

Developing a Conflict of Interest Policy

by Stewart K. Watkins, CPA, Senior Associate

Posted on April 7, 2021



We make countless decisions every day of our life. Many of these are most likely inconsequential, but there will be plenty of choices to make that have a greater impact. Part of life includes learning how to make the best choices, but there is not always a clear answer, nor is it always easy. Decisions made by employees are no exception. Managers trust their workers to make the best decisions for their team, their department, or their organization as a whole. However, sometimes situations arise with competing priorities. Known as “conflicts of interest”, these situations can result in employees making a decision that does not align with – or worse, actively works against – an organization’s mission.

This is where a conflict of interest policy can help. You will not be able to prevent conflicts from arising, but you can give employees a code to follow and tools to navigate the situation. A well written conflict of interest policy can answer questions before they come up. Some common conflicts employees may encounter include:

- Purchasing goods from a business owned by a family member
- Investing in a business that provides services to their employer
- Dating or relationships between the employee and their supervisor
- Hiring a friend or relative
- Offers of favors or gifts of substantial value from a potential vendor
- Doing business for a competitor
- Using confidential information for personal benefit

It's important to note that such events don't necessarily mean that anyone has done anything wrong. However, the decision may not have been made with the organization's best interest in mind. Conflict of interest policies are not meant to prevent these scenarios from occurring; they should be designed to make decisions and motives more transparent.

When designing a conflict of interest policy, there are several items that should be considered. First, check to see if your organization already has a policy that could be updated or if one needs to be created from scratch. It's also important to know if there are any specific requirements for your organization type. For example, Arizona governmental organizations should consider the provisions in [Arizona Revised Statute 38-509](#).

What is a conflict? – Decide what constitutes a potential threat to an employee's decision-making process. Relationships with other people and organizations, both inside and outside the organization, is a good starting place. Also consider events or conditions that may affect how a choice is made.

How to disclose conflicts? – A common practice many organizations use is to ask employees to provide a written statement of any conflicts of interest they may have, such as identifying any investments. Organizations should also provide a method to disclose conflicts that suddenly come into play, such as an unexpected offer from a competing organization.

How often should conflicts be disclosed? – A best practice is to have new hires disclose any potential conflicts of interest upon hire, but situations change. Events in an employee's life may cause new conflicts to present themselves. Consider having employees disclose all of their potential conflicts in writing on an annual basis.

Who maintains conflicts of interest? – Asking employees to disclose conflicts of interest is a great start, but a specific individual or department should have the responsibility to keep track of these disclosures. This is more than just deciding who sets aside space in their filing cabinet to store signed statements; the individual or department should be able to check if a potential conflict exists.

How to keep track of conflicts of interest? – Don't forget to take advantage of technology. While paper forms are easy to distribute, consider using automated forms that employees can sign digitally. Worksheets can also make it easier to track and maintain any conflicts that are disclosed. Often, this is where the biggest weakness in a conflict of interest policy arises – the documentation is filled out and filed away, instead of making it accessible to team members who should need it.

How to address conflicts? – Determining the potential impact of the conflict is key; if a potential conflict of interest may impact an operational decision, the organization needs to determine how the conflicted employee will play a role in the decision-making process. For example, purchases from a business owned by an employee's family may require authorization from someone besides the employee.

The content of these pages is for general information purposes only and does not constitute advice. Heinfeld, Meech & Co., P.C. tries to provide content that is true and accurate as of the date of writing; however, we give no assurance or warranty regarding the accuracy, timeliness, or applicability of any of the contents.