

Private Foundations Bulletin

Best Practices: Due Diligence on Grantees

Grant-making is the heart of the private foundation industry and most commonly the largest expenditure. With grant-giving in the billions of dollars annually, grant disbursements warrant proper due diligence. Due diligence has the potential to provide insight into critical attributes and the level of alignment between the foundation's mission and the goals of the grantee.

Key Information

Below you will find some key information private foundations should, at a minimum, obtain when completing the due diligence process.

- **Board List:** A list of Board members should be requested from the grantee to ensure conflicts of interest do not exist and to learn who at the grantee has governance responsibilities.
- **Internal Revenue Service (IRS) Determination Letter:** This document should be obtained directly from the grantee to verify the grantee is recognized by the IRS.
 - **Additional Best Practice:** Verification can be performed by using the IRS [Tax Exempt Organization Search](#) feature (formerly known as the “Exempt Organizations Select Check Tool”) prior to the grant disbursement.
- **IRS Federal Form 990:** Charitable organizations are required, with some exceptions, to file one of the following federal forms: Form 990, 990-EZ, 990-N or 990-PF. Obtaining this document allows a foundation to determine if a potential grantee is current and compliant with its required IRS filings.
- **Audited Financial Statements:** Audited financial statements will provide the best evidence of a grantee's financial health. Financial statements will also give a foundation comfort over the financial records, as the grantee's records have been audited and opined on by an independent CPA. Obtaining this type of financial information can help a foundation assess the potential grantee's solvency and allow a foundation to perform other analytical analyses over the financial health of the grantee.
 - **Additional Best Practice:** If a potential grantee's financial data/financial statements are other than audited, an inquiry should be made as to the reason why. Additional steps should also be taken to ensure the grantee is providing accurate and reliable financial data.
- **Organizational Budget:** Obtaining the grantee's budget assists in determining the financial strategy that the grantee has set forth for its fiscal year and future. In addition, a budget may give insight to any potential cash flow challenges the grantee may face. To properly vet a potential grant recipient, a foundation manager should ascertain whether the grantee has prepared a realistic budget for its fiscal year; whether the sources of potential revenue are reliable; and, how reasonable the estimates of the future expenses are. A foundation manager should also have a clear understanding of how the grantee would respond to any unexpected revenue shortfalls or cost overruns.

Beyond the Paperwork

Proper due diligence should also include more than obtaining and reviewing documents. Correspondence, inquiries and meetings with potential grantees that enable a foundation to better understand their mission are all integral steps of the due diligence process and should be considered.

In Conclusion

Performing due diligence over prospective grantees is an essential part of a foundation's operations. These procedures help a foundation gain comfort or identify potential red flags with a potential grantee.

Contact Us

Should you have any questions regarding this bulletin or any other matters related to accounting, auditing and tax for private foundations, please contact the following experienced professionals in our Philanthropic and Private Foundation Services Practice:

Thomas F. Blaney, CPA, CFE
Partner, Co-Director of Foundation Services
tblaney@pkfod.com

Christopher D. Petermann, CPA
Partner, Co-Director of Foundation Services
cpetermann@pkfod.com

www.pkfod.com

About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, eleven offices in New York, New Jersey, Connecticut, Maryland and Rhode Island, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 29th on Accounting Today's 2019 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by Accounting Today. In 2019, PKF O'Connor Davies was named one of the 50 best accounting employers to work for in North America, by Vault.

PKF O'Connor Davies provides specialized services to not-for-profit organizations. Our dedicated industry practice serves over 3,000 not-for-profit organizations, including 300 private foundations (i.e., family, corporate, community and independent foundations) as well as grant making organizations. We are committed to the not-for-profit industry and continue to invest in our professionals by providing training, state-of-the-art technology and audit and tax guidance to meet the evolving needs of the not-for-profit community.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.