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We realize the potential of
not-for-profit organizations

Charity Law Information Program (CLIP) Strengthening Governance, Ethical Standards and Financial Controls

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Introduction

- **Legal information not legal advice**
- **Views expressed are our own**
- **Questions during and at end**
- **Review of handout**
- **Logistics and timing**



Who We Are – Capacity Builders

- **The Charity Law Information Program (CLIP) provides training, workshops, webinars to charitable organizations to enhance their understanding of their obligations under the *Income Tax Act* as well as improve governance and ethics**
- Capacity Builders is a division of the Ontario Community Support Association (OCSA) and it runs CLIP
- <http://www.capacitybuilders.ca/clip>
- CLIP Communiqué
- 416-256-3010 x 232 or 1-877-484-3030
- clip@capacitybuilders.ca



Who We Are - Blumbergs

- Blumberg Segal LLP is a law firm based in Toronto, Ontario
- Mark Blumberg is a partner at Blumbergs who focuses on non-profits and charities
- Assists charities from across Canada with Canadian and international operations and foreign charities fundraising here
- www.canadiancharitylaw.ca and www.globalphilanthropy.ca
- Free Canadian Charity Law Newsletter:
<http://www.canadiancharitylaw.ca/index/php/pages/subscribe/>
- 416-361-1982 / toll free 1-866-961-1982 / mark@blumbergs.ca



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Charities Directorate of CRA

- Regulates registered charities
- Based in Ottawa and other offices throughout Canada
- Website: www.cra.gc.ca/charities
- E-mail list: www.cra-arc.gc.ca/esrvc-srvce/mlst/sbscrbchrts-eng.html
- Webinars: www.cra-arc.gc.ca/tx/chrts/cmmnctn/sssns/wbnrs-eng.html
- Telephone: 1-800-267-2384 (English)
 1-888-892-5667 (Bilingual)
- Provided funding for the Capacity Builders' Charity Law Information Project (CLIP)



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Governance, Ethics and Financial Controls

- Help run an effective organization
- Create a charity that has high standards
- Prevent abuse (eg. fraud) of charity



What is a Charity?

- 1) Purposes must be exclusively and legally **charitable**
(4 heads of charity – relief of poverty, advancement of education; advancement of religion; and other purposes beneficial to the community in a way the law regards as charitable)
- 2) Must be established for the benefit of the public or a sufficient segment of the public (**Public Benefit**)



Public Benefit

- Public benefit:
 - Generally tangible,
 - Public-at-large or sufficient segment,
 - Private benefit is only incidental,
 - No restrictions on benefits without adequate justification, and
 - Fees cannot unduly exclude members of the public



Public Benefit (cont.)

- Some charitable purposes have benefit, but also some negative effect or harm
- Want substantial net benefit

Guidelines for Registering a Charity: Meeting the Public Benefit Test (CPS-024)

<http://www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-024-eng.html>



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Importance of Public Benefit

Charities do a fantastic amount of good and have a unique place in society, which is why they enjoy such high levels of public trust and confidence. They receive the reputational benefits of being charities, as well as tax breaks, so in return it's right that they demonstrate how they bring real benefit to the public.

UK Charity Commission



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Ethical Standards



Legal vs. Ethical

Legal – binding minimum rules and regulations

Ethical – higher standard than legal – ‘applied ethics’ – trying to achieve moral and ethical outcomes in real-life situations consistent with our values and standards.



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Ethical Concepts

Integrity

Fairness

Trust

Transparency

Responsibility

Privacy

Honesty

Justice

Human Rights

Cooperation

Sustainability

Respect



Charity Stakeholders

- Members
- Board
- Employees of charity
- Volunteers
- Government (CRA, federal, provincial, and municipal)
- Partners
- Media
- Public
- Donors
- Beneficiaries, clients



Ethical Decision-Making

- relevant facts,
- core values,
- applicable rules,
- desired results
- need for reflection (judgment)
- dialogue (buy-in from colleagues)



Discussion

- What is a “bad” charity?
- What is a “good” charity?



What is an Effective Charity

- Hallmark 1: Clear about its purposes and direction
- Hallmark 2: A strong board
- Hallmark 3: Fit for purpose (structure and policies allow it to deliver services efficiently)
- Hallmark 4: Learning and improving
- Hallmark 5: Financially sound and prudent
- Hallmark 6: Accountable and transparent

The UK Charity Commission Hallmarks of an Effective Charity: <http://www.charity-commission.gov.uk/publications/cc10.asp>



Some Ethical Considerations

- Conflict of interest – perceived and real
- Fundraising (commissions, ratios, truthfulness)
- Respecting and using employees and volunteers
- Effective and efficient use of charity's resources
- Transparency/openness of organization
- Accountability
- Avoiding wrongdoing and financial impropriety
- Compensation for staff (too high, too low)
- Compensation of board (prohibited in some jurisdictions like Ontario)



Some Ethical Considerations (cont.)

- Treatment of women and marginalized groups
- Compliance with codes and other obligations
- Bribery and corruption
- International operations
 - Dealings with foreign militaries and governments
 - Abiding by local laws
 - Respect for local customs
 - Respect for the environment



Conflicts Of Interest – An Example

- Directors should be open and transparent about any related party transactions
- Have formal conflict of interests policy
- Ensure private benefits to individuals only incidental and do not outweigh the public benefits it provides.



Useful Questions or Imperfect Rules

- What is your gut feeling?
- Would it pass the sniff test?
- Would you mind if all your associates, family and friends were aware of it?
- Can you justify it to a committee of your peers?
- If our charity does this lots, what type of organization would we be?
- Using your imagination, is there another better alternative?



Weaknesses in Ethical Decision Making

- Do not recognize issues
- Do not have adequate facts
- Lack of education on issues
- Fairness to some stakeholders, not others
- Short term benefit – end justifies the means
- Focusing only on legal
- But we have always done it this way ...



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Governance



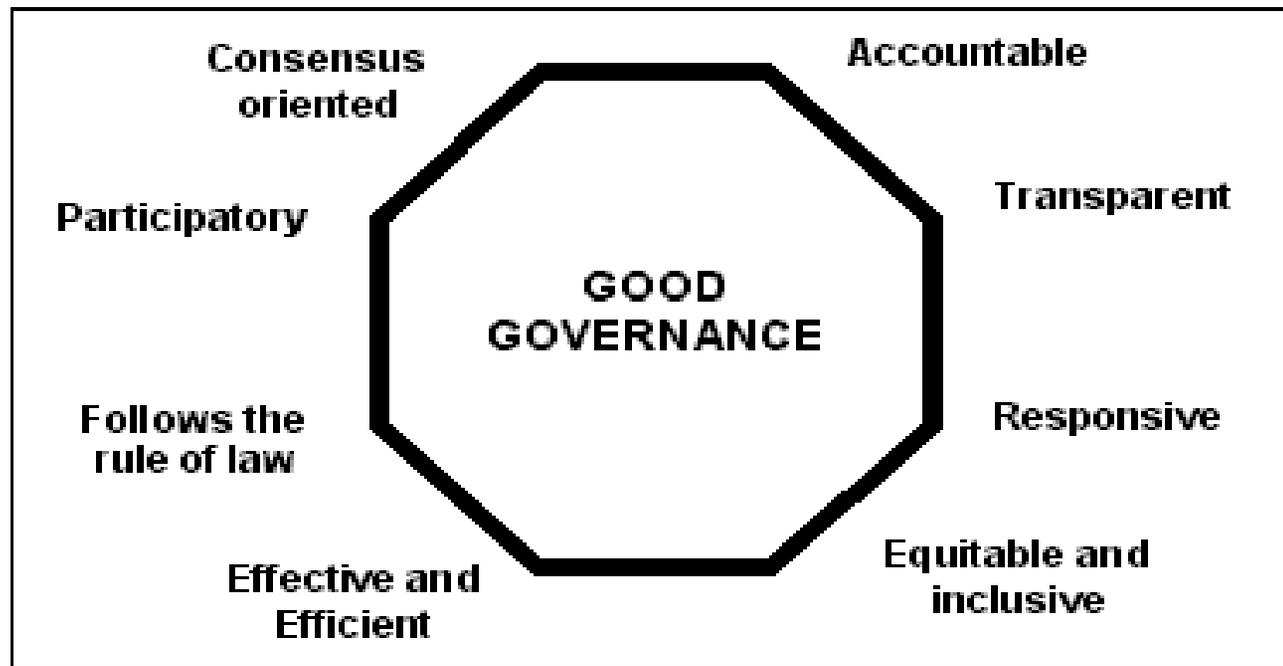
What is Governance?

- *Governance* comes from the Greek verb [*kubernáo*] which means *to steer*
- **The process of decision-making and the process by which decisions are implemented (or not implemented)**
- No one size fits all – e.g. small volunteer charity vs. large national charity

<http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp>



What is Good Governance?





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Who is Responsible for Governance?

Directors ultimately responsible for
governance and charity



Can We Operate on Trust Alone?

- In an ideal world, perhaps – we don't live in ideal world
- Most people are honest, but some are not
- Some are honest but will be tempted if there are no guidelines, rules or financial controls
- Some funders and donors will not support organizations without appropriate rules and financial controls
- Understandable rules and good financial controls are a win-win for everyone
- Policies and good financial controls can help prevent or limit personal liability in event of problems



Directors' Duties

- **Duty of Care** – e.g. pay attention, read material, attend meetings, exercise judgment and vote
- **Duty of Loyalty** – e.g. avoid conflicts of interest, maintain confidentiality
- **Duty of Obedience** – e.g. obey laws, comply with letters patent, by-laws and resolutions



Directors

- Directors have duty to protect charitable property
- Reputation of charity is vital with public at large, donors, funders, employees, beneficiaries and other stakeholders
- Directors should obtain appropriate legal, accounting, investment and financial advice
- Directors should ensure appropriate governance and ethics of charity
- Adequate internal financial controls required for well run charity



Board Responsibilities – 7 Key Tasks

- a) Setting the mission and strategic objectives, evaluating progress in achieving these objectives;
- b) Making sure the organization operates in a fiscally responsible manner and complies with all laws and regulations applying to it;
- c) Selecting and evaluating the performance of CEO;
- d) “Boundary Spanning”: (i) by bringing the concerns of the outside community and particular constituencies into the organization; and (ii) by representing the organization to the community and constituencies;

Board Responsibilities – 7 Key Tasks

- e) Ensuring necessary financial resources;
- f) Ensuring management operates organization as efficiently as possible and uses the best available systems, policies and administrative practices to do so;
- g) Ensuring that the board itself functions as effectively as possible (e.g., finds best people to serve, provides adequate training for members, manages its meetings and committees well).

“Improving Board Performance” by Vic Murray in The Philanthropist
(Volume13, No.4)

<http://journals.sfu.ca/philanthropist/index.php/phil/article/view/161/161> 31



a) Setting Mission and Evaluating Progress

- Objects/Mission/Vision
- What is purpose of organization?
- What services should it provide? Who should it serve?
- What standards and guidelines should be used?
- Evaluation



b) Fiscal and Legal Oversight

Finances:

- Investments
- Budgeting
- Protecting property

Legal:

- Compliance with laws (statute, regulations, cases)
- Charity law, sectoral, corporate and trust



c) CEO/ED Selection and Evaluation

Selection:

- Find the best person for the position

Evaluation:

- Ensure that person fulfils duties



d) Concerns of Stakeholders and Representing

- Ensure that concerns of stakeholders are represented
- Represent the organization to stakeholders



e) Resource Development

Ensure organization obtains adequate funds

- Fundraising from public and foundations
- Funds from government
- Earned income (fees for services)



f) Ensuring Management Operates Efficiently

- Does the organization have right structures and policies?
- Does the organization appropriately use technology?
- Is the organization efficiently using employees and volunteers?



g) Ensuring Board Operates Effectively

- Who is on the board and how many people?
- Training board members
- Evaluating effectiveness of board meetings
- Succession plan – staggered terms
- Avoiding conflicts of interest



Governance Gremlins

- Lack of consensus about the mission and vision of the organization
- High Board/CEO turnover
- Lack of consensus on Board role
- Board members do not fully understand their duties and liabilities
- Board members have difficulty reading financial statements
- Unresolved conflicts on the Board or between the Board and the CEO



Governance Gremlins (cont.)

- Lack of understanding on roles of Officers, or how one gets to become an Officer
- Current board practice or structure does not match by-laws
- Confusion over conflict of interest
- Too many committees
- Committees that are not engaged in important work
- CEO-run Board
- Rubber-stamping by the Board
- Board micro-management



Governance Gremlins (cont.)

- Decision paralysis
- Lack of strategic direction and clear priorities for the Board
- The Board runs well but focuses on the wrong issues
- Board members do not speak as a united front once they leave the Board room
- Poor attendance at Board or committee meetings
- Poorly chaired meetings



Governance Gremlins (cont.)

- The Board is not getting the right information in the right format
- Lack of clarity on role of Board vis-à-vis staff
- Poor relationships with stakeholders
- Members of the organization are not involved or consulted
- Volunteer fatigue or staff burnout

<http://www.ioq.ca/boardgovernance/html/prasig.html>



How to go from Gremlins to Great

- Recruit diverse and talented board
- Put in place appropriate governance model
- Ensure board and staff/volunteers understand role
- Continuous learning and improvement for board and staff
- Focus on mission
- Invest in people
- Invest in organization



Recruiting Good Boards

- Identify skills, experience, knowledge, contacts, required and weaknesses in current board
- Advertise widely to get greater diversity and quality – include job description/expectations
- Check carefully (references, background, conflicts)
- Select carefully – interview
- Formally bring on to board
- Orient well – orientation, board binder, site visit



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“Direction and Control”

Qualified Donees vs. Non-Qualified Donees: A Vital Distinction



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Canadian Charity World Divided in Two

- Qualified donees – can issue official donation receipts
- Non-Qualified donees – cannot issue official donation receipts



List of Qualified Donees

- Registered charities;
- Registered Canadian amateur athletic associations;
- Registered national arts service organizations;
- Housing corporations in Canada set up exclusively to provide low-cost housing for the aged;
- A municipality;
- A municipal or public body performing a function of government in Canada;
- The United Nations and its agencies;



List of Qualified Donees (cont.)

- Universities outside Canada with a student body that ordinarily includes students from Canada (these universities are listed in Schedule VIII of the Income Tax Regulations);
- Charitable organizations outside Canada to which the Government of Canada has made a gift during the donor's taxation year, or in the 12 months immediately before that period [IC 84-3R5]; and
- The Government of Canada, a province, or a territory.



What is a Non-Qualified Donee?

- All organizations other than qualified donees
- Organizations that cannot issue official donation receipts

Examples include:

- Foreign charities
- Canadian non-profits with no charitable status
- Businesses
- Bono, Obama, Angelina Jolie



RC4106 Registered Charities: Operating Outside Canada

The Canadian *Income Tax Act* allows charities to conduct their charitable purposes by:

- 1) Giving monies to another "**qualified donee**" (usually a Canadian charity but also includes the United Nations, some foreign universities with Canadian students and a small number of foreign entities); or
- 2) Expenditures on their "**own activities**" (at home or abroad)

No third option - A Canadian charity cannot just transfer money or gift/grant funds to a non-qualified donee (including a foreign charity)



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CRA Consultation on Foreign Activities

Consultation on the Proposed Guidance on Activities Outside of Canada for Canadian Registered Charities

<http://www.cra-arc.gc.ca/tx/chrts/cnslttns/ccrc-eng.html>

- Sets out CRA draft views on foreign activities and dealings between Canadian Registered charities and non-qualified donees



Why Deal With a Non-Qualified Donee?

Foreign Activities

- You don't have people in Malawi
- You don't have road building equipment in Haiti
- Local people or organizations sometimes can do it quicker, better and more cost effectively

Canadian Activities

- The best organization to implement charitable project may be a non-profit (non-charity) or a business and not another registered charity



Canadian Registered Charity

*Gift to
Qualified donee*

Qualified Donee, eg.
Canadian registered
Charity, UN, prescribed
University, Canadian
Municipality, etc

“Own Activities”
[Direction and Control]

Employee
Volunteer

Intermediary –
agency, JV,
partner,
contractor

Structured
Arrangement -Written
agreement



“Own Activities” or “Direction And Control”

When not working with qualified donee or own staff:

- Investigate intermediary (due diligence)
- Written agreement
- Detailed description of activity
- Monitoring and supervision
- Ongoing instruction for changes
- Periodic transfers
- Separate activities and funds
- Books and records showing above



Amount of Direction and Control

Less direction and control when sending certain types of ‘inherently’ charitable goods like blankets to a trusted relief agency in a disaster

Most direction and control when sending cash

If in doubt have more, rather than less, direction and control to protect your charity’s reputation, charitable status and the resources entrusted to you.



Structured Arrangements

- 1) Employee or volunteer in foreign country
- 2) Agency agreement
- 3) Contractor
- 4) Joint venture agreement/joint ministry agreement
- 5) Cooperative participant agreement



Written Agreements

Appendix E of Guidance – Checklist of the elements of a written agreement

For example:

- Are the legal names and physical addresses of all parties provided?
- Is a clear, complete, and detailed description of the activities to be carried out by the intermediary provided?
- Do the activities further the charity's purposes?



Capital Property

- When acquiring, constructing, or improving any immovable property be careful – high value
- Title of the property should vest in the name of the charity
- Certain exceptions for development and when reasonable assurances obtained
- Discussed in Appendix D of Consultation document



Conduit vs. Structured Arrangement

Conduits – gifting resources to non-qualified donee, no direction and control, no description of activities, simply forwarding money, no monitoring, no reporting, no instructions

Structured Arrangement – relationship with adequate direction and control – agreement, description of activity, progress payments etc.

See Structured Arrangement versus Conduit for Canadian Charities and Foreign Activities by Mark Blumberg

http://www.globalphilanthropy.ca/images/uploads/Structured_Arrangement_versus_Conduit_for_Canadian_Charities_and_Foreign_Activities.pdf



Books and Records

- Not good enough to do good work
- Must be able to show you do good work
- English or French preferred
- Have books and records in Canada
- CRA discusses difficulty getting records – make “reasonable efforts”



What's New or Emphasized in Consultation

- Control rules apply in Canada and abroad
- Rules apply when applying for charitable status
- Three cases on direction and control
- Understand local laws of jurisdiction
- Written agreement not good enough
- One time transfers under \$1000 – less formal
- Importance of description of activity
- Agency relationship may not be best
- Federal funding does not exempt charity from direction and control
- Disaster relief and other practical advice



How do I Know if it is a Qualified Donee?

If in doubt, check CRA's listing of charities, call CRA, or treat organization as a non-qualified donee.

- **83,000 registered charities** listed at CRA site:

<http://www.cra-arc.gc.ca/tx/chrts/menu-eng.html>

- **Prescribed foreign universities** at Schedule VIII of the Canadian Income Tax Regulations, as provided in section 3503

<http://laws.justice.gc.ca/en/showdoc/cr/C.R.C.-c.945/sc:8/20090629/en?noCookie#anchorsc:8>

- **A few Charitable organizations** outside Canada to which the Government of Canada has made a gift in last 2 years [IC84-3R5];

- <http://www.cra-arc.gc.ca/E/pub/tp/ic84-3r5/>



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Misuse of Charity's Assets



What is Misuse of a Charity's Resources?

- Fraud
- Money laundering
- Terrorism
- Violence against aid workers and kidnapping
- Private benefits
- Misappropriation of resources
- Using charities for tax evasion



Fraud

- Common in commercial enterprises and non-profits
- 10% of fraud reported is in non-profit sector
- Charities with weak controls are vulnerable
- Madoff and other scandals
- Impossible or prohibitively expensive to absolutely prevent – can you discover and minimize
- Average fraud = \$190,000 but ¼ are over a million
- Estimate of 5% of revenue lost to fraud across all organizations
- Smaller and less financial controls suffer disproportionately more



Examples of Fraud

- Payroll fraud
- Assets misappropriated
- Intercepting or diverting resources coming to charity
- Skimming cash before recorded in accounting system
- Expense reimbursement fraud
- Fraudulent billing
- Using office to get unauthorized benefit (bribes, self dealing transactions, conflicts of interest)
- Falsification of organizations financial statements
- Steals confidential information to apply for credit card or loan
- Fraudulent use of official donation receipts



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Preventing Fraud

- Good financial controls
- Internal spot audits
- External audit
- Encourage employees to come forward (whistleblower)
- Encourage suppliers and customers to report



Money Laundering

- Money laundering is the process used to disguise the source of money or assets derived from criminal activity.
- Turn “dirty” money into “clean” money
- This criminal activity can include drug trafficking, smuggling, fraud, extortion and corruption
- Criminals must launder the profits and proceeds from these crimes to be able to enjoy them
- International Monetary Fund (IMF) estimated that some \$500 billion (U.S.) is laundered worldwide each year.



Money Laundering Red Flags

- Donations conditional upon particular individuals or organizations being used to do work for the charity
- Offers of donations in cash, for a certain period of time, the charity to receive the interest, but the principal to be returned to the donor at the end of the specified period
- Donations in foreign currencies, with the provision that the principal be returned to the donor in the form of a different currency



Avoiding Abusive Charity Gifting Tax Shelters

- Over \$5 billion in gifting tax shelters over last 5 years
- Over 175,000 Canadians being audited
- If it sounds too good to be true, it probably is
- Be careful of advice from people who have a financial benefit in the transaction



How Terrorists May Try to Use Charities

- Money raised by charities to fund terrorist organizations;
- Using charities to smuggle people into countries illegally;
- Using residential schools as military recruitment and training centres;
- Using charities set up for providing facilities for young people for organization and recruitment;
- Using charities as a base to spread propaganda; or
- Using charities for money laundering purposes.

<http://www.charitycommission.gov.uk/supportingcharities/ogs/g096.asp>



Terrorist Financing

- Process in which both legitimately and illegally obtained funds are used to finance the activities of terrorist organizations
- Often moved before the crime takes place
- Ideology, not greed, is usually reason
- Usually smaller amounts than money laundering
- Can be donations by individuals and businesses to legitimate or sham charitable and non-profit organizations



Avoiding Terrorism

CRA Checklist for Charities on Avoiding Terrorist Abuse

<http://www.cra-arc.gc.ca/tx/chrts/chcklsts/vtb-eng.html>

UK Operational Guidance: Charities and Terrorism

<http://www.charitycommission.gov.uk/supportingcharities/ogs/g096.asp>

U.S. Treasury Dept. Anti-Terrorist Financing Guidelines –
Voluntary Best Practices for U.S.-Based Charities

<http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities-intro.shtml>

16 Steps for Canadian charities and non-profits to avoid
involvement with Terrorism by Mark Blumberg

http://www.globalphilanthropy.ca/images/uploads/Terrorism_and_Canadian_charities_and_Non_Profit_organizations.pdf



CRA Checklist on Terrorism

- Know partners and their board, employees etc.
- Read and follow CRA guidance on books and records, foreign activities
- Internal financial and other oversight
- Use normal banking mechanisms to transfer money wherever possible
- Know users of your facilities
- Who else is supporting person or cause that you are endorsing in public statements, and who uses your name as a supporter?



CRA Checklist on Terrorism (cont.)

- Do you know where your donations and other support really come from?
- Do you know who has ultimate control over the project that your charity's money and resources are benefiting?
- What about after a particular project is finished?
- Have clear written agreements with agents/contractors/other partners, in Canada and abroad with detailed description of activities
- Follow agreements



Safety of Charity Staff

- Goal is to implement humanitarian program
- Violence against aid workers increasing problem
- Kidnapping, extortion, unlawful detention, civil unrest, random criminal violence, workplace violence, travel
- Neutrality is no guarantee of safety
- NGO roles are vitally important
- Board, employee, funder concerns
- 'Hope' is not a security plan



Violence Against Humanitarian Workers

- Have security plan
- Look at programs, threat and vulnerabilities
- Plan from proposal stage for security
- Training before project and briefings during
- Pick right people – maturity, expertise, medical fitness
- Physical security of office, home, lodging, facilities
- Be aware of local laws, customs and sensitivities
- Check what insurance will cover and not cover
- Careful who you hang out with and where



Private Benefits

Charity should be about helping beneficiaries, not yourself

- Private benefit is acceptable only if it arises directly through pursuit of the charitable purpose, is incidental to the pursuit of that purpose, and is reasonable in the circumstances
- Questionable benefits: generous salaries, luxurious living expenses, travel, self promotion of founder/leader etc.
- CRA referring to governance issues in Guidance on Fundraising



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Internal Controls



The Elements of Internal Control

Six important elements of an internal control system are:

1. Control cues (lead by example)
2. Policy communication
3. Segregation of duties
4. Record keeping
5. Budgets
6. Reporting

McLaughlin, Thomas A., *Streetsmart Financial Basics for Nonprofit Managers*, 3rd ed. (Hoboken, New Jersey: John Wiley & Sons, Inc., 2009).



Control Cues

- Want culture of internal control
- Set expectations and example
- This does not cost any money
- CEO and leadership need to set good example
- Stops many people from trying something

“[N]o single control is as important as the culture of internal controls”



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Policy Communication

- Do not need manual
- Need communication about policy, changes and issues



Segregation of Duties

- Break up duties
- Avoid one person dominating
- Checks and balance
- Danger from within – only takes one person
- For very small organizations – complementary control



Two Person Segregation of Duties

Treasurer/Employee – First Person

- Post accounts receivable
- Mail checks
- Write checks
- Post general ledger
- Reconcile bank statements
- Post credits/debits
- Give credits and discounts
- Approve payroll
- Open mail/receive cash
- Disburse petty cash
- Authorize purchase order
- Authorize check requests
- Approve invoices for payment

McLaughlin, Thomas A., *Streetsmart Financial Basics for Nonprofit Managers*, 3rd ed., p 230.



Two Person Segregation of Duties (cont.)

CEO/ED/Chair/President/Volunteer – Second Person

- Sign checks
- Sign employee contracts
- Custody of securities
- Complete deposit slips
- Perform interfund transfers
- Distribute payroll
- Reconcile petty cash
- Record initial charges and pledges
- Approve employee time sheets
- Prepare invoices
- Complete check log

McLaughlin, Thomas A., *Streetsmart Financial Basics for Nonprofit Managers*, 3rd ed., p 230.



Record Keeping

- Keeps track of money and assets coming in and flowing out of the organization and summarizes in general ledger
- Most transactions are similar and straightforward
- Some are unusual or non-recurring



Other Ideas for Internal Financial Controls

- Hiring and accessing qualified employees and advisors
- Use services such as payroll service
- Proportionality – it does not help spend \$5 to save a \$1.



No “One Size Fits All”

Growing Organizations

Early Life Group of volunteers; no commitments beyond immediate work; local fund-raising; no funder; whole group acts as the management committee

Growing Up A few paid staff; rented premises; few financial commitments; one funder; management committee formed



No “One Size Fits All” (cont.)

- Adulthood** More paid staff; own premises, equipment, and vehicles; financial commitments to beneficiaries; several funders
- Maturity** Many paid staff, premises, vehicles, and equipment; financial commitments to partners; many funders

Building Capacity through Financial Management: A Practical Guide
by John Cammack

http://www.oxfam.org.uk/resources/downloads/buildfincap_book.pdf



Planning and Budgeting

Early Life:

- Decide objectives
- A basic budget

Growing Up:

- Detailed budget to suit donor's format
- Cash-flow forecast
- Budget and actual reports produced for management committee

Adulthood:

- Detailed planning
- Budgets for each donor and one for the whole organization
- Budget and actual reports for managers

Maturity:

- Long-term planning
- An organizational budget, showing donor funding
- Detailed reports available for management



Financial Reporting

Early Life:

- Summary of money received and spent presented to meetings

Growing Up:

- Donor reports
- Annual accounting statements
- Beneficiary reports

Adulthood:

- Accounts showing restricted and unrestricted funds

Maturity:

- Detailed annual report and accounting statements



Financial Controls

Early Life:

- Two signature on cheques

Growing Up:

- Basic controls

Adulthood:

- Comprehensive financial controls
- Written financial procedures

Maturity:

- Detailed financial controls throughout organization



Staffing

Early Life:

- Volunteers deal with finances

Growing Up:

- Administrator appointed
- Professional Accountant to prepare end-of-year accounts

Adulthood:

- Bookkeeper appointed

Maturity:

- Professional accounting staff



Controls over Incoming Funds

Cheques and cash in mail

- Two people opening
- Record immediately
- Secure unopened mail

Public collections and fundraising events



Banking Procedures

- Use organizational, not personal, bank accounts
- Bank regularly
- In between banking keep cash or cheques in locked box
- Bank gross amounts, then pay expenses
- Have written policies or resolutions
- Routinely check bank statements to deposit slips



Expenditure Controls

- All expenditures should be properly authorized
- Must have proper supporting documentation
- Keep cheques etc. in safe place
- One person prepares cheque etc., another authorizes expenditures
- Trustees must understand procedures
- Check invoices against orders
- Have authorization levels for placing orders
- Payments only against original invoices



Expenditure Controls - Cheques

- Governing documents provide for people authorized to sign cheques
- Abide by governing documents or change them
- Should have two unrelated signatories on cheques
- Have adequate pool of signatories
- Best not to sign cheques to yourself
- Keep cheques in safe and secure place
- Do not sign blank cheques
- Have agreed bank limits
- Only sign cheques with corresponding invoice



Expenditure Controls - Cash

- Avoid or reduce need for cash payments
- Petty cash – replenish from bank account not incoming cash
- Keep cash in locked and secure place
- Supporting documentation for petty cash payments (preprinted and numbered receipts)
- Count cash regularly



Expenditure Control - Salaries

- For many charities this is their largest expense
- Significant charity and director liability for failure to withhold and remit source deductions and for payment of wages
- Proper employment agreement with each employee setting out salary and termination provisions etc.
- Are deductions for CPP, EI and income taxes being made?
- Are funds being remitted as required?
- Check that salaries are correct
- Spot check with larger organizations for “fictitious employees”



Safeguarding Assets

Fixed assets (e.g. building, land, vehicles)

- Have list of holdings and update
- Check that assets are in good repair
- Are assets properly insured?
- Does charity require the asset or should it sell?



Cammack's Principles for Physical Control

- Keep all premises locked and safe
- Allow only authorized staff and volunteers to use premises and equipment
- Keep an up-to-date record of items owned, and check it regularly
- Register all items in the organization's name
- Keep stock records for purchases, items issued, and the balance left



Cammack's Principles for Physical Control (cont.)

- Count stock regularly and compare it with the records
- Arrange insurance coverage, if possible, for valuable items, including cash
- Write clear policies on the use of equipment (e.g. cars, copiers)
- Keep confidential information locked away or secure
- Use a safe for cash, cheque books, and other valuable documents



Investments

- Directors have duty to invest funds that are not immediately required
- Many charities have limited powers of investment
- Look to letters patent and by-laws for power to invest or trust document if trust
- Wording of powers is important
- A trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments
- Act prudently and reasonably



Investments – *Trustee Act* (Ontario) Criteria

- 1) General economic conditions
- 2) The possible effects of inflation or deflation
- 3) The tax consequences of the investment decisions or strategies
- 4) The role each investment or course of action plays within the charity's overall portfolio
- 5) The expected total return from income and growth of capital
- 6) Needs of the charity for liquidity, regularity of income and preservation or appreciation of capital
- 7) An assets special relationship or special value, if any, to the purposes of the charity



Investments Powers

Charities usually have one of the following four investment powers:

1. Must make investments in accordance with the provincial Trustee Act
2. The funds of the charity must be invested prudently, but investments are not limited to investments authorized by law for trustees
3. The funds of the charity can be invested only in limited kinds of investments as set out in governing documents
4. If power to invest is not set out in governing documents then follow provincial Trustee Act



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Other Resources

- www.capacitybuilders.ca/clip
- www.canadiancharitylaw.ca
- www.cra-arc.gc.ca/tx/chrts/prtng/menu-eng.html
- www.boardsource.org
- www.fme-online.org
- www.oxfam.org.uk/resources/
- www.johncammack.net
- www.globalphilanthropy.ca
- www.mango.org.uk



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Evaluation

- Your feedback is important to the Charity Law Information Program
- Please complete the Evaluation Form and add any comments that will help improve our program
- If you have any additional feedback, contact clip@capacitybuilders.ca
- Thank you for your participation today!