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Today on the Web

5 foolproof ways to spot a fake charity on the Internet

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The Internet is a place full of scams, but some are bigger than others, and it's enabled the explosion of fake charities soliciting everything from money for Hurricane Sandy victims to donations to cancer. This week, the Federal Trade Commission blew the lid on four individual cancer "charities" that were operating primarily to dump funds into the pockets of their administrators. But that's just the tip of an extremely large iceberg.

These fake causes can be tough to spot without being armed with the knowledge to identify suspicious organizations, which means big trouble for non-profits. As long as people think they can get away with falsely soliciting funds, they're going to keep doing it.

Holding "charities" accountable for scamming isn't just about hitting individual groups hard. It also sends a clear message to would-be scammers that they'll have to think up something new; no more calling seniors to solicit funds for fake organizations, no more posting pleas on social media to help victims of the latest "cause," and no more maintaining bogus storefronts.

The thought of generous and well-meaning donations winding up in the pockets of people who use them for entertainment or luxury goods rather than helping people is particularly galling, especially in an era of gaping social inequality.

So how do you determine if a charity's faking it?

1) They don't disclose their financials

In order to qualify for nonprofit or other special tax status, charities must provide information about their financials to anyone who asks, including donors. Some of this documentation is available directly from the Internal Revenue Service, but it should also be included in annual reports and furnished to donors upon request. If a charity is cagey about financial transparency, especially internal operating budgets, it's fishy. For one thing, it undermines the charity's reputation by suggesting that it's concealing a problem.

An open organization with nothing to hide—because it's actually providing the goods and services it claims it is—should have no reason to be coy about its financial documentation. If a charity refuses to cough up this information, it could be indicative of a problem, and it also sets a bad precedent. Jennifer Hoyt Cummings at the *Wall Street Journal* notes that this isn't just about efficiency and how charities use funds: It's also about how close they are to bankruptcy.

Demanding access to financial information is one of the most immediate and direct ways donors can hold charities accountable. If charities—bogus and otherwise—learn that donors are lazy about auditing financials, that can encourage inefficient uses of funds. Those setting up scams also have an incentive to do so, as they see a low risk when it comes to being caught out.

2) They don't explain what they do

Every charity has a mission statement, but some are vaguer than others. An unclear, purposeless, murky mission statement is a very bad sign, because it leaves a charity with considerable room for leeway when it comes to how and where it uses its funds.

For example, if a breast cancer charity says it "supports breast cancer patients," that information is next to useless. If instead it says that it "funds direct research into treatments for liver cancer, assists patients with the costs of medication and treatments such as surgery, and provides grants for housing assistance," that mission is much clearer. You know exactly what that charity does—and thanks to those specifics, you can determine exactly what percentage of their operating budget they're spending on it.

Vague mission statements are troubling for a number of reasons beyond the obvious. They don't provide clear grounds for those who want to support a charity, or those who want to more about a cause—knowing what kind of "help" cancer patients need, for example, can help would-be donors decide how and where they direct their money. They also set up a nearly ideal opportunity for scamming, as they open the door to generalized statements about "helping victims of disaster" or "promoting welfare."

These kinds of abuses of the charity landscape are disturbing, especially since the rise of the Internet has created a fertile ground for quickly distributing information about charitable causes. In the wake of major disasters and events, the Internet is often flooded with links and suggestions about where and how to donate, with scammers popping up like mushrooms to take advantage of the situation. With so many fast-moving charity funds that can legitimately say they haven't had time to file for and receive nonprofit status, donors may have difficulty verifying that they're legit.

3) They can't provide evidence of nonprofit status

Some charities provide genuine good work without being considered nonprofits, for a variety of reasons. However, it's a red flag when a charity can't provide evidence, is vague about it, or doesn't explain why it has decided not to seek such status. For donors, it's also a problem: This status qualifies charities for tax exemptions and other special legal treatments, and if a charity is not a nonprofit, it means that fewer funds are going to support its mission.

The IRS can verify nonprofit status and provide a charity's most recent filings if the charity refuses to provide this information to donors. Even if the charity's status is up to date, it's reasonable to ask why it was so reluctant to be open about it in the first place—it's legitimate to ask questions about a charity, and unwillingness to be forthcoming with donors is not a good sign.

This matters in an era of tax abuse and highly inefficient uses of funds. We should be raising questions about the function of the tax code and who is privileged under it—right now, it's skewed towards the wealthy as well as major corporations. The handling of charities falls under an important and honest interrogation of how we handle taxation and tax status.

In 2005, Albert B. Crenshaw wrote at the *Washington Post*:

> In some cases fraud and abuse are committed by the nonprofit itself, such as when a charity is established to benefit its main donor; in other cases, the nonprofit acts an enabler for tax-shelter promoters, such as when a municipality or union takes a fee to participate in a deal that allocates 'profits' to it and losses to wealthy individuals.

That's especially true of charities that operate extremely inefficiently, even if they're not active scams. The IRS needs clearer and more stringent guidelines for determining when a charitable organization truly qualifies for the kid glove treatment. The current standards don't even address operating efficiency, merely noting that exempt organizations need to be involved in a set range of causes, that their work cannot be used for personal gain, and that they cannot be involved in political lobbying.

That leaves alarming leeway—like that for corporations that spend a huge percentage of their operating budget on administration, public relations, and salaries, not actual work.

4) They're not well-regarded by organizations in the field

One of the best ways to see if a charity's actually good is to see if it's well-liked. If a charity ranks highly with ratings organizations, that's a start, but look further afield. For example, if it's a medical charity, check with the professional organizations related to that charity's work, like the American Board of Thoracic Surgery or the American Psychiatric Association. If these groups seem wary of a charity, that may be an indicator that something is wrong.

Likewise, look at networks of similar charities. If a well-reputed charity partners with another charity or speaks highly of it, that's a good sign—and an indicator that an organization is willing to work with related groups when it benefits the common good. Another indicator that a charity is probably doing something right is government partnerships, whether they take the form of awareness campaigns or co-response to disasters.

If a charity appears to operate in a vacuum, that's troubling. Groups interested in the public good typically cooperate with each other, and when they don't, the charity left out of the cool kids table may actually be uncool, not just a misunderstood misfit.

The value of collaborative work is often left out of the picture when it comes to evaluating charities, which reflects a larger go-it-alone culture, particularly in the United States. There's a startling reluctance to recognize the value of cooperation and the ability to get more done through partnerships than can be accomplished alone.

This kind of standalone culture also speaks to a very troubling trend in some arms of the charity world, where groups behave as though they're in competition with each other, not working towards the same goals. When charities treat their approach to public works this way, everyone loses. The populations they're serving don't get what they vitally need, while they waste time and energy fighting "rivals."

5) You can't find any actual beneficiaries of the charity's work

Perhaps the number one bad sign when it comes to charitable doings is one of the most obvious: Who's benefiting? Don't look to a charity's slick website and testimonials to tell you—you need to actively seek information from the wider world and from real people to find out what charities are up to. That can mean some serious grubbing around for dirt, but it's worth it.

If you can't find clear indications that a charity is actively helping people or supporting a cause—an animal charity with no shelters, a medical charity that hasn't funded anything, an environmental charity that hasn't been involved in any specific cleanup efforts—that means you have to wonder where your money's going. It's obviously not going to the cause, so where is it winding up?

This matters, because it's one of the clearest measures of charitable performance. The bottom line for such organizations is that they should be fulfilling their (clearly stated) missions. If they aren't, that's suspicious, and it's up to you to hold them accountable for it. Charitable organizations must be able to provide clear evidence of the work they do, and it should be easy to run a quick Internet search to see examples.

If a group provides cleft lip and palate surgery in the developing world, for example, you can find their website and testimonials, but you should also be able to find commentary from the communities where they work. If you don't, their claims may be overstated, and that's not good.

Picking recipients for your money that will use it responsibly can feel like a daunting task. There's a temptation to throw money at the first charity that sounds good, or at the one that looks most familiar—something many ringer charities take advantage with, with names deliberately designed to confuse potential donors.

But it's not just about donating wisely. It's also about changing the cultural and social relationship to charities in an environment where a growing number of social services heavily rely on charity to function. Thanks to George W. Bush's "faith-based charity" initiative, for example, some formerly government-funded services were kicked over to religious organizations, itself also a troubling trend.

Even the Cato Institute spoke out against the program:

Charitable giving is at a record high; there is no need to risk deepening the involvement of government and religious charity. President Bush should abandon his proposal and leave charities to do what they do best.

If we're going to defend on such groups to protect the most vulnerable, we need to make sure they're actually doing some protecting. Fighting back against scam charities is a call to action: a demand to do better when it comes to doing good.