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## Efficiency experts

### *How to research a charity's spending effectiveness*

By Andrea Coombes, CBS.MarketWatch.com

SAN FRANCISCO (CBS.MW) -- Before giving to charity, a growing number of Americans are performing due-diligence research with the fervor of investors screening stocks.

Philanthropy is coming to be seen more as an investment in a cause than an act of generosity or a tax deduction. Many donors are seeking to learn how much of the money they provide is actually put to work, rather than eaten up in administrative costs.

"The harm and the damage of not assessing charities carefully is, it's taking money away from the groups that are really doing a good job," said Daniel Borochoff, president of the American Institute of Philanthropy, which operates an independent, non-profit charity evaluator called CharityWatch.

Americans donated almost \$241 billion last year to more than 1 million charitable groups, with individuals providing 76 percent of that amount, according to the American Association of Fundraising Counsel. (Foundations, corporate donors and bequests contributed the rest.)

Like CharityWatch, a number of nonprofit Internet sites have sprung up to help donors assess charities' effectiveness.

"There are a lot more charities now than they're used to be. It's a more complex world and sometimes not as easy as it used to be to assess charities," said Melissa A. Berman, president and chief executive of New York-based Rockefeller Philanthropy Advisors, which counsels donors and foundations on charitable giving.

## Assessing the assessors

Each site evaluates charities differently, which means prospective donors must determine which evaluator best suits them.

Almost all of the sites rely in some measure on Form 990. Any non-faith-based charity earning more than \$25,000 must file the form with the IRS, and it provides prospective donors with the group's program ratio -- or how much cash goes to the organization's stated goal versus to administrative costs.

A general rule is that at least 60 percent of a charitable group's dollars should go to fulfill its mission, or program, while 40 percent or less should go to administrative costs, but that number can vary widely based on overhead associated with the type of work being done.

For instance, the median program ratio for art museums is 68 percent, while for food banks it's 94 percent, according to GuideStar, which maintains a national database of nonprofits.

That means 68 cents of one donated dollar goes to an art museum's program, while the rest goes to costs that include insurance, security and environmental controls - expenses that food banks don't incur.

Opinions vary on how much importance to place on the program ratio. Some say the program ratio serves as a good proxy for charities' efficiency, while others claim they ignore wide disparities in how charities function and how well they get the job done.

"We think the most valid way to assess a charity is to ask is the charity accomplishing its mission?" said Suzanne Coffman, a spokeswoman for GuideStar.

Prospective donors should check an organization's Web site and literature to see if the degree to which it attains its specific goals. Avoid groups that merely say they work on "world hunger," for instance, and find one that details the number of people fed in a given time period, Coffman said.

If no details are given on the Web site, consider calling the charity to ask. A group that refuses to provide specific information about its program goals, accomplishments or financial situation should be avoided, experts said.

Also, donors should note that different organizations could approach the same problem in different ways, leading to varying program ratios even though both groups are equally successful, Coffman said.

For instance, two groups could share the aim of getting people off welfare and into jobs. After three years, one organization might have found more people jobs, while the other might have found fewer jobs - but they're better paying and more stable jobs. Both groups might have met their goals, but program ratios could vary.

In addition to choosing a specific goal, donors must determine how they'd like to see it addressed, Coffman said.

## **Form 990's limited revelations**

Others argue a program ratio derived from a charity's unaudited Form 990 doesn't always accurately portray an organization's financial position.

For instance, one charity put donated dollars to use by partly funding a research project at a university hospital, Borochoff said. Fair enough. But then the charity logged the hospital's rent expense as its own. "It's not their expense, it's the university's expense, (but) they put it to program expense," thereby improving their ratio by spending more on their program.

Another slippery slope: Telephone solicitations that include specific information about the group's mission. Most charities call those a fundraising expense, but some groups claim those as program expense, again giving a boost to their program ratio, Borochoff said.

"Groups are getting away with sticking information in the (Form 990) boxes that they want to stick in," he said. At the Charity Watch site, about 500 charities are given letter grades from A to F based on a review of each organization's audited financial statements and annual report, Borochoff said, helping to avoid the problem of how charities choose to self-report on the Form 990.

Meanwhile, Charity Navigator, another evaluator site, provides ongoing financial assessments based on the Form 990. The groups with the highest ratings on the site "are financially healthy and responsible," said Trent Stamp, executive director of Charity Navigator, which rates about 2,600 organizations.

The ratings "tell you 1) will they spend your money in a way you'll be proud of today, and 2) will they continue to survive long term," he said. "We break charities down into two overall ratings, efficiency and capacity." Efficiency is their program ratio, while capacity is "are they growing from year to year, are they growing their revenues, and are they growing their programs," he said.

While the program ratio "doesn't get at how effective the organization is ... we have to use efficiency as a proxy variable at this point. We have no way to measure thousands of organizations against each other when they all claim they're different organizations and they have no peers," he said.

"It's hard to measure your hospice against my food bank against someone else's anti-hate crimes organization. The one common denominator is finances. It gives us a jumping off point," Stamp said.

The Better Business Bureau's Wise Giving Alliance, a rating site with a "meets standards/doesn't meet standards" system, assesses organizations' governance, plus issues of donor privacy and program effectiveness.

GuideStar, meanwhile, is not an evaluator. Instead, it simply lists information for any nonprofit that has filed a Form 990. "If you're interested in a small, local charity, GuideStar may be the one place you'll find information about it," Coffman said. Plus, she said, finding a charity on the site means the organization is legitimate in the sense that the IRS recognizes it.

## Patience, please

Donors must also consider the group's likely timeline for attaining goals, some say. "It's especially hard to assess organizations that are dealing with extremely complicated and difficult issues like substance abuse, domestic violence, racism." Berman said.

"Those are complicated problems that can be very hard to solve and where you don't always see results for many, many years." she said.

For instance, with groups that aim to give disadvantaged youth more opportunities, "we won't know for 10 or 15 years whether that really worked. You're introducing a 15-year--old to all kinds of opportunities, maybe through the arts, mentoring or internship programs, but we won't know whether that young person's life has really changed fundamentally for maybe 10 years. Vaccination is easy. Youth development is hard."

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