

RESOLVED: THE DEMANDS FOR ACCOUNTABILITY BY CHARITIES HAVE REACHED EXTREME AND UNREALISTIC LEVELS

POINT : **BOB WYATT**

Just before Christmas, another self-proclaimed watchdog declared that too many charities are spending too much money on administration instead of on their missions. This led to the usual media furor and comments on media websites alleging that all charities are scams, and “I’m not going to give my money to any of them.”

This followed the parliamentary debacle over the bill that proposed salary caps on employees of charities as well as a degree of reporting that exceeded that required of any other type of organization – public, private, or community. That bill died on the Order Paper (thankfully!) but not until after a truly embarrassing spectacle of Members of Parliament displaying significant ignorance of the realities of Canadian charities.

Governments are demanding that charities prove their outcomes for programs funded with public dollars, even though outcome measurement can be an expensive and complicated concept that requires a level of sophistication and can rarely be accomplished within the framework of the short-term contracts for which governments are (in)famous and which rarely include any funding for evaluation of any kind. Non-governmental funders are not immune to this epidemic of demands for accountability either, often saying that their donors are demanding increased proof of success – the same argument that governments use when they say that taxpayers want proof that their money isn’t being wasted.

So who are these people who are demanding all of this accountability? We know from the latest Statistics Canada report that fewer than one-quarter of Canadians claim the charitable tax credit (Statistics Canada, n.d.). The median of the donations made by these Canadians is only slightly more than \$20 per month. In fact, when I see those comments on media websites from people vowing never to donate again, I wonder whether that’s just the best excuse people can come up with for failing to make a donation in the first place.

I accept that governments have responsibility to ensure that tax dollars are used in the most effective way possible. I do wonder, though, whether that concern extends beyond the less-than-full-price contracts they provide to charities. I don’t see much evidence that they are demanding accountability from manufacturers (of new military jets, for example) or talk much about contracts with other segments of society. And it would be incredibly

DON BOURGEOIS is Editor of
The Philanthropist / Le Philanthrope.
Email: donbourgeois@bell.
.blackberry.net

BOB WYATT is Executive Director
of the Muttart Foundation.
Email: bwyatt@muttart.org

interesting to see governments adopting the universal outcome-measurement systems for their internal programs that they have started demanding of charitable organizations.

Even as governments are choosing between charities and private-sector businesses for some contracts (and leaving aside all of the other issues that raises), the demands for accountability are marked by inequality. The Broadbent panel report made this point more than a decade ago when it wrote:

One recent example is homecare service contracts between organizations and the Ontario government, where there is direct competition between private enterprise and charitable organizations. Because of the differential public reporting requirements, the private enterprise competitor can gain significant information about its charitable competitor, when the reverse is not the case. Therefore, when competitive bidding involves both charitable organizations and private enterprises, *we recommend that the private sector firms submitting bids be required by the contracting agency to disclose the same level and type of information as is available from the federal government on the registered charitable organizations.* (Panel on Accountability and Governance in the Voluntary Sector, p. 32; emphasis in original).

I wonder what we would find if this type of information about other organizations or professionals were as available.

For example, when people go to see their doctor, do they make their decision of physician based on overhead costs?

In a 2008 column written for the Canadian Family Physician Journal, Dr. C. Ruth Wilson noted that overhead costs for family physicians could run up to 40% of gross billings (Wilson, 2008). The New Brunswick Medical Society says that in that province, overhead costs for physicians run in the range of 40% to 50% (New Brunswick Medical Society, n.d.). In a report on a 2002 study, the Canadian Institute of Health Information reported that overhead expenses for physicians can range from about 28% for medical specialists to about 35% for family practitioners (Canadian Institute for Health Information, 2004). Is that outrageous? Or is it simply the cost that has to be absorbed so that the doctor can do his or her job?

Lawyers who responded to a 2010 salary survey for *Canadian Lawyer* talked about the fact that their fees had to cover overhead as well. In an article discussing the survey, one of the respondents made an interesting comment: “The services we provide as a profession are valuable and we don’t [help] ourselves or others in the profession by reducing fees to impractical levels” (Todd, 2010).

Yet there are those who believe that charities should be able to reduce their costs to impractical levels. Sadly, too many charities have; they are already accepting contracts from government that pay significantly less than the costs of operating the program. These charities then face criticism because some donations go to pay rent or utilities, or pay for information technology or even to administrative assistants who leave senior people free to do what they’re supposed to be doing in effectively managing an organization.

We don't ask private-sector firms to calculate their administration costs and report them publicly. The canard that they're different because charities get tax concessions doesn't hold water: private-sector firms get tax concessions, too. But if we want to look at something closer to charities, let's take a look at political parties. Donors to recognized parties get tax credits for their donations, although admittedly there is a maximum that is significantly lower than that available for charitable donations. Yet, I haven't been able to find any information that talks about what administrative costs exist within political parties. Nor, for that matter, have I been able to find any information that helps determine the administrative costs of government as opposed to the necessary costs of operating.

And therein lies part of the problem. What are administrative costs? It seems that most comparisons are made using a charity's T3010 annual return and the reported amounts spent on charitable activities as against those reported for management and administration. But what exactly is to be included in that management and administration category.

According to CRA's publication on completing the return, it is "all expenditures related to the overall management and administration of the charity" (Canada Revenue Agency, n.d.). The guide says that this includes meetings of the board of directors, accounting, auditing, personnel, rent, and the costs of applying for grants. The return itself says that some costs may be partially charitable and partially administrative – an interesting (and useful) exercise of flexibility that all but guarantees inconsistent forms of calculation. It is perhaps that proviso that accepts that while an audit might not be charitable on its face, it may be a charitable expenditure if funders (and self-proclaimed watchdogs) insist on audits. Rent is another interesting inclusion in that list: are we really suggesting that charities should not have to incur rent or, for that matter, the other costs of doing business?

The reality is that there are administrative costs in any kind of operation. There have to be. Trying to decide what is an appropriate level for a given organization is a foolish venture, unless one is going to spend the time exploring how the organization actually operates. And, more important, so what?

Notwithstanding the protestations of those who have set themselves up as monitors of the charitable sector, I would suggest most Canadians are more interested in what kind of work that charities do and whether they are fulfilling their missions of improving the quality of living in their communities – whether those are geographic communities or communities of interest.

Do we have enough information about the outcomes of charity work? Absolutely not. If people want to get on a bandwagon to say that some greater amount of research is required, I'll be happy to join in. But let's remember: the costs of that research are likely to be considered by at least some people to be administrative costs, and those same people seem to think that's not a good thing.

There is a huge difference between transparency and accountability. There is also a huge difference between accountability for results and doing financial calculations based on incomplete and sometimes inaccurate information. Surely the economic rollercoaster

we have lived on for the last few years should be enough to persuade us that simple ratios – whether used for banks, governments, business, or charities – just don't work, except for the most simple among us.

COUNTERPOINT : DON BOURGEOIS

Bob, you make some interesting points. It is a credible argument to say that governments, in particular the federal government, have gone overboard on the issue of accountability. Indeed, some might go further and question the political motivation for the federal government doing so, i.e., to silence those who do not use their charitable and not-for-profit status to support the government's policy direction. Indeed, some of Canada Revenue Agency's recent guidance and statements from a number of Ministers could be seen as taking the position that supporting government policy is not political advocacy but that putting forth an alternative policy is.

But I digress, sort of.

Regardless of overkill by some in government, the funding community, and the private sector, it is in reaction to the current state – which is that the sector as a whole has done a dismal job in two ways. First, it has not developed and implemented a transparent and accountable reporting structure. Indeed, I have heard many comment about it not being anyone else's business what Charity A or Not-for-Profit B does. Second, as discussed in the previous issue of *The Philanthropist*, the sector has done an equally dismal job of articulating its views and engaging the media.

It has been almost a generation since the Panel on Accountability and Governance in the Voluntary Sector issued its Final Report in 1999, *Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector*, also called the "Broadbent Report" to recognize the chair of the Panel, Ed Broadbent. The report went through all the reasons why accountability and transparency were – and are – important. It emphasized the importance of mission and strategic planning, transparency and communication, organizational structures, the board's understanding of its role, fiscal responsibility, oversight of human resources, assessment and control systems, and planning for succession and diversity. All good things.

Where are we today as a sector? It seems to me that we have not advanced much from the pre-"Broadbent Report" days in our approach to accountability and transparency.

Is there intellectual dishonesty, suspect motivation, and hypocrisy in some of the critics of the charitable and not-for-profit sector? Or among some of those who call for greater accountability, rules, requirements, and so forth in government and elsewhere? Probably. But is there a kernel (or more) of a valid comment notwithstanding any such dishonesty, ill motivation, or hypocrisy? Probably.

I don't come to this conclusion happily but, rather, reluctantly and with trepidation. But I do come to it based on my experiences as a funder, a bureaucrat, a lawyer who has and does practise in this area, and from my broader participation in the community. But I also look to others who have researched this topic.

The Philanthropist published an excellent article in Volume 23(4) – “Developing a Culture of Reporting Transparency and Accountability: The Lessons Learned from the Voluntary Sector Reporting Awards for Excellence in Financial Reporting Transparency” (Salterio & Legresley, 2011). Before I get into it further, two points ought to be made with respect to accountability and transparency in this column. First, my comments based on the research findings set out in the article are my personal comments and certainly should not be taken to be those of the authors, who may or may not agree with me. Second, I did have the privilege of sitting on the review panel for the awards. Again, my comments are my personal comments and not those of the other members of the panel or of the sponsors.

The authors, Steven Salterio and Patrick Legresley, referred to a report published by Muttart Foundation, *Talking About Charities* (2008). They concluded that “Canadians believe that charities need to be transparent and accountable” (Salterio & Legresley, 2011, p. 555). This transparency and accountability included providing information about programs and services, use of donations, impact of their work, and fundraising costs. There is “clearly room for improvement in charities’ accountability and transparency” (Salterio & Legresley, 2011, p. 556).

The Canadian Institute of Chartered Accountants and Queen’s University have run the Voluntary Sector Reporting Awards competition since 2008. The 2011 article in *The Philanthropist* describes the program, how it was developed, and its technical scoring, and summarizes common problems – all with the view to improving reporting by organizations.

What were some of the common problems? A decade after the “Broadbent Report,” I summarize the common problems as “not much has changed” – however, I do not speak for the authors of the report, both of whom may have an entirely different conclusion. It is also important to note that the awards are based on the annual report of an organization and not on other reports that it may make for board purposes, grant reporting, or similar purposes. However, these annual reports are what the public would more likely have access to and be the basis for assessing the importance, relevance, and value of an organization in the community.

In any event, the common problems Salterio and Legresley identified were:

1. Not providing a strong introduction so a reader can size up an organization quickly.
2. Lack of stated performance objectives and targets:
 - a) Where are the budgets?
 - b) Where are the non-financial indicators of mission accomplishment?
3. Not stating the risk, issues and challenges.
4. Non-disclosure of the governance structure.
5. Lack of clarity in fundraising costs.
6. Lack of discussion and analysis about the relationship between the financial reports and the organization’s service results.
7. Poor quality financial information in the annual report:
 - a) Financial information in report does not agree with audited financial information,

- b) Misuse of auditor's reports, and
 - c) Pertinent financial information not disclosed to the reader.
8. Annual reports of organizations between \$1 million and \$10 million in revenue seem to have the greatest problems in developing transparent annual reports.

Certainly, the authors made some positive statements in their article about organizations. But more importantly, they also identified what needs to be done to improve annual reporting. My point is not that all organizations report badly; that is not at all accurate. But many (if not most) do, and it is a problem and will be one into the future.

Regulatory structures do not come out of the blue, notwithstanding public perception. CRA's guidance on fundraising and its grid related to fundraising costs did not arise in a vacuum. There were and are problems in fundraising, including reporting on true costs, misuse of funds, and so forth. The "political" response may be ill-motivated, or it may be honestly held and motivated to improve the sector to enhance public confidence in the sector and in individual organizations. Regardless, we need to recognize as a sector that the views are held and those with greater access to the media and the political pulpit have and will continue to express their views. And bureaucrats will continue to respond in the way that they (including me) know best – by creating rules to be enforced.

The sector needs to move off the question of whether there should be rules. There are, and absent demonstrable and material compliance, the negative consequences for organizations that do not comply with them will be severe. The sector needs to work to ensure that administrative costs are more reasonable and that there is funding for those costs. I certainly agree that governments and funders cannot have it both ways; but they have a bigger pulpit and a much bigger stick than do we in the sector. We need to find another way to address this practical issue. More importantly and strategically, we need to define what an accountable and transparent organization is and how it should report. If we do not do so, inevitably others will, and we will not like the results – because my gut tells me that if you think the demands have reached extreme and unrealistic levels in 2012, just wait until 2013.

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