

Due Diligence Process and Procedures:

Summary: All organizations must have submitted an application by deadline and be verified as a 501(c)3 type 1 or 2 public charity before a grant can be made. Registration and good standing with the Secretary of State (SoS) is also verified, but in most cases SoS status will serve as a red flag only and won't be a grant requirement.

Submitting by Deadline: The Admin Assistant (AA) pulls in proposals from IGAM by the day following the proposal deadline, as all proposals are due by midnight on their deadline date, or the following business day if the deadline falls on a weekend. See the Administrative Assistant manual for additional details. If proposals are not received by deadline, they should be tabled until the following board meeting.

Locate, Compare, and File Documents: Once proposals are pulled in, the AA should ensure that the organization name on each document is the same. If there are any differences in the name from one document to the next, the AA should notify the Grants Manager (GM) who will determine the legal relationships between names/entities. For LOIs, the only due diligence needed is tax status verify via GIFTS (letter B below). All other due diligence should be conducted while the full proposal is being reviewed (if invited).

The Harvey L. Miller Family Foundations use five sources of information to verify that a potential grantee is a 501(c)3 non-profit organization in good standing, as follows:

- A. **IRS Letter** – in all of our grant applications, we require that applicant organizations provide a copy of their IRS letter of determination. The Foundations' attorney advised that a potential grantee's ability to produce this letter is a good indication that they are also tracking their public charity status. This is the attorney's recommended grantmaking practice. This letter is not required for discretionary grants under \$5,000, as these grantees generally receive unsolicited gifts and do not complete a grant application in advance. Also, at this dollar level, there is less risk.

For group exemptions: For application which are tax exempt through a group exemption, several additional steps must be taken to confirm the organization's tax status. Tax status verification should be completed for the parent/national organization. Then, the GM should contact the applicant organization to request a letter from the parent/national organization (no more than two years old) that lists the prospective grantee as a subordinate organization. If the grant is approved, the payment can then be made directly to the subordinate organization.

- B. **Tax Status Verify through GIFTS Online** – This process verifies public charity status through the IRS Business Master File (BMF)/IRS Publication 78 and then populates the GIFTS Online field to indicate that the organization was verified. The organization must be described as a 501(c)3 organization described in section 509(a)(1) or 509(a)(2) of the legal code to qualify. See exceptions below.

- C. **Guidestar Charity Check** – running this report checks all three of U.S. Treasury's required charity status verification sources - the IRS Business Master File, Pub 78, and the IRS' Internal Revenue Bulletin.
- D. **IRS website** – Charity status is also verified directly through the IRS' website in case of any changes during the 4-6 week lag in data between the IRS and Guidestar and GIFTS Online.
- E. **Secretary of State's (SoS) office** – Staff verify that the organization is registered within the state in which it legally resides, as well as within the state of Illinois, and that it is in good standing. This confirms that the applicant is in fact a legal entity which has not been dissolved and that it is registered to legally fundraise in the necessary states. The IRS does not check this information on a regular basis. However, it is important to ensure that the Foundations would be making a grant to a current, legal entity.

A copy of all verified documentation should be kept under the request record within the grants database and/or the paper file. This is important in case the foundations are audited, and we need to verify an organization's tax exemption at the time the grant was made.

If an applicant organization fails to pass any aspect of the due diligence process, the AA should notify the GM who should then follow up with the IRS, SoS, and/or applicant organization to troubleshoot. Public charity status as a 501(c)3 organization described in section 509(a)(1) or 509(a)(2) of the legal code must be confirmed before a grant is made.

Exception 1: If a board member is initiating a grant, and the prospective grantee organization is a 501(c)3 described in section 509(a)(3), the GM will follow up with the organization to determine whether the organization is a 509(a)(3) type I, type II, or functionally integrated type III. This verification requires documentation from legal counsel – preferably from the prospective grantee as they have may have gathered such information at another foundation's request - and should be verified with the foundation's attorney before proceeding.

Exception 2: Ideally, good standing with the SoS can also be confirmed before a grant is made. However, if an applicant can provide evidence that they are in the process of having their standing renewed or reinstated with their SoS, and it can be verified that the organization has not dissolved, then the grant can be made. If an applicant organization is repeatedly not in good standing with their SoS, that should be noted as a red flag that perhaps the organization is not well run/managed and brought to the board's attention.

Exception 3: For small, personal grants, the only due diligence needed is to verify tax status with GIFTS Online. Minimal due diligence is needed for such organizations, as they are personal, and not foundation gifts, and at a lower dollar amount. Large, personal gifts with grant agreements need full due diligence.