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Making the grade: rating Catholic-sponsored charities

by Tom Gallagher



(Pat Marrin)

Mission Management

The financial crisis has left charities scrambling to satisfy increased demand for services and to raise the dollars needed to fund programs. This has made charitable giving an even more treacherous endeavor as donors try to figure out which charities manage their resources in the most prudent and transparent manner.

With nearly 2 million not-for-profit charities in the United States, how can donors really know the inner workings of charitable organizations?

Increasingly, donors rely on independent rating agencies like the Better Business Bureau Wise Giving Alliance, the American Institute of Philanthropy, and Charity Navigator.

By law, however, there are minimal disclosure requirements for U.S. charities. The Internal Revenue Service requires most charities to file Form 990. This publicly available document offers a snapshot of the

charity and its finances, board, officer compensation, major vendor relationships and so on. However, the IRS exempts churches and church-affiliated organizations, among others, from this annual filing requirement, so parishes and dioceses do not have to report.

The Better Business Bureau Wise Giving Alliance recommends audited financial statements for charities with \$250,000 or more in revenue. "Regardless of an organization's tax status, independent, audited financial statements reflect good husbandry of an organization's revenues," said Marcus Owens, former director of the Exempt Organizations Division at the IRS and a member of the board of the Wise Giving Alliance.

Meanwhile, many Catholic-affiliated, non-church charities are required to file Form 990. Take, for example, the Kansas City, Kan.-based Christian Foundation for Children and Aging. This lay Catholic organization matches sponsors with children, youth, aging and their families of all religious and nonreligious backgrounds so they may live with dignity and achieve their desired potential.

"CFCA is a movement of people as much as it is an organization," said Paco Wertin, CEO of the foundation. "Our relationships are based on integrity and accountability, which permeates all of our behavior." As a result, "the accountability ratings are very important to us, to our sponsors and our sponsored," Wertin said.

The foundation offers donors comfort by being rated by the Better Business Bureau, Charity Navigator (four stars) and the American Institute of Philanthropy ("A+") -- top of the class in terms of governance, management, and financial accountability.

While rating agencies want to help donors make informed decisions, not all rating agencies are the same.

The Better Business Bureau has a rigorous "20 Standards of Charitable Accountability" that take into account much more information than just the IRS Form 990. "We don't use a star or grading system," said Bennett Weiner, chief operating officer of the Arlington, Va.-based bureau.

"Either a charity meets or does not meet our 20 accountability standards," he said. The 1,200 charities analyzed by the Better Business Bureau seek donors from all over the United States. Local Better Business Bureaus evaluate charities with regional solicitation campaigns.

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The Better Business Bureau selects charities on its own or when requested by enough donors. The charities are invited to participate in the evaluation process, but are not required to do so. Charities are not charged a fee for the bureau's work.

According to Weiner, the top five reasons why charities fail to meet the standards are a low frequency of full, in-person board meetings, no annual report or ones with inadequate financial data, a lack of self-evaluation and formal board acceptance of the evaluation, and no disclosure of relevant financial information on a charity's Web site.

If a charity wants to advertise that it meets the Better Business Bureau accountability standards, it needs to sign a license agreement to use the bureau logo. The fee charged is based on a sliding scale, depending on the total revenues of the charity. The reports themselves are free to the public.

With revenues just north of \$100 million, the Christian Foundation for Children and Aging pays the

Better Business Bureau \$15,000 per year.

Charity Navigator, meanwhile, analyzes charities found on the IRS master list and charities requested by donors or by the charities themselves. Unlike the Better Business Bureau, Charity Navigator relies almost exclusively on the IRS Form 990.

This Mahwah, N.J.-based rating service was founded in 2001 by philanthropists Pat and Marion Dugan, who wanted to help small donors make better decisions.

"The IRS hands out tax-exemption letters like candy," said Sandra Miniutti, Charity Navigator's vice president of marketing. An organization's tax-exempt status does not mean it is run well, she said. "Fraud can be just as easily found in not-for-profit entities as in commercial enterprises," Miniutti said. "Donors need to be proactive in analyzing organizations before they start giving."

"If we give zero stars or one star to a charity, it means that their financial house is in total disarray," said Miniutti. These charities spend too much on overhead and not enough on programs, she explained. Those who receive a four-star ranking, like the Christian Foundation for Children and Aging, may use the Charity Navigator logo for free.

Charity Navigator does not charge charities for its evaluations. While the Dugans have been the primary donors, Charity Navigator is now relying on public donations to support its work. Its reports are free to the public.

The Chicago-based American Institute of Philanthropy prides itself on being a "watchdog" and not afraid to be critical of charities if necessary. "We follow the money and we're fiercely independent," said Daniel Borochoff, its president and founder.

The institute uses the IRS Form 990, audited financial statements, annual reports and other data in order to make an evaluation of a charity.

"There is real variability in the way not-for-profits report their financial data," said Borochoff. "Ours is not an automated process, as we go to great lengths to scrutinize an organization's finances."

The institute relies solely on membership fees from its 10,000 members to do its work. Individuals pay \$40 per year while institutions pay \$200.

Some 500-plus charities have been reviewed by the institute. Charities receive a letter grade from "F" to "A+." To date, the institute has issued 180 As, 133 Bs, 82 Cs, 29 Ds, and 107 Fs. The evaluations appear in the institute's "Charity Rating Guide and Watchdog Report." Anybody can receive a one-time, free copy of the guide; however, only members receive it on a regular basis.

Tom Gallagher is a regular contributor to NCR. Ideas for a "Mission Management" story? Contact him at tom@tomgallagheronline.com.

On the Web

Christian Foundation for Children and Aging
www.cfcausa.org.

IRS Tax Information for Charities and Other Nonprofits
www.irs.gov/charities

Better Business Bureau Wise Giving Alliance
www.bbb.org/us/charity

Charity Navigator
www.charitynavigator.org

American Institute of Charity and to get a free copy of the ?Charity Rating Guide and Watchdog Report?
www.charitywatch.org

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