Pre-Grant Due Diligence Review

Foundations Community Partnership

Five Pre-Grant Investigation Tasks

1. ***Assess the managerial competence and fiscal accountability of the prospective grantee***	**Yes/ No/ N/A**	**Date Checked**	**Staff Initials**
• Are the grantee institution and project director(s) capable of carrying out the work described in the proposal?			
• Are systems in place to ensure that grant funds will be managed in accordance with generally accepted accounting principles and within the terms and conditions of the grant agreement?			
• Is the organization a going concern with an established governance structure and good management systems, financial systems and staff?			
• Is there evidence of mismanagement or fraud and abuse in the organization's recent history?			
• Is the grantee organization's tax status current and allowable within foundation policy? Obtain and review relevant documentation; determine whether expenditure responsibility would have to be exercised (if foundation policy allows for such grants) and document appropriately. Encourage organizations whose tax papers precede the Tax Reform Act of 1969 to obtain up-to-date tax determination letters from the IRS.2·33			
2. ***Review the proposal and budget for internal consistency and for compliance with foundation policies and terms of the potential grant agreement***	**Yes/ No/ N/A**	**Date Checked**	**Staff Initials**
• Is the proposed budget appropriate and sufficient for carrying out the project described?			
• Will additional funds be required to complete the proposed work?			
• Do line items need to be adjusted to reflect effort or materials necessary to carry out tasks?			

• Do any line items need to be disallowed?			
• If the applicant contemplates project activities or expenditures that are not in accordance with foundation policy, determine whether they will be disallowed or whether a special waiver by the appropriate foundation officer will be sought.			
• Does the project include activities that are prohibited by the foundation or that may jeopardize the foundation's tax-exempt status or subject the foundation to a fine (e.g., payments to disqualified persons)?			
• Is sufficient justification provided for the budget line items, and does it support the work plan laid out in the proposal?			
• Is the budget in the format preferred by the foundation (e.g., a task-related or programmatic format versus standard budget line items)?			
• Are cost assumptions in accordance with foundation policies for items such as equipment purchases, travel allowances, limits on consultant honoraria, and salary and overhead for key project personnel?			
• Is the budgeted overhead/indirect cost in accordance with foundation policy? If not, determine a negotiating strategy or determine whether a special waiver of the foundation's policy is required.			
3. Review previous grants to the applicant organization	**Yes/ No/ N/A**	**Date Checked**	**Staff Initials**
• Has the grantee organization or project director substantially been in compliance with the requirements and conditions of its previous or currently active grants? Or are there indicators for concern, such as consistently and unreasonably late or inaccurate narrative reports; extremely late, questionable or inaccurate financial reports; or a failure to obtain approvals required by the existing grant agreements?			
• Have all reporting requirements of previous grants been fulfilled?			

• If specified by the foundation, has an appropriate amount of time elapsed between the previous grant and current request?			
• For organizations or projects that will be or have been supported by the foundation for a number of years, should the foundation consider building an exit strategy into the current request?			
4. Conduct a cross-grant comparison of the proposal and organization	**Yes/ No/ N/A**	**Date Checked**	**Staff Initials**
• Review project personnel who are already partially funded through active grants (verify that the foundation will not be paying more than 100 percent of the person's salary).			
• Are funds requested for specific types of activities (e.g., literature reviews, advisory committee meetings, specific dissemination strategies) in line with the cost of similar activities in currently funded or contemplated projects?			
• Is there overlap between the proposed project and others currently funded or under consideration and, if so, is there a compelling reason for proceeding?			
5. Evaluate outside reviews of the proposed project	**Yes/ No/ N/A**	**Date Checked**	**Staff Initials**
• When appropriate, obtain reviews of the proposed project by outside experts in the field. These reviews can evaluate the rationale for the request, the appropriateness of the approach, the soundness of the methodology, the suitability of the budget or of the proposed grant recipient, and project leadership.			

I The IRS require that a foundation exercise expenditure responsibility (steps to ensure that the grant is appropriately used for charitable purposes) for all grants to organizations that are not public charities. The five basic steps to expenditure responsibility are (a) pre-grant inquiry or investigation of the prospective grant recipient; (b) written agreement regarding the use of grant funds, signed by an authorized officer of the grantee; (c) establishment of a separate account for the grant funds by the grantee; (d) grantee reports on use of grant funds; and (e) foundation reports to the IRS on expenditure of funds under all expenditure responsibility grants. For more information about expenditure responsibility, see John A. Edie, Expenditure Responsibility Step by Step (Council on Foundations, 2001).

2 The 1969 Tax Reform Act stipulated that all tax-exempt organizations under Internal Revenue Code Section 50 I (c)(3) would be considered private foundations unless they have demonstrated enough public attributes to qualify as a "public charity." It is important for the grantor private foundation to obtain a copy of the IRS determination that the prospective grantee is a public charity. This is because there are additional monitoring and reporting requirements and payout implications where a private foundation makes a grant to a nonpublic charity. It is also desirable for a public charity to obtain IRS recognition of its public nature, because otherwise it would be subject to the mandatory distribution, excise taxes and other requirements that private foundations are subject to.

From "Best Practices in Grants Management." Council on Foundations.