

Like it or Not: You're Being Watched

# CHARITY WATCHDOGS

and What Your Nonprofit Can Do to Put Its Best Foot Forward

Like it or not, your nonprofit is being watched and rated. “Charity watchdogs” are looking at your Form 990, website, financial statements, and other documents to determine your effectiveness. Who are these watchdogs, and why are they watching? What specifically are they looking at and looking for? How do they calculate their ratings, and what do they do with them? And most important, what can your nonprofit do to put its best foot forward to avoid misinterpretation and address what some consider flawed evaluation processes? These are just a few of the questions that board members should know the answers to. This resource is designed to help you.



## WHAT IS A WATCHDOG AND WHY DO THEY EXIST?

Americans are generous and support a huge number of nonprofit causes on a daily basis. Determining which organization(s) to support can be a difficult decision for some individuals, however. To help with the decision making, they seek information about how a nonprofit is performing. They want to make sure their money and time will be used wisely and do good in the world.

Charity watchdogs gather information about nonprofits and their practices, analyze the information, rate or rank nonprofits based on their analysis, and share their findings with the public, either for free or for a fee. Many individuals review the information, ratings, and rankings shared by charity watchdogs when deciding which organization(s) to support. The media, as well as some grantmakers, also review the information provided by charity watchdogs to determine if an organization is operating in a “responsible” manner.

## WHO IS WATCHING AND HOW ARE THEIR RATINGS COMPOSED?



[Charity Navigator](#) is the largest charity watchdog. It evaluates more than 8,000 501(c)3s with reviews ranging from zero to four stars and scores out of 100. It rates charities by evaluating their (1) financial health and (2) accountability and transparency. How and where donations are spent is a focus of its analyses. In the future, it plans to rate charities on the results they are achieving (results reporting). Charity Navigator’s ratings are based largely on data that are self-reported by nonprofits in their Form 990s and on their websites. The ratings and underlying data for a nonprofit are available on the Charity Navigator website and are free to the public.



[Give.org](#) is the BBB Wise Giving Alliance (BBB Wise) website. BBB Wise produces reports about approximately 1,300 nationally soliciting charities that the public most often asks it about or that request to be evaluated. BBB Wise evaluates charities against 20 BBB Charity Standards related to their governance and oversight, effectiveness, finances, and solicitations and informational materials. The evaluations — which indicate if a standard is met, not met, or unable to be verified — are published on give.org and in a magazine, the Wise Giving Guide, three times a year. National charities that meet all of the standards have the option of signing a license and paying a fee for the use of a BBB Accredited Charity Seal that can be displayed on their websites and in their fundraising materials. In addition, about half of the 112 Better Business Bureaus in the U.S. and Canada cumulatively produce reports on more than 10,000 locally soliciting charities using the same standards as the national organization.



Formerly known as the American Institute of Philanthropy, [CharityWatch](#) performs in-depth analyses of 600-plus charities. It analyzes a nonprofit’s Form 990 in conjunction with its audited financial statements, annual report, state filings, and other documents; performs two end calculations; and then issues A+ to F letter grade efficiency ratings. The calculations include the percent of total expenses spent on programs and how much it costs to raise \$100 in the year analyzed. CharityWatch evaluates social welfare advocacy groups and religious charities that aren’t always evaluated by other watchdogs. Its members have access to detailed rating information for all charities analyzed; nonmembers have access to only the information pertaining to the top-rated charities.



[GiveWell](#) publishes a shortlist of charities that it believes offer donors the best giving opportunities. Through in-depth research, it attempts to determine how much good a given program accomplishes per dollar spent. Rather than rate as many charities as possible, GiveWell focuses on a few charities that stand out according to its criteria — their effectiveness, cost-effectiveness, transparency, and room for more funding.



[GreatNonprofits](#) describes itself as the Yelp for nonprofits. It relies on nonprofit clients, volunteers, donors, and others to review (one to five stars) and share the experiences they've had with a nonprofit. Any nonprofit that gathers ten or more four- or five-star ratings and maintains an overall average of 3.5 stars wins a GreatNonprofits Top-Rated Award. The GreatNonprofits website and database currently features more than 200,000 reviews and more than 25,000 nonprofits. Nonprofits are provided free profile pages to host information about their work and encouraged to invite their donors, volunteers, and clients to submit reviews and stories.

### A Word About GuideStar

[GuideStar](#) does not evaluate charities and therefore should not be considered a watchdog. Rather, it collects, organizes, and neutrally presents raw information — mission, legitimacy, impact, reputation, finances, programs, transparency, and governance — on more than 1.8 million IRS-recognized organizations. GuideStar encourages nonprofits to share organizational information openly and completely by regularly updating their GuideStar Nonprofit Profile. It combines the information supplied by nonprofits with data from other sources. It is up to each individual to conduct his or her own analysis of the information provided on the GuideStar website. It also is worth noting that many foundations go to GuideStar to get information on a nonprofit. For example, Google's giving arm — Google Grants — uses GuideStar to verify the existence and IRS registration status of each nonprofit applying for free Adwords advertising. Because of this, it is important for nonprofits to keep their information up-to-date.



## EVALUATING NONPROFITS IS A COMPLICATED BUSINESS THAT CAN LEAD TO MISINTERPRETATION

While few if any nonprofit leaders would argue against accountability and transparency, many consider the evaluation processes used by the charity watchdogs flawed, saying they focus on the wrong metrics and criteria, and oversimplify the complicated inner workings of nonprofits.

The biggest issue is the use of and focus on overhead and fundraising ratios — how much of an organization's budget is spent on programs as opposed to overhead and staff and how much money is spent on fundraising relative to the amount brought in — as indicators of an organization's effectiveness.

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This issue led to the 2013 release of an open letter to the donors of American and the launch of a campaign designed to end the “[Overhead Myth](#)” — the false conception that financial ratios are the sole indicator of nonprofit performance — by GuideStar and two of the largest charity watchdogs, Charity Navigator and BBB Wise Giving Alliance.

And in 2017, BoardSource, in partnership with the Association of Fundraising Professionals, BBB Wise Giving Alliance, and GuideStar, introduced [Measuring Fundraising Effectiveness — Why Cost of Fundraising Alone Isn't Enough](#). It features a new framework for evaluating fundraising effectiveness — one that provides a balanced approach that emphasizes how important it is invest in strong and sustainable fundraising programs.

To provide nonprofits with the opportunity to tell their own stories about the impact their work is having, GuideStar, BBB Wise Giving Alliance, and Independent Sector developed [Charting Impact](#) — five simple, yet telling, questions related to an organization’s goals, strategies, capacity, and progress. Nonprofits can complete their Charting Impact reports when they update their GuideStar Nonprofit Profile. The public can access this information simply by searching for a specific nonprofit on the GuideStar website.

Nonprofits also have the opportunity to share information about their [board leadership practices](#) on their GuideStar Nonprofit Profile by answering five yes/no questions developed by BoardSource and GuideStar. The questions relate to board orientation and education, CEO oversight, ethics and transparency, board composition, and board performance.

## WHAT CAN YOUR NONPROFIT DO TO PUT ITS BEST FOOT FORWARD?

Nonprofit board leaders should know how their organizations are currently being reviewed and rated by the charity watchdogs. If you’re happy with the scores, perhaps they can be used to publicize your work. If they are low, dig deeper and take steps to put your best foot forward.

Here are some things every organization should be doing that impacts how it is reviewed and rated by the charity watchdogs as well as perceived by the public:

### **Form 990**

Form 990 has a series of governance questions that must be answered yes or no. If at all possible, nonprofits want to answer these questions in the affirmative; negative answers can lead to lower watchdog ratings. To answer affirmatively, nonprofits must have the following policies and procedures in place:

#### Policies:

- Conflict-of-interest
- Whistle-blower
- Record retention and destruction
- Donor privacy
- Board minutes documentation
- Providing Form 990 to the board in advance of filing
- Auditing of financial statements and establishment of audit committee

#### Processes for

- determining chief executive’s and other key officers’ compensation
- reviewing Form 990

It also is important to ensure that the required salary disclosures are provided. Regardless of the amount, the chief executive's salary must be disclosed. Nonprofits with fewer than five independent board members also should consider reviewing the composition and increasing the size of their boards.

**Website**

Watchdogs and the public also review organizational websites for transparency. All nonprofits should consider posting their audited financial statements, Form 990, donor privacy policy, and a list of its current board members and key staff.

**GuideStar Nonprofit Profile**

To put their best foot forward with potential donors, grantmakers, and the public, nonprofits also should update their GuideStar Nonprofit Profile as needed, being sure to answer those questions related to impact and governance.