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Our Noble Deeds and a wee bit of due diligence on Charities, Foundations, and NGOs

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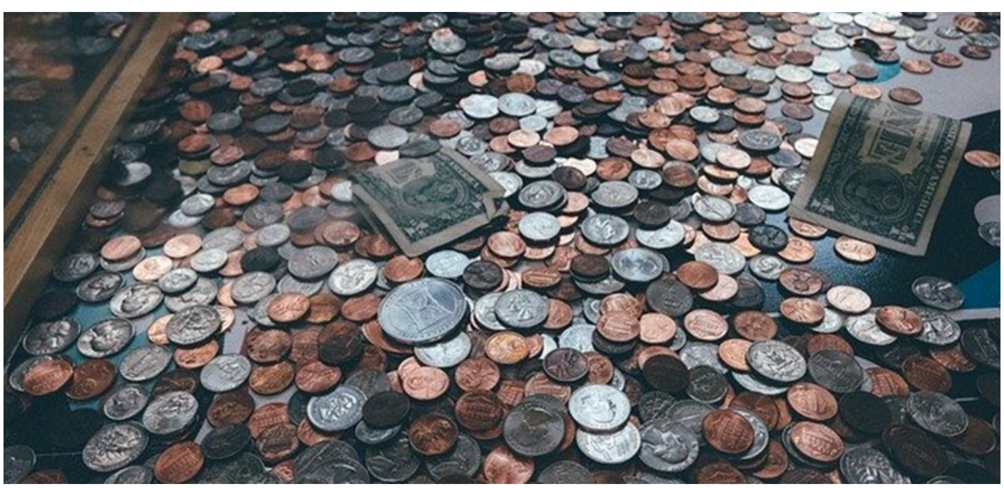

Philanthropy is genuinely a great and grand thing. Promoting the welfare of others, supporting good causes, and leaving a lasting positive mark for today and all of the tomorrows to come is quite possibly the noblest of deeds.

Many years ago, I volunteered with several youth organisations. I enjoyed my time hiking, camping, teaching art, business basics, and sharing some of my precepts of life. One of these precepts was and is, "If you make a mistake, own it, eat it, apologise and move on." Everyone knows you screwed up, and you look like a fool if you are trying to make up stories to shift blame. I called it "storyitus." Last January, one of the youth, now a young man, from the school called me and said that this was the single best piece of advice he ever got. He shared stories of his errors and his honesty, which made him the apple of his wife's eye and one of the most trusted employees in his firm—a brief example of the rewards of giving.

When giving goes beyond donating one's time to donating money, the choices are between donating to an existing organisation or starting your own. The due diligence and standard of care for each have some commonality and some differences.

Whether donating to an existing organisation or founding your own charity, it is about purpose and impact. The organisation's mission requires a clear message of the change they wish to bring about. How will the impacts be felt, and how can the impact be measured? A mission statement of "Bring about peace and harmony" is a nice idea but nearly impossible to measure. "The reduction of illiteracy" is much more measurable. An imprecise mission inevitably leads to the waste of funds on the organisation's leadership, engaging in "mission explorations." Either the organisation knows what it is, or it does not. A successful organisation is all about change and its impact. The change and impact are tied to data collection, aggregation, analysis, and the reporting of their impact to donors and their community on how they have invested the donations.

Three ratios are crucial in understanding the organisation's efficiency in the application of the donor's money. These ratios are key to the benchmarking of the organisation's ability.

1. The charitable commitment statistic calculates how much of the total expense went directly to the charitable purpose as opposed to management, certain overheads, and fundraising. *(Mature charities average 80 per cent of monies collected applied to the mission. Some are as high as the high 90s, and we have seen some as low as 15 per cent. In the beginning, charities spend more on administration and overheads and thus will have a low percentage. However, a mature organisation with a low percent is failing on fundraising or has a large endowment; thus, there is no need to raise funds, they are failing, or just donation wasters.)*
2. The fundraising efficiency ratio shows the amount of contributions left after subtracting the cost of soliciting the donations. In short, how many ¢s do they have to spend to get a $, €, or £? *(This is simply a measure of how much some of the charities spend to raise money. Some charity store operations run at around 95 per cent, others such as those who use media to advertise can be as low as 15 per cent.)*
3. The donor dependency figure measures the organisation's dependency on donor contributions to break even. In calculating the donor dependency, subtract the annual surplus or deficit from gifts and then divide this figure by the gifts. The higher the percentage, the more the charity needs the donations. *(This is a measure of the source of funds to continue operating. Some charities are nearly 100 per cent donor-dependent and have to raise funds continuously. Others have a sufficient corpus of assets to generate revenue through investing the organisation's assets. An example of the latter is the Hershey Trust Company that owns a significant stake the famous Hershey Foods Corporation and possesses a net worth of US$1.7 billion as of 2019.)*

When considering a donation, take your time to see what the organisation has been doing and how successful they have been. Is it measuring its charitable activities against the impacts and the desired change? Has it stayed focus and not engaged in mission wobble or mission creep? Are the

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principles open to your queries and have the facts either published or readily at hand? If you cannot get good solid answers to all of these questions and access to ratios, it may be time to pass.

Conditional giving is also a choice. A donation to a specific charity for a specific purpose, such as books for a reading programme or a gift to retrofit a hospital ship is a way to ensure your funds go where you want them to go. When engaged in conditional donation, the donor has the full right and, arguably, the responsibility to oversee the application of the funds.

Establishing A Charity

Establishing your own charitable organisation is a major undertaking. You are designing a vessel for your funds and possible others that are to continue on in perpetuity supporting your cause. The March Of Dimes was set up to cure polio and was successful. The mission has since changed a few times, from reducing childhood diseases to now supporting healthy mothers for healthy infants. They have been so successful at achieving their goals the mission changed to adapt to their impact successes.

How do you design the architecture for the organisation? I suggest working backwards in conducting the assessment. Where can your missions' impact be felt and measured? Look at competing ideas and organisations, both public and private. Do the societal views and or laws conflict with your mission? *(For example, some locations do not wish to teach women to read or children to be inoculated.)* I am not suggesting you change your mission, but one must adapt the impact measurement as well as the structure of the organisation to meet the known challenges. The organisation also has to be established with the flexibility to face the evolution of the charitable environment, including changes in laws, societal changes and technology, and stay true to the mission.

Designing for continuity across the decades can have many approaches. A large dais with junior members moving up in leadership and responsibility keeps continuity and reduces the chance for managerial mischief. Conversely, it is hard to get a multi-year commitment for free or even minimal compensation. One can design a smaller board with outside third party reporting such as audits and legal, but how do you address mischief if found? The management can be set up with a Board of Oversight that can only remove officers but cannot choose or be a replacement. There are many strategies. Specific choices can only be addressed with the full understanding circumstances of the founding and mission of the organisation.

There are requirements that cannot be ignored. There must be oversight on the mission and reporting of impacts. It cannot be done 100 per cent internally. The review must not only consider the mission but the impacts and be able to speak to those who have benefited from the organisation's work. The review ideally should inquire of any special deals, requests for kickbacks or political donations or required permissions to operate. It is also not uncommon for a large donor to ask for a small percentage of their money back in the form of cash or in-kind expenses. For example, a donor donates US$1 million and requests the charity to rebate, in some fashion, 20 per cent or

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US$200, 000. The donor gets a deduction of US$1 million, saves US$500,000 in taxes, and gets to use the US$200,000 rebate like it was pre-tax money. This is an example of an organisation participating in tax fraud.

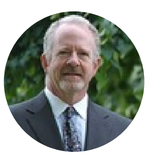
Organisation managers may also engage in the investing of substantial sums of money on behalf of the charity. Often, these individuals are trusted by the donor and may not possess the level of sophistication required. I have seen millions in charity funds invested in schemes one could see from the other side of the globe were very dodgy. So why were the investments made? Was the trust management that gullible? Were they getting a kickback from the investment scheme?

I came across highly irregular and unfortunate investments by one organisation. My tally was a loss of US$20 million in two years. The organisation is dedicated to supporting a religious cause (poorly defined mission) with assets of US$7 billion. The directors' salaries were US$125,000 a year. While this is a nice salary for the average executive, US$7 billion in assets requires sophisticated management. If you pretend to pay people, they will pretend to work for the organisation. So were they gullible or crooked? I think the answer is yes to both.

Charitable organisations are also misused. Some are scams from the onset. Others become scams as a result of poor governance and oversight and the insiders steal the money. Even noble men and women can be tempted. Charitable organisations are increasingly being used for illegal enterprises and money laundering. The application of even the most minor amount of diligence and inquiry, as described, will ferret out the bad actors.

Charity is a noble cause, but a noble cause is insufficient in and of itself for support. With the application of a modicum of due diligence and respectable inquiry, one can be more certain of an organisation's efficacious impact.

ABOUT THE AUTHOR



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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 wining 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.