

**REGISTERED MAIL**

Canadian's Against Child Abuse Society  
Attention: Mr. David Lague  
1646 Southshore Rd.  
Ecum Secum, Nova Scotia  
B0J 2K0

**MAR 21 2005**

BN: 866521982 RR0001  
File #: 3012769

Dear Mr. Lague:

**Re: Audit of Canadian's Against Child Abuse Society for the Year Ending**  
**June 30, 2003**

This letter is further to the audit of the books and records of the Canadian's Against Child Abuse Society (the "Charity") by the Canada Revenue Agency (CRA). The audit related to the operations of the registered charity for the period of January 1, 2001 to December 31, 2003.

The results of this audit indicate that the Charity is in contravention of certain provisions of the *Income Tax Act* (the "Act"). In order for a registered charity to retain its registration, it is required to comply with the provisions of the Act applicable to registered charities. If these provisions are not complied with, the Minister may revoke the Charity's registration in the manner prescribed in section 168 of the Act.

The balance of this letter describes how the CRA considers that the Charity contravenes the *Act*.

**Books & Records**

Pursuant to paragraph 230(2)(a), every registered charity shall keep records and books of account at an address in Canada recorded with the Minister or designated by the Minister containing information in such form as will enable the Minister to determine whether there are any grounds for revocation of its registration under this Act.



The director was unable to provide adequate books and records. In the course of the audit, the following deficiencies were noted:

*Your file Votre référence*

Unreported Income

*Our file Notre référence*

- The total donations have been understated by \$2,611,411 for the 2003 fiscal period. This includes the following:
  - Gifts in Kind (Artwork) were underreported by \$2,359,499.
  - Door to Door fundraising donations were underreported by \$256,689.
  - Telephone fundraising donations underreported by \$45,222.
  - Some of the Charity's funds may have been deposited directly into the Director's personal bank account, as unsupported deposits in that account total \$44,306.

Other Deficiencies

- The numbers in the T3010 return did not match the general ledger.
- The general ledger did not match the receipts and invoices.
- The Charity was not able to provide an accurate listing of donors or of the tax receipts issued.
- Only the donation receipts that reflect the donations of art were provided to the auditor.
- There was no separation of personal expenditures and expenditures related to charitable activities. In sampling the month of January 2003, it was determined that \$9,146.65 of personal expenditures were included in with the Charity's expenditures for that month.
- Withdrawals were not properly supported as to the use of funds.
- The Charity did not keep Minute Books.
- No bank reconciliations were performed.
- The director stated that he did not have any deposits books until later on when the auditor asked the director to answer questions about some deposits, then the director provided a few deposit books.
- The donation of artwork was not appraised by an independent appraiser.
- The T3010 was filled out incorrectly. The donations and expenditures were not all reported. The official donation receipts were not separated from other types of revenues.

Under paragraph 168(1)(b) of the Act, the Minister may, by registered mail, give notice to the Charity that the Minister proposes to revoke its registration because the Charity ceases to comply with the requirements of the Act for its registration as such.

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## **Personal Benefits**

The Charity is registered as a charitable organization. In order to satisfy the definition of a "charitable organization" pursuant to subsection 149.1(1) of the Act, "charitable organization" is defined as, "an organization....no part of the income of which is payable to, or otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settler thereof,".

There was \$9,146.65 of personal expenditures included in the total expenditures of \$25,236.95 for the month of January 2003. These personal expenditures were included as charitable expenditures. Inferring from this and making a few adjustments to ensure the numbers would be more reasonable, this would indicate that approximately \$75,269 of personal expenditures were included in with the expenditures of the charity for the 2003 fiscal year.

The auditor also determined that there was \$44,306 of unexplained deposits into Mr. Lague's personal bank account. Mr. Lague had no support to back up what those deposits were for, but gave a verbal explanation for some of them. In his letter, he provided written explanations to \$39,800 and stated "and the rest would be honorarium which the business paid. If you feel that taxes should have been paid on the \$4,506 then I will be more than happy to include this figure in my return for this year, in addition to what we already claim." Therefore, assuming support could be provided, there was at minimum \$4,506 that was used by Mr. Lague for personal benefit.

This would indicate in total that approximately between \$80,130 (if support were provided) and \$119,930 (with no support) of personal expenditures were incurred by the director, David Lague, and paid for by the Charity.

Under paragraph 168(1)(b) of the Act, the Minister may, by registered mail, give notice to the Charity that the Minister proposes to revoke its registration because the Charity ceases to comply with the requirements of the Act for its registration as such.

## **Devotion of Resources to Charitable Activities**

The Charity is registered as a charitable organization. In order to satisfy the definition of a "charitable organization" pursuant to subsection 149.1(1) of the Act, "charitable organization" means an organization.... All the resources of which are devoted to charitable activities".

Our review and analysis of the reported amounts show that only 4.5% of total disbursements in 2003 (see below) were used by the Charity for charitable purposes.

<u>Expense</u>	<u>Total Expenses</u>	<u>Charitable Expenditures</u>	<u>Percentage expended on Charitable Activities</u>
Fundraising-Door to Door	293,384	0	
Fundraising-Telephone	234,136	0	
Personal	75,269	0	
Charitable	29,658	29,658	
Administrative	30,807	0	
<b>Total Expenditures</b>	<b>663,254</b>	<b>29,658</b>	<b>4.5%</b>

In looking at the assets, there are only minimal assets being used indirectly for charitable purposes. There is a total of \$8,917,811 of assets reported by the Charity: \$8,896,566 represents artwork, \$23,323 represents items such as furniture and leasehold improvements which may possibly be considered partially related to charitable activities.

This low ratio of expenditures disbursed for charitable purposes and the low amount of assets that are used for charitable purposes appears to indicate that the Charity is not devoting all its resources to "charitable purposes".

The Charity does not meet the definition of a "charitable organization" according to subsection 149.1(1) of the *Act* as not all of its resources are devoted to charitable activities. The Minister may therefore, in the manner described in section 168 of the *Act*, revoke the registration of the Charity.

### Official Donation Receipts

The audit reveals that the donation receipts issued by the Foundation do not comply with the requirements of Regulation 3501 of the *Act* and IT-110R3 as follows:

- The donation receipts did not all have serial numbers.
- The donation of artwork was not appraised by an independent appraiser.

- Not all the donation receipts were provided to the auditor. Each receipt must be prepared at least in duplicate and the Foundation is required to keep on file a copy of every official receipt issued with the signature of the authorized person.

Under paragraph 168(1)(d) of the Act, the Minister may give notice that the Foundation's registration may be revoked if it issues a receipt otherwise than in accordance with the Act and the Regulations.

### **Disbursement Quota**

In order to maintain its status as a charitable organization within the meaning of paragraph 149.1(2)(b) of the Act, a registered charity must, in any taxation year, expend amounts that are equal to at least 80% of the aggregate amounts for which it issued donation receipts in its immediately preceding taxation year. A charity is allowed by virtue of 149.1(20) of the Act to offset any shortfalls in its disbursement quota by applying any excesses in its disbursement quota from its immediately preceding taxation year and 5 or less of its immediately subsequent taxation years.

Also, pursuant to paragraph 230(2)(a), every registered charity shall keep records and books of account at an address in Canada recorded with the Minister or designated by the Minister containing information in such form as will enable the Minister to determine whether there are any grounds for revocation of its registration under this Act.

In considering the application of expenditures used to meet the disbursement quota a charity must ensure that it is expensed directly on charitable activities and/or programs. This would include such payments as salaries to persons performing duties directly related to a charitable program, but would not include amounts paid for purely administrative expenses such as fund-raising costs, legal or accounting fees and the like.

In order to determine the disbursement quota, one needs to ascertain the total donations where donation receipts were issued and also determine the disbursements on charitable activities. In this situation, it was not possible to determine whether the Charity met the disbursement quota due to the following factors:

- The books and records of the Charity were inadequate.
- There was no complete listing for the donation receipts that were issued by the charity.

- The listing that we received did not contain any sequenced numbers that would help in matching the donation receipts to the ledger.
- Revenues in 2003 were underreported in the financial statements and T3010 return.
- Expenditures in 2003 were also underreported in the financial statements.
- Expenditures in 2003 contained significant personal or unsupported expenditures.

We were not able to determine the total donation receipts that were issued. The expenditures that were incurred also cannot be determined.

We therefore cannot determine whether the Charity met its disbursement quota. The Charity failed to "keep records and books of account ... containing information in such form as will enable the Minister to determine whether there are any grounds for revocation of its registration under this Act".

Under paragraph 168(1)(b) of the *Act*, the Minister may, by registered mail, give notice to the Charity that the Minister proposes to revoke its registration because the Charity ceases to comply with the requirements of the *Act* for its registration as such.

### **Information Return (Form T3010)**

The Charity improperly completed the Information Return for the fiscal period ending December 31, 2000 in that many items reported were incorrectly identified or omitted. Specifically the following items:

- Line 2710 – When asked whether there were incentives paid to contracted fundraisers, the NO box was checked, whereas the YES box should have been.
- Line 3000 – When asked whether the Charity received artwork, the NO box was checked, whereas the YES box should have been.
- Line 3600 – The number of permanent, full-time, compensated positions was not filled in, the number two should have been entered as both Holly Lague & David Lague worked full-time for the Charity and both received compensation.
- Line 3700 – The number of permanent, full-time, compensated positions that received between this salary range should have been entered as two.
- Line 4500 - The total of tax receipted donations should have been included on this line, whereas only part of this was reported on another line.
- Line 4630 – The total revenue from fundraising was not complete. It was underreported.

- Line 4880 – The expenditures for salaries, wages, benefits and honoraria was understated.
- Line 5000 – The charitable programs expenditures included amounts that were for personal expenditures and for administrative expenditures. Only expenditures directly related to charitable programs should be entered on this line.
- Line 5020 – Not all the fundraising expenditures were claimed on this line.
- Line 5450 – The gross revenues collected by the fundraisers should have been entered on this line.
- Line 5460 – The amounts paid to / retained by the fundraiser should have been entered on this line.
- Line 5470 – The net fundraising revenue should have been included.
- Line 5600 – The total amount of non-cash gifts should have been included. The artwork was not included.
- Line 5620 – The artwork was a ten year gift and therefore should have been reported on this line.
- Line 6060 – The total average value of investment property (the artwork) 24 months before the end of the fiscal period (December 31, 2001) should have been the total amount of the artwork that was donated in 2001.
- Directors / Trustees Worksheet – The worksheet was not filled out correctly. The following fields were not filled out:
  - First name
  - Initial
  - Date of Birth
  - Street number and name
  - City
  - Province / Territory
  - Telephone number
  - Arm's length or not

Pursuant to subsection 149.1(14) of the Act, every registered charity must, within six months from the end of the Charity's fiscal period (taxation year), without notice or demand, file with the Minister both an information return and a public information return for the year, each in prescribed form and containing prescribed information.

It is the responsibility of the Charity to ensure that the information that is provided in its Return, schedules and statements, is factual and complete in every respect. A charity is not meeting its requirement to file an Information Return if it fails to exercise due care with respect to ensuring the accuracy thereof.

Under paragraph 168(1)(c) of the *Act*, the Minister may, by registered mail, give notice to the Charity that the Minister proposes to revoke its registration because the Charity fails to file an Information Return as and when required under the *Act* or a regulation.

### **Remuneration and Benefits Reporting**

Regulation 200(2) of the *Act* requires that where an amount has been paid that is required to be included in determining a taxpayer's income from an office or employment, an information slip in respect of such payment shall be issued to that individual or contractor.

No T4 / T4A slips were issued for the amount of "honorarium" provided to David Lague even though he admitted to having received \$4,506 in the form of an honorarium.

In the future a T4 / T4A slip in respect of such payment should be issued for any payments to an employee / director.

### **Conclusion**

For each of the reasons listed above, it appears that there are grounds to revoke the Charity's status as a registered charity. The consequences to a registered charity of losing its registration include:

- 1) The loss of its tax exempt status as a registered charity which means that the Charity would become a taxable entity under Part I of the *Act*
- 2) Loss of the right to issue official donation receipts for income tax purposes which means that gifts made to the Charity would not be allowable as a tax credit to individual donors as provided at subsection 118.1(3) of the *Act* or as a deduction allowable to corporate donors under paragraph 110.1(1)(a) of the *Act*; and
- 3) The possibility of a tax payable under Part V, subsection 188(1) of the *Act*.

For your reference, we have attached a copy of the relevant provisions of the *Act* concerning revocation of registration and the tax applicable to revoked charities as well as appeals against revocation.

If you do not agree with the facts outlined above, or if you wish to present any reasons why CRA should not revoke the registration of Canadian's Against Child Abuse Society in accordance with subsection 168(2) of the Act, we invite you to submit your representations **within 30 days from the date of this letter**. Subsequent to that date, the Director General of the Charities Directorate will decide whether or not to proceed with the issuance of a notice of intention to revoke the registration of the Canadian's Against Child Abuse Society in the manner described in subsection 168(1) of the Act.

If you appoint a third party to represent you in this matter, please send us written authorization naming the individual and explicitly authorizing that individual to discuss your foundation's file with us.

If you have any questions or require further information or clarification, the undersigned can be reached by phone [REDACTED] or fax [REDACTED].

Sincerely,

David Dougherty  
Audit Advisor  
Charities Directorate  
320 Queen Street, Tower A  
Ottawa, Ontario  
K1A 0L5  
Telephone : [REDACTED]  
Fax : [REDACTED]  
Internet: [www.cra-arc.gc.ca/charities/](http://www.cra-arc.gc.ca/charities/)



**BY REGISTERED MAIL**

September 19, 2005

Canadian's Against Child Abuse Society  
Attention: Mr. David Lague  
1646 Southshore Rd.  
Ecum Secum, Nova Scotia B0J 2K0

BN: 866521982 RR0001  
File #: 3012769

**SUBJECT: Notice of Intent to Revoke**  
**Canadian's Against Child Abuse Society**

Dear Mr. Lague:

I am writing to you further to our letter dated March 21, 2005 (copy enclosed), in which you were invited to submit representations to us as to why the *Minister of National Revenue* should not revoke the registration of Canadian's Against Child Abuse Society (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "Act").

We have reviewed your written responses of March 29, 2005; you will find our comments in Appendix "A" attached.

Our view remains unchanged in light of this information and I wish to advise you that pursuant to the authority granted to the minister in subsection 168(1) of the Act and delegated to me in subsection 900(8) of the *Regulations to the Act*, I propose to revoke the registration of Canadian's Against Child Abuse Society. By virtue of subsection 168(2) of the Act, the revocation will be effective on the date of publication in the *Canada Gazette* of the following notice:

*Notice is hereby given, pursuant to paragraphs 168(1)(b), 168(1)(d) and 168(1)(e) of the Income Tax Act, that I propose to revoke the registration of the organization listed below and that the revocation of registration is effective on the date of publication of this notice.*

File Number	Business Number	Name
0952101	86652 1982RR0001	Canadian's Against Child Abuse Society Ecum Secum, Nova Scotia

.../2

Should you wish to appeal this notice of intention to revoke the charity's registration, you must file an objection. To file an objection, you must submit a written document setting out the reasons for the objection and the relevant facts. This must be filed within 90 days from the date of the present letter and sent to:

Assistant Commissioner  
Appeals Branch  
25 Nicholas Street  
Ottawa, ON K1A 0L5

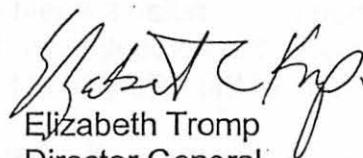
### **Consequences of a Revocation**

As of the date of revocation of the registration of Canadian's Against Child Abuse Society, which is the date upon which the above-noted notice is published in the *Canada Gazette*, Canadian's Against Child Abuse Society will no longer be exempt from Part I Tax as a registered charity and **will no longer be permitted to issue official donation receipts.**

Additionally, Canadian's Against Child Abuse Society may be subject to tax pursuant to Part V, section 188 of the *Act*. For your reference, I have attached a copy of the relevant provisions of the *Act* concerning revocation of registration and the tax applicable to revoked charities as well as appeals against revocation in Appendix "1".

I wish to advise you that pursuant to subsection 150(1) of the *Act*, a return of income for each taxation year in the case of a corporation (other than a corporation that was a registered charity throughout the year) shall without notice or demand therefore, be filed with the minister in prescribed form containing prescribed information.

Yours sincerely,



Elizabeth Tromp  
Director General  
Charities Directorate

Attachments

**Canadian's Against Child Abuse Society  
Comments on your written responses of March 29, 2005**

**Books and Records**

Pursuant to paragraph 230(2)(a) of the Act, every registered charity shall keep records and books of account at an address in Canada recorded with the minister or designated by the minister containing information in such form as will enable the minister to determine whether there are any grounds for revocation of its registration under this Act.

The Director was unable to provide adequate books and records. In the course of the audit, the following deficiencies were noted:

**Unreported Income**

**Audit Findings**

The total donations have been understated by \$2,661,410 for the 2003 fiscal period. This included the following:

- Gifts in kind (Artwork) were underreported by \$2,359,499.
- Door-to-door fundraising donations were underreported by \$256,689.
- Telephone fundraising donations were underreported by \$45,222.
- There was insufficient control over deposits. Unsupported deposits were made to one of the director's personal bank accounts. These amounts totalled \$44,306. The Director did not provide support for the deposits, but verbally explained deposits amounting to \$39,800 (which do not necessarily match with individual deposits). The Director stated that \$4,506 would be honorarium.

Please refer to **Appendix "B"** for the schedule outlining the revenues.

**Representations**

The representations stated that the unreported income was an error by "an ex-auditor of Revenue Canada" and that the Director was "confident that they could do the job properly".

**COMMENTS:** During the initial interview, it was mentioned that the brother-in-law of the Director that we performed the interview with had prepared the returns for the Charity. The Director had also mentioned that he himself was a "finance major". It should have

been evident to him that his revenues were being underreported since total donations were \$3,027,372. This is significantly greater than the amount reported of \$365,961. The breakout of this amount is as follows:

<i>Gifts in kind</i>	\$ 2,359,499
<i>Receipts for donors who called in</i>	\$ 10,367
<i>Total fundraising donations</i>	\$ 657,505

*(\$376,133 from [REDACTED] the fundraising company that performed door-to-door solicitation for the Charity + \$281,372 raised by [REDACTED] the fundraising company that performed telemarketing.)*

The representations stated that no funds belonging to the Charity were ever deposited into the Director's personal accounts.

**COMMENTS:** *This has not been verified. The individual deposits to the accounts have not yet been identified and supported as requested.*

### **Other Deficiencies**

#### **Audit Findings**

- The numbers in the T3010 return did not match the general ledger.
- The general ledger did not match the receipts and invoices.
- The Charity was not able to provide an accurate listing of donors or of the tax receipts issued.
- Only the donation receipts that reflected the donations of art were provided to the Auditor.
- There was no separation of personal expenditures and expenditures related to charitable activities. In sampling the month of January 2003, it was determined that \$9,146.65 of personal expenditures were included in with the Charity's expenditures for the month.
- Withdrawals were not properly supported as to the use of funds.
- The Charity did not keep Minute Books.
- No bank reconciliations were performed.
- The Director had initially stated that he did not have any deposit books; however, subsequently, when the Auditor asked questions about some deposits, he provided a few deposit books.
- The donation of artwork was not appraised by an independent appraiser.
- The T3010 was completed incorrectly.
- The donations and expenditures were not all reported and the expenditures claimed had included personal expenditures.
- The official donation receipts were not separated from other types of revenues.

### Representations

The representations stated that the ledger showed the expenses that were paid and that these can be matched up to the bills, which were kept, and the receipts, which were in the folder entitled business receipts.

**COMMENTS:** *The ledger accounts were inaccurate. While it was true that most of these expenditures can be found by working back from the ledger to the bank statement / credit card statements to the receipt, the ledger account was not complete and could not always substantiate the purpose of the expenditures. Some of the expenditures claimed were instant teller withdrawals and were labelled only "programs", "support", "miscellaneous", "travel", "President Expenses", "postage" or not labelled at all.*

*As noted previously, personal expenditures were combined with the charitable expenditures. The revenues were not complete and were hard to reconcile. Not only were some revenues not reported, but the books did not separate and record deposits from each separate source.*

*There was no listing of total receipts from non-tax-receipted sources nor from tax-receipted sources. However, there was a listing of donation receipts which amounted to \$13,399 for 2003. This listing was not complete because it did not include all the donations for which donation receipts had been issued and at a minimum, it did not include the donation receipts for the gifts of artwork.*

The Director had agreed in his representations, that personal expenditures were not segregated from "business expenditures", but did not agree with the amount of these personal expenditures that the Auditor stated had been claimed.

**COMMENTS:** *There were significant amounts of personal expenditures included in the charity's T3010 return. For analysis of the figures, please refer to the following section entitled "Non-Charitable Expenditures"*

The Director agreed that the withdrawals were not being properly supported and indicated that this issue was being addressed along with the performance of bank reconciliations. The Director stated that he never claimed he did not have deposit books.

**COMMENTS:** *When the Auditor had initially asked for the deposit books and bank statements, the Director only provided the Auditor with the bank statements. Subsequently, the Auditor asked for the deposit books. At that time, the Director stated that was all the banking records that he had.*

The Director stated that the artwork was appraised by two independent appraisers and that their reports "clearly state that they have nothing to do with [REDACTED] (the promoter of the donation of art program) or this charity."

**COMMENTS:** *It cannot however be sure that these appraisers are independent since they are appraisals that were provided by the promoter of the art donation schemes. The fact that the appraisers include the statement that they are independent does not necessarily make them so.*

The Director admitted that the T3010 was improperly completed and stated that more caution will be adhered to in the future.

Under paragraph 168(1)(e) of the *Act*, the minister may, by registered mail, give notice to the Charity that the minister proposes to revoke its registration because the Charity failed to comply with or contravened any of sections 230 to 231.5.

### **Non-Charitable Expenditures**

The Charity is registered as a charitable organization. In order to satisfy the definition of a "charitable organization" pursuant to subsection 149.1(1) of the *Act*, "charitable organization" is defined as, "an organization....no part of the income of which is payable to, or otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settler thereof".

### **Audit Findings**

During the audit, it was determined that \$9,146.65 of personal expenditures were included in the total expenditures of \$25,236.95 for the month of January 2003. These personal expenditures were included as charitable expenditures in the Charity's books and records. For purposes of determining the amount of money spent on charitable activities, the Auditor inferred from this, and made a few adjustments to ensure the numbers would be more reasonable, that if this trend was continued, approximately \$75,269 of personal expenditures would be included in with the expenditures of the Charity for the 2003 fiscal year.

The Auditor had found \$44,306 of unexplained deposits into one of the director's personal bank accounts. No support was provided for these deposits, but the Director gave a verbal explanation for some of these items. In his letter, he provided written explanations for \$39,800 and stated "*and the rest would be honorarium which the business paid. If you feel that taxes should have been paid on the \$4,506 then I will be more than happy to include this figure in my return for this year, in addition to what we already claim.*" Therefore, assuming support could be provided, there was at minimum \$4,506 that was used by the Director for personal benefit.

### **Representations**

The Director stated that the only reason he conceded the receipt of \$4,506 in honorariums is that he received honorariums which he personally deposited to his account and that they are listed on the income statements.

**COMMENTS:** *This amount cannot be found on the income statement.*

The Director, in his representations, states that he does not agree that \$9,146.65 of personal expenditures were paid for by the Charity in the month of January. He also does not agree with the Auditor's estimate that personal expenditures totalling \$75,269 in 2003 were expensed in the books of the Charity. The Director stated the origin of the money that was deposited into the Director's personal bank account was explained to the Auditor. He also stated that the Director does not keep every deposit slip. The Director also stated that there are surely deposits that he cannot remember.

**Analysis**

- Originally the Auditor determined that \$9,146 was spent on personal expenditures for January 2003. The Auditor removed some expenses that appeared higher for the month when compared to other months. He then inferred that approximately \$75,269 would have been spent for the full year on personal expenditures. Since the Charity disagreed with the amounts, the Auditor performed an analysis of the whole year.
- In our analysis, we did not consider fundraising and salary expenditures since it is unlikely that those would include personal expenditures. The (Office) telephone expenses account (\$7,051) could include some personal expenditures, but we have decided that the personal expenditures included in this account would roughly be offset by the expenses for performing charitable activities incurred on the cell phone. Most of the work for the Charity is being done from the home of two of the directors. The toll free number is also located at these directors' home. We have therefore decided to not include the (office) telephone expense account in the analysis.
- In re-analyzing the amount of total expenditures, it was determined that there was \$87,887 of expenditures other than those mentioned above that were paid in 2003 either through the bank or with the Charity's mastercard. The breakout of the expenditures is as follows:

Type of Expenditure	Total Amounts
<b>Auto</b> - 100% of the following: Gas, insurance, auto painting, wiper blades, auto repairs	\$ 5,573.07
<b>Inn</b> - 12 Newcastle, NB; Others: Whitby, London, Kingston, Halifax, Quebec, Anchorage – NB, Hampton-RI, St. Augustine-Fl, Orlando-Fl, Tampa-Fl, NY, VA, NC	\$ 7,857.52

Pets, Pharmacy, Alcohol & Groceries	\$ 2,628.35
Sports Equip. & Other Shopping	\$ 6,289.04
Toolbox, TV Stand, Helmet, knife sharpener, sweaters	
Travel	\$ 7,993.19
- Car rentals,	
Entertainment	\$ 6,446.35
var. Computer software, , var.	
restaurants,	
Flowers, Clothes & Jewellery	\$ 1,946.33
Household Expenses	\$ 4,439.36
- Lamp, padlock, weed/feed, windchime, oil-home, Maintenance	
Unsupported Bank Withdrawals	\$ 9,087.45
- Automated Bank Machine(ABM), other withdrawals	
Cell Phone	\$ 2,690.29
- The calls on the cell phone are considered personal, whereas the calls on the home office telephone will be considered for charitable use.	
Home Improvements	\$ 4,069.74
Other improvements	
Other / Unsure	\$ 9,210.05
- Insurance, Miscellaneous, Other	
Mortgage	\$ 13,533.90
100% of the mortgage for the house, but they use at most $\frac{1}{4}$ of the unfinished basement in their bungalow, therefore we would consider that a rental cost of $\frac{1}{8}$ of the mortgage costs would be more than fair	

Office - [REDACTED]	\$ 5,599.44
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Items the Auditor was certain were used for Charitable Purposes (other than allocation of home & vehicle expenses)	\$ 523.15
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- locker rental for the art that was donated, Internet

\$ 87,887.22
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Rounded to nearest dollar \$ 87,887

A review of the above expenses indicates a significant amount of expenses that consist of a personal benefit to some of the directors. Examples of some personal benefits are as follows:

**Auto** - the Director used his vehicle part of the time for the running of the charity, but claimed 100% of the vehicle costs. Considering he performs most of his charitable work from home, this allocation is not reasonable. The Director could not support this allocation of vehicle costs spent on performing the work of the Charity.

**Inn** – A large portion of the amount spent on inns by the Director does not appear to be for charitable purposes as the Director stated that he had only gone to the places where the fundraising occurs 3-4 times a year to check up on the fundraisers. The Director stated that they did not attend the picnics. The Director's trip around the USA during the summer would also appear to not be for charitable purposes as the charity does not perform work outside of Canada (as per the T3010A for the 2003 fiscal period, lines 2100, 2110, 2120 & 2140). It is therefore reasonable that the director may do some travelling, but this director would not have gone through the US. The amount spent on actual travel for charitable purposes is not evident. The inns where the directors stayed during the travels to the US and most likely some of the inns they stayed at in Canada would be personal expenditures.

**Pets, Pharmacy, Alcohol & Groceries** - While the Teddy Bear picnics may require some food being purchased, the Director stated that the fundraising companies organized and purchased supplies for these picnics held by the Charity and that the directors did not attend them. The periods where the grocery shopping was done were not the same as the periods when the Teddy Bear picnics were being held.

**Sports Equip & Other Shopping** – The items under this category are clearly personal expenditures.

**Travel** - The amount spent on travel for a trip around the USA during the summer does not appear to be for charitable purposes as the Director stated that he had only gone to the places where the fundraising occurs 3 - 4 times a year and did not attend the picnics. The Charity also does not perform work outside of Canada. It is therefore reasonable that the director may do some travelling, but this director would not have gone through the US. The amount spent on actual travel for charitable purposes is not evident.

**Entertainment** – These are obviously personal expenditures.

**Flowers, Clothes & Jewellery** - These are obviously personal expenditures.

**Household Expenses** - A lot of these expenses are personal and a percentage of the [REDACTED] bills could be allowed in the same portion as the rent (1/8) following the business-use of home guidelines.

**Unsupported Bank Withdrawals** - These withdrawals have no support and therefore cannot be seen to be expenses for charitable purposes.

**Cell Phone** - The Charity claimed 100% of the Director's cell phone and home telephone costs for Charity purposes. It is unreasonable that the directors would not make any personal telephone calls. Since the Charity operates mostly from home and the toll free number goes to the home, there would not be much need for a cell phone for the Charity. The directors' personal telephone calls are included in with the Charity's regular telephone bills, which was also claimed at 100% by the Charity. This amount would most likely offset any use of the cell phone for charitable purpose. Therefore we will allocate the total (office) telephone expenses as being for charitable purposes and the total cell phone expenses being non-charitable.

**Home Improvements** - These are personal expenditures and not related to the Charity.

**Other/Unsure** - These are items that we could not identify what they were used for.

**Mortgage/Rent** - The Charity paid one director 100% of his mortgage costs as rent. The Auditor had determined that approximately 1/8 of the mortgage payments could be considered as a reasonable amount for rent since the Director used at most that percentage of his home for the work of the Charity.

**Office-Staples** - We were not able to determine the nature of these expenditures. The amounts spent at [REDACTED] would likely have some expenditures that would be used for running the Charity, but considering the amount of personal expenditures included in the other expenditures, it is likely that there are also some personal expenditures mixed in.

Under paragraph 168(1)(b) of the *Act*, the minister may, by registered mail, give notice to the Charity that the minister proposes to revoke its registration because the Charity ceases to comply with the requirements of the *Act* for its registration as such.

#### **Devotion of Resources to Charitable Activities**

The Charity is registered as a charitable organization. Pursuant to subsection 149.1(1) of the *Act*, "charitable organization" means an organization ... all the resources of which are devoted to charitable activities".

## Audit Findings

Our initial review and analysis of the reported amounts showed that only 4.5% of total disbursements in 2003 were used by the Charity for charitable purposes.

Please refer to **Appendix "B"** for the schedule outlining the expenses.

In reviewing the assets, there were only minimal assets being used, although only indirectly, for charitable purposes. There is a total of \$8,917,811 of assets reported by the Charity. Of this, \$8,896,566 represented artwork, \$23,323 represented items such as furniture and leasehold improvements.

This low ratio of expenditures disbursed for charitable purposes and the low amount of assets that are used for charitable purposes appears to indicate that the Charity is not devoting all its resources to "charitable purposes".

## Representations

Under this topic, the representations discuss the disbursement quota, which is different than the devotion of resources issue. The disbursement quota is discussed later on.

## Analysis

The majority of the expenses of the Charity are being spent on fundraising, personal expenditures, and administrative expenditures and not on charitable activities. This does not meet the definition of a "charitable organization" under subsection 149.1(1) of the Act, where "all the resources of which are devoted to charitable activities".

As stated earlier, we determined that approximately 4.5% of disbursements in 2003 were spent on charitable activities. Since we re-examined the expenses spent on non-charitable activities to show support to the figures that the Auditor claimed were expensed by the Charity on personal expenditures (under the section "Non-Charitable Activities"), we had to re-examine our earlier evaluation of devotion of resources.

Please refer to **Appendix "C"** for the breakout of the expenses that were reviewed.

The minimum amount of the expenditures that would be considered to be expended for non-charitable purposes would be \$45,000. Approximately \$40,673 would have a mix of charitable and non-charitable. Even though no support was provided to substantiate that more of these expenditures were for charitable purposes, for the purpose of our analysis, we used the minimum of \$45,000 in our calculation. We then classified the balance of the expenditures that the Auditor had previously claimed to be personal expenditures as charitable activities ( $\$76,369 - \$45,000 = \$31,369$ ). With these adjustments, the percentage devoted to charitable resources rose from 4.5% to 9.2% as shown below:

Expense	Total Expenses	Charitable Expenditures	% Expended on Charitable Activities
Fundraising – Door-to-Door	\$293,384	0	
Fundraising - Telephone	\$234,136	0	
Personal	\$ 45,000	0	
Charitable *B* - (Appendix "B")	\$ 61,027	\$ 61,027	
Administrative	\$ 30,807	0	
<b>Total Expenditures</b>	<b>\$663,254</b>	<b>\$ 61,027</b>	<b>9.2%</b>

Using these assumptions and the figure determined originally, we could reasonably conclude that only 4.5% to 9.2% of expenditures are devoted to charitable activities. The Charity is therefore not devoting its resources to charitable activities.

The Charity does not meet the definition of a "charitable organization" according to subsection 149.1(1) of the *Act* as not all of its resources are devoted to charitable activities. The minister may therefore, in the manner described in section 168 of *the Act*, revoke the registration of the Charity.

### **Official Donation Receipts**

#### **Audit Findings**

The audit revealed that the donation receipts issued by the Charity do not comply with the requirements of *Regulation 3501* of the *Act* and IT-110R32 as follows:

- The donation receipts did not all have serial numbers.
- The donation of artwork was not appraised by an independent appraiser.
- Not all the donation receipts were provided to the Auditor. Each receipt must be prepared at least in duplicate and the Charity is required to keep on file a copy of every official receipt issued with the signature of the authorized person.

#### **Representations**

The Director responded by stating the following:

1. The receipts do comply with the *Regulations*. They are numbered and signed by the President. They are contained in a program which is used for tracking them and are included in a box that was provided to the auditors.

**COMMENTS:** *Although the Charity does have a program for donation receipts, not all the donation receipts were recorded in this program. The donation receipts for the 2003 fiscal year end that were in the program totalled \$13,339.42. This amount is significantly less than the total donation receipts that were issued. Therefore, it can be reasonably concluded that not all the receipts were recorded in the program. At most, it is possible*

*that only the donation receipts issued to donors of cash as opposed to art were included. But considering the total per donation program was \$13,399.42, and the donations of cash totalled \$667,872 (\$657,505 + \$10,367), it would seem unlikely that donors who donated this amount of money would not request a donation receipt. None of the listings provided had included any donation receipt numbers. When asked about getting a list of all of the donations the Charity received, the Director had said that it would be impossible to get that for the Auditor.*

2. All our receipts are prepared in duplicate and the organization does keep a copy.

**COMMENTS:** *Not all the invoices were provided in the box when it was originally requested. It is true that the Director had stated that we could review the receipts in the book when the Auditor returned to the Director's house for the second time. However, that would have only included receipts for the \$13,399.42. The information would have been hard to verify since there were no numbers on the listing. This amount was also immaterial compared to the rest of the receipts.*

*This could be considered a books and records problem as well as a problem with official donation receipts. The revenues of the Charity were underreported. There was no listing of all the people who donated to the Charity. We could not obtain a listing of all the donation receipts. We therefore could not be sure whether a duplicate donation receipt was kept.*

Under paragraph 168(1)(d) of the *Act*, the minister may give notice that the Charity's registration may be revoked if it issues a receipt otherwise than in accordance with the *Act* and the *Regulations*.

### **Disbursement Quota**

In order to maintain its status as a charitable organization within the meaning of paragraph 149.1(2)(b) of the *Act*, a registered charity must, in any taxation year, expend amounts that are equal to at least 80% of the aggregate amounts for which it issued donation receipts in its immediately preceding taxation year. A charity is allowed by virtue of 149.1(20) of the *Act* to offset any shortfalls in its disbursement quota by applying any excesses in its disbursement quota from its immediately preceding taxation year and five or less of its immediately subsequent taxation years.

Also, pursuant to paragraph 230(2)(a), every registered charity shall keep records and books of account at an address in Canada recorded with the minister or designated by the minister containing information in such form as will enable the minister to determine whether there are any grounds for revocation of its registration under this *Act*.

### **Audit Analysis**

In considering the application of expenditures used to meet the disbursement quota, a charity must ensure that they are expensed directly on charitable activities and/or

programs. This would include such payments as salaries to persons performing duties directly related to a charitable program, but would not include amounts paid for purely administrative expenses such as fundraising costs, legal or accounting fees and the like.

In order to determine the disbursement quota, one needs to ascertain the total donations where donation receipts were issued and also determine the disbursements on charitable activities. In this situation, it was not possible to determine whether the Charity met its disbursement quota due to the following factors:

- The books and records of the Charity were inadequate.
- There was no complete listing of the donation receipts that were issued by the Charity.
- The listing that we received did not contain any sequenced numbers that would help in matching the donation receipts to the ledger.
- Revenues in 2003 were underreported in the financial statements and T3010 return.
- Expenditures in 2003 were also underreported in the financial statements.
- Expenditures in 2003 contained significant personal or unsupported expenditures.

We were not able to determine the total donation receipts that were issued nor were we able to determine the total expenditures that were incurred.

We had therefore concluded that we could not determine whether the Charity met its disbursement quota. The Charity failed to "keep records and books of account ... containing information in such form as will enable the minister to determine whether there are any grounds for revocation of its registration under this Act".

### Representations

The Director informed us, in his representations, that he used "Simply Accounting Pro" to produce the books for the Charity. He stated that the Charity has a complete list of every donation receipt issued.

**COMMENTS:** *Due to the fact that the revenues were understated, the donations made were not recorded and the listing of donation receipts issued was incomplete, there was no method of verifying the total donation receipts issued.*

*No list was provided with the representations.*

The Director stated that the receipts the Auditor is referring to were temporary door-to-door receipts and have nothing to do with the ledger.

**COMMENTS:** *In order to determine whether the revenues are complete, we have to be able to reconcile them. Since the Director has no information on the total donations made, this reconciliation would be very difficult. The revenues also were not complete, the books and records did not balance with the amounts on the T3010 or with the amounts of the receipts.*

The Director also stated that "*the expenditures of the charity were not under reported and they do not contain significant personal expense.*" He did admit that there were some small personal expenses, but that this will not recur. He stated that every expense this charity paid was located in the files and available to the Auditor.

**COMMENTS:** *The fundraising revenues and expenditures have both been underreported. The expenditures claimed by the charity included many personal expenditures and also expenditures that were unsupported. It is therefore hard to determine which expenditures were for charitable purposes, which were for administration and which were for fundraising. A breakout of the expenditures can be found under the section "Non-Charitable Expenditures".*

Under paragraph 168(1)(b) of the Act, the minister may, by registered mail, give notice to the Charity that the minister proposes to revoke its registration because the Charity ceases to comply with the requirements of the Act for its registration as such.

#### **Information Return (form T3010A)**

Pursuant to subsection 149.1(14) of the Act, every registered charity must, within six months from the end of the Charity's fiscal period (taxation year), without notice or demand, file with the minister both an information return and a public information return for the year, each in prescribed form and containing prescribed information.

#### **Audit Findings**

The Charity improperly completed the Information Return for the fiscal period ending December 31, 2003. Many items reported were incorrectly identified or omitted, specifically the following items:

- Line 2710 – When asked whether there were incentives paid to contracted fundraisers, the NO box was checked, whereas the YES box should have been.
- Line 3000 – When asked whether the Charity received artwork, the NO box was checked, whereas the YES box should have been.
- Line 3600 – The number of permanent, full-time, compensated positions was not completed. The number "two" should have been entered as two directors worked full-time for the Charity and both received compensation.
- Line 3700 – The number of permanent, full-time, compensated positions that received between this salary range would have been entered as "two".
- Line 4500 - The total of tax receipted donations should have been included on this line, whereas only part of this was reported, but it was reported on line 4630.

- Line 4630 – The total revenue from fundraising was not complete. It was underreported by \$657,505 (\$376,133 from door-to-door + \$281,372 from telemarketing) less any portion of the donations where donation receipts were issued.
- Line 4880 – The expenditures for salaries, wages, benefits and honoraria was understated as it did not include the amounts paid as honorarium (claimed to be \$4,506 by the Director) nor did it include the fair market value of the amount for the personal benefits for this same director.
- Line 5000 – The charitable program expenditures included amounts that were for personal expenditures and for administrative expenditures. Only expenditures directly related to charitable programs should be entered on this line.
- Line 5020 – Not all the fundraising expenditures were claimed on this line. The amount should have been \$527,520 [\$234,136 from door-to-door + \$293,384 (78% of \$376,133)].
- Line 5450 – The gross revenues collected by the fundraisers (\$657,505) should have been entered on this line.
- Line 5460 – The amounts paid to / retained by the fundraisers should have been entered on this line (\$527,520).
- Line 5470 – The net fundraising revenue of \$129,985 (\$657,505 - \$527,520) should have been included.
- Line 5600 – The total amount of non-cash gifts should have been included. The amount of donation receipts issued for artwork was not included (\$2,359,499).
- Line 5620 – The artwork was a ten-year gift and therefore should have been reported on this line (\$2,359,499).
- Directors / Trustees Worksheet – The worksheet was not filled out correctly. The following fields were not filled out:

First name  
Initial  
Date of birth  
Street number and name  
City  
Province / Territory  
Telephone number  
Arm's length or not

### Representations

The Director claimed that they had hired an experienced tax preparer, who had experience with both non profits and Revenue Canada (this tax preparer was an ex-auditor himself). The Director stated that they *"understand that it is the responsibility of the Charity to ensure that the information is correct."* The Director admits that the Charity made a mistake and states that they have taken steps to correct this error.

**COMMENTS:** *The Director did not deny that errors were made. The Tax Preparer that the Director had claimed in the initial interview to have filed his return was his brother-in-law.*

It is the responsibility of the Charity to ensure that the information that is provided in its return, schedules and statements, is factual and complete in every respect. A charity is not meeting its requirement to file an Information Return if it fails to exercise due care with respect to ensuring the accuracy thereof.

Under paragraph 168(1)(c) of the *Act*, the minister may, by registered mail, give notice to the Charity that the minister proposes to revoke its registration because the Charity fails to file an Information Return as and when required under the *Act* or a *regulation*.

### **Remuneration and Benefit Reporting**

*Regulation 200(2) of the Act* requires that where an amount has been paid that is required to be included in determining a taxpayer's income from an office or employment, an information slip in respect of such payment shall be issued to that individual or contractor.

No T4 / T4A slips were issued for the amount of "honorarium" provided to one of the directors even though he admitted to having received \$4,506 in the form of an honorarium.

In the future, a T4 / T4A slip in respect of such payment should be issued for any payments to an employee / director.

### Representations

The representations stated that they were not aware that a T4/T4A had to be issued for honorariums. The Director thanked us for bringing this to his attention and stated that they have corrected the situation and that it will not occur again.

Appendix "B"

**Canadian's Against Child Abuse Society**

**SCHEDULE OUTLINING THE REVENUES (from page 1 of Appendix "A")**

Revenues	A Per T3010	B Per Ledger	C Per CRA	(C-A) Underreported
Telephone	\$ 236,150	\$ 236,150	\$ 281,372	\$ 45,222
Door-to-Door	\$ 119,444	\$ 119,444	\$ 376,133	\$ 256,689
Art Donations	\$	\$ 2,359,499	\$ 2,359,499	\$ 2,359,499
Donors called in	\$ 10,367	\$ 10,367	\$ 10,367	\$
	<u>\$ 365,961</u>	<u>\$ 2,725,460</u>	<u>\$ 3,027,372</u>	<u>\$ 2,661,410</u>

**SCHEDULE OUTLINING THE EXPENSES (from pages 9 & 10 of Appendix "A")**

Expense	Total Expenses	Charitable Expenditures	% Expended on Charitable Activities
Fundraising – Door-to-Door	\$293,384	0	
Fundraising - Telephone	\$234,136	0	
Personal	\$ 75,269	0	
Charitable *B*	\$ 29,658	\$ 29,658	
Administrative	\$ 30,807	0	
Total Expenditures	<u>\$663,254</u>	<u>\$ 29,658</u>	<u>4.5%</u>

\* B \* - The Charitable expenditures are comprised of the following expenditures:

- 19% of salaries (since approximately 1.5 hours a day would be spent on doing the charitable work – answering the telephone calls. The rest would be administration or fundraising.)
- Office supplies
- Programs
- Telephone expenditures
- 1/8 of home expenditures (rent, utilities, security system, hydro) as this is approximately the proportion of the home that the Charity takes up.

## Canadian's Against Child Abuse Society

### Breakout of the expenses that were reviewed

<u>Type of Expenditure</u>	<u>Tot. Amounts</u>	<u>Non-Charitable</u>	<u>Partial/Unsure</u>	<u>Charitable</u>
Auto (char amt - minimal- most work at home)	\$ 5,573.06			\$ 5,573.06
Inn (char amt - minimal- most work at home)	\$ 7,857.52			\$ 7,857.52
Pets, Pharmacy, Alcohol & Groceries	\$ 2,628.35	\$ 2,628.35		
Sports Equip & Other Shopping	\$ 6,289.04	\$ 6,289.04		
Travel (char amt - minimal- most work at home)	\$ 7,993.19			\$ 7,993.19
Entertainment	\$ 6,446.35	\$ 6,446.35		
Flowers, clothes & Jewellery	\$ 1,946.33	\$ 1,946.33		
Household Expenses	\$ 4,439.36			\$ 4,439.36
Unsupported Bank withdrawals	\$ 9,087.45	\$ 9,087.45		
Cell phone	\$ 2,690.29	\$ 2,690.29		
Home Improvements	\$ 4,069.74	\$ 4,069.74		
Other/Unsure	\$ 9,210.05			\$ 9,210.05
Mortgage (@ 1/8 charitable)	\$ 13,533.90	\$ 11,842.16		\$ 1,691.74
Office/Staples	\$ 5,599.44			\$ 5,599.44
Charitable (other than alloc'n of home expenses)	\$ 523.15			\$ 523.15
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 87,887.22	\$ 44,999.71	\$ 40,672.62	\$ 2,214.89
Rounded to nearest dollar	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 87,887	\$ 45,000	\$ 40,673	\$ 2,215