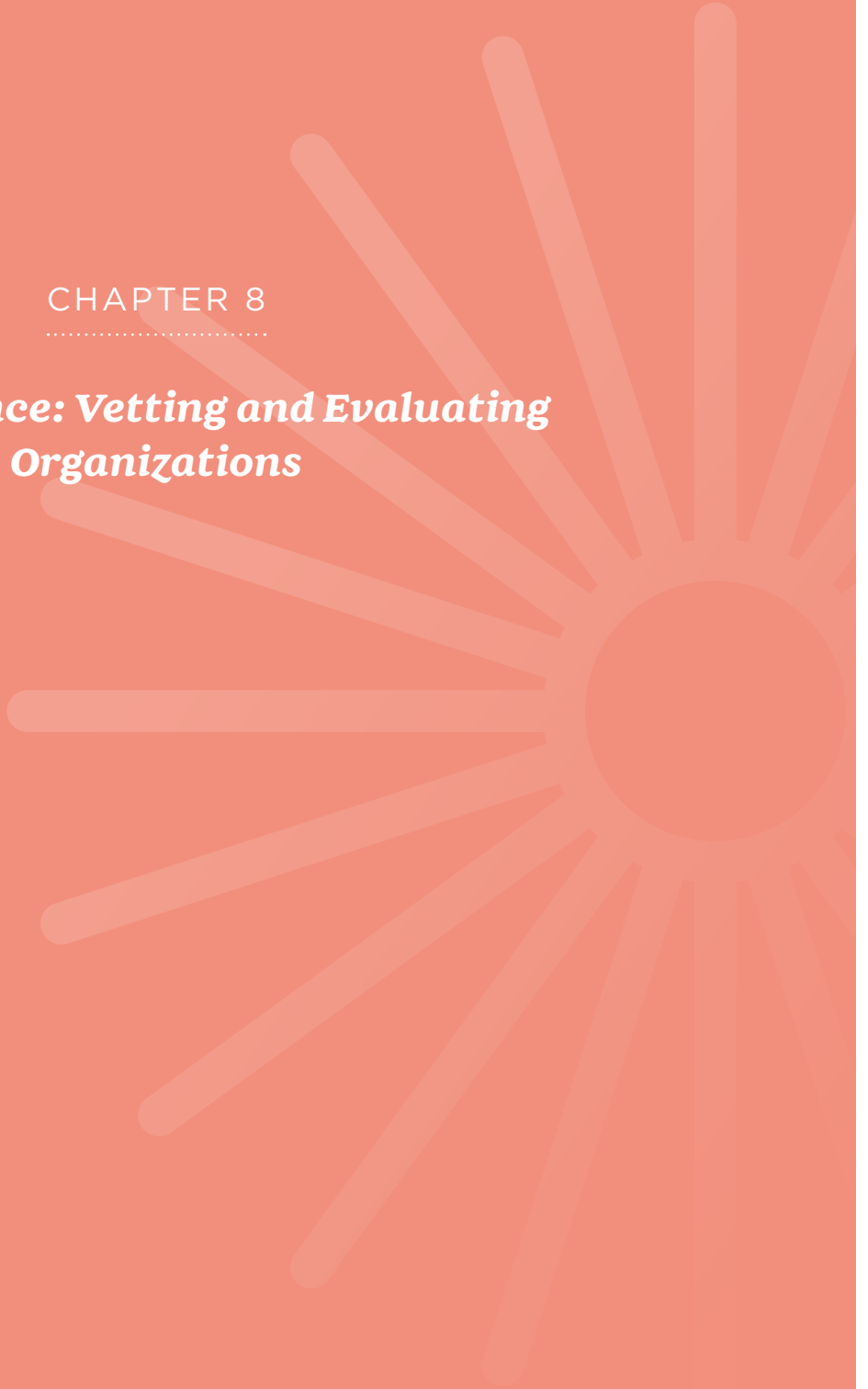


CHAPTER 8

Due Diligence: Vetting and Evaluating Organizations



ONCE YOU HAVE COMPILED A LIST of potential organizations to fund, you'll want to conduct a due diligence process to vet them for effectiveness. Due diligence involves assessing a nonprofit's goals, strategies, and capabilities to determine whether the organization is worth your support. This chapter addresses two essential questions:

- What is due diligence, and why does it matter to my philanthropy?
- How do I conduct the due diligence process—what tools and resources should I use?

Due Diligence: Essential Questions

Due diligence covers six basic areas:³²



Legal Compliance: Is the organization in compliance with tax and other regulations?



Goals: What does the organization aim to accomplish?



Strategies: What are the organization's strategies, i.e., its "theory of change," for reaching its goals?



Capabilities: What are its capabilities for implementing these strategies in terms of leadership and human resources, financial capability, and transparency?



Diversity, Equity, and Inclusion: How well does the organization meet your DEI criteria?



Monitoring, Learning, and Evaluation: How does the organization know if it is making progress?

We hope this chapter will help you figure out what's important to know, where to find it, and how to decide whether you have sufficient information to feel comfortable funding an organization.

How to Conduct Due Diligence

Here are the general methods we recommend for finding answers to these questions:

- Search for material available online—from the organization itself or from third parties.
- Talk to people you know who have contributed to or worked with the organization.
- Ask the organization for materials that are not available online.
- If you are prepared to make a significant gift if the information is positive, meet with the nonprofit's leaders.³³

We touched on some of these topics in the preceding chapter. The main source of information about a nonprofit comes from the organization itself. The contents of its website should provide answers to most of the questions above. To avoid creating unintended expectations or imposing an undue burden on the organization, we suggest postponing direct contact with its staff until you're pretty likely to make a gift.

In **Chapter 3: Learning About Philanthropy With and From Others**, we introduced the Philanthropist Resource Directory, which lists different types of donor support organizations. Individuals who join education providers or peer networks may have access to staffed support on activities such as due diligence and vetting. In some instances, community foundations can take the lead in performing due diligence.

Charity Evaluation Websites

Although the primary source of information about an organization is its own website, it is usually valuable to look to third-party sources as well. Several independent websites provide information about nonprofit organizations. GuideStar publishes both an organization's Form 990 tax return and information provided by the organization, including, at times, information that depicts its impact; GiveWell and ImpactMatters provide impact evaluations; and Charity Navigator provides information about an organization's finances and transparency.

GuideStar (guidestar.org) aggregates information about the 2.7 million nonprofits registered as 501(c)(3) organizations in the United States. In addition to publishing their Form 990 tax returns, it categorizes organizations into levels from bronze to platinum on the basis of the amount of information they *self-report*. A gold level distinction from GuideStar means that the organization has provided a sufficient amount of information to answer the "Charting Impact" questions, which include most of the Essential Due Diligence Questions listed above. To reach the "platinum" distinction, nonprofits must also provide at least one sample metric used for evaluation. Most of GuideStar's information is free, but you can access more detailed data for a monthly fee. **CAUTION!** Other than an organization's 990, GuideStar does not vet an organization's data but only provides a platform on which it can share information about its work—so be cautious when reviewing the organization's answers to the Charting Impact questions and responses to the Platinum-level data.

GuideStar's Charting Impact Questions

1. What is your organization aiming to accomplish?
2. What are your strategies for making this happen?
3. What are your capabilities for making it happen?
4. How will you know if you are making progress?
5. What have and haven't you accomplished so far?

learn.guidestar.org/hubfs/Charting%20Impact%20Small%20Group%20Handout%202018.pdf



GuideStar relies significantly on organizations' tax returns. Check to see that they're recent.

- **GiveWell (givewell.org)**, which is aligned with the Effective Altruism movement, identifies the most cost-effective organizations addressing health and other problems among vulnerable populations in the Global South. Its reviews are based on third-party evaluations of impact as well as an organization's transparency and its ability to absorb more funding. In addition to analyzing the evidence base for interventions, GiveWell compares organizations using metrics such as "cost per life saved."

GiveWell recommends specific nonprofits for donors to fund. For example, it recommends the Malaria Consortium as a top charity, having reviewed its seasonal malaria chemoprevention (SMC) program and estimated that "the total cost to achieve the equivalent of four person-months of SMC coverage is \$6.93."³⁴ GiveWell's analysis of the SMC program found that it has a strong evidence base, high cost effectiveness, a good track record of implementation, and room for more funding to scale up its activities.³⁵

GiveWell sets a high bar for the evidence needed to assess an organization. As of June 2019, it published reviews of only eight "top charities" and eight "standout charities."

- **ImpactMatters (impactm.org)** rates the impact of direct service organizations that are focused on health, anti-poverty, education, and similar outcomes.³⁶ It uses a star rating system (one to five stars) based on its estimates of the cost-effectiveness of the nonprofit's programs and an analysis of its financial health and impact transparency. Like GiveWell, ImpactMatters bases its reviews on the outcomes of evaluation studies, but it does not have as high a bar and plans to release over 1,000 reviews in the coming months.

- **Charity Navigator** (charitynavigator.org) rates 9,000-plus US-based nonprofits that have revenues over \$1 million and provides data on another 1.8 million nonprofits in the US. It allows donors to search by an organization's name or category of focus. Charity Navigator's ratings focus on financial health, accountability, and transparency and are based primarily on information provided on an organization's Form 990 and website.³⁷ **CAUTION!** Charity Navigator does not answer many of the questions necessary for due diligence, and it uses overhead costs as a proxy for effectiveness, which is highly misleading (for more information on the importance of overhead costs, see **Chapter 10: Making Gifts**). A four-star rating from Charity Navigator alone is not enough to signal that an organization is worthy of your support.



Like GuideStar, Charity Navigator relies significantly on organizations' tax returns. Be sure that they're recent.

Grantees of Respected Foundations

Another way to vet organizations is to look at the grantees of respected foundations in your focus areas. You often can search the websites of larger foundations for an up-to-date list of the organizations they support. For example, the Gates Foundation has a comprehensive database of grants, which is searchable by name, topic, year, program, and award amount.³⁸ The Ford Foundation has a similar searchable grants database.³⁹ You can find foundations in your focus areas through Internet searches or through (paid) access to the online directory of foundations⁴⁰ run by Foundation Center (now Candid).

Core Due Diligence Questions, Illustrated by Application to an Actual Organization

In this section, we will walk you through applying the due diligence questions to an actual organization: D.C. Central Kitchen.



Is the Organization in Compliance With Legal Regulations?

WHY IS THIS IMPORTANT?

A positive answer to this question will help ensure that the organization is not a scam or a front for terrorist or other illegal activities. If you wish to claim a tax deduction for your gift, you should check that the organization has 501(c)(3) tax status under the Internal Revenue Code.⁴¹

WHAT TO LOOK FOR AND WHERE TO FIND IT:

- Use GuideStar or Charity Navigator to confirm that the organization is a registered 501(c)(3) nonprofit. Alternatively, you can check the IRS website directly.⁴²
- If you are concerned that the organization might be connected with terrorist or other illicit activities, see the US Department of the Treasury's list⁴³ and the Office of Foreign Assets Control's Specially Designated Nationals and Blocked Persons list ("SDN List").⁴⁴
- Nonprofits that are agents of activities for foreign entities or perform activities for them must register with the Justice Department under the Foreign Agents Registration Act (FARA). If the organization seems to have extensive international leadership or financial ties and you want to double-check whether it is fulfilling its legal obligations, you can check the FARA registration status on the Justice Department's website.⁴⁵

CHECKING D.C. CENTRAL KITCHEN'S COMPLIANCE

It's clear from D.C. Central Kitchen's website that it's a domestic organization. You can check on its 501(c)(3) status on Charity Navigator or GuideStar, where you can download its 990.



Goals: What is the Organization Aiming to Accomplish?

WHY IS THIS IMPORTANT?

Clear goals that address well-defined problems are signs that the nonprofit is focused—and therefore more likely to be effective.

WHAT TO LOOK FOR:

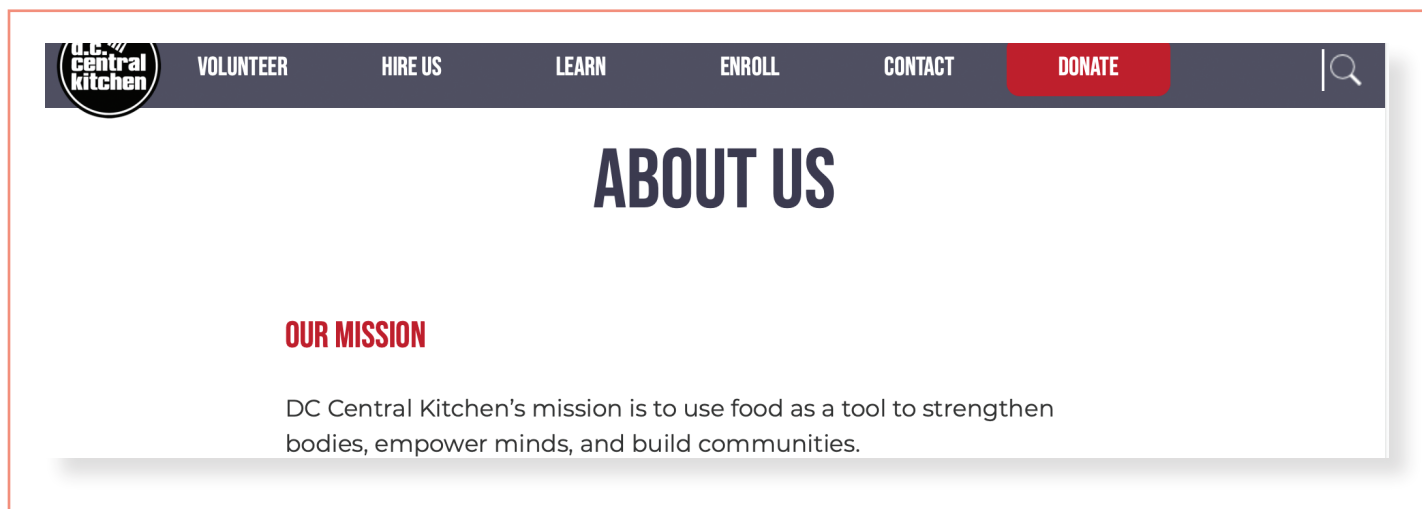
A description or statement of the problem the organization is addressing, its intended beneficiaries, and its goals.

WHERE TO FIND THIS INFORMATION:

- Look on the organization’s website for pages labeled “About Us,” “Our Work,” and the like.
- An organization’s annual report can be another useful resource. It is usually available online, sometimes under the “About Us” page.

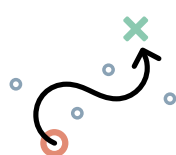
D.C. CENTRAL KITCHEN’S GOALS

You can find D.C. Central Kitchen’s mission statement under the “About Us” tab on its website.



Mission statements are meant to be high-level and fairly broad. So, like many mission statements, this one is pretty general and does not outline specific goals, and you will want to search deeper. You can find a link to the 2017 Annual Report under the “About Us” tab, which defines three reasonably clear and actionable goals:

- create opportunities for meaningful careers
- expand healthy food access
- test innovative solutions to systemic problems



What Are the Organization’s Strategies for Achieving its Goals?

WHY IS THIS IMPORTANT?

An organization with well-defined and evidence-informed strategies is more likely to achieve its goals.

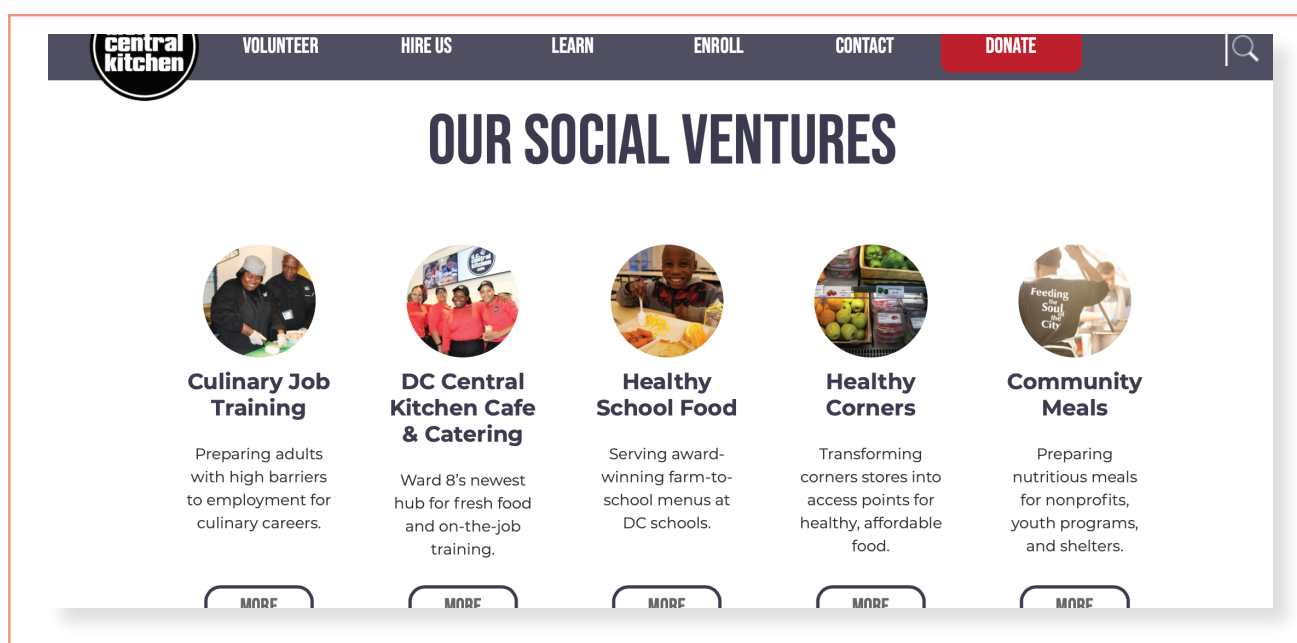
WHAT TO LOOK FOR:

- What approaches—such as providing direct services or advocating for policy changes—does the organization employ (see **Chapter 5: Understanding Problems, Their Causes, and Approaches to Solutions**)?
- Does the organization have a clear theory of change, and is it plausible (for more information, see **Chapter 6: Theory of Change, Monitoring, and Evaluation**)?
- Are the organization’s strategies informed by evidence from social science research or its own prior work?
- What are the risks of the strategies not succeeding? What are the risks of unintended harms to the beneficiaries or others?
- Do the organization’s main activities align with its strategies?

WHERE TO FIND THIS INFORMATION:

Organizations sometimes present their strategies on their websites, through their annual reports, or on their GuideStar and Charity Navigator profiles. Often, you may also be able to infer their strategies by reviewing their activities. If an organization's strategy remains unclear, treat this as a red flag and dig deeper to learn more.

D.C. Central Kitchen's annual report, posted on its website, describes its five main activities listed below.



Checking GuideStar, you also will find that D.C. Central Kitchen provided answers to the Charting Impact questions, including one question on strategy:

DC Central Kitchen fights hunger differently by using career training, job creation, and sustainable business practices to strengthen local food systems and reduce disparities in health and economic opportunity. We operate five social ventures which collectively recover 2 million pounds of food, prepare and distribute 3.5 million meals each year, and train 100 adults with high barriers to employment for culinary careers.⁴⁶



Operational Capabilities: Does the Organization Have Sufficient Capacity to Achieve its Goals?

WHY IS THIS IMPORTANT?

Social impact is not only a product of sound strategies. It requires leadership, management, and staff capacity to successfully implement those strategies and manage the organization.

WHAT TO LOOK FOR:

- *Leadership*—Consider the senior leadership’s background and professional qualifications. A simple Internet search might indicate negative press or other red flags as well as positive information.
- *Board*—Understand the function of the board and who sits on it. Do they have relevant knowledge or expertise? Do they actively oversee the organization’s activities? Do they avoid conflicts of interest?
- *Staff*—Do the staff have successful track records of managing programs, conducting fundraising, and overseeing finance and operations? Does the organization provide staff with training opportunities? Does the nonprofit retain its staff?

For additional resources on governance due diligence, explore the BBB Wise Giving Alliance’s website⁴⁷ and Bridgespan’s Nonprofit Due Diligence Guide.⁴⁸

WHERE TO FIND THIS INFORMATION:

An organization’s 990 includes some information relating to its financial health and governance. GuideStar also asks nonprofits to report whether their boards have reviewed their conflict of interest policy in the last year, assessed the chief executive in the last year, assessed itself in the last three years, ensured an inclusive recruitment process, and provided an orientation process for new members.⁴⁹ Getting a deeper understanding of an organization’s human capacity will likely require in-person meetings.

A Perspective from Bill Somerville: Which Leadership Qualities Matter

I have been in professional philanthropy work for 45 years, starting foundations and trying new ways to manifest grantmaking. My *modus operandi* is to find people I trust, as well as train people to learn to trust in the work they do. From my vantage point, effective social sector leaders:

- **Relentlessly focus on the needs of their constituents.** They are compassionate. They have open hearts and are committed to doing good in the world.
- **Know how to get stuff done!** They have goals and take action. They have an idea of where they are going and what success (results) look like. They focus on the present and on the horizon to be able to take aim.
- **Motivate and inspire members of their community to achieve their highest potential.** They identify talent and strengths in others. They create shared goals and a supportive “can do” culture.
- **Engage their communities and constituents in “the work of doing good.”** They know how to bring consensus but don’t require unanimity to move ahead. They understand that it takes time for others to make up their minds. They collaborate.
- **Are generous and courageous spirits.** They give credit where credit is due. They are willing to share but also know when to stand alone. They are willing to take risks and not afraid of failure. They know how to bounce back when a change in direction is called for.

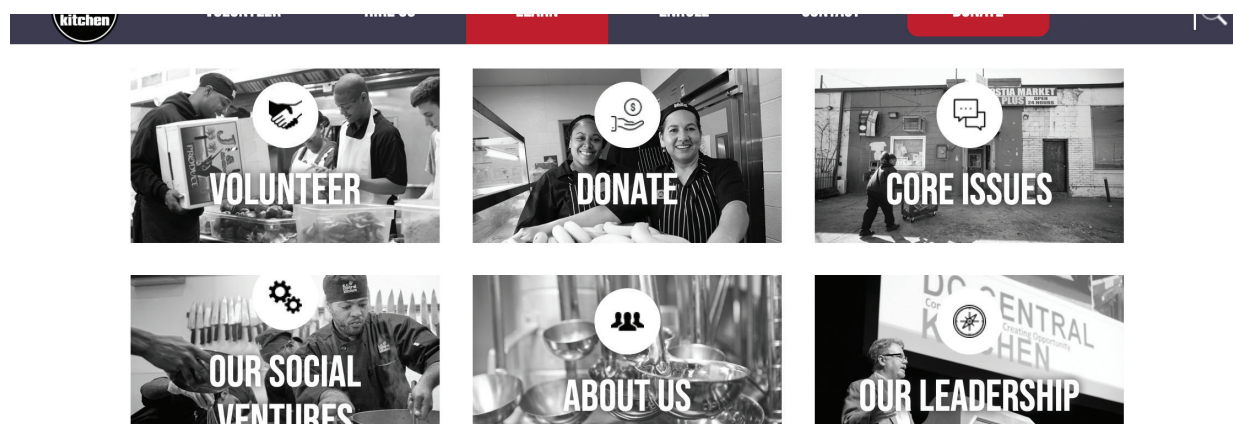
Trust is a basic building block in philanthropy and a vital element in exercising leadership. It allows you to speed up processes, diminish dependence on paper and applications, and honor relationships.

D.C. Central Kitchen's Operational Capacity

LEADERSHIP

D.C. Central Kitchen provides leadership information in two places on its website: a short summary on the “About Us” page and more detailed information on the “Our Leadership” page. On the “About Us” page, it provides information on the extensive awards the D.C. Central Kitchen has won under founder Robert Egger and how it has grown and weathered a recession under current CEO Michael F. Curtin, Jr. The “Our Leadership” page provides executives’ biographies and the names and contact information of staff members. From the information provided, the executives appear to have relevant educational backgrounds and industry experience, including hospitality, restaurants, finance, and development work.

Finding “Our Leadership” in the Learn Tab:



BOARD

The same “About Us” page also provides the names and organizational affiliations of board members. Many members are highly placed in local hospitality, communications, and infrastructure management, which are all related to the nonprofit’s fields of activity.

BOARD OF DIRECTORS

DON SHAPIRO (CHAIR)

Vice President, Food and Beverage
Trade Center Management Associates

HEIDI BIGGS BROCK (TREASURER)

President & CEO
American Forest & Paper Association

GAIL CHAMBERS (SECRETARY)

Associate Director of Infrastructure
Millennium Challenge Corporation

BRADLEY AKUBUIRO

Director, Corporate Communications & Public Affairs

STAFF

Staff titles and pictures are available, but biographies are not. The organization has six executive-level staff and nine other staff members, including some specialized staff members (such as a monitoring and evaluation specialist). This is an indication that D.C. Central Kitchen has more than the bare minimum staff necessary to implement its core programmatic needs.



Financial Capability: Does the Organization Have Sufficient Financial Capacity to Achieve its Goals?

WHY IS THIS IMPORTANT?

A nonprofit must have the financial systems and management to successfully conduct its programs.

WHAT TO LOOK FOR:

- *Revenue sources:*
 - » How diversified are the organization's funding sources? If the nonprofit relies on very few funders or types of funders (e.g., foundation, corporate, individual) and it is not self-evident that funding will continue, the organization's revenue is at risk.

- *Organization's budget:*
 - » Is the budget appropriate for the organization's goals and strategies? (Is it trying to save the entire world on a shoestring?) You might look at specific program budgets as well.
 - » Allowing for some short-term fluctuations, are the organization's revenues generally greater than its expenses? (This information is often available on GuideStar, in annual reports, and in financial documents sometimes provided on websites). If not, does it have a plan for becoming more sustainable?
 - » How long could the nonprofit keep operating if its revenue streams dried up? A healthy funding reserve will allow the organization to continue operating for at least 3–6 months.
 - » If available, review any financial audits and check the notes for any risks or potential problems.
- *Financial transparency:*
 - » Are the organization's financial systems clear, transparent, and credible? It is considered a good practice for nonprofit organizations to publicly disclose their finances. A silver rating on GuideStar indicates financial transparency.

WHERE TO FIND THIS INFORMATION:

A nonprofit organization's annual report will often provide financial information, financial audit reports, and lists of funding sources. Sometimes a nonprofit will have a separate report focused on financial information. GuideStar and Charity Navigator also compile financial information and metrics on many nonprofits.⁵⁰

For additional resources on financial due diligence, explore Finance Unlocked for Nonprofits⁵¹ which includes a set of activities and toolkits that can help you understand the basics of nonprofit financial statements.

If you want to consider additional financial questions as part of your due diligence process, see the Bridgespan Due Diligence Tool.⁵²

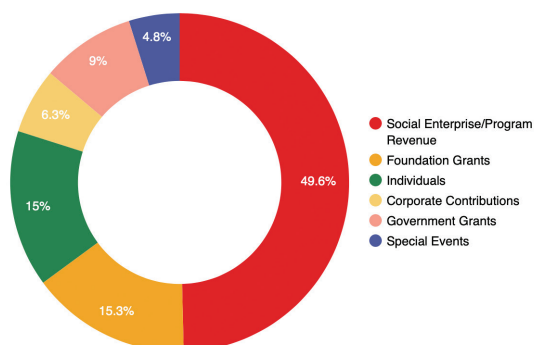
D.C. Central Kitchen's Finances

Let's take a look at D.C. Central Kitchen's financial statements, available halfway down the "Learn" tab on their website along with their annual report. The total 2017 revenue of \$17.7 million is larger than the total 2017 expenses of \$17.157 million, by \$550,592. From the 990, we can see that the revenue was larger than expenses in 2016 as well.

The same information can be found under GuideStar's "Financials" Tab. GuideStar summarizes essential information from the 990 and creates interactive visual displays. For example, GuideStar indicates that D.C. Central Kitchen has cash reserves for 3 months. Although this is a small buffer, the fact that the organization has thrived for years and its revenue exceeded its expenses in 2017 is a good sign.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Contracts	\$ 8,215,986	\$ -	\$ 8,215,986	\$ 7,038,958
Contributions - General	4,290,165	803,068	5,093,233	5,642,103
Contributions - United Way	175,241	-	175,241	130,390
Government grants	665,902	-	665,902	565,644
Contributed services and materials	1,630,842	-	1,630,842	1,762,803
Interest and dividends	133,544	-	133,544	60,752
Special events, net	784,437	-	784,437	511,942
Other revenue	144,690	-	144,690	188,846
Program service sales	863,860	-	863,860	953,774
Net assets released from donor restrictions	<u>634,750</u>	<u>(634,750)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>17,539,417</u>	<u>168,318</u>	<u>17,707,735</u>	<u>16,855,212</u>
EXPENSES				
Program Services:				
Community Meals	5,744,236	-	5,744,236	4,607,494
Healthy School Food	5,872,209	-	5,872,209	4,898,160
Culinary Job Training	1,208,758	-	1,208,758	1,178,845
The Campus Kitchens Project, Inc.	1,141,689	-	1,141,689	1,109,129
Healthy Corners	667,798	-	667,798	708,717
Fresh Start Catering	<u>-</u>	<u>-</u>	<u>-</u>	<u>589,350</u>
Total program services	<u>14,634,690</u>	<u>-</u>	<u>14,634,690</u>	<u>13,091,695</u>
Supporting Services:				
Development	1,025,420	-	1,025,420	920,941
Management and General	<u>1,497,033</u>	<u>-</u>	<u>1,497,033</u>	<u>1,641,127</u>
Total supporting services	<u>2,522,453</u>	<u>-</u>	<u>2,522,453</u>	<u>2,562,068</u>
Total expenses	<u>17,157,143</u>	<u>-</u>	<u>17,157,143</u>	<u>15,653,763</u>

Funding Sources:



Cash Reserves

Months of Cash in 2017

0.4

Average of 0.3 over 10 years



Source: IRS Form 990



Diversity, Equity, and Inclusion (DEI): How Diverse, Equitable, and Inclusive Are an Organization's Operations?

WHY IS THIS IMPORTANT?

“Diversity, equity, and inclusion” encompass hiring, supporting, and advancing people with diverse personal characteristics; providing everyone with fair treatment, access, and opportunity; and creating a respectful and supportive environment. We refer you back to **Chapter 6 on Theory of Change**, where we described four rationales for valuing DEI.⁵³

WHAT TO LOOK FOR:

- **Leadership, staff, and board diversity:** Is the organization diverse and inclusive with respect to characteristics that will best serve its beneficiaries?
- **Beneficiary diversity and equity:** Are diversity and equity considered when choosing beneficiaries, as appropriate to the organization's purpose? Look at the organization's data collection practices. Is it tracking the demographics of its beneficiaries? Are beneficiaries consulted or included in the program design process?
- **Processes for improving DEI:** Does the organization have DEI incorporated into its core values? Does the organization use processes that encourage diversity, equity, and inclusion?

WHERE TO FIND THIS INFORMATION:

Search the organization's website for its core values. If possible, review employee benefits for inclusive benefits like maternity/paternity leave or family leave benefits for adoption, including same-sex parents. If in doubt and you're considering a substantial gift, ask the organization's leadership what it does to promote DEI practices.

D.C. Central Kitchen's Goals Around DEI

These criteria are a bit harder to verify simply by searching online sources. The website doesn't share employee benefits information. However, its core values indicate a mentality of inclusion and equity: "We believe in the transformative power of a job, and that everyone deserves the chance to share in the dignity of work while contributing to our community. We believe in building a more equitable food system that ensures access to healthy, dignified food, and economic opportunity for all."⁵⁴

Under the Board of Directors tab of the Operations section in GuideStar, we also see self-reported information from D.C. Central Kitchen on diversity and inclusion of the board.

BOARD COMPOSITION

Does the board ensure an inclusive board member recruitment process that results in diversity of thought and leadership?

Yes



Monitoring, Learning, and Evaluation: How Will the Organization Know if it Is Making Progress?

WHY IS THIS IMPORTANT?

Effective organizations monitor whether they are on track to achieve their goals or need to change course.⁵⁵

WHAT TO LOOK FOR:

- *The theory of change as a monitoring framework:* An organization's theory of change (see **Chapter 6: Theory of Change, Monitoring, and Evaluation** for more in-depth information)—which describes its activities, outputs, and outcomes as described in **Chapter 6**—is the basic framework for monitoring progress toward its goals. Does it have such a framework?
- *Monitoring*
 - » Does the organization have appropriate metrics and targets for each major step in its theory of change?
 - » Does the organization seek feedback from its beneficiaries and other important stakeholders?
 - » Is the organization regularly reviewing progress to improve its activities?
 - » Are programs being implemented well, on time, and on budget?

WHERE TO FIND THIS INFORMATION:

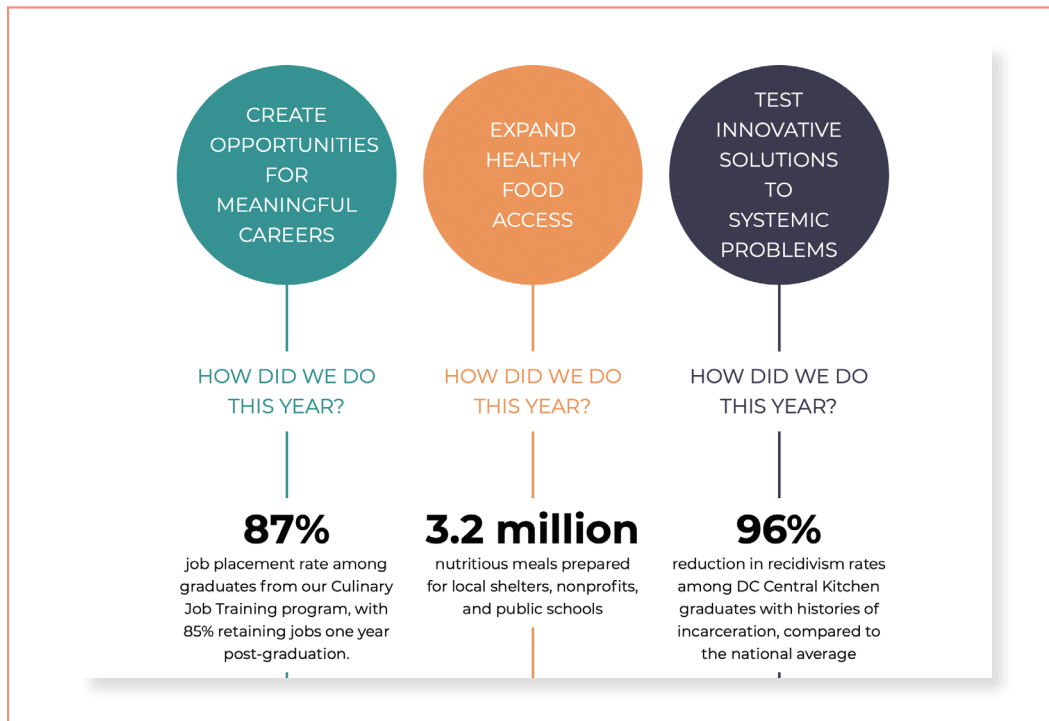
Information about an organization's monitoring processes can be difficult to find online and may require conversations with its staff.

D.C. Central Kitchen's Monitoring and Learning

D.C. Central Kitchen's annual report, found on its website, discloses a limited set of indicators that it uses to monitor its activities. For example, it monitors outcomes by the total number of meals prepared and its job placement rate.

You can also find this information on GuideStar, under "Our Results." D.C. Central Kitchen indicates its willingness to learn from its experience by answering the due diligence question on GuideStar's website, "How will they know if they are making progress?"

DC Central Kitchen is committed to rigorously evaluating its programs, thanks to our three full-time evaluation personnel and a unique level of community credibility with our target population that allows for honest feedback.



Measuring Outcomes and Evaluating Impact: What Has or Hasn't the Organization Accomplished To Date, and How Would You Know?

WHY IS IT IMPORTANT?

The organization and its donors want to know whether it is achieving its goals and having an impact.

DEFINITIONS



Outcomes: An organization's outcomes are the improvements in its beneficiaries' lives that it seeks to achieve. For example, for an organization with the mission of reducing recidivism, an outcome metric would be the number of young men released from prison who do not return within a specified period of time.



Impact An organization has impact to the extent that its activities actually contributed to its intended outcomes. For example, the anti-recidivism organization has impact to the extent that its activities—rather than, say, self-selection into the program—resulted in the reduction in recidivism.

Measuring outcomes requires quantifying the organization's results. This is occasionally easy—for example, the number of homeless people housed—but often difficult; consider, for example, the difficulty of tracking the number of people for whom a program helps prevent addiction.

As discussed in **Chapter 6 on Theories of Change**, assessing impact requires the much more difficult task of comparing the program's results to what would have happened in the absence of the program—the so-called “counterfactual.” Many smaller organizations do not have the resources to conduct evaluations of their own programs. But if they are implementing a program that has been evaluated on a large scale elsewhere that may be a reasonable proxy.



Don't be satisfied with anecdotes in place of outcome data. Many nonprofits share stories, testimonials, or anecdotal examples as evidence of success. These are often cherry-picked, so be cautious—these examples may not be representative of the organization's overall outcomes, let alone impact.



The term “evaluation” is often used loosely in the nonprofit sector. There are many types of “evaluations” that assess an organization's activities rather than impact. These implementation evaluations may be useful, but don't confuse them with impact evaluations.

WHERE TO FIND THIS INFORMATION:

Look for evidence of outcomes and impact on an organization's website or on a charity evaluation website. If you are considering making a significant gift, ask the organization's leadership about outcomes and evaluations.

D.C. Central Kitchen and Learning

D.C. Central Kitchen's annual report gives a limited set of indicators that it uses to report on its activities and goals. For example, it monitors the total number of meals prepared and outcomes by its job placement rate and reduction in recidivism.

See image on page 152 for examples of their recorded outcomes and outputs.

WHEN SHOULD I CONTACT AN ORGANIZATION FOR FURTHER INFORMATION?

We discuss this question in detail in the next chapter. Larger and well-established nonprofits generally are better able to respond to individual requests for information. But for a large enough gift, it is appropriate to request time from smaller organizations as well.

INTERVIEWS AND SITE VISITS

For major and potentially ongoing grants, in-person due diligence allows you and the organization to explore opportunities for communication and partnership. You can:

- Conduct a site visit to the nonprofit's headquarters or service sites. You can see the work first-hand, and you may get to speak directly with staff of various levels and with beneficiaries.
- Interview the Executive Director or other members of the leadership team. This is especially useful for getting a sense of leadership style and understanding the organization's strategies, budget, and impact.
- Interview board members to gain perspective on the leadership and to determine the nature of the board's engagement.
- Interview other funders for their perspectives.

When arranging a site visit, it is good to ask if it is possible to observe activities without being obtrusive.

WHAT TO ASK:

On a site visit, start with general questions to build rapport and make sure your basic understanding of the nonprofit is correct, then move to more specific questions that you may have. You may be interested in:

- A broad overview of the organization's programs and its internal structure.
- How the organization would answer the five Charting Impact⁵⁶ questions.
- Some of the questions the Due Diligence Checklist (see below).
- Staff members' views of the organization's culture and effectiveness.
- Beneficiaries' views of the organization's culture and effectiveness.

Bridgespan has helpful guides for conducting site visits and interviews with a nonprofit's leaders or board members.⁵⁷

Due Diligence Takeaways

- ➔ Due diligence is an essential aspect of philanthropic practice—it allows you to decide whether an organization is effective at achieving your shared goals and whether you and the organization are a good fit for each other.
- ➔ Vetting an organization entails looking at its:
 - legal compliance
 - goals
 - strategies and impact
 - human capital and financial capabilities
 - commitment to diversity, equity, and inclusion
 - monitoring, learning, and evaluation
- ➔ You should be able to find most of the information necessary for due diligence through the organization's website and other publicly available resources. Because an organization's staff members are busy delivering services, it's best to refrain from contacting them unless you are seriously interested in becoming a major donor.

ACTIVITY DUE DILIGENCE CHECKLIST



= (optional) Advanced criteria (for those who wish to conduct a deeper dive)

= Red flag. Review the follow-up questions to ask and considerations for your own reflection.



0. General Transparency

Is basic information—such as about the organization’s programs, budgets, staff, and board members—publicly available?

☐
YES☐
NO

If not, ask

Notes:

- » Why not?
- » Does it provide adequate contact information and, when contacted, is the organization forthcoming about its work?
- » Do you have enough information to answer essential due diligence questions?

1. Legal Compliance

Does the organization have 501(c)(3) status under the Internal Revenue Code?

☐
YES☐
NO

If not, ask

Notes:

- » Why not?
- » Is it registered outside of the US? If so, where?
- » Do you require that your gift be tax deductible?

Is the organization *absent from* the OFAC list of charities affiliated with terrorism?

☐
YES☐
NO

Notes:

2. Goals

Does the organization clearly define its major goals?

☐
YES☐
NO

If not, ask

» Why not?

Notes:



Is the organization's work aligned with the needs of its beneficiaries?

☐
YES☐
NO

Notes:

3. Strategies

Does the organization have a feasible, evidence-informed strategy or theory of change?

☐
YES☐
NO

If not, ask

» Why not?

» How much confidence do you have in its strategy?

Notes:

Has the organization engaged its beneficiaries and other stakeholders in designing the theory of change?

☐
YES☐
NO

If not, ask

» What barriers does the organization face in engaging its target population?

» How does the organization take the target population's perspectives into account?

Notes:

Are the organization's programs and strategies aligned with its mission and goals?

☐

YES

☐

NO



If not, ask

» Why not?

Notes:

Does the organization have a track record of success?

☐

YES

☐

NO



If not, ask

» Why not?

Notes:

Does the organization's strategy take into account both internal and external risks to success?

☐

YES

☐

NO

Notes:

4a. Governance, Management, and Human Resources

Do the organization's senior staff members have the experience, knowledge, and skills necessary to do their work?

☐

YES

☐

NO

Notes:

Is the staff capably managing its programs?

☐

YES

☐

NO

Notes:

Has the organization had stable leadership throughout the years?

☐

YES

☐

NO



If not, ask

» Why not?

Notes:

Does the board have the experience, knowledge, and skill needed to give the organization strategic direction and oversight?

☐
YES☐
NO

Notes:

Do board members or major donors appear to be free of any conflicts of interest with the organization's work?

☐
YES☐
NO

If not, ask

Notes:

- » How does the organization confront the conflicts?
- » Do any conflicts of interest affect the organization's alignment with your philanthropic goals?

Does the board have sufficient expertise about and (where appropriate) representation from the organization's intended beneficiaries?

☐
YES☐
NO

If not, ask

Notes:

- » What barriers does the organization face in engaging these crucial players?
- » How does the board try to make up for the lack of their perspective?



Are staff members satisfied with working at the organization?

☐
YES☐
NO

Notes:



Does the organization have a reasonable retention rate for staff?

☐
YES☐
NO

Notes:

4b. Financials

Have the organization's finances been audited?

☐
YES☐
NO

If not, ask

Notes:

- » Is the organization's budget of a size (\$1 million or more) at which best practice is to have an audit conducted?
- » Is the organization generally transparent about its finances?

Are the organization's revenue sources (e.g., individuals, foundations, corporations, government agencies) sufficiently diverse?

☐
YES☐
NO

If not, ask

Notes:

- » Does the organization have a feasible strategy to diversify its revenue sources?
- » If the organization has few revenue sources, are you willing to be among them?

Are the organization's revenues greater than its expenses?

☐
YES☐
NO

If not, ask

Notes:

- » Why not?
- » What is the organization doing to reduce its deficit in the next two to three years (e.g., fundraising activity, revenue generation)?
- » Are you tolerant of financial volatility in the organizations you support?



Does the organization maintain appropriate cash reserves (ideally, three to six months)?

☐
YES☐
NO

Notes:



Does the nonprofit have the ability to absorb a gift of the size and duration that you have in mind?

☐
YES☐
NO

Notes:

5. Diversity, Equity, and Inclusion (DEI)

Are the organization’s leadership, staff, and board members diverse on the dimensions (e.g., race, national origin, disability, gender identity, or sexual orientation) relevant to its mission?

☐

YES

☐

NO



If not, ask

Notes:

- » Why not?
- » How might/does this lack of diversity affect the organization's mission and programs?
- » Are you willing to support an organization that does not explicitly prioritize DEI?

Does it have processes in place that encourage diversity in its programs or for its staff, leadership, or board?

☐

YES

☐

NO



If not, ask

Notes:

- » Do you feel comfortable funding an organization that does not have a feasible strategy for meeting DEI goals?



Does the organization have processes conducive to recruiting, supporting, and retaining a diverse staff?

☐

YES

☐

NO

Notes:

6. Monitoring, Evaluation, and Learning

Does the organization clearly track its work and impact?

☐

YES

☐

NO

Notes:

Is the organization monitoring its progress, including what didn't work?

☐

YES

☐

NO



If not, ask

Notes:

- » Why not?
- » Are you comfortable supporting a program that is not monitoring its progress?

Does the organization have processes for learning from its failures and near failures?

☐

YES

☐

NO



If not, ask

Notes:

- » How does the organization seek to improve its programs and general functioning?
- » Are you comfortable supporting an organization that does not have explicit learning measures?



Does the organization obtain and respond to feedback from its beneficiaries?

☐

YES

☐

NO

Notes:



Does the organization evaluate its impact as appropriate for its nature and size?

☐

YES

☐

NO

Notes:

THE STANFORD PACS

GUIDE

TO EFFECTIVE PHILANTHROPY

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