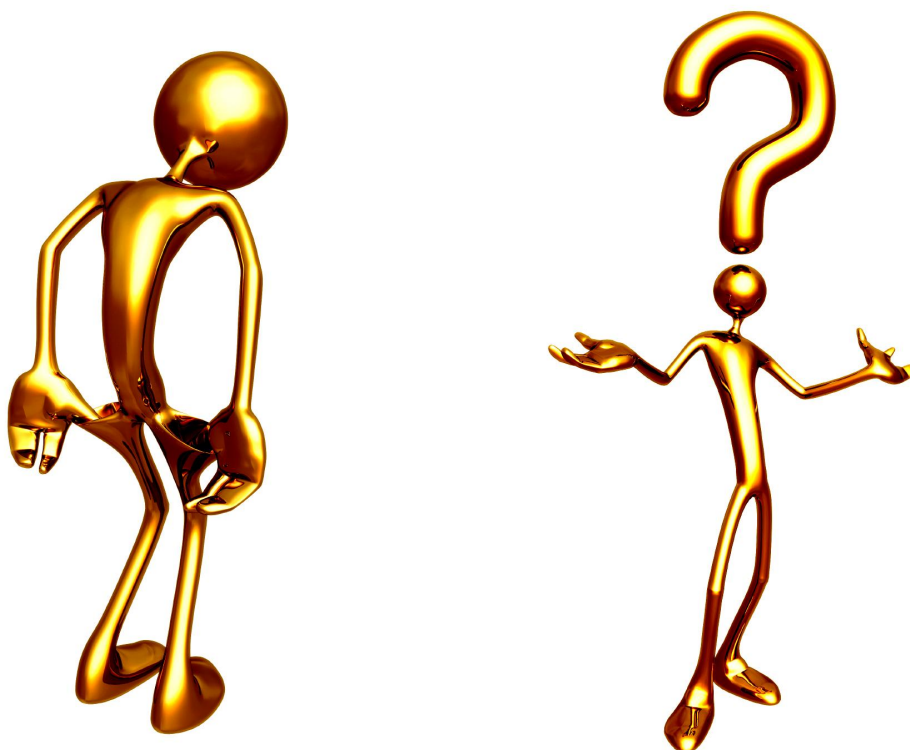


Smart Tzedakah

How to Evaluate Charities Before You Give



*Based on Tzedakah, Inc.'s
Jewish Nonprofits in the Sunshine Program*

www.just-tzedakah.org

זרע אברהם אבינו
tzedakah, inc.
supporting effective jewish giving



Tzedakah, Inc.

Tzedakah, Inc. is a nonprofit organization whose mission is to increase the spiritual and economic effectiveness of tzedakah. The organization maintains an internet web site (www.just-tzedakah.org), which includes information about tzedakah drawn from traditional Jewish sources, profiles of Jewish nonprofit organizations, and unique opportunities to contribute to scores of Jewish charities online.

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This publication is designed to provide accurate information with regard to the subject matter covered, and is made available with the understanding that the publisher and copyright holder is not engaged in rendering halachic, legal, or accounting services. If advice or expert assistance is required, the services of a competent professional should be sought.

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Introduction

Congratulations! By picking up this little booklet, you've shown that you take the mitzvah of tzedakah seriously. Jewish tradition strongly encourages us to give generously. But our sages also want us to give smart. Maimonides teaches that "tzedakah should be performed with more care than any other positive commandment" (*Mishneh Torah*, Gifts of the Poor 10:1). The authoritative *Shulchan Aruch* rules: "A person should not contribute to a tzedakah fund unless he knows its management is reliable and knows how to conduct the fund properly" (*Yoreh Deah* 249:7).

Donors have a right and responsibility to know about the organizations to which they contribute and charities have a reciprocal responsibility to be transparent. We urge donors to give special consideration to those charities that are most open and responsive to requests for information about themselves.

You want your donations to go where they will do the most good. This booklet is designed to help. We can't guarantee you'll hit the bull's eye every time, but we think the ideas we present will help tilt the odds in your favor.

Reciprocal responsibilities: informed donors, transparent charities.

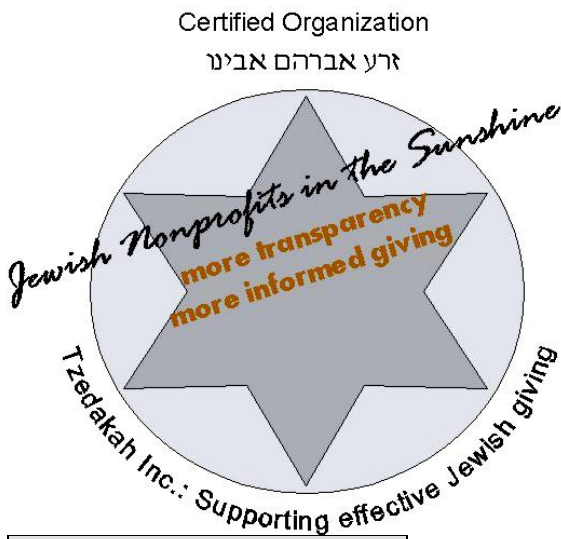


As you read the booklet, you'll find that there's no one perfect way to assess charities. Each measure has its advantages and disadvantages. That's why we suggest you look at multiple aspects of charities' operations. Of course, you don't have to follow all the suggestions we offer. But whichever you choose to use, we're sure you'll find at least some of the tools, suggestions, and information to be useful.

One final introductory comment: We recommend that before you make any contributions, you and your family discuss what you want to achieve with your tzedakah dollars and set giving priorities, perhaps in consultation with your rabbi or other adviser. Without establishing and sticking to priorities, you might short-change causes that you really want to support. Involving kids in the family's tzedakah decisions is a wonderful way to teach Jewish values. It lets them know how important the mitzvah of tzedakah is and that tzedakah should not be left to chance or whim.

For a summary of Jewish guidelines for giving, see: www.just-tzedakah.org/guidelinesIntroduction.asp and listen to Rabbi Yitzchok Breitowitz's lecture on the subject, *Raise Your Standard of Giving: Practical Tzedakah Guidelines from Jewish Tradition* which is available free of charge on our website at URL: www.just-tzedakah.org/AccessRabbiBreitowitzLecture.asp.

Jewish Nonprofits in the Sunshine



Jewish Nonprofits in the Sunshine posts detailed profiles online.

Tzedakah, Inc.'s Jewish Nonprofits in the Sunshine (JNS) program makes it easy for donors to learn about participating charities. We congratulate participating organizations for their extraordinary transparency and accountability. JNS looks at charities from four sides: (1) Mission and activities, (2) External recognition, (3) Leadership and governance, and (4) Financial and human resources. We'll explain these later. For each participating organization, we put the information on our website (www.just-tzedakah.org) in a compact, easy-to-read profile that is available free of charge. A five or 10 minute review of one of our profiles will give you the information we suggest you have before making decisions.

If there are Jewish charities you'd like to know more about, encourage them to participate by completing the application on our website (<http://www.just-tzedakah.org/trApplication.pdf>). If you're a leader of a Jewish charity, be sure to look into participation. Donors want to know about your organization before they give.

Sources of Information about Charities

We'll shortly discuss ways to assess charitable organizations. But first here are a few information sources:

Charity Raters. Some charity rating agencies are quite good. The Standards for Excellence Institute (www.standardsforexcellence.org) and the Better Business Bureau (www.give.org/seal/index.asp) certify charities based on broad sets of criteria. We think that certification by these groups is a good indicator of a well-run charity. However, some popular rating schemes focus exclusively on financial criteria such as spending for fundraising activities and the strength of balance sheets. We don't advise donors to base giving decisions on these ratings. Financial statements reflect only one aspect of a charity's operations. And, they are not always reliable and can be difficult to interpret. We'll come back to these points.

IRS Form 990. The IRS Form 990 must be filed annually by most charities. It contains information on the organization's activities, salaries, and finances. This is a good place to start assessing a charity. However, research shows that many Forms 990 are filled out incompletely and incorrectly. Synagogues are exempt from filing the Form 990. Completed Forms 990 are available on the internet at www.guidestar.org.

State Charity Regulators. State charity regulators provide a variety of information about charity and about charities that solicit within their boundaries. The kind of information varies from state to state. Some states, for example, report on the performance of professional fundraisers and the shares of their collections that go to charitable organizations. As another example, some states report on suspicious and fraudulent charities. For a list of state charity regulators and their web addresses, see www.nasconet.org/agencies.



Well-run charities are eager to share information about themselves.

Organization-Supplied Materials. Organizations publish information about themselves in fundraising materials, annual

reports, financial statements, their own websites, and on the www.guidestar.org website. These materials often provide useful information about the charity's activities, leadership, finances, and external recognition it has received. Don't hesitate to ask for these materials or any other information you think is relevant to your giving decision. Well-run, effective charities are eager to share information about themselves. Information provided by the charity itself, of course, will often be designed to put the organization in the best possible light.

Israeli Organizations. An English-language website on the Israeli nonprofit sector and individual Israeli nonprofits is www.givingwisely.org. Also, the Israeli government issues certificates to nonprofits that meet certain standards for proper management (*nihul takin shel amutot*). To receive the certificate, an organization must submit specified documents annually and is subject to occasional governmental audits. Enforcement may be uneven.

We're ready for an overview of the four sides of organizational evaluation. If you're interested in more detail, turn to page 6 after you've read the overview.

Side 1: Mission and activities

For each charity you consider, check its mission and activities to be sure they are consistent with your priorities. Special attention should be paid to the amount of resources devoted to, and achievements in, those areas you value most highly. Don't assume you know what programs the organization spends its money on from its name or reputation. Charities sometimes devote resources to activities that might surprise you. Financial statements and Forms 990 often contain data about how funds are allocated among various programs.

Side 2: External Recognition



External recognition can be a valuable indicator of a charity's quality.

External recognition can be among the most valuable sources of information about the quality of a nonprofit organization. By external recognition, we mean endorsements, awards, major grants, and certification by charity evaluation agencies (see the section "Charity Raters" on page 2). External recognition may reflect in-depth knowledge about the organization on the part of the group or individual granting the special recognition. More reliance should be placed on recognition from people and organizations you know and respect than those you do not. More recent approbations should be given more weight than those that are several years old. Look for evidence of a first-hand knowledge of the work, accomplishments, and leadership of the charity. Some organizations that award grants or other recognition will make public the reasons for their choices; ask to see them. Ask to see letters of endorsement and see how strongly the writer encourages donations to the particular organization.

Side 3: Leadership and Governance

Jewish tradition considers control over the community's charitable resources to be a sacred trust to be given only to those competent in using the funds wisely (see the quotation from the *Shulchan Aruch* on page 1). The Talmud records that Rabbi Yose said he would rather collect charity than disburse it (*Shabbat* 118b). Commentator Rashi explains that Rabbi Yose feared he might not be competent to discern the needs of paupers and would give too much to some at the expense of those in greater need. We agree that effective management is very important.

Board and Officers. The board is the ultimate governing authority for the organization. The board's job is to choose, supervise, and evaluate the CEO, set the organization's strategy, policies, and procedures, and assure the adequacy of resources.

The board should develop well-defined policies and practices.

The board should have in place well-defined policies and procedures that assure that the organization advances its mission efficiently in accordance with law and ethics and consistent with sound financial practices.



Some donors are particularly worried about contributing to fraudulent and wasteful charities. A good way to help assure honest and effective management is with involved, informed, independent boards. Look at pages 6 and 7 for guidance about how to assess an organization's board.

Chief Executive Officer. The chief executive officer is responsible for providing day-to-day direction, and for giving informed input and advice to the board. The chief executive officer should have the necessary education, skills, and experience to effectively perform his or her leadership role. Check the CEO's bio for the relevance of her or his formal education and work history to the demands of the current position.

Side 4: Financial and Human Resources

Financial Resources. We think that donors often focus too heavily on financial statements in evaluating charities. Financial statements can contain useful information about the organization's fiscal health and its sources and uses of funds. Correctly prepared and properly interpreted financial statements can be a helpful management tool and useful for donors who want to assess charities.

The problem is that all too often financial statements are either incorrect, improperly interpreted, or both. Financial statements audited by competent accountants can be more reliable than those that are not. But, a study by the Urban Institute and Indiana University (www.coststudy.org) found that "functional expense reporting errors occur in audited financial statements and Forms 990 even when the documents are prepared by auditors and CPAs." So be cautious in placing too much weight on financial statements.

Perhaps the most frequent error in interpreting nonprofit financial data is focusing too heavily on programmatic spending relative to spending on infrastructure (administration and fundraising). The quality of programs is more important than the amount spent on them. The odds of high quality program spending can be increased by regular program evaluation (see the section "Program Review" on page 7).

And that's not all. Research shows that nonprofit financial statements often incorrectly allocate expenditures among the major spending categories. Finally, cutting administrative and fundraising costs to the bone is inconsistent with efficient nonprofit management. When donors reward charities that report low overhead and fundraising costs, it encourages nonprofits to understate those costs and, worse, to under-spend on those activities.

To learn more about this topic, see the study by the Urban Institute and Indiana University cited above.

Here are two conclusions: (1) “Our cases suggest that nonprofits that spend too little on infrastructure have more limited effectiveness than those that spend more reasonably.” (2) “Virtually all the errors our study uncovered ... had the effect of understating the organization’s administrative and fundraising cost.” For more on interpreting financial data, see pages 7 and 8.



“Virtually all the errors our study uncovered had the effect of understating the organization’s administrative and fundraising cost.”

Human Resources. Some donors would like to see nonprofit salaries low and staffs small. But any organization must pay wages high enough to attract

qualified people, and staffs must be large enough to get the job done. The Urban Institute and Indiana University study found that “noncompetitive salaries for administrative positions had consequences for effectiveness.” Nonprofit workers are entitled to a market wage, and employees of nonprofits should not be overworked

because charities are understaffed. If you have confidence in the organization’s leaders, you need to trust that they are working to assure the best hiring and salary practices.

Volunteers can help make staff resources go further. Moreover a cadre of volunteers is a measure of the organization's ability to facilitate and encourage the mitzvah of *chesed* (acts of kindness), a supremely important Jewish value. Information about volunteer use by charities participating in our Jewish Nonprofits in the Sunshine program appears in their profiles on our website. For other charities, ask about their use of volunteers.

Skilled volunteers like healthcare professionals, social workers, financial experts, etc. are especially useful in stretching limited dollars.

Excessively low salaries can be a false economy, but volunteers can help to stretch resources.



Board Involvement: Some Specifics

Introduction. An involved, informed, independent board is an important indication of a well-run, honest charity. Of course, some organizations run quite effectively with minimal board involvement. But the presence of a strong board means there's someone looking over management's shoulder to provide strategic input and oversight. Unfortunately, board membership, if taken seriously, can be very time consuming, so it's difficult to assemble good volunteer boards. Our advice is that you give special consideration to organizations that show evidence of having strong independent boards, but that you not disqualify those that do not. Here are indicators of constructive board involvement.

Board Meetings Frequency and Attendance. The board should have regular meetings. Generally smaller organizations with straightforward missions and finances might get by with fewer meetings than larger ones. Tzedakah, Inc. suggests that boards have a minimum of three meetings a year, with a majority present at all meetings. Many organizations will provide information about the frequency and attendance at board meetings upon request.

Time Devoted to the Board Position. The amount of time board members should devote to their duties depends on the organization. Smaller organizations with straightforward missions and finances might get by with board members spending relatively little time serving the organization. Larger organizations with more complex programming and finances should require that board members spend more time. Tzedakah, Inc. suggests that each board member should devote at least one-quarter hour per week (13 hours per year) to the organization. Larger organizations may require that typical board members devote an hour or two a week, on average. On each board, some members, especially officers and members of key committees, should devote significantly more than an hour per week. The IRS annual Form 990 requires that organizations indicate the amount of time each board member devotes to his or her board duties. Unfortunately, many organizations don't properly fulfill the requirement.

Policies and Practices: Some Specifics

Introduction. In order to assure an effective and well-run organization, the board should adopt and implement policies and practices for good governance and effective operation. Boards of larger organizations should include specialized committees such as audit and compensation committees. Below is a list of policies and practices we think are important. It's often difficult to get information about board practices and policies. Charities that meet Tzedakah, Inc.'s Jewish Nonprofits in the Sunshine disclosure standards provide information on our website. For others, we suggest you request



Board policies on stewardship help assure trustworthy and effective operations.

information directly from the organizations. You don't have to ask about all the items mentioned below; some may be more important to you than others. But a polite letter might elicit helpful information about the charity's governance.

Stewardship of Resources. Board members should be familiar with finances and assure, to the best of their ability, that resources are being allocated as effectively as possible. The board should determine the scope and frequency of financial reports. The board, or a committee thereof, should review and approve annual financial statements and the Form 990

submitted to the IRS. The organization should develop, in consultation with relevant experts, effective policies regarding financial control, protection of assets, and management of risk. These policies should cover such matters as the rank and number of individual signatories on checks, controls for cash receipts and disbursements, safeguarding of assets from theft, balance of investment risk and return, and the approval process for transactions by size and nature of transaction. If you're concerned about the possibility of fraud and mismanagement, board involvement in the stewardship of organizational resources is the first place to try to put your mind at rest. Effective financial controls are among the best ways to prevent fraud.

Program Review. The board should establish broad program goals against which to measure management's performance. Progress toward meeting program goals should be evaluated regularly; Tzedakah, Inc. suggests at least once a year. Board members should be familiar with program operations and assure, to the best of their ability, that resources are being allocated as effectively as possible. Program evaluation by outside experts is useful to check the quality of programs.

Periodic review helps assure quality programming.



Compliance with Jewish Law. Organizations that seek to abide by Jewish law and claim to do so should adopt clear and specific policies to assure that activities are consistent with halachah. The organization should appoint a rabbinic adviser knowledgeable in the halachot of tzedakah and related matters.

Ethical Behavior. Boards should establish policies to assure that the organization behaves ethically in its dealings with donors, beneficiaries, and the community at large. Ethical issues might include such areas as fundraising practices, protection for whistleblowers, treatment of individuals in the care of the organization, employee policies that include appropriate non-discrimination clauses, and policies regarding the acceptance of contributions from questionable sources.

CEO Evaluation and Salary Determination. The board, or its compensation committee, should develop a job description for the CEO against which performance can be measured. The job description should be reviewed on a regular basis, at least every three to five years. The CEO should receive performance reviews at least annually. Procedures should be in place to establish appropriate CEO salary, based on performance and overall market conditions. These procedures should include a mechanism to assess the current state of the market for comparable positions. Effective CEO salary review procedures are particularly important when executive salaries appear to be high in absolute terms.

Financial Data: Some Specifics

Introduction. We've already discussed some of the pitfalls of relying too heavily on financial data. Nevertheless, donors may want to include financial data among their evaluation criteria. Below are a few things you should know (please note the following discussion relates to American accounting standards which differ from those in Israel and other countries.)

Program Service Expenses. Program expenses consist of all costs of running programs including the programs' administrative costs. Thus, for example, an organization that makes grants to the poor includes under the category "program expenses" the money granted to individuals as well as the costs

of determining which applicants should receive funds. Tzedakah, Inc. suggests that at least 60% of funds be allocated to program services. But we remind you that the quality of programs counts at least as much as the amount spent on them. (For more on assuring quality programming, see the section “Program Review” on page 7.)

Fundraising Expenses. Fundraising expenditures for a nonprofit serve the same function as marketing expenditures for a for-profit. The amount spent on fundraising therefore should balance the need to raise enough money to finance the organization's mission against the need to devote funds to program so that the mission can be performed. The quality of programming can suffer from both over- and under-

spending on fundraising. Assessing the appropriate amount to be spent on fundraising is very difficult. It involves

Program quality can suffer from too little or too much spent on fundraising.



consideration of a number of factors; some are discussed on our website (www.just-tzedakah.org/Help/helpFundraising.htm). We should also keep in mind that any blame for apparently high fundraising costs must be shared by donors who don't seek out charities and generously give on their own. As a general matter, Tzedakah, Inc. suggests that organizations spend between 10% and 35% of contributions on fundraising. Some Jewish authorities allow up to 49% (and even more) of revenues to be expended on fundraising in certain circumstances.

Management and General Expenses. These are expenditures for the overall management of the organization including such items as board meetings, accounting and bookkeeping, general legal services, general liability insurance, time spent at general staff meetings, personnel and other centralized services, and publishing and distribution of the annual report. Expenses listed under the Management and General category do not include administrative expenses associated with specific program services and fundraising, which are included in those categories.

Adequate resources should be devoted to the management and general function to assure proper oversight, control, and governance of the organization and its staff, efficient use of resources, protection of assets, management of risk, and avoidance of waste. Administrative expenses may be seen as a diversion of resources from program services. But effective spending on administration can enhance the quality of the organization's programming. Tzedakah, Inc. recommends that organizations spend between 5% and 15% of their revenues on management and general expenses.

Net Assets. Net assets are the excess of assets over liabilities. Negative net assets means liabilities exceed assets. The organization should have on hand an adequate level of liquid assets relative to operating expenses and other obligations to assure its smooth operation, but should avoid the accumulation of excessive assets. As a guideline, organizations should have available assets, unencumbered by donor restrictions, and excluding plant and equipment, equal to between three and 18 months of operating expenses.

The accumulation of net assets in excess of amounts necessary for the smooth functioning of the enterprise indicates that the organization may not have adequate beneficial uses for the contributions it receives. Moreover, a large surplus can encourage profligate spending. According to Jewish custom, funds set aside for the poor should not accumulate unduly, as the poor have urgent needs.

Useful Websites Mentioned in the Text

The website of Tzedakah, Inc.
www.just-tzedakah.org

The Standards for Excellence Institute (certifies charities)
www.standardsforexcellence.org/

Better Business Bureau (certifies charities)
www.give.org/seal/index.asp

Completed Forms 990
www.guidestar.org

Charity regulators and their internet addresses
www.nasconet.org/agencies

Israeli charities
www.givingwisely.org

The Urban Institute-University of Indiana study of
nonprofit fundraising and administrative costs
www.coststudy.org

Other Resources from Tzedakah, Inc.

*Be Pure Before God and Israel: Principles of Ethics, Governance, and Accountability for Jewish
Philanthropies in the United States*
(available as a free download or for purchase in hard copy format)

*Raise Your Standard of Giving:
Practical Tzedakah Guidelines Drawn from Jewish Tradition*
A lecture by Rabbi Yitzchok Breitowitz
(available online free, and for purchase in CD and DVD formats)