

Building Confidence through Transparency ©

Linda Keslar , CFA

With public trust in charities reaching new lows following recent scandals in the corporate and nonprofit world, leaders of community foundations both large and small are focusing on ways to improve transparency. "For the purposes of accountability, [it's] really important in how we conduct our affairs," says Donald M. Stewart, president and chief executive officer of the Chicago Community Trust. "We want donors to have confidence in what we do on their behalf and for the general public that we serve."

Pressure for greater transparency in philanthropy has been mounting from watchdog groups, the Internal Revenue Service, and some state and national legislators. Unlike publicly traded companies, which report to the U.S. Securities and Exchange Commission, nonprofits don't report to a regulatory body about their management and financial practices.

There is good news for donors, however. While there are no regulatory groups demanding tougher accountability for nonprofits, many community foundations are already taking preemptive steps to clarify their operations. "Better citizenship is coming from the inside," says Stewart.

In the spirit of oversight reform, the Chicago Community Trust, for instance, has voluntarily adopted new policies in line with the corporate governance principles of the Sarbanes-Oxley Act of 2002. Passed by Congress in the wake of several corporate accounting scandals, the Sarbanes-Oxley Act requires public companies to adhere to stricter auditing and reporting standards. "Our board now meets in private sessions without me, which is a Sarbanes-Oxley requirement," explains Stewart.

"The bigger push for accountability may be from donors and their professional advisors," says H. Peter Karoff, chairman of the Philanthropic Initiative, Inc., a Boston-based consulting firm. "Without a doubt, the single biggest issue in donors minds is whether they can trust an organization," says Karoff.

Charitable giving still remains strong. According to the 2003 Giving USA survey published by the AAFRC Trust for Philanthropy, donations have almost doubled over the past decade, reaching a high of \$240 billion (measured in inflation-adjusted dollars). However, Karoff also points out, "What we don't know is how much donors are holding back" due to concerns about trust.

Community foundations, in Karoff's view, are at a "crossroads" in this new environment of building charitable trust, due to their roles as both fund-raisers and grantmakers to locales. "They have a tremendously useful role because they have a relationship with advisors that is broader than [that of] private foundations," he says. "They represent the community at large."

The Chicago Community Trust, for example, is just one of 385 community foundations already adopting the voluntary national standards of effective practices developed by the Council on Foundations. "We're looking not only to educate charities about making good choices, but [also] how to adopt proactive strategies," says Suzanne Feurt, managing director for community foundation services at the

Washington, D.C.-based Council on Foundations, which developed the guidelines in 2000.

A member website gives advice about implementing some 43 benchmarks covering issues of corporate governance, financial stewardship, grantmaking policies, and donor and public relations. Most of the 650-member community foundation world is embracing the measures, with only the smaller organizations that face resource challenges adopting the changes more slowly. "For many, it's just a matter of time or staff," says Feurt.

For Dave Edwards, executive director of the small San Luis Obispo County Community Foundation, putting the paperwork together to comply with the standards has been daunting. But he isn't complaining, since the data "adds a layer of transparency that makes donors even more comfortable."

Community foundations that make the cut earn a seal of certification, a black or blue insignia that can be used in letterheads and advertising. "It's our version of a national language," says Jennifer Leonard, president and executive director of the Rochester Area Community Foundation, who also chairs a committee devoted to the standards. "Professional advisors, used to certifications, should feel comfortable working with and sending a client to a community foundation measuring up to a set of real benchmarks."

More foundations are also eyeing the Internet as a transparency tool, going beyond providing donors and the public with financial reports on the foundations' websites. The Rhode Island Foundation, for example, is adding more detailed information about its grantmaking process to its website, a first-time step, says vice president of communications Richard Schwartz. "We really want people to understand our criteria," says Schwartz.

The Chicago Community Trust is testing new web-based software that more closely monitors ongoing grant recipients, says Stewart. "We're doing a number of new things, based on our growing knowledge of technology, to open up our systems for the purpose of new relationships, new services, and new revenue streams," he says. Such measures not only make good business sense, but are also ways to build confidence, he adds.

"The more transparent we are," says Stewart, "the more clearly we offer a very viable set of services and programs that are rooted in the community."

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