Trust and Trustees (or other affiliated individuals) should be absolutely banned; (2) whether the same conflicts standards should be applied to Advisors, Site board or council members, directors of subsidiaries, or other affiliated persons; and (3) whether conflicts (or potential conflicts) should be reviewed at the board level.

**Recommendations:** The members of the committee felt that the existing Trustee conflict of interest policy should be revised to give clearer guidance, particularly as to the process for disclosing, reviewing, and resolving potential conflicts. In addition, while there is no evidence that the organization has encountered any problems with its existing policies, the members of the Governance Committee felt that it would be in the best interests of the organization to adopt a fairly restrictive policy on the issue of transactions. Consequently, the Governance Committee recommends that the conflict of interest policy should state a general rule prohibiting transactions between the National Trust and members of the Board of Trustees (including non-trustee members of Board committees), although there should be some process for authorizing exceptions on an extraordinary basis if determined by the Board to be in the best interests of the organization. The Committee members recommend that any consideration of exceptions be vetted with the assistance of an outside Independent Advisory Panel—a panel of three individuals independent of the National Trust selected to advise the Board on matters relating to conflicts of interest and public accountability. (The Committee recommends that one member of the panel should be a former Trustee.) The Committee members also recommend that the restrictions on such transactions should apply to former Board members for a year following their departure from the Board. (As with the existing policy, however, this prohibition would not prevent a nonprofit preservation organization which happens to be associated with a Trustee from participating in programs generally available to other nonprofit preservation organizations, so long as the Trustee in question is not involved in the transaction.)

The Committee members recommend that transactions between the National Trust and Advisors, Historic Sites Council members, or other affiliated individuals (including subsidiary directors and major donors over a specific amount) should not be completely prohibited, as in the case of Trustees, but should be subject to a disclosure and “strict scrutiny” review procedure to ensure that no conflict exists, and that the transaction is in the best interests of the National Trust. The revised policy should include a detailed process for meaningful and independent review of such transactions. The Committee members also felt that the boards of the National Trust’s subsidiary organizations should also have similar conflicts policies based on the revised Trustee policy.

A draft of a revised conflict of interest policy reflecting these concepts will be finalized for final board action in October 2004.

*Policy on Loans.* One specific provision of Sarbanes-Oxley in the conflict of interest area that deserves special mention is a provision that generally prohibits loans to any director or executive of publicly traded companies. (This prohibition applies to a number of nonprofits under their state incorporation law as well, although it is not applicable to the National Trust because of its federal charter.)

**Recommendation:** Under the general transactions restriction described earlier, the recommended conflict of interest policy would effectively categorize loans to Trustees as a prohibited transaction. The Governance Committee believes that the National Trust should adopt a broad prohibition on loans to other “insiders”—including employees—and recommends that this be specifically stated as part of the conflicts policy. This prohibition would not apply to small advances under existing policies to employees (such as the policy that authorizes small advances for personal computer purchases) or in the case of hardship requests for the advancement of not more than two weeks’ salary.

### **III. Accountability through Audit Committees and Internal Control Procedures**

As noted earlier, the Sarbanes-Oxley Act of 2002 (together with standards developed by the Securities and Exchange Commission, the New York Stock Exchange, and NASDAQ) address corporate governance for publicly-traded companies particularly with respect to the internal processes used by corporations and their auditors to account for and review financial information. Many of these standards are now being considered for implementation in some form by nonprofits, and a number of organizations such as Independent Sector and nonprofit associations in the educational and health fields have developed recommendations for their members based on Sarbanes-Oxley and related standards. These recommendations address issues such as: the credentials of audit committee members; the independence of auditors and approval of non-audit services by accounting firms; reporting of auditors to Audit Committee (including executive sessions); certification of financial statements by CEOs and CFOs; review of internal controls on disbursements, procurement, borrowing, and investments; review of executive compensation; whistleblower policies; code of conduct procedures; loans to trustees, officers, or employees; and disclosure of insider dealings with Trustees or other insiders.

The requirements of Sarbanes-Oxley that are most applicable to nonprofit organizations relate to several specific areas, particularly: (1) the independence and competency of the board's Audit Committee and the roles and responsibilities of the organization's outside auditors; and (2) enhanced responsibilities for senior management to ensure financial disclosure and avoid conflicts of interest. These areas were expressly considered by the Governance Committee.

*Audit Committee Roles and Responsibilities and Relationship with Outside Auditors.* The Sarbanes-Oxley Act includes a number of provisions designed to increase the independence and competency of Audit Committees for publicly-traded companies. The Audit Committee is required to be responsible for appointing, compensating, and overseeing them, and approving all audit services. The Audit Committee is required to be composed of independent board members (no members of management or employees may be voting members), and members of the committee are not to receive consulting or advisory fees from the organization. In addition, the company is required to disclose whether they have at least one "financial expert" on the committee (and if not, to explain why not). (The SEC has implemented rules defining financial expertise, including that the person has an understanding of generally accepted accounting principles and financial statements; the ability to assess the general application of such principles; experience in preparing auditing, analyzing, or evaluating financial statements of a breadth and level of complexity for comparable organizations; an understanding of internal controls and procedures for financial reporting; and an understanding of audit committee functions. There are a variety of ways in which an individual may acquire this type of expertise.)

At present, the National Trust's audit committee is structured as a subcommittee of the Business and Finance Committee, and its charter is simply stated as follows:

"The Audit Subcommittee assists the Board of Trustees in the execution of its fiduciary responsibility. The subcommittee oversees and assesses the National Trust's business risks and control environment; oversees the institution's financial reporting and the fullness of financial information disclosure; evaluates the internal and independent audit processes; reviews and follows up on the reports and recommendations of the auditors regarding the financial health and business

practices of the National Trust; and makes recommendations related to the appointment of the Trust's independent auditor.”

The members of the subcommittee are selected from the membership of the Business and Finance Committee, and appointed by the Chairman as specified in the Bylaws.

Generally, the members of the subcommittee are selected because of their experience in financial or business matters, although none is formally required to possess financial expertise as would be required under Sarbanes-Oxley. Consistent with the independence requirement of Sarbanes-Oxley, no employee or officer of the National Trust serves on the Audit Subcommittee (and in fact, under the Bylaws, the President is expressly made an ex-officio member of all Board standing committees *except* the Audit Committee). The Audit Subcommittee makes recommendations on selection of the Trust's outside auditor, but does not currently finalize the selection, which is made by management.

***Recommendations:*** The Governance Committee recommends that several steps be taken to clarify and enhance the Audit function of the Board of Trustees. As a preliminary matter, the committee recommends a structural change to elevate the Audit Subcommittee to a full standing committee of the Board of Trustees, to reflect its important role within the governance of the organization. The Audit Committee's roles and responsibilities should be set out in a more detailed board-approved charter or charge that clarifies its role and authorities. Among other things, the charter should address the qualifications of audit committee members, and the specific roles and responsibilities of the Committee.

The Governance Committee does not recommend the formal determination that a committee member has “financial expertise” as required for publicly-traded corporations under the SEC rules, but instead recommends that at least one member of the Committee have a working familiarity with business or nonprofit finance and accounting practices. The Audit Committee should have at least five members and should meet at least three times a year during the regularly-scheduled meetings of the Board. While the Governance Committee recommends that the members of the Audit Committee continue to be appointed by the Chairman, the members of the Committee recommend that the Chairman of the Audit Committee be appointed by the Chairman *subject to* the approval of the Executive Committee of the Board of Trustees, and that the Audit Committee regularly report to the full Board. The Audit Committee should also have the specific power to retain or terminate the independent auditors and approve all audit engagement fees and terms, consistent with the concepts of Sarbanes-Oxley. The Audit Committee should also be responsible for reviewing and approving any non-audit functions carried out by outside auditors. The Audit Committee should also obtain regular reports from the President and Vice President for Finance, as well as reports from the Vice President & General Counsel regarding any legal or regulatory matter that may have a significant impact on the National Trust's operations or financial statements.

*Enhanced Responsibilities for Senior Management to Ensure Financial Disclosure.* The Sarbanes-Oxley Act includes a number of provisions designed to increase the responsibility of management for financial review and disclosure. One principal provision is a requirement that the Chief Executive Officer and the Chief Financial Officer of publicly-traded companies certify the appropriateness of the financial statements, and that they fairly present the financial conditions and operations of the company. Although this requirement does not apply to nonprofit organizations, many nonprofits are beginning to follow this practice as a means of

indicating that management is willing to stand behind the financial statements of the organization, and that management accepts full responsibility for ensuring that internal financial management and accounting processes are adequate to assure public confidence in the financial reporting by the organization. The Committee considers this to be a practice that the National Trust should follow as well.

**Recommendation:** The Governance Committee recommends that the National Trust President and Vice President for Finance, Human Resources, and Information Technology certify the financial statements for the National Trust.

*Protection for Employees Reporting Questionable Conduct.* Another important aspect of enhanced responsibilities imposed on senior management by Sarbanes-Oxley is reflected in several provisions of Sarbanes-Oxley designed to facilitate and protect from retaliation those who wish to complain about questionable accounting or auditing practices or other types of questionable conduct (the “whistleblower” provisions). For publicly-traded companies, Sarbanes-Oxley imposes specific obligations on the Audit Committee to establish procedures for receipt, retention and treatment of complaints regarding questionable accounting or auditing matters and for confidentiality for employees, and prohibits retaliation against an employee that reports conduct that defrauds shareholders. Another provision (imposing criminal penalties on retaliating against a person who provides to a law enforcement officer any truthful information relating to the commission or possible commission of any federal offense) applies to nonprofit and for-profit entities alike.

**Recommendation:** The Governance Committee recommends that the National Trust adopt a whistleblower policy that sets forth a procedure for employees to make complaints, both confidentially and anonymously at the option of the employee, and prohibits retaliation against whistleblowers.

#### **IV. Corporate Relationships, Disclosure and Review**

The Committee has also considered the question of how to ensure that corporate relationships entered into by the Trust do not present potential conflicts of interest with the mission and programs of the Trust. These issues are addressed currently in the corporate marketing and licensing area (the Trust’s licensing policies, for example, require consideration of mission), but the breadth and scope of corporate relationships extend well beyond the organization’s marketing and licensing arrangements (even including investments), and some additional level of formal oversight at the board committee level may be appropriate.

**Recommendation:** The Governance Committee recommends that the National Trust fully disclose to the public its corporate relationships, whether sponsorship, licensing, contracting, or otherwise, through a formal registry of corporate relationships (both of the National Trust itself as well as its subsidiaries), which would be publicly disclosed on the National Trust’s web site, as a means of ensuring both appropriate internal consideration and full public disclosure of such relationships. The Committee recommends that the Department of Finance, Human Resources, & Information Technology be responsible for compiling this information, in consultation with other Departments at the National Trust. The Committee also recommends that those Board Committees with oversight of the National Trust’s business, corporate marketing, and licensing programs review their policies and internal practices to ensure that the National Trust’s

preservation and public advocacy programs are not improperly compromised or constrained due to corporate relationships.

## **V. Formalizing Board Oversight of Governance Issues**

***Recommendation.*** In addition to its recommendation to elevate the Audit Committee to a full standing committee of the Board of Trustees, the Governance Committee recommends that the Board of Trustees make governance oversight a permanent function of the board. After consideration of various options, the Committee recommends that the existing Trusteeship Committee be restructured as the Trusteeship & Governance Committee, so that the nominations function currently carried out by the Trusteeship Committee is fully integrated into broader governance oversight. This structure—combining the nominations and governance functions within one committee is consistent with the standards applied to public-traded companies under Sarbanes-Oxley—and is becoming a common governance structure for many nonprofit corporations as well. This combination of roles will also help to ensure that the board will continue to give appropriate attention to Trustee qualifications, selection, new trustee orientation, and continuing trustee training as an ongoing matter of good corporate governance.

## **VI. Conclusion**

As indicated previously, the charge to the *Ad Hoc* Governance Committee was a broad one, and the Committee chose only to address several major areas to consider in detail. The recommendation of the Committee that the National Trust Board of Trustees establish a standing committee to address governance issues, if implemented, will permit a number of other governance issues to be considered and addressed by the Board during the future. In the meantime, the specific issues reflected in this report, and the recommendations of the Committee reflect several significant changes that the members of the Committee believe would enhance the overall governance role of the National Trust's Board of Trustees.

If the Board of Trustees accepts the concepts outlined in this report of the *Ad Hoc* Governance Committee, the committee will work with the Trust's management to finalize the draft policies and procedures described here, and will present proposed revisions to the Bylaws in October 2004 to address the structural changes recommended by the Committee.