

# Welcome!

## *CARE Community Briefing:* **Guide for Charities**

**TUESDAY, NOVEMBER 26TH | 10AM**



# AGENDA

- I. Welcome
  - II. Updated Guide for Charities
  - III. Dialogue with Brian Armstrong,  
Charitable Trusts Section
  - IV. Questions
  - V. Thank you
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C A L I F O R N I A

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DEPARTMENT OF JUSTICE

# Attorney General's Guide for Charities

Charity Fraud Awareness Week 2024

# Attorney General's Guide for Charities

Best practices for nonprofits that  
operate or fundraise in California



**California Department of Justice  
Charitable Trusts Section**

Protecting Charitable Assets and  
Donations for the People of California



## Overview

- Published by DOJ's Charitable Trusts Section, which carries out the Attorney General's law enforcement and supervisory authority over California's nonprofit sector
- Provides best practices in how to operate a charity in California
- Helps charities and their fundraisers understand their legal obligations under state law
- First published in 1988, last updated in 2024 with information on charitable fundraising platforms, etc.
- Cited by judges in court decisions, including the California and United States Supreme Courts



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## Chapters 1 to 3

- Chapter 1 explains what are charities and the types of charitable organizations that may be formed in California, such as a “nonprofit public benefit corporation”
- Chapter 2 explains how to create a nonprofit public benefit corporation
- Chapter 3 summarizes the process for obtaining tax-exempt status

## Chapter 5 Exercising Fiscal Management

*While the daily operations of a charity may be delegated to reliable and competent staff, directors are required to exercise ultimate authority over all corporate activities.*

Good internal controls help safeguard charitable assets, prevent loss, and ensure reliability of financial records. One of the responsibilities of a director is to make certain the charity operates in a fiscally sound manner, has mechanisms in place to keep it fiscally sound, and is properly using any restricted funds. While the daily operations of a charity may be delegated to reliable and competent staff, directors are required to exercise ultimate authority over all corporate activities.<sup>2</sup>

Directors may be accountable for the misappropriation, waste, or misuse of charitable assets if the loss was the result of deficient or nonexistent internal controls, lack of due care, or reasonable inquiry. Because of this, the charity's directors should play a key role in establishing internal controls for the charity. Their approval of policies and procedures determines the fiscal management system. An effective internal control system includes budgets, segregation of duties, policy and procedures manuals, clear definition of and adherence to set procedures for management authority and control, and periodic review of the control system.



## **PREVENTING INTERNAL FRAUD AND THEFT OF CHARITABLE ASSETS**

Diversion of charitable assets can occur at either the receipt or disbursement phase. The person tasked to receive and record the cash and checks could, without proper controls, deposit those funds into unauthorized bank accounts without other employees or directors becoming aware. No single employee should receive, record, deposit, and reconcile the charity's receipt of funds. Assigning different people to the separate tasks of recording receipts and making bank deposits minimizes the risk of theft and embezzlement. Also because cash is untraceable and easily lost, it is a best practice to have two employees or volunteers simultaneously count the cash to ensure accuracy.

At the disbursements level, funds are at risk when no controls are in place, or controls are not being enforced. Payment requests or requests for cash disbursement should be accompanied with invoices, receipts, or other documents showing the payments are justified and appropriate. Do not have the same person approve and make the payments, as this may facilitate embezzlement. It is best to have one employee or volunteer authorize the payment of an expense only after submission of proper receipts, bills, or invoices, and have a different employee issue the payment after proper approval has been provided.



## Other Fraud Prevention Tips from Chapter 5

- *“Under no circumstances should the person submitting credit card charges be the same person who authorizes their payment”*
- *Require “two signatures on all checks drawn on the charity’s bank account for expenditures over specific amounts”*
- Maintain and annually update an inventory list of fixed assets, including vehicles, equipment, computers, and other office goods
- The board should periodically review bank statements, and an annual independent audit is highly recommended

## Chapter 6 Reporting Requirements

### In This Chapter

- Overview
- IRS
- Franchise Tax Board
- Board of Equalization, Department of Tax and Fee Administration, and Local Agencies
- Secretary of State
- Attorney General
- Other States
- Frequently Asked Questions

### **OVERVIEW**

Charitable organizations have annual reporting obligations with various federal and state government agencies. For instance, even though nonprofit organizations do not pay taxes, they are required to file what are called “informational returns” with taxing authorities each year. State property tax and sales tax reporting obligations may also apply. Moreover, California nonprofit corporations file reports with the California Secretary of State to keep their corporate information current.



## Registration with the Attorney General's Registry of Charities and Fundraisers

The Registry administers the registration and reporting requirements of California's [Charitable Supervision Act](#). To register as a charity:

- Fill out and submit [Form CT-1](#) (within 30 days of receipt of property for charitable purposes)
- Provide governing documents (e.g., articles of incorporation, bylaws)
- Provide IRS application for recognition of tax exemption (if submitted to IRS)
- Provide IRS determination letter (if received from IRS)
- Pay \$50 initial registration fee



## Registration renewal and reporting to the Registry

Registration must be renewed *annually* to avoid delinquent status. How and when:

- File [Form RRF-1](#) with IRS Form 990, or if revenue is below \$50,000 file Form RRF-1 with [Form CT-TR-1](#)
- Pay renewal fee – amount depends on revenue. Example: revenue under \$50K, pay \$25; revenue between \$50K-\$100K pay \$50
- Renew 4 months and 15 days following the close of the fiscal year. IRS extensions of time honored. Example for calendar fiscal year: filings due May 15, with the IRS extension, now due November 15



## Avoid a delinquent registration status

- Chapter 6: *“A charitable organization’s registration must be in good standing to operate; delinquent or suspended organizations are not in good standing and may not solicit or disburse charitable funds”*
- Chapter 9: *“If charities want to solicit or participate in solicitations on charitable fundraising platforms, or to receive donations made through them, charities should maintain good standing with the IRS, Franchise Tax Board, and the Attorney General”*
- Indicates possible charity mismanagement, and increases likelihood of an audit or other law enforcement

## Additional online resources for registration, renewal, and delinquencies

- Attorney General's web pages on [initial registration](#), [annual registration renewal](#), and [delinquency](#), which have answers to *frequently asked questions*
- Registry *webinars* for [initial registration](#), filing [registration renewal](#) (including Form RRF-1), registration renewal [e-filing](#), [Form CT-TR-1](#), and [fixing delinquency status](#)
- [Registry Search Tool](#) for checking registration status, copies of filings, the cause for incomplete or delinquent filings, and communications from Registry
- If questions are not answered online, Registry [contact forms](#) are available

## Other highlights from the Guide

- Chapter 7 reviews the fiduciary duties and other obligations of a California charity's directors and officers
- Chapter 9 explains the registration, reporting and other requirements for: charities that conduct [raffles](#), [fundraising professionals](#), and [charitable fundraising platforms](#)
- Chapter 10 explains what DOJ's Charitable Trusts Section does
- Chapter 11 reviews the process for [dissolution](#), mergers, transfers of assets, and other [nonprofit transactions](#)
- Chapter 12 discusses when foreign nonprofits and other entities must register and report to the Registry





# THANK YOU FOR ATTENDING TODAY'S WEBINAR

- **Video and Presentation Materials Will Be Available At:**

[oag.ca.gov/care/community-briefings](https://oag.ca.gov/care/community-briefings)

*Note: Please allow at least 2 weeks for the video to be uploaded.*

- **Upcoming Event:**

**Demystifying the DOJ: Office of Community Awareness, Response and Engagement**

Wednesday, December 11, 2024

11:00 AM- 12:00 PM

*Virtual Presentation*

**Register at:** [oag.ca.gov/care/demystifying-the-doj](https://oag.ca.gov/care/demystifying-the-doj)

- **Contact Us:** [care@doj.ca.gov](mailto:care@doj.ca.gov)
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