

Summary of Actions Taken to Strengthen Governance, Policies and Procedures June 2003 – May 13, 2005

Over the past 22 months, The Nature Conservancy conducted a comprehensive, top-to-bottom review of its practices with the assistance of an expert and independent advisory panel. The panel presented a set of far-reaching recommendations for strengthening organizational oversight. The Conservancy has adopted virtually all of the panel's recommendations, and made numerous additional changes that affect nearly every aspect of the Conservancy's day-to-day operations. All told, the Conservancy has made dozens of changes to ensure it is acting in accordance with the highest standards. Highlights of these changes follow.

Strengthening Governance Roles and Responsibilities

The Board of Directors increased its effectiveness and day-to-day organizational oversight of the Conservancy by reducing the size of the Board from 41 to 21 members, reducing the number of committees from six to three and meeting in person four, instead of three, times a year. Board members serve on only one committee so that they can focus their time and be more deeply involved in oversight and management. The Conservancy also created a new management and Board structure that enhances the Board's ability to carefully and thoroughly assess and manage organizational and reputational risks.

In the past, the Conservancy's decentralized structure made it difficult to oversee the conservation decisions of the organization's various chapters. Now, a new trustee council is helping bridge the span between central and local operations with new written standards and comprehensive operating principles for all 1,500+ trustees serving on more than 50 chapter boards.

Sarbanes-Oxley Reforms

While not required for nonprofits, the Conservancy has adopted many of the core principles of the Sarbanes-Oxley Act of 2002. Its financial statements are audited, with auditors selected by the Board's Audit Committee, and the lead audit partner is rotated every five years. Internal audit staff's investigative role has been expanded, and additional procedures are in place to ensure internal audit findings are acted upon and compliance is documented. The Conservancy has created and filled the position of chief compliance officer. This person is responsible for ongoing training of all staff and establishing systems to promote compliance with all applicable laws, the Conservancy's policies and procedures, and the highest ethical standards. All key managers attend training and execute an annual certification saying that they and their staff have complied with the Conservancy's policies and procedures and certifying that any conflicts have been disclosed. A whistleblower policy and hotline are in place to protect employees who wish to report a potential violation. The Board determines executive compensation, and no loans can be made to directors, officers, or employees. The Conservancy has also taken important steps to improve the transparency and public understanding of its Form 990 filings. The Conservancy's Form 990 for Fiscal Year 2003 included more information about the Conservancy's governance and its direct charitable programs and accomplishments.

Addressing Potential Conflicts of Interest

The Conservancy's long standing conflicts of interest policy has been strengthened in several respects that go well beyond legal requirements, including an expanded definition of who is considered a related party. The Conservancy considers Board members, trustees, staff and their immediate families and major donors to be related parties. This expanded definition not only increases the number of potential conflicts that require advance review and approval, but also ensures that actual, as well as perceived, conflicts of interest are disclosed, reviewed, and properly handled. The process for reviewing conflicts has also been expanded

beyond the General Counsel's office to involve review by a high-ranking staff Conflicts Committee. Cases involving Board members and major donors require review and approval from the Board's Audit Committee. New training programs have been implemented to help staff spot and properly address cases that involve even the appearance of a conflict.

In addition, some transactions – although allowed by law – have been prohibited completely to avoid even the appearance of impropriety (e.g. purchases and sales of land, including conservation easements, involving related parties such as directors, officers, trustees, employees, and the families of these groups).

Strengthening Policies for Specific Conservation Transactions

Conservation Easements. The Conservancy accepts conservation easements only on lands that fall within scientifically identified ecologically important priority landscapes. Based on the yearlong efforts of its Conservation Easement Working Group, the Conservancy is strengthening its policies and procedures on the documentation, monitoring, and enforcement of easements. In 2001, following consultations with the IRS, the Conservancy established comprehensive procedures governing proposed modifications to easements. These procedures were strengthened in 2003 as part of the Conservation Easement Working Group changes. The Conservancy will not agree to a substantive modification of an easement unless the original conservation purpose of the easement is not compromised, the General Counsel's office determines that the modification does not result in a net private economic benefit, and approval is granted from the relevant state authority. To promote tax law compliance by donors, the Conservancy will not sign IRS Form 8283 certifying receipt of a land contribution, such as an easement, unless the Conservancy receives a copy of the appraisal to be used by the donor in establishing tax values, and a written certification by the appraiser that IRS "qualified appraisal" standards have been followed. Additionally, in situations involving donations from Board of Directors members, trustees, staff, the immediate family of those three groups, and major donors, the appraiser must also certify that the relationship did not influence his or her appraisal. (Existing tax law requires only that the Conservancy certify receipt of the gift.)

Land Sales to Governments. The Conservancy's long-standing "no net profit" policy is designed to ensure that the organization recovers only its costs, even if the land has increased in value while held by the Conservancy. The organization strengthened this policy to better account for the direct and indirect costs associated with acquiring, holding, and managing land pending a sale to the government. The policy also was strengthened to ensure that the value of a land gift, any government funding related to the acquisition of that property, and any other significant income derived from the property are passed on to the government.

Conservation Buyer Transactions. Conservation buyer transactions are designed to keep conservation lands in private hands. In these transactions, the Conservancy acquires a piece of property and sells it to a private buyer subject to a conservation easement designed to permanently preserve the land's ecological values. The easement reduces the value of the land and the Conservancy sells the property for its new fair market value reflective of the easement encumbrance. All of the Conservancy's conservation buyer transactions served important conservation purposes and complied with all applicable laws. Of the 10,000 Conservancy land transactions conducted over the past 10 years, less than two percent, or 169, were conservation buyer transactions. Of those 169, only 19 were with trustees or employees of The Nature Conservancy. All of these properties were sold for fair market value and subjected to conflicts of interest review. Nevertheless, the Conservancy no longer engages in conservation buyer transactions with related parties. All conservation buyer properties must be in a priority site as identified by Conservancy scientists. The organization now widely advertises each property to provide a fair purchase opportunity to all, relies on independent appraisals to ensure it receives fair market value, and follows specific procedures to make transactions more transparent and to promote appropriate tax treatment.