



Investigative Due Diligence for Nonprofit Organizations

A quick search for “nonprofit due diligence” brings up thousands of articles offering donors tips for evaluating the charities they choose to give their funds. But if you are a nonprofit leader or board member, you’d be hard-pressed to find clear cut direction for keeping your own house in order.

With scores of recent high-profile scandals gripping the nonprofit community—think allegations of misappropriated funds and worries over how small charities could effectively manage and disburse record donations following Hurricane Sandy—investigative due diligence has become more important than ever for nonprofit organizations.

Investigative due diligence is an essential process for nonprofits concerned about the unknown scope of a potential investment or business relationship. By conducting due diligence on the individuals or entities with which you do business, a nonprofit can expose and mitigate hidden risks.

For nonprofits, investigations should focus on two areas and remain both proactive and reactive:

- Employees and volunteers. The people who are the face of your organization need to promote the ideals of your mission. Yet sometimes individuals are hired that do not meet those requirements. Proactive due diligence is critical in all hiring decisions made by nonprofits. From background checks on employees to the vetting of potential board members, due diligence investigations can uncover any potential red flags before they impact your organization. Beyond employees, volunteers, who often serve on the front lines of your organization, should also be subjected to background checks. While a basic background check on entry-level volunteers and employees will suffice, deeper investigations into individuals involved in handling money or publicly promoting your organization should be considered at the time of hire.
- Financial due diligence. Every nonprofit should immediately begin an investigation if there is fear of misappropriation of funds. Whether it is a board member taking a cut of the fundraising or working with a third-party that has recently come under the microscope, it is important to investigate and remain transparent before an issue is made public. While the misrepresentations or omissions might raise red flags and spark an investigation, proactively researching board members and senior leadership’s business associations can uncover fraudulent transactions or troubling relationships before they become a financial or reputational risk.

Reputational risk presents its own set of challenges for nonprofits. When third-party funding and government grants rely on a mix of business acumen and commitment to your nonprofit's mission; bad press about a financial scandal or previous internal issues can hinder your chance to receive critical funding.

Investigative due diligence is both a proactive and reactive tool. The most highly regarded nonprofits deploy investigations to protect themselves and also uncover potential wrong doing within their organizations. If the latest news about nonprofit scandals has taught us anything, it is that understanding who is working for your organization and how the funds you raise are being used is extremely important for public perception, future fundraising and your overall mission.

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