



cutting through complexity

Wikimedia Foundation

Review of Wikimedia Foundation's (WMF) grant-making
process

January 2014

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Section 1:

Scope of review

Review of WMF's grant-making process

Good grant-making includes effective monitoring and evaluation and risk management as well as compliance with the United States Internal Revenue Service (IRS) grant monitoring obligations.

As a foundation develops its grant-making processes, it wants to achieve “value for money” in all its aspects of its grant-making programs.

KPMG conducted a high-level risk assessment of the Foundation's grant-making process to help identify Wikimedia Foundation's (WMF) current state and what steps WMF could consider to most effectively continue and expand WMF's grant-making program.

KPMG reviewed WMF's existing grant-making programs and focused on the following areas:

- Receipt and management of proposals and funding requests
- Grantee evaluation (prefunding)
- Grant approval process
- Grant agreements
- Conflict of interest policies
- Grantee monitoring
- Grantee reporting.

KPMG spoke with Wikimedia's grant-making staff and reviewed documents and links provided by Wikimedia staff on the focus areas listed above.

Section 2:

Assessment of risk in WMF's grant-making process

Assessment of risk in WMF's grant-making process

KPMG reviewed WMF's grant-making process for its current grant-making programs from the perspective of processing grants in a manner that will not unduly expose WMF to negative fiduciary risks, and that allows WMF to meet its fiduciary duties over the use of grant funds.

KPMG used the guidelines below in assessing WMF's overall risk in its grant-making process.

	Findings do not pose unacceptable negative fiduciary and/or reputational risks to the Foundation. The Foundation may consider certain operational improvements as a means to enhance its systems processes or procedures.
	Findings do not pose unacceptable negative fiduciary and/or reputational risks but which would be advisable for Foundation to address to improve its systems, processes or procedures.
	Operating weaknesses that pose unacceptable negative fiduciary and/or reputational risks and necessary mitigating actions are needed.

Overall rating – Green

KPMG reviewed all of WMF's current grant-making programs and determined that WMF has the processes in place necessary to meet its fiduciary duties over the use of grant funds.

The findings noted in Section 4, Focus Areas, do not pose unacceptable negative fiduciary and/or reputational risks to WMF. WMF may consider certain operational improvements as a means to enhance its systems processes or procedures.

Among the many risks associated with grants are actions by the grantee's management that could result in potential diversion of grant funds from their charitable purpose or in negative publicity for the grantor. KPMG's review was limited to WMF's grant-making process and did include a review of grants or grantees.

Section 3:

Overview of WMF's grant-making structure

- What elements define WMF's grant-making?
- What are WMF's strengths, weaknesses, opportunities, and threats?

Overview of WMF's grant-making structure

Transparency	<ul style="list-style-type: none">■ WMF demonstrates its commitment to the Wikimedia movement and community engagement by providing a highly visible grant-making process.
Participatory	<ul style="list-style-type: none">■ WMF engages the Wikimedia movement in its grant-making decisions and offers a platform for comments on grant proposal during WMF's staff concurrent review of the proposal.
Oversight	<ul style="list-style-type: none">■ WMF has established a formal structure for managing grant-making, ensuring goals are met, and adherence to policies for funding and administration.
Compliance	<ul style="list-style-type: none">■ Compliance structure addresses the fiduciary requirements of Wikimedia as well as compliance issues (e.g., conflicts of interest, U.S. travel/activities for non-U.S. grantees, limitations on grant funds for legislative or political activities, review of grantee against the master list of specially designated nationals).
Impact Driven	<ul style="list-style-type: none">■ Grant-making team has identified that impact, outcomes, and value for money as its focus areas.

SWOT Analysis

Strengths

S

- Participatory grant-making
- Wide funding base
- Centralized grant processing in place
- Compliance structure addresses the fiduciary requirements of Wikimedia as well as compliance issues

Weaknesses

W

- Need defined criteria for success
- An abundance of financial data being generated by WMF and need guidelines around the most important metrics

Opportunities

O

- Greater engagement in more geographies – Global South
- Additional measurable movement goals are needed to demonstrate impact
- Engaging in conversations of risk tolerance that will push forward programming
- Approach to grant-making should continue to be reviewed and modified as more experienced is gained and the program matures
- Reduce administrative tasks by revisiting reporting guidelines and timing of grant distributions

Threats

T

- Perception that grantees are not aligned with the strategy of the Wikimedia movement
- WMF perceived by grantees as being too prescriptive
- Perceived Conflict of Interest (e.g., online comments by Wikimedia staff during the open comment period)
- Possible negative public response to information shared based upon Wikimedia's movement of complete transparency - creates certain threats. WMF recognizes and manages this threat through in-house review of materials prior to disclosure

Section 4:

Focus areas

- Receipt and management of proposals and funding requests
- Grant approval process
- Grant agreements
- Conflict of interest policies
- Grantee evaluation (prefunding)
- Grantee monitoring
- Grantee reporting

Review of WMF's grant-making process

KPMG reviewed formal (documented) and informal (consistent practice) that WMF has in place for the following areas:

- Receipt and management of proposals and funding requests
- Grantee evaluation (prefunding)
- Grant approval process
- Grant agreements
- Conflict of interest policies
- Grantee monitoring
- Grantee reporting

Review of Wikimedia Foundation's (WMF) grant-making process (continued)

Area	WMF Procedures	KPMG Findings/Comments
Receipt and Management of Proposals and Funding Requests	<ul style="list-style-type: none"> ■ Established eligibility requirements and criteria for decision making is publically available. ■ Open periods for acceptance of most grant requests. ■ Defined, periodic grant request periods for larger grants (Fund Dissemination (FDC) and Individual Engagement Grants (IEG)). 	<ul style="list-style-type: none"> ■ Consistent as see in leading grant-making organizations.
Grantee Evaluation (Pre-funding)	<ul style="list-style-type: none"> ■ In-depth analysis of grantee's financial status (organizational). ■ In depth analysis of proposed grant budget. ■ Programmatic review to determine alignment with Wikimedia five year strategy. 	<ul style="list-style-type: none"> ■ Evaluation of grantee financial status and proposed budget appears comprehensive. There may be an opportunity to streamline the analysis while still addressing key concerns. ■ Limiting the level of financial review will free up staff time for greater programmatic focus. ■ WMF will need agreement from key stakeholders to define level of review.
Grant Approval Process	<ul style="list-style-type: none"> ■ All potential individual and organizational grantees are screened against the Specially Designated Nationals (SDNs) list. ■ Checklists maintained in a spreadsheet are used to track receipt of required documents. ■ Committee determines shortlist of grants. ■ WMF Board or WMF staff makes final decisions. 	<ul style="list-style-type: none"> ■ Process appears to appropriately minimize risk. ■ Safeguarding of sensitive individual data has been considered. ■ WMF is evaluating grant software that will automate some of the grant processing (i.e., missing grantee documents, report follow-ups, vetting).

Review of Wikimedia Foundation's (WMF) grant-making process (continued)

Area	WMF Procedures	KPMG Findings/Comments
Grant Agreements	<p>Grant agreement covers, among others, the following key topics:</p> <ul style="list-style-type: none"> ■ Subgrants ■ Management of grant funds ■ Restrictions on use of grant funds ■ Conflicts of interest ■ Use of interest income ■ WMF's right to review or audit use of grant funds 	<ul style="list-style-type: none"> ■ Comprehensive and straight forward. ■ Addresses the regulatory requirements for WMF as a public charity. ■ Consider other limitations for grants made to international organizations or individuals (e.g., grants to foreign governments, grants to foreign government officials, grants for travel, etc.).
Conflict of Interest	<ul style="list-style-type: none"> ■ WMF has clear conflict of interest policies . 	<ul style="list-style-type: none"> ■ Consistent as seen in leading grant-making organizations. ■ As noted in the SWOT analysis, additional consideration may be given to conflict of interests with regard to online comments by Wikimedia staff during the open comment period.

Review of Wikimedia Foundation's (WMF) grant-making process (continued)

Area	WMF Procedures	KPMG Findings/Comments
Grantee Reporting	<ul style="list-style-type: none"> ■ Process in place to remind grantees of due dates and delinquent reports. ■ Received reports tracked in a spreadsheet. ■ Report templates capture financial and programmatic data. ■ WMF working on defining impact metrics. 	<ul style="list-style-type: none"> ■ Based upon WMF's analysis of risk in particular grants, frequency of reporting could be reduced for FDC grants. This should not change the level of engagement with grantees. This will reduce administrative burden on both the grantee and WMF. ■ WMF could provide grantees additional guidance on grant budget reporting. For example, the line-by-line budget should use as many categories as appropriate, but no more than, for example, twelve (set an appropriate limit). Limiting budget line items will reduce the need for modifications. ■ As WMF expands, it may consider the use of standard budget line items to enable WMF to create a database on costs. Many organizations use functional expense categories from IRS Form 990 as a standard.

Review of Wikimedia Foundation's (WMF) grant-making process (continued)

Area	WMF Procedures	KPMG Findings/Comments
Grantee Monitoring	<ul style="list-style-type: none">■ Site visits conducted on grants over US\$ 50,000 (or US\$ equivalent) and/or grantees not in compliance with the grant agreement.■ Three to five grantees visited annually with the goal of visiting active FDC grantees every three years.■ Primary purpose of the site visit is to verify grant expenditures and adherence to the grant agreement – programmatic and financial reviews.■ Standard verification procedures are customized based on perceived risk at each grantee.■ Issues that are not related to governance or controls are the responsibility of grantees to address. Follow-up on noncritical issues usually occurs at subsequent site visits.	<ul style="list-style-type: none">■ Taking risk into consideration in determining level of verification steps is a leading practice.

Section 5:

Appendix A – Summary of considerations

Summary of considerations

■ Grantee Financial Evaluation

- WMF should consider establishing a limited number of financial metrics and develop guidelines/ranges for each metric. While ranges do not need to automatically disqualify a potential grantee, they may inform grant amount.
- Redefining the level of financial review may free up staff time for greater programmatic focus.

■ Grantee Reporting

- Based upon WMF's analysis of risk in particular grants, frequency of reporting could be reduced for FDC grants. This should not change the level of engagement with grantees. This will reduce the administrative burden on both the grantee and WMF.

■ Grant Payments – Full Grant Award vs. Tranche Payments

- Individual engagement grants (IEG) are disbursed in two equal installments. WMF should review this policy and consider applying a dollar threshold for single payment (e.g., grants US\$ 5,500 or less should be made in one payment) to reduce administrative tasks around multiple payments.

■ Internal review of its grant-making policies

- WMF should consider an internal review of its grant-making process on an a two-year rotation to ensure that grant staff are following WMF grant-making policies (e.g., checklists have been completed and signed off; vetting and personal data has been stored according to WMF policies; grantee banks accounts have been verified).

■ Prohibited Payments List

- WMF tracks grantees who have not fulfilled the requirements of their individual grants and to whom no further payments (in the form of grant payments, consultant fees, etc.) should be made. As WMF considers grant-making software, it should ensure that the software can generate a “prohibited payment list” and limit the individuals that have the right to edit the list.

■ Payments to Government Officials

- WMF should establish a policy on payments to government officials discussing both U.S. and non-U.S. government officials. Since U.S. private foundations are not permitted to make direct or indirect payments to U.S. government officials, many grant-making organizations (public and private) prohibit payments to any government official (except for reimbursement of travel expenses within established guidelines).

Section 6:

Appendix B – Development of a risk model

- What is WMF's risk tolerance in its grant-making?
- What should grant-making organizations consider when developing a risk model?

WMF's initial thoughts on risk in its grant-making

- WMF, as with most foundations, wants to achieve “value for money” in all its aspects of its grant-making programs.
- As the number of grants in a foundation’s portfolio expands or contracts, changes in administrative and monetary resources occur; thus, foundations need to establish a flexible grantee evaluation and monitoring model that will allow it to respond to the changes in its grant portfolio and changing perceptions of acceptance risk.
- WMF uses financial and operational measures as ways of ensuring that its grants are properly executed against the stated purpose and goals.
- WMF’s grant-making team is comfortable with some degree of failure in its grant portfolio and encourages discussing components of failure within the different grantees themselves. WMF operates out of the philosophy that “if all of our grants are grand successes, we are likely not being risky enough in our investments.”
- WMF’s approach to grant-making should continue to be reviewed and modified as more experienced is gained and the program matures.

Developing a risk model – Questions to ask

- What is the overall charitable objective that WMF is striving to achieve?
- What are WMF's current obstacles in achieving this objective?
- What information does WMF need from its grant portfolio for future planning/grant-making?
- Does WMF want to assess the achievement of its program objectives through multiple grantees – e.g., benchmarking between similarly funded projects or programs?
- What level of review does WMF conduct on its grantee reports? Is this different based upon the frequency of the reports (i.e., quarterly, annually, etc.)? Is this different based upon the complexity and amount of the grant?
- How does WMF address issues identified in these reports?
- How much time does WMF want to spend on each grant portfolio?
- What is the preferred turnaround time from proposal to payment by grant portfolio?
- What documents are required to complete the grant file?

Developing a risk model – Risk factors to consider

- The amount of the grant
- Grant payments made by a single payment or by a series of payments (tranche payments)
- Longer-term grantee relationship (e.g., five years)
- Multiple grants received
- Grant duration
- Grantee location
- Adherence to local taxes and legislation as appropriate
- Grant as a percentage of the total income of the grantee
- Changes in grantee personnel
- Grantee succession planning
- Potential conflicts of interest
- Extension of the original grant period
- Past utilization of grant funds, i.e., funds not spent as budgeted, carryover to future years
- Financial management expertise of the grantee, their financial systems, and internal control
- Weak monitoring and evaluation (M&E) practices of the grant
- Subgrants

Developing a risk model

- WMF has chapters in over 30 foreign jurisdictions and should consider a risk factor based grantee location.
- Information grant-making organizations consider requesting from grantees to mitigate risk is:
 - Registration and confirmation of regulatory compliance with local in-country laws as well as compliance with regulatory filings
 - Governance structure of the organization
 - Organizations policies and procedures
 - Financial, programmatic and senior management capacity.

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