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An MBA's Sleuthing Skills Put Charities on the Hot Seat

By Suzanne Perry

CHICAGO

GROWING UP JEWISH in Tulsa, Okla., Daniel Borochoff learned two lessons that helped prepare him for the role he has chosen to play in life—that of the charity world's most persistent watchdog.

First, he says, there were not many other Jews there, so he got used to being different.

"I can be in a room where every single person disagrees with me; that's okay," he says.

Second, he found at a young age that asking tough questions could pay off.

When he got argumentative in Sunday school, he says, his teacher would ship him off to the rabbi. But that was a plus because he could have a more sophisticated discussion with a religious scholar than with a part-time teacher.

In a comment that won't surprise anyone who has watched him make waves, Mr. Borochoff adds: "This idea of challenging how people think, what people say, is very much who I am."

Promoting Efficient Causes

Now 54, Mr. Borochoff is celebrating 20 years as head of an organization that is dedicated to rooting out charities with poor financial performance so donors can give to the efficient ones. Formerly known as the American Institute of Philanthropy, it has just adopted a snazzier name, CharityWatch, and a new logo featuring a black dog against a red background (Mr. Borochoff says the color signifies "Alert! Pay Attention!").

It is also giving its Web site a facelift so it can offer more information on each charity it rates, for example, by posting the sometimes-revealing notes that are attached to audited financial statements.

But otherwise, CharityWatch today operates much the same as it did when Mr. Borochoff started it two decades ago. The group examines the tax forms, financial statements, and annual reports of national charities, quizzes them about any gaps it detects, and gives them a grade from A to F.

Its work is guided by one overriding philosophy: Donors want a healthy percentage of their contributions to pay for a charity's stated mission—not for direct-mail companies, telemarketers, trinkets to entice recipients to give, outlandish executive perks, or big reserves.

A group that spends less than 60 percent of its budget on charitable programs, or whose assets have grown too large, is in line for a bad grade.

Focus on Finances

In a nonprofit world that is obsessed with "performance metrics," "results," and "program evaluations," that focus on finances can seem



ROARK JOHNSON, FOR THE CHRONICLE

Daniel Borochoff, head of CharityWatch, says he wants to influence Americans to give more thoughtfully so charities can do more good in the world. "When you get down to it," he says, "that's what's driving me."

anachronistic. The nonprofit and fundraising establishment has coalesced around the idea that rating a charity largely on the percentage of revenue it spends on fundraising and administrative costs, or the "financial ratio," sends donors the wrong message. They should be looking to support organizations that are highly effective, the argument goes, not those that scrimp on possibly vital overhead costs so they can get a good rating.

"I would question putting a lot of weight on fundraising expenses," says Elizabeth Boris, director of the Urban Institute's Center on Nonprofits and Philanthropy. "It's a much more complicated picture than that."

While Charity Navigator, another prominent charity-rating service, has responded to those concerns by adding ways to evaluate nonprofits in areas other than finances, Mr. Borochoff has stuck to his guns. He says a charity cannot have impact if it spends only a small portion of its donations on programs.

Besides, Mr. Borochoff—who entered the charity-ratings business with an accounting degree, an MBA, and a couple of years' experience as a Wall Street analyst—wants to spend time boring into the numbers, which he says charities know how to fudge.

"Saying the ratio shouldn't be used," he says, "is like telling an investor to ignore earnings per share."

Scrutiny Pays Off

Whatever weaknesses critics see in his approach, Mr. Borochoff's single-mindedness has helped him detect things that others don't.

Greg Mortenson, co-founder of the Central Asia Institute, a charity that builds schools in Afghanistan and Pakistan, was the toast of the town after he published his book *Three Cups of Tea* in 2007. President Obama even donated some of his Nobel Prize money to the charity.

But when calls from potential donors prompted Mr. Borochoff to start sniffing around in 2009, he got suspicious: The charity could not provide an audit, and it promoted Mr. Mortenson's books and speaking tours on its Web site while not appearing to record any revenue from them on its tax forms.

CharityWatch published several critical articles in its newsletter.

Last year, Mr. Borochoff appeared on the television program "60 Minutes" along with the author Jon Krakauer, who charged that parts of Mr. Mortenson's books were fabricated.

In April, Montana's attorney general ordered Mr. Mortenson to pay \$1-million to the charity for transgressions, including using money that was donated for charitable programs to buy and advertise his book while keeping all the royalties.

The "60 Minutes" appearance was one of hundreds of media interviews Mr. Borochoff has given over the years.

Just last month, CNN aired a report featuring Mr. Borochoff that accused the Disabled Veterans National Foundation of spending most of the money it raises on outside fundraising and direct-marketing firms, while providing token donated goods like candy and hand sanitizers to veterans.

Continued on reverse

Charity Donors Help Watchdog Sniff Out Financial Waste and Abuse

Continued from front

The coverage prompted the Senate Finance Committee to investigate the charity (which responded that as a new organization it needed to invest in efforts to recruit donors).

Boys Town Lawsuit

Of course, not everyone appreciates Mr. Borochoff's scrutiny. Some charities that get F grades say Mr. Borochoff doesn't understand their business.

That includes Planet Aid, a group that collects donated clothing, sells it, and uses some of the proceeds for international-development programs.

CharityWatch charges that Planet Aid misleads donors by counting as program costs the expense of collecting and processing the donated clothing and calling it a charitable recycling program.

Those are actually fundraising costs because they were incurred to attract donations, it argues.

In 2010, the watchdog says, Planet Aid actually devoted only 34 percent of its expenses to programs.

John Nagiecki, Planet Aid's communications director, says CharityWatch once sent a registered letter asking it to provide financial information, but it decided not to respond after looking at the group's Web site and finding it "sensational."

He says Planet Aid was assured by lawyers that it could count the collection activities as program costs. "We have drivers, trucks, there's a whole system we have to maintain our bins well," he says.

CharityWatch faced its worst crisis in 1994, when Boys Town, a youth charity, sued it after receiving a failing grade.

The watchdog, which marks down charities that have three or more years of operating expenses in reserve, gave Boys Town an F because it had a large endowment. The case was settled after Mr. Borochoff's group agreed to explain to donors that the charity would get a higher grade if the size of its assets was discounted. It now gives two grades to all groups with big reserves.

Mr. Borochoff wins plaudits from some for keeping the nonprofit world on its toes when state and federal regulators lack the money for effective oversight.

"We are all better off when organizations like his are in place to make sure we don't slip and that the bad actors are brought to everybody's attention," says Diana Aviv, chief executive of Independent Sector, a coalition of charities and foundations.

Concerns About Cozy Ties

CharityWatch's office in Chicago offers a splendid view of Lake Michigan, but that's about as luxurious as the operation gets. Its five staff members work in a converted high-rise apartment, answering phone calls and collecting and poring over documents.

Next to Mr. Borochoff, the most visible CharityWatch employee is Laurie Styron, an analyst who has been with the group for nine years and helps her boss decipher financial documents and handles some news-media interviews.

Mr. Borochoff moved the organization from suburban Washington to Chicago in 2002, in part figuring he could better represent donors from the "heartland" than from Washington.

The bulk of the group's revenue, which was \$477,000 in 2011, comes from its members—about 9,000 people who pay \$40 a year to get a thrice-yearly newsletter that offers the latest charity grades and watchdog-style articles.

CharityWatch spends little money on fundraising and does not seek big foundation grants, since Mr. Borochoff does not want to worry about offending a donor's grantees. "A lot of people in philanthropy are in bed with each other," he says.

Influencing Donors

The small budget limits the group's scope: CharityWatch reviews only about 600 charities, and most of the grades are available only to members (though the Web site lists the top-rated charities).

But Mr. Borochoff says media coverage helps the group expand its reach.

When asked if he has any passions outside of work, Mr. Borochoff, who earns a salary of about \$150,000, mentions a few interests—tennis,

travel, a conversation club he belongs to—but concedes his work is "all-consuming."

Mr. Borochoff says he is guided by the Hebrew phrase "tikkun olam" ("repairing the world").

"Just think about it—\$300-billion given away a year," he says. "If we can influence even a small percentage of that—to give thoughtfully, to give better—think of the good, the lives that could be saved, the suffering relieved, the environment cleaner, the animals protected. When you get down to it, that's what's driving me."

Fighting Nonprofit Abuses: CharityWatch's Top Triumphs

■ Charity fundraising after the terrorist attack (2001)

How CharityWatch responded: Daniel Borochoff, CharityWatch's founder, was among the most vocal critics of the American Red Cross following the September 11 attacks, charging that the Red Cross and other charities raised more money than they needed to help victims of the attacks and their families and diverted it to other programs.



DANIEL CIMA/AMERICAN RED CROSS

How charities and lawmakers responded: A House panel invited Mr. Borochoff to testify at a hearing. Some charity leaders criticized him for fueling a distrust of charities, but the Red Cross asked for his advice when it redesigned its fundraising practices.

■ Veterans charities (2007)

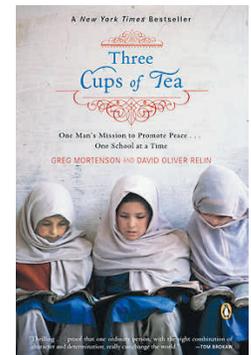
How CharityWatch responded: CharityWatch (then the American Institute of Philanthropy) issued a report showing that many veterans charities spent only a small percentage of money on charitable programs, while directing big portions to direct mail and overhead.



How lawmakers responded: The House oversight committee conducted an investigation relying heavily on Mr. Borochoff's research and invited him to testify at a hearing. However, while lawmakers expressed outrage at the hearing, none followed up with legislation or other action.

■ Central Asia Institute (2011)

How CharityWatch responded: Mr. Borochoff appeared on an episode of the television program "60 Minutes" that raised serious questions about the Central Asia Institute, a charity that builds schools in Afghanistan and Pakistan and was co-founded by Greg Mortenson, co-author of the widely acclaimed book *Three Cups of Tea*. Mr. Borochoff voiced concerns that Mr. Mortenson was profiting improperly from book royalties and speaker's fees.



How regulators responded: Montana's attorney general investigated the accusations and in April ordered Mr. Mortenson to pay the charity \$1-million.

■ Disabled Veterans National Foundation (2012)

How CharityWatch responded: Mr. Borochoff worked with CNN on a story about the Disabled Veterans National Foundation, a charity that has high fundraising costs and spends little of its money on programs for veterans.

How lawmakers responded: The Senate Finance Committee opened an investigation asking the charity to provide information about the money it pays to Quadriga Art, a direct-marketing firm, and its subsidiaries. It cited the group's F grade from CharityWatch.