

**Testimony of Bennett M. Weiner, Chief Operating Officer  
BBB Wise Giving Alliance, 4200 Wilson Boulevard, Arlington, VA 22203  
before the  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,  
U.S. HOUSE OF REPRESENTATIVES  
on  
Assessing Veterans Charities**

**December 13, 2007**

Mr. Chairman and Members of the Committee, I am Bennett Weiner, COO of the BBB Wise Giving Alliance. I appreciate the opportunity to appear before this Committee to share with you our experience with assessing veterans charities.

The BBB Wise Giving Alliance (the Alliance) is a monitoring organization that sets voluntary accountability standards for charities ([www.bbb.org/charity](http://www.bbb.org/charity)). We are a 501(c)(3) charitable affiliate of the Council of Better Business Bureaus.

The Council of Better Business Bureaus is a 501(c)(6) business membership organization that serves as the umbrella organization for the 114 local Better Business Bureaus in the United States. The Council of Better Business Bureaus has a number of consumer programs including BBB Military Line® ([www.bbb.org/military](http://www.bbb.org/military)), which provides consumer education and advocacy for military consumers and their families, both in their communities and online.

Under somewhat different names, the BBB Wise Giving Alliance has been monitoring national charities for almost a century. Our mission is to help donors make informed judgments, based on ethical, financial and other considerations, about the charities that seek their support. We work from the donor's perspective.

The core of our program is the preparation of evaluative reports about nationally soliciting charities that the public has asked us about. The reports specify whether an organization meets or does not meet our *Standards for Charity Accountability*, which encompass essential aspects of charity operation: governance, finances, communications with the public, donor privacy, self-assessment and others. The resulting reports are available to the public at [www.bbb.org/charity](http://www.bbb.org/charity). Currently we report on about 1,200 national charities.

There is no charge to charitable organizations for the completion of our accountability evaluations and the resulting reports and conclusions are freely available to the public through our website ([www.bbb.org/charity](http://www.bbb.org/charity)) and in our quarterly publication, the *Wise Giving Guide*.

The BBB Wise Giving Alliance reports on charities that solicit nationally. In addition, about 45% of existing local Better Business Bureaus have local charity review programs

that mirror the national evaluations completed by the Alliance. The public can locate the nearest local Better Business Bureau by visiting [www.bbb.org](http://www.bbb.org).

The *20 Standards for Charity Accountability* used by BBBs were last revised in 2003 and were the result of a 3-year project that included significant input from small and large charities, foundation and corporate contribution executives, accountants, government regulators, and other experts in philanthropy.

### **Veterans Charities**

For purposes of this testimony the term *veterans charities* refers to organizations that assist former members of the armed services as well as those groups that provide assistance to active duty personnel and their families.

Nonprofit organizations related to the causes of veterans and their families have long had a vital role in American society. The needs of troops returning home, which can extend far beyond their return, have always exceeded the capacity of government. The public has generally been very sympathetic to those who have served and their families, and has generously supported many of the charities formed to assist them.

The support prompted by this generous impulse, however, is not always well directed. Contributors often give without sound information about the charities that solicit them, and charities are not always as forthcoming as they should be about their operations. In addition, less-than scrupulous operators often take advantage of givers' sympathy for those who have served in the military.

This situation is of course not unique to veterans charities. Uninformed givers, non-disclosing charities and charity scams are not uncommon throughout the philanthropic sector. Our experience at the Alliance with regard to veterans charities, however, leads me to note certain facts and suggest a number of points that may help strengthen donors' giving practices and thereby promote more accountable charities.

### **Veterans Charities Responsiveness to BBB Wise Giving Alliance's Requests for Information**

In order to evaluate national charities in relation to its *Standards for Charity Accountability*, the Alliance requests that they complete a detailed online questionnaire and file certain documents with us (such as a copy of the IRS Form 990, audited financial statements, and latest annual report). If there is no response to the first letter within about three weeks, another request is sent, once again asking for a response in three weeks. If necessary, there is a third letter enclosing a draft report that states that the charity has not provided current information. This letter says that the draft report will be distributed in two weeks from the letter's date and again invites the charity to provide information. The first and third letters are sent by certified mail.

The information we request has to do not only with a charity's finances but with its governance, the accuracy of its communications with the public, the content of its website, its respect for donor privacy—and other aspects of charity operation that our standards address.

Here I want to stress an important feature of our reporting. Participation in our evaluation program is *voluntary*. While charities must file certain information, primarily financial, with various government bodies, they have no obligation to file with the Alliance. In our view, charities that file with us show that they are ready to go beyond what is required by government to demonstrate their commitment to transparency. Whether an Alliance evaluation concludes that a charity meets all standards or not, the fact that the information on which it was based was supplied voluntarily lends it special value.

As highlighted in an article that appeared in *The Wall Street Journal* this past Monday, December 10<sup>th</sup>, overall, 70% of all the national charities that we contact provide the requested information; 30% do not, this is up from 22% four years ago. There is no single reason that charities do not disclose to us. In some cases, charities believe that obeying the law and filing financial information with government agencies is transparency enough. Others may choose not to participate because they don't want the public to know that they don't meet BBB charity standards.

Currently, the Alliance reports on more than 40 nationally soliciting veterans organizations and I am dismayed to note that for veterans organizations, the nondisclosure rate is significantly higher than 30%. About 50% of the national veterans charities contacted by the Alliance do not provide us with any of the requested information and materials to complete our evaluations.

Unfortunately, most charities do not specify the reason(s) that they choose not to participate in our evaluation program.

Of course this is not a statistic with validity beyond our reporting universe, since we have not contacted all existing veterans organizations. Still, it strongly suggests that many veterans charities have a way to go in demonstrating their accountability, and that donors, often so emotionally responsive to veterans' needs, should exercise care in deciding which organizations to support.

### **Evaluating Veterans Charities in Relation to the 20 BBB Standards for Charity Accountability**

Of the national charities that provide requested information to the BBB Wise Giving Alliance, on average, about 60-65% meet all of our standards and 35-40% do not meet one or more of our standards. This overall evaluation statistic has remained fairly consistent in recent years among the national charities that we evaluate.

With respect to just the veterans charities, the Alliance's evaluation conclusion experience is significantly different – almost the exact opposite of the preceding national charity average. About 62% of the veterans charities that provide requested information do not meet one or more of our standards, while the remaining 38% meet all of our standards.

It is difficult to ascertain for certain why this evaluation disparity exists. But we suspect that one possible factor is that a number of the recent veterans charities evaluations we have completed are about relatively new veterans organizations established within the past three years. As a result, some may be less familiar with the BBB charity standards.

In turn, the reasons that veterans charities do not meet BBB charity standards runs across the spectrum of issues covered by these guidelines. Although financial ratios get significant public attention, only about 20% of the veterans charities that provide requested information to the Alliance do not meet our financial ratio tests. Specifically, this includes the standard that calls for total program services expenses to be at least 65% of total expenses (Standard 8) and the standard that calls for total fund raising expenses not to exceed 35% of total contributions (Standard 9).

This also reflects the potential problem that financial ratios can result in a “false positive.” In other words, the financial ratios may look impressive, but the charity may not meet other accountability measures. Examples of Alliance evaluation findings on veterans charities include such things as:

- Not having a board policy to review the CEO's performance once every two years.
- Not having a board-approved conflict of interest policy.
- Not having a member of the governing board assigned the responsibility of serving as the organization's treasurer.
- Having more than 10% of the voting membership of the board being directly or indirectly compensated.
- Having fewer than three meetings of the governing body in the past fiscal year.
- Not having a written policy stating that, at least every two years, an appraisal be done assessing the organization's performance and effectiveness.
- Not accurately reporting the charity expenses in its audited financial statements.
- Not including all of the recommended information on the charity's website such as electronic access to the IRS Form 990.

- Not including a privacy policy on the charity's website that includes recommended basic privacy information.

The above listing of sample evaluation findings of veterans groups also underscores the fact that BBB evaluations go beyond the information included in the IRS Form 990. Access to that form alone will not enable the Alliance to complete a full evaluation in relation to all of our charity standards.

### **Tips for Donors to Veterans Charities**

The suggestions that follow are, like all the Alliance's tips for donors, based on common sense.

1. Mistaken Identity: Watch out for name confusion. Many veterans charities include virtually the same words in different order or slightly different form.
2. Clear Program Descriptions: Look for a clear description of the organization's programs in its appeals and website. If it says it is helping veterans, does it explain how (financial assistance, shelter, counseling), and where it is doing so?
3. Telemarketing Cautions: Telemarketing can be a costly method of fund raising unless carefully managed. If called, do not hesitate to ask for written information on the charity's programs and finances.
4. On-the-Spot Donation Decisions: Be wary of excessive pressure in fund raising. Don't be pressured to make an immediate on-the-spot donation. Charities should welcome your gift whenever you want to send it.
5. Donating Used Clothing and Other Goods? Find out how the charity benefits from the collection and resale of used clothing and other in-kind gifts. Sometimes the charity receives only a small portion of the resale price of the item or may have a contractual arrangement to get a flat fee for every household pick-up, no matter what the contents.
6. Check with Outside Sources Before Giving: In addition to charity monitoring organizations, check with your state government's charity registration agency, usually a division of the attorney general's office. Also, visit [www.guidetar.org](http://www.guidetar.org) to get free access to the IRS Form 990 of charities that file this form with the IRS.

In summary, while we are pleased to note that some veterans charities provide requested information and meet all of our standards, there is a larger percentage that do not meet one or more our standards. Perhaps more significantly about half of all the veterans charities we contact do not provide any of the requested information to the BBB Wise Giving Alliance. As a result, we encourage donors to exercise caution regarding these solicitations. Ultimately, failure to disclose information does nothing to enhance the confidence of donors, and seems especially egregious in organizations that purport to aid those who have given so much.

# BBB WISE GIVING ALLIANCE STANDARDS FOR CHARITY ACCOUNTABILITY

## PREFACE

The BBB Wise Giving Alliance *Standards for Charity Accountability* were developed to assist donors in making sound giving decisions and to foster public confidence in charitable organizations. The standards seek to encourage fair and honest solicitation practices, to promote ethical conduct by charitable organizations and to advance support of philanthropy.

These standards replace the separate standards of the National Charities Information Bureau and the Council of Better Business Bureaus' Foundation and its Philanthropic Advisory Service that were in place at the time the organizations merged.

The *Standards for Charity Accountability* were developed with professional and technical assistance from representatives of small and large charitable organizations, the accounting profession, grant making foundations, corporate contributions officers, regulatory agencies, research organizations and the Better Business Bureau system. The BBB Wise Giving Alliance also commissioned significant independent research on donor expectations to ensure that the views of the general public were reflected in the standards.

The generous support of the Charles Stewart Mott Foundation, the Surdna Foundation and Sony Corporation of America helped underwrite the development of these standards and related research.

Organizations that comply with these accountability standards have provided documentation that they meet basic standards:

- ♦ In how they govern their organization,
- ♦ In the ways they spend their money,
- ♦ In the truthfulness of their representations, and
- ♦ In their willingness to disclose basic information to the public.

These standards apply to publicly soliciting organizations that are tax exempt under section 501(c)(3) of the Internal Revenue Code and to other organizations conducting charitable solicitations. The standards are not intended to apply to private foundations, as they do not solicit contributions from the public.

The overarching principle of the BBB Wise Giving Alliance *Standards for Charity Accountability* is full disclosure to donors and potential donors at the time of solicitation and thereafter. However, where indicated, the standards recommend ethical practices beyond the act of disclosure in order to ensure public confidence and encourage giving. As voluntary standards, they also go beyond the requirements of local, state and federal laws and regulations.

In addition to the specific areas addressed in the standards, the BBB Wise Giving Alliance encourages charitable organizations to adopt the following management practices to further the cause of charitable accountability.

- ♦ Initiate a policy promoting pluralism and diversity within the organization's board, staff and constituencies. While organizations vary widely in their ability to demonstrate pluralism and diversity, every organization should establish a policy, consistent with its mission statement, that fosters such inclusiveness.
- ♦ Ensure adherence to all applicable local, state and federal laws and regulations including submission of financial information.
- ♦ Maintain an organizational adherence to the specific standards cited below. The BBB Wise Giving Alliance also encourages charities to maintain an organizational commitment to accountability that transcends specific standards and places a priority on openness and ethical behavior in the charity's programs and activities.

## GOVERNANCE AND OVERSIGHT

**The governing board has the ultimate oversight authority for any charitable organization. This section of the standards seeks to ensure that the volunteer board is active, independent and free of self-dealing. To meet these standards, the organization shall have:**

**1. A board of directors that provides adequate oversight of the charity's operations and its staff.** Indication of adequate oversight includes, but is not limited to, regularly scheduled appraisals of the CEO's performance, evidence of disbursement controls such as board approval of the budget and fund raising practices, establishment of a conflict of interest policy and establishment of accounting procedures sufficient to safeguard charity finances.

**2. A board of directors with a minimum of five voting members.**

**3. A minimum of three evenly spaced meetings per year of the full governing body with a majority in attendance, with face-to-face participation.** A conference call of the full board can substitute for one of the three meetings of the governing body. For all meetings, alternative modes of participation are acceptable for those with physical disabilities.

**4. Not more than one or 10% (whichever is greater) directly or indirectly compensated person(s) serving as voting member(s) of the board. Compensated members shall not serve as the board's chair or treasurer.**

**5. No transaction(s) in which any board or staff members have material conflicting interests with the charity resulting from any relationship or business affiliation.**

Factors that will be considered when concluding whether or not a related party transaction constitutes a conflict of interest and if such a conflict is material, include, but are not limited to: any arm's length procedures established by the charity; the size of the transaction relative to like expenses of the charity; whether the interested party participated in the board vote on the transaction; if competitive bids were sought and whether the transaction is one-time, recurring or ongoing.

## MEASURING EFFECTIVENESS

An organization should regularly assess its effectiveness in achieving its mission. This section seeks to ensure that an organization has defined, measurable goals and objectives in place and a defined process in place to evaluate the success and impact of its program(s) in fulfilling the goals and objectives of the organization and that also identifies ways to address any deficiencies. To meet these standards, a charitable organization shall:

**6. Have a board policy of assessing, no less than every two years, the organization's performance and effectiveness and of determining future actions required to achieve its mission.**

**7. Submit to the organization's governing body, for its approval, a written report that outlines the results of the aforementioned performance and effectiveness assessment and recommendations for future actions.**

## FINANCES

This section of the standards seeks to ensure that the charity spends its funds honestly, prudently and in accordance with statements made in fund raising appeals. To meet these standards, the charitable organization shall:

*Please note that standards 8 and 9 have different denominators.*

**8. Spend at least 65% of its total expenses on program activities.**

**Formula for Standard 8:**

$$\frac{\text{Total Program Service Expenses}}{\text{Total Expenses}}$$
 should be at least 65%

**9. Spend no more than 35% of related contributions on fund raising.** Related contributions include donations, legacies and other gifts received as a result of fund raising efforts.

**Formula for Standard 9:**

$$\frac{\text{Total Fund Raising Expenses}}{\text{Total Related Contributions}}$$
 should be no more than 35%

**10. Avoid accumulating funds that could be used for current program activities. To meet this standard, the charity's unrestricted net assets available for use should not be more than three times the size of the past year's expenses or three times the size of the current year's budget, whichever is higher.**

An organization that does not meet Standards 8, 9 and/or 10 may provide evidence to demonstrate that its use of funds is reasonable. The higher fund raising and administrative costs of a newly created organization, donor restrictions on the use of funds, exceptional bequests, a stigma associated with a cause and environmental or political events beyond an organization's control are among factors which may result in expenditures that are reasonable although they do not meet the financial measures cited in these standards.

**11. Make available to all, on request, complete annual financial statements prepared in accordance with generally accepted accounting principles.**

When total annual gross income exceeds \$250,000, these statements should be audited in accordance with generally accepted auditing standards. For charities whose annual gross income is less than \$250,000, a review by a certified public accountant is sufficient to meet this standard. For charities whose annual gross income is less than \$100,000, an internally produced, complete financial statement is sufficient to meet this standard.

**12. Include in the financial statements a breakdown of expenses (e.g., salaries, travel, postage, etc.) that shows what portion of these expenses was allocated to program, fund raising and administrative activities.**

If the charity has more than one major program category, the schedule should provide a breakdown for each category.

**13. Accurately report the charity's expenses, including any joint cost allocations, in its financial statements.**

For example, audited or unaudited statements which inaccurately claim zero fund raising expenses or otherwise understate the amount a charity spends on fund raising, and/or overstate the amount it spends on programs will not meet this standard.

**14. Have a board-approved annual budget for its current fiscal year, outlining projected expenses for major program activities, fund raising and administration.**

#### FUND RAISING AND INFORMATIONAL MATERIALS

A fund raising appeal is often the only contact a donor has with a charity and may be the sole impetus for giving. This section of the standards seeks to ensure that a charity's representations to the public are accurate, complete and respectful. To meet these standards, the charitable organization shall:

**15. Have solicitations and informational materials, distributed by any means, that are accurate, truthful and not misleading, both in whole and in part.** Appeals that omit a clear description of program(s) for which contributions are sought will not meet this standard.

A charity should also be able to substantiate that the timing and nature of its expenditures are in accordance with what is stated, expressed or implied in the charity's solicitations.

**16. Have an annual report available to all, on request, that includes:**

- (a) the organization's mission statement,
- (b) a summary of the past year's program service accomplishments,
- (c) a roster of the officers and members of the board of directors,

**(d) financial information that includes:**

- (i) total income in the past fiscal year,
- (ii) expenses in the same program, fund raising and administrative categories as in the financial statements, and
- (iii) ending net assets.

**17. Include on any charity websites that solicit contributions, the same information that is recommended for annual reports, as well as the mailing address of the charity and electronic access to its most recent IRS Form 990.**

**18. Address privacy concerns of donors by**  
**(a) providing in written appeals, at least annually, a means (e.g., such as a check off box) for both new and continuing donors to inform the charity if they do not want their name and address shared outside the organization, and**

**(b) providing a clear, prominent and easily accessible privacy policy on any of its websites that tells visitors**

- (i) what information, if any, is being collected about them by the charity and how this information will be used,
- (ii) how to contact the charity to review personal information collected and request corrections,
- (iii) how to inform the charity (e.g., a check off box) that the visitor does not wish his/her personal information to be shared outside the organization, and
- (iv) what security measures the charity has in place to protect personal information.

**19. Clearly disclose how the charity benefits from the sale of products or services (i.e., cause-related marketing) that state or imply that a charity will benefit from a consumer sale or transaction. Such promotions should disclose, at the point of solicitation:**

- (a) the actual or anticipated portion of the purchase price that will benefit the charity (e.g., 5 cents will be contributed to abc charity for every xyz company product sold),
- (b) the duration of the campaign (e.g., the month of October),
- (c) any maximum or guaranteed minimum contribution amount (e.g., up to a maximum of \$200,000).

**20. Respond promptly to and act on complaints brought to its attention by the BBB Wise Giving Alliance and/or local Better Business Bureaus about fund raising practices, privacy policy violations and/or other issues.**