



Avoiding Donor Disaster:

Four Steps to Improve Fundraising Due Diligence

Despite the global pandemic and accompanying widespread economic turmoil that has shaped the financial landscape in recent years, charitable giving in the United States has actually continued to grow. In fact, 2020 was a **record-breaking year** for non-profits and charitable organizations, which saw \$471 billion in total donations.

At the same time, consumers now place growing importance on how the organizations they donate to conduct their affairs—and whom they associate with. As these expectations rise, development professionals need to take more caution than ever when vetting donors, especially high-profile ones. Today, accepting contributions from individuals or corporate partners is often construed as a tacit agreement with those donors' opinions or behaviors, positive or negative. Being even tangentially associated with corruption or problematic political views can cause serious reputational and financial damage, from negative press coverage and protests to the loss of funding and support from other major donors.

Conducting due diligence research on potential new partners or donors is essential for risk mitigation and reputation management and should be a critical part of any organization's fundraising process. But in an ever-growing sea of information, what specific details should you be looking for?

In this whitepaper, we'll explore four steps that can help you to assess whether an individual or organization is the right donor for your university or non-profit, including some real-world examples of how not doing your due diligence can lead to future headaches.



1 Review Legal & Criminal Histories

In the world of philanthropy, it's an unfortunate truth that legal issues faced by donors—either individual or corporate—can “taint” charitable contributions. With that in mind, identifying potentially thorny legal entanglements before accepting a donation should be a priority for development professionals. Not only that, but you should also prioritize conducting ongoing sporadic background checks on high-profile existing donors to capture potential problems as they emerge.

Legal Woes to Look for:

Lawsuits

Settlements

Prior arrests

Tufts University experienced the fallout of a major donor's legal troubles firsthand. The Massachusetts-based university had a long-standing relationship with the Sackler family, owners of the prominent pharmaceutical company Purdue Pharma. Between 1980 and 2018, Tufts received roughly \$15 million from the family, their foundations and Purdue Pharma. During the same period, school leaders bestowed an honorary Ph.D. to Purdue CEO Raymond Sackler, as well as hosted senior executives to give lectures at the Tufts medical school.

In 2019, the relationship became increasingly controversial after Purdue Pharma was accused of fueling the ongoing opioid crisis in the U.S. through aggressive, misleading marketing of the highly addictive drug OxyContin. Tufts [faced intense criticism](#) over its association with the family and company, and the Massachusetts attorney general even filed allegations in court claiming that Purdue Pharma funded a program at Tufts to “influence Massachusetts doctors to use its drugs.”

Following an outside review, Tufts decided to strike the Sackler name from all buildings and programs on campus, and a final report recommended that the school “[create stronger screening for donors](#), bolster conflict-of-interest policies, develop and make public guiding principles for gift acceptance, strengthen compliance practices and leadership, and take additional steps to keep ‘undue influence’ out of academic and research programs.” And while Tufts kept all donated funds, development leaders at the school are probably wondering whether the hit to the school's reputation was worth it.

2 Keep Tabs on Government Watchlists & Sanctions

The Russian war on Ukraine has recently brought the impact of economic sanctions on individuals, companies, and states squarely into the spotlight. Philanthropic giving is a top tactic for reputation laundering, and in today's complex, global society, it's important for development professionals to be mindful of not being taken advantage of. This means staying on top of sanctions and government watchlists and doing the legwork required to make sure [you are staying compliant](#).

Since February 2022, governments across the globe have imposed economic sanctions on Russian and Kremlin elites, oligarchs, and political and national security leaders. While these restrictions most often impact international trade and investment activities, some charities and non-profit organizations can also be affected by sanctions laws.

For instance, if a foreign entity wanted to contribute to a U.S.-based nonprofit, the development arm of that organization should incorporate financial sanctions due diligence into its compliance procedures to ascertain whether the donor is currently under any asset freezes (or "blocking sanctions"). Accepting funds from an asset freeze target could open your organization to legal action or raise suspicion about the validity of its financial reporting.

Watchlists & Sanctions Lists to Monitor:

PEPs

Politically Exposed Persons

LEIE

HHS Office of Inspector General List of Excluded Individuals/Entities

fDi

Foreign Direct Investment



3 Mind the Media

Finding new donors and keeping existing ones happy can quickly be hampered by a hit to your organization's reputation—something that often results from accepting gifts from a donor plagued by negative news coverage. To avoid this issue, every donor background check should include a comprehensive media audit that analyzes current and historical stories.

These checks should be looking for negative news, as well as stories that highlight a donor's comments or behavior that is antithetical to your organization's core beliefs.

A donor making regular appearances on Fox News certainly wouldn't be considered "negative news," but it would be a cause for concern for a left-leaning nonprofit hoping to woo liberal donors.

The Whitney Museum of Art offers a telling example of how a donor's negative news coverage can quickly cause a PR firestorm. In 2019, Warren B. Kanders, the Vice-chairman of the museum's board of directors, became the target of heated protests due to his ownership of Safariland—a manufacturer of law enforcement and military supplies, including tear-gas grenades that had reportedly been used against migrants at the United States-Mexico border.

Kanders had not personally fired tear gas at migrants, nor had he broken any laws through his ownership of Safariland, but his involvement in the ongoing border conflict became a point of contention for everyone from donors to artists. Several months of protests culminated in eight artists withdrawing from the prestigious Whitney Biennial exhibition, which led to [Kanders and his wife resigning from their respective positions](#) on the board and other museum committees.

Similarly, Purdue University found itself in a difficult position in 2018 following negative publicity around one of its largest donors—pizza mogul John Schnatter. In thanks for contributing an \$8 million gift from Schnatter's foundation, the school had christened a campus building the John. H. Schnatter Center for Economics Research. Unfortunately, less than a year later Schnatter used a racial slur during a conference call with Papa John's investors, drawing intense ire and public backlash from customers, corporate partners, and the public at large.

Ultimately, Purdue opted to roll back the building name, as well as offer to return the financial gift from Schnatter's foundation. And while proper due diligence could not have foretold or prevented Schnatter's unfortunate choice of words, it may have revealed [some concerning elements of Papa John's corporate culture](#) that may have given Purdue pause.

Educational Donations on the Rise

Educational institutes have experienced significantly faster growth than other subsectors in recent years.

14.5% Year-on-year growth

13.6% Increase in online giving

\$1,631

The average gift amount to Education institutes in 2021. That's **twice** that of other subsectors.

According to the [Blackbaud Institute's 2021 Charitable Giving Report](#)

4 Delve into Donation History

Accepting donations from someone with a history of contributions counter to your cause is another easy way to upset your existing and/or potential donors. To avoid this problem, you should be dedicating time to researching what other causes donors support to ensure that previous charitable giving patterns align with your organization's mission and values. This is especially important for non-profits and schools that prioritize environmental, social and governance (ESG) matters. After all, your commitment to ESG initiatives might be rightfully questioned if you accept donations from individuals or foundations that aren't in lockstep with your core values.

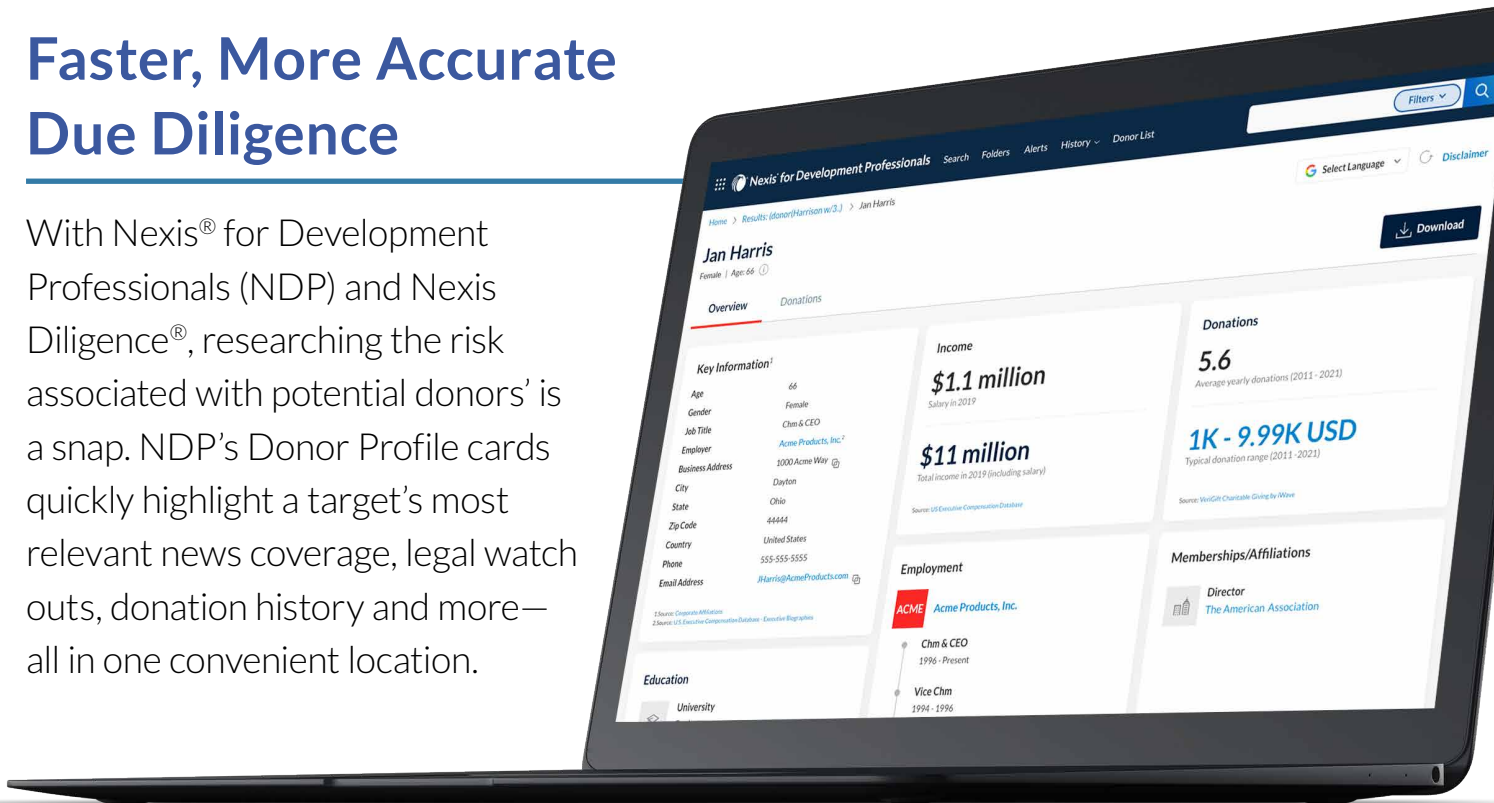
Case in point: the Ivy-League college Princeton University. Over the last few decades, Princeton has proudly inserted itself into the climate change debate, funding critical research and investing in policies that promote action on climate change. In 2008, the university even founded a multidisciplinary research and education center, [the Andlinger Center for Energy and the Environment](#), which focuses on developing "technologies and solutions to secure our energy and environmental future."

However, Princeton's fundraising activities have raised eyebrows among those who are fighting climate change. The university has accepted significant contributions from foundations and corporations that are commonly criticized by climate activists, including [ExxonMobil](#) and BP. The school also accepted at least \$1.5 million from organizations like the Lynde and Harry Bradley Foundation, which supports organizations that ["attack and spread disinformation about well-respected environmental advocacy organizations and launch campaigns opposing anti-fracking initiatives."](#)

Following much criticism from students, donors and activists, [Princeton very recently announced](#) its decision to not only divest but to disassociate from 90 fossil fuel companies—indicating that they've recognized the ethical issues of benefitting from the generosity of corporations and foundations with values contradictory to their own. Perhaps the school will investigate potential donors a little more closely moving forward.

Faster, More Accurate Due Diligence

With Nexis® for Development Professionals (NDP) and Nexis Diligence®, researching the risk associated with potential donors' is a snap. NDP's Donor Profile cards quickly highlight a target's most relevant news coverage, legal watch outs, donation history and more—all in one convenient location.



Identifying and connecting with donor prospects is challenging *and time-consuming*, but it's important to remember just how critical due diligence is in protecting the reputation and important work done by your nonprofit organization or higher-ed institution. Thankfully, Nexis® for Development Professionals is now available in combination with the power of Nexis Diligence®, an industry-best due diligence research platform.

Schedule your free demo.

Increase the efficiency and accuracy of your donor research and due diligence process. Nexis® Solutions is here to help. Contact us today to schedule your free demo.

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