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01/05/14

FROM COMMENT

# Due Diligence: NGOs and Charities

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## Parent and Subsidiary..



In this month's column, Burke Files examines how the veneer of decency can be used to hide mischief through the use of Charities and NGOs as channels for laundering money.

Non-Governmental Organisations (NGOs) and charities have slowly evolved, under the radar, to become significant channels for laundering money. The veneer of decency used to hide mischief.

Charities alone in the US received 320 billion dollars. About two per cent to three per cent of US GDP.

NGOs are also a predictable source of fraud and chicanery. The misuse of charities falls into four overbroad categories.

**Phony Charities** - that provide no real service to a community

**Terrorism Funding Charities** –used to fund terrorism.

**Tax Dodge Charity** – a set up primarily to use as a tax management device.

**Blocker Charity** – a charity used to obscure owner or management of entity(ies)

**Phony Charities**

For example, there are over 100 NGOs in Palestine. There are only 6,000 square miles – that is one NGO for every 60 square miles. That would be 58,000 NGO's in the US if the same density were to be applied in the US. That

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would mean there would be nearly four NGO's for every one Starbucks outlet in the US!

Having worked in many countries, I can assure you I have heard this statement in many languages. "Want to make a few quick bucks? Set up an NGO." Also both charities and NGO's provide a channel for funneling bribes and laundering money that is unsuspected and unchecked by service providers.

There are also many of these around the world NGOs or charities that are just used to get donations from guilty thick wallets operated by thins minds. Everything from helping the disabled, to car donations, etc... are used to fund a business whose sole purpose is to live off the donated funds.

### **Terrorism Funding**

The Holy Land Foundation (HLF) raised over 26 million dollars and remitted approximately 12.5 million to charities in the West Bank controlled by Hamas. It was claimed that the HLF was the largest terrorist finance network ever disrupted in the US. What is funny is even Hamas was miffed when they saw the delta between what was raised and what was remitted.

The Tamil Relief Organization (TRO) was set up supposed as relief for the Tamils in Sri Lanka but in reality it was a major funding mechanism for the LTTE (Tamil Tigers). The TRO had substantial donations sent in from Canada, The United States, The United Kingdom and Singapore. The funds remitted came from the world's successful Tamil diaspora as well as from well meaning foundations.

### **Tax Dodge Charity**

There is no real deep thought on how a charity is used as a tax dodge. Mr Gotrocks makes a donation to the World Alliance for Non-Keratotic Epithelial Regeneration Trust and on the backside the Trust, a sub-entity of the trust, makes an investment in anything Mr Gotrocks so desires. It is a pass through with a tax deduction. The CUP Foundation seems to be similar to this

as well as many other charitable schemes we have seen. Some dodges are not even arms length. Often a charity is controlled by the primary grantor. This is not a problem if the charity is actually doing with it claims to be doing.

### **Blocking Charity**

The purpose of the charity may include many other purposes, but its primary purpose is to block the attribution of control or beneficial ownership. One blocking charity had invested in several nice buildings in South Florida. The buildings were run as a business. Some spaces were rented at commercial rates and some spaces were rented out at US\$100 per month to some local charities. What one had to take note of is that each of these commercial buildings had a residential penthouse and each of the penthouses were rented for US\$100 per month to a charity. All of the penthouses were rented to a fraudster and or his relatives. The asset recovery team was able to get several of them evicted as they had failed to even pay their US\$100 per month. Stupid fraudsters are fun.

For the most part, when we look at Charities and NGO's we shrug our shoulders. "Just more do-gooders", we think to ourselves. And while the world does need more do-gooders, we also need fewer using the 'do-gooder' laws and networks to set-up for chicanery.

All financial institutions and responsible representatives, such as agents, accountants, and attorneys need to perform a reasonable amount of due diligence so that they can say, without any guess work, "yes, we know our clients".

For charities, at least in the US, there is a statement of work and purpose that has to be filed with the US Taxing authorities. It is the IRS that has the power to grant charitable status or withhold that status. As charities are for the public good these filings are a part of the public records. It's your right to ask to see those filings as well as the approval letter from the IRS. Check to see that the charity has continued to operate in a manner that is relatively consistent with the request for and the granting of their charitable status. If the charity's purpose was to save river otters and now they are saving llamas – this may be acceptable. If the charity was chartered to help with education

of children but is now sponsoring medical missions to fix cleft pallets – there may be an issue of mission creep. If the charity was sponsored to help elephants in South East Asia and is now involved in unrelated religious activities, you may have a reason to question the organisation's actions.

All charities in the US must file with the IRS a Form 990 at the end of each fiscal year and if you as a donor, service provider, financial intermediary, etc... do not have a copy of the 990, you have been seriously negligent. You can request them from the charity, or you can often get a copy from GuideStar.

The same is true of NGO's but often with flair. Some NGO's are not charities, they just spend all of their grant money. Not non-profit or charitable by designation but non-profit by activities. Please look at an NGO's charter, its funding sources and the congruence of current activity with original chartered purpose.

We all need more resources – so please use these links for further reading.

For a US based Charity, I recommend that you have a look at both of these websites:

<http://www.guidestar.org> (<http://www.guidestar.org/>).

<http://www.quota.org/we-share-foundation/establishing-a-501c3-charitable-foundation/> (<http://www.quota.org/we-share-foundation/establishing-a-501c3-charitable-foundation/>).

For NGO guidance I recommend the follow publication:

[http://www.dochas.ie/pages/resources/documents/Governance\\_Handbook.pdf](http://www.dochas.ie/pages/resources/documents/Governance_Handbook.pdf)  
([http://www.dochas.ie/pages/resources/documents/Governance\\_Handbook.pdf](http://www.dochas.ie/pages/resources/documents/Governance_Handbook.pdf)).

I also wish you to think about this issue a bit more - a look at this OECD publication, it is not long and has some excellent reference material when look at charities from different locations and the information you may wish to request.

<http://www.oecd.org/ctp/exchange-of-tax-information/42232037.pdf>

(<http://www.oecd.org/ctp/exchange-of-tax-information/42232037.pdf>)

Do not let your firm or yourself be miss-tasked by charities and NGO's out for mischief and chicanery.

## ABOUT THE AUTHOR



### **L. Burke Files DDP CACM, President, Financial Examinations & Evaluations, Inc**

Mr. Files is President of Financial Examinations & Evaluations, Inc. He is an international financial investigator and due diligence expert who has run cases in over 130 countries and has visited over 100 countries. Mr. Files has tackled investigations running from a few hundred thousands dollars to over 20 billion. Along the way he became familiar with the knowledge of what people need to do, for due diligence, preventing corruption, and to avoid helping criminals launder money. He brings this experience of hands on investigating and problem solving experience to his lectures on Due Diligence, AML, and Anti-Corruption. Prior to founding FE&E, Inc. he served as the Director of Corporate Finance for American National an investment bank focused on development stage venture capital. He was also employed by Oppenheimer/Rouse as a commodities specialist trading customer accounts in Agri-Business and 24-hour gold, silver, and foreign currency trading. Mr. Files has authored six books, and many white papers and articles. He has been quoted in major publications including The Guardian, The Financial Times, Forbes, US Newsweek and more. He is the author of the award winning book Due Diligence For The Financial Professional 2nd Edition. Mr. Files serves on the board of directors for several private companies, funds, and non-profits. Mr. Files is active in several civic organizations. In the past Mr. Files has served as a member of the Arizona Governor's Board on Solid Waste Management, as an advisor to the Governor's Board on Economic Planning and Development. Mr. Files has also received a Commission and a Medal of Merit from the President of the United States.



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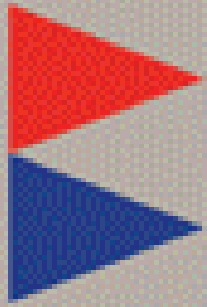
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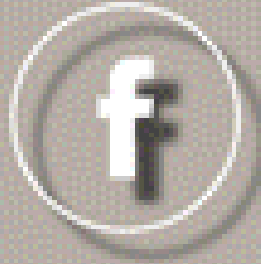
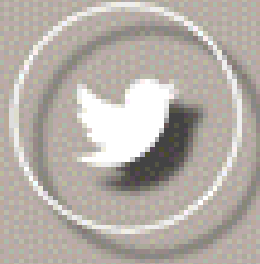
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