

Madoff Scandal Proves that Foundations Need Stronger Leadership

By Aaron Dorfman

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There were more than 100 charitable foundations that lost a combined total of more than \$2 billion to Bernie Madoff and his Ponzi scheme. These are funds that were intended to serve the public good and cannot be replaced. The blame for this rests overwhelmingly with Mr. Madoff, who cleverly and willfully deceived thousands of investors, including foundations that had been established by generous donors seeking to give back to their communities. Mr. Madoff is scheduled to be sentenced on June 29th for his crimes.

The men and women who serve on those foundations' boards, however, are not completely off the hook. They are supposed to be stewards of the public trust, overseeing tax-exempt assets for the benefit of the broader public. Many observers have commented about the need for foundation boards to improve their due diligence when considering potential investments, and there can be no doubt there is real room for improvement in that regard. But a new analysis conducted by my organization leads to an important and startlingly simple conclusion: To avoid falling prey to the next Bernie Madoff who comes along, foundations would be wise to increase the size and diversity of their boards.

The foundations that had the poor judgment to invest with Mr. Madoff share one thing in common: they all were governed by small, homogeneous boards of trustees. This put partially-public foundation dollars under their care at greater risk. ...

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