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Accounting for Charity's Millions

BY HAROLD R. CAFFYN

Handling collections which, during the past twelve years, have approximated \$88,000,000 and making disbursements at a hundred scattered points, some of them thousands of miles apart, in ten different countries involving more than ten different currencies, is the problem that has had to be faced by the Near East Relief, one of America's large philanthropic enterprises.

This organization was founded during 1915 and was originally committed to raise \$100,000. It was later incorporated by act of congress in 1919. Its work originally consisted of the collection of funds and commodities throughout the United States and the distribution of these for relief purposes in the Near East. It has for some time past supplemented this relief work with a programme of reconstruction and education, including the foundation of schools and workshops and the introduction of scientific farm machinery, rug weaving, carpentry, shoemaking, building and other trades. It has also gratuitously transferred funds from Armenians and others in this country to relatives in the Near East.

Some idea of the magnitude of this work can be gathered from the fact that since 1922 Near East Relief has received and shipped 15,931,320 pounds of old clothing and shoes, 1,946,928 cans of milk, as well as tons of corn, flour, beans, prunes and other commodities. The problem of gathering these commodities in small units and subsequently shipping, warehousing and distributing them in countries of poor economic development is one comparable with that faced by very few large corporations.

It will be realized that the vast geographical field covered by the activities of Near East Relief and the extensive nature of its work have developed certain points of accounting interest and it is with the thought that some of these points may be of use or interest to the readers of THE JOURNAL OF ACCOUNTANCY that this article has been submitted.

ORGANIZATION

The organization is readily grouped under three main headings:
State and regional offices
National headquarters office
Overseas areas

The term "state office" when used in this article is intended to apply to the state and regional offices in the United States. The term "areas" applies to the overseas areas in the Near East.

Originally each state had a local volunteer committee operating under the direction of a prominent citizen as chairman and an outstanding banker as treasurer. It was later found more economical to amalgamate certain of the smaller state offices into regional offices with an organization similar to that previously adopted by the state offices. These state and regional offices direct the policies governing the collection of contributions in their districts, subject to whatever broad national policies may be laid down by the national headquarters office. The funds so collected are transmitted to the national headquarters office as directed by it.

The national headquarters office consists primarily of the national board of trustees, which functions through an executive committee, which, in its turn, delegates its executive details to a general secretary, a cabinet and a subordinate staff. The national headquarters office is in a position to exercise a control over all funds received through the state and regional offices and a similar control over all expenditures made from these funds.

BUDGETS AND QUOTAS

The nature of the society's work has naturally made some form of budgetary control not only advisable but absolutely necessary, and such a control has been built up and developed since the fiscal year 1923-1924.

The budgeting of expenses in a society of this type automatically calls for some budgeting of income, and a system of control of quotas has been developed along with the budgetary system.

The expenditure budget is divided into two sections; the first for relief disbursements and the second for the expenses incidental to campaigning and administration. The relief estimates are prepared by the area departmental heads and submitted to the local directors of finance and supply who, in conjunction with the managing directors of the areas, consolidate the departmental budgets and forward the resulting area estimates to the office of the overseas director general. Copies of these area estimates are sent direct to the comptroller in the national headquarters office. The overseas director general, receiving the originals of the estimates from the various areas, makes any necessary revisions, consoli-

dates them, adds the estimates for his own office and forwards the consolidated estimate to the New York office with his comments and recommendations. The estimates are then examined by the foreign department associate general secretary and forwarded to the comptroller. Naturally, this all takes some time, and the preparation of the budget in the local areas is started at least two months in advance of the fiscal period to which it relates as the mail time to New York from the closest area is two weeks and from the furthest area a month.

In the meantime the state offices throughout the country have been estimating the amount they can raise in their respective territories, taking into consideration the general projects and types of work it is proposed to include in the relief expenditure budget. They likewise estimate the cost of raising the money. These estimates, together with figures affording comparison with the actual expenditures and the budget for the previous fiscal year, are sent to the field department associate general secretary who studies them and passes them on to the comptroller with his recommendations.

The comptroller consolidates the field and foreign department estimates with the estimated expenditures for national headquarters administration and control, which are prepared by the department heads in the national office and submitted to him for his consideration. The comptroller and his staff then consider the consolidated estimates and adjust the figures submitted where they deem it necessary. On the basis of their adjustments, all of which are discussed with the New York representatives of the departments concerned, they then make their budget and submit it to the executive committee for approval or alteration.

The budgets were originally prepared on an annual basis, but this was subsequently changed to a six-monthly basis in order to give closer control.

An interesting feature of the Near East Relief budget is the provision for relief work, not possible at the time the budget is prepared, which it may be possible to embark upon prior to the end of the period covered by the budget. Such items are carried under the caption "extended programme" and, in some cases, a special drive is organized to provide funds for a specific part of the work so carried.

Originally the income quotas for the various state offices of Near East Relief were determined upon an average established by

considering the relative wealth of each state, its realty holdings, bank deposits, the extent of its population, the amount of its income-tax payments and the amount of its known contributions to charity and religious organizations. After Near East Relief had built up its own statistics and records, however, it was found that its appeal had, apparently, a pulling power of its own which did not conform to any of the usual bases of computation and, from that time on, quotas were based on its own past performances subject to consideration of the prevailing industrial and social conditions. The fact that the local committees are composed to such a large extent of financial men of the districts concerned enables the national headquarters to treat the estimates submitted with considerable confidence.

APPROPRIATIONS

Using the budget as a maximum, the executive committee further controls relief expenditures by means of monthly appropriations, submitted to it for approval, granting to the overseas areas an amount not exceeding one-sixth of the semi-annual budget.

In addition to these regular monthly appropriations for standard operations, the executive committee votes special appropriations from time to time, to cover any specifically allocated funds received or any items in the extended programme for which funds may have become available. It has also, on rare occasions, voted emergency appropriations for outstanding pieces of work, even though funds were not available, in the hope that the nature of the emergency would produce the necessary contributions.

It is the practice to include appropriations made in the general bookkeeping system, and a control of expenditures is thus maintained. The appropriations set up are regarded as liabilities for the purpose of the accounts prepared by the Near East Relief, although they are not so treated in the accounts prepared by the public accountants.

The standard appropriations are controlled by six-monthly periods; period "A" January 1st to June 30th and period "B" July 1st to December 31st. At the end of each six-monthly period a statement is prepared showing, for each area:

- (a) Appropriations granted for the period—credit account
- (b) Advances against appropriations—debit account
- (c) Advances accounted for—credit account

(d) Area expense analysis—debit account (equal in amount to "c")

Any excess of advances against appropriations over advances accounted for is carried forward to the ensuing period. Any excess or shortage of appropriations granted (credit) as compared with expense analysis (debit) is reported to the executive committee, which passes resolutions canceling or increasing the appropriations to bring them into line with the actual expenditure. The adoption of this system ensures that the attention of the executive committee will be called to large discrepancies in the budget or in expenditures.

REPORTS AND THE COLLECTION OF ACCOUNTING DATA

The controlling accounts maintained at the national headquarters office are built up from information collected at that office by means of reports rendered by the subsidiary departments, the state offices and the overseas areas.

All income received by Near East Relief is acknowledged on the society's official receipt form. These receipt forms are made out in quadruplicate and are numbered serially. The greater part of the income is received in the state offices, and where donations received in the national headquarters office are applicable to the state offices these donations are reallocated to the state to which they apply. The original receipts are used as acknowledgments to the contributors; the second and third copies provide office and statistical records; the fourth copies are bound and form the cashbook of original entry. Daily reports are made by the state offices covering contributions received. These reports take the form of signed bank deposit slips and are supported by copies of the receipts issued during the day.

State office expenditures are made by voucher cheques, signed by the local director and countersigned by a representative of the local volunteer committee. Copies of these vouchers, supported by copies of the invoices covered and a transcript of the cash-disbursements book, are forwarded to the national headquarters office twice monthly. Monthly reports by the states include general-ledger trial balance, duplicate of bank statement, bank reconciliations, canceled cheques and a report on the status of pledges. From these reports consolidated statements of financial and statistical value are prepared for the executive and productive officers.

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The state-office trial balances are prepared in standardized form and include major captions for the following:

Debit

Cash	Supported by reconciliations, etc.
Campaign and administrative expense	
Furniture and fixtures	
New York account	Remittances to national headquarters

Credit

Contributions
Interest on bank balances
Advances from New York

The limited experience of the assistants whom it is found possible to employ in the state offices renders necessary the adoption of the simplest possible accounting system. With this in view, an accounting manual was prepared and sent to all state offices. This manual outlines in detail all the cash and ledger entries which will normally be required. No journal is provided at these offices and all journal entries which have to be recorded on the state-office records originate in the New York office at the time of receipt of advices or at the time of audit. Such entries are forwarded to the state offices and are recorded on their ledgers.

Complete accounting records are maintained at all areas.

Inter-area transactions are recorded by means of debit and credit memoranda, copies of which are sent to the New York office. The areas and national headquarters office exchange transcripts of accounts monthly and reconcile them. The areas also submit monthly statements of operations and statements of assets and liabilities. The monthly operating statements give, in addition to financial data, percentages of costs per orphan, number of persons benefited and other valuable statistical information. The areas render to the national headquarters office, every six months, reports of physical inventories of property and equipment.

Copies of all these reports are submitted to the overseas director general's office for review by the inter-area auditor. This review necessarily includes a comparison of similar costs in the different areas and, to facilitate this comparison, the operating reports list, first, the items which can logically be compared with similar items in other areas and, secondly, those which, owing to

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differences in governments, transportation facilities, geographical location or other prevailing conditions, can not be so compared.

The overseas area reports are also submitted in standardized form. Summarized forms of the balance-sheets and operating statements follow:

BALANCE-SHEET	
— Area	
As of May 31, 1928	
<i>Assets</i>	
Cash and cash items	
New York drafts	\$ ---
Cash	---
	\$ ---
New York current account—undrawn balance of appropriations	---
Advances and accounts receivable	---
<i>Less</i> reserve for doubtful accounts	---

Prepaid items	---
Supplies	---
Property and equipment	
Real estate	---
Equipment at headquarters	---
Equipment at stations, units, etc.	---

<i>Less</i> reserve—100%	---
	\$ ---
<i>Liabilities</i>	
Accounts payable	\$ ---
New York current account—overdrawn balance of appropriations	---
Transmission items	---
Special appropriations unexpended (as per operating statement)	---
Funds held in reserve—including uncanceled balances of appropriations of prior periods, capital profits, etc.	---
	\$ ---
Working capital	
Balance, December 31, 1927	\$ ---
<i>Add</i> underexpended appropriation, January 1 to May 31, 1928 (as per operating statement)	---
	\$ ---

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OPERATING STATEMENT			
	Area		
	Jan. 1 to Apr. 30/28	May, 1928	Jan. 1 to May 31/28
Operating expenditures			
Regular operations			
-----	\$ ---	\$ ---	\$ ---
-----	---	---	---
-----	---	---	---
Headquarters administration	---	---	---
	-----	-----	-----
Special operations	---	---	---
	-----	-----	-----
Total operating expenditures	\$ ---	\$ ---	\$ ---
	=====	=====	=====
Appropriations granted			
Regular monthly appropriations	\$ ---	\$ ---	\$ ---
Special appropriations	---	---	---
	-----	-----	-----
Total appropriations granted	\$ ---	\$ ---	\$ ---
	=====	=====	=====
Balances of appropriations			
Regular (as per balance-sheet)	\$ ---	\$ ---	\$ ---
Special (")	---	---	---
	-----	-----	-----
	\$ ---	\$ ---	\$ ---
	=====	=====	=====

A summary and brief description of the principal accounts in the national headquarters general ledger follow:

Area appropriation credit account	Cr.	Control for detail ledger by areas and semi-annual periods—appropriations granted
Area advance account	Dr.	Control for detail ledger by areas and periods—advances of drafts, clothing, services, etc., to areas, against appropriations granted
Area advances accounted for	Cr.	Control for detail ledger by areas and periods—contra accounts, accounting for expenditures made out of advances
Area expense analysis	Dr.	
Area individual remittances advised	Cr.	Control for detail ledger by areas and semi-annual periods—advice of funds received for transmission to Near East from relatives, etc., in the United States—contra to individual remittances advised

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Area individual remittances paid	Dr.	Control for detail ledger by areas and periods—payment of above funds
Area capital account	Dr.	Control for detail ledger by areas. See text
Area capital appropriation account	Cr.	
Relief expense	Dr.	Control for detail ledger by periods. Expense incidental to relief work.
National headquarters expense accounts	Dr.	Expenses by departments, e. g., bureau of information, field department, finance department, speakers' bureau, etc., etc.
Various bank accounts	Dr.	
Securities owned	Dr.	Donated securities unsold or temporary investment of funds
Accounts receivable—No. 1	Dr.	Control for detail ledger—affiliated societies and state offices
Accounts receivable—No. 2	Dr.	Control for detail ledger—other accounts receivable—including advances to employees for traveling, etc.
Furniture and fixtures—national headquarters	Dr.	
Warehouse trucks—national headquarters	Dr.	
Real estate	Dr.	Contributions of real estate in the United States not yet sold
State prepaid items	Dr.	Inventories of stationery, supplies, etc.
Paper account	Dr.	
Suspense ledger control		See text
Requisitioned purchases	Dr.	Cost of purchases, made at request of areas, pending shipment
Reserves for depreciation	Cr.	
Accounts payable	Cr.	Control for detail ledger
Drafts advised	Cr.	Control for detail ledger by areas and periods. See text
Drafts authorized	Cr.	
Drafts paid	Dr.	
Miscellaneous receipt accounts	Cr.	Interest, etc.
General relief contributions	Cr.	Accumulative account
Individual remittance contributions	Cr.	Accumulative account
Various specific contribution accounts	Cr.	

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Relief contributions appropriated	Dr.	Accumulative account—contra to area appropriation credit account—offsetting general relief contributions
Individual remittances advised	Dr.	Accumulative account—contra to area individual remittances advised—offsetting individual remittance contributions

Numerous reports of financial and statistical significance are rendered by the national headquarters staff to the executive committee, of which one of the most valuable is a monthly statement showing accumulated income and expense and comparisons with the budget figures.

AUDIT AND CONTROL

The handling of such large funds over so extensive an area has necessitated a considerable amount of auditing work. This work has been shared by outside accountants and by the internal auditing staff of Near East Relief.

The national headquarters staff includes a state auditor whose duty it is to examine all reports rendered by the state offices and supporting vouchers. He satisfies himself as to the accuracy and authenticity of disbursements made and collections reported and makes periodical visits to the state offices, as a result of which he renders reports to the local committees in addition to those he prepares for the comptroller.

The overseas area auditing is divided between a firm of chartered accountants in the Near East, an overseas area auditor, operating from the overseas director general's office in Constantinople, and an internal overseas auditor at the national headquarters office.

The chartered accountants have been engaged for some years in making current audits and rendering semi-annual reports to the comptroller in New York for submission to the executive committee. These reports are reconciled in detail by the national headquarters internal auditor with the duplicate accounts maintained on the basis of overseas reports rendered.

The overseas internal auditor coöperates with and supplements the work of the chartered accountants. He reports to the comptroller in New York and to the overseas director general.

The national headquarters internal auditor scrutinizes, checks and verifies the reports rendered by the overseas areas prior to the entry of transactions in the national headquarters records.

The national headquarters accounts and records are audited by public accountants, who render semi-annual reports thereon.

The time necessary for transit of mail and advices to the overseas areas renders any attempt at prompt detailed statements of the consolidated position almost impossible, and the practice is to charge the areas on the head-office books with all advances of any kind made to them and to treat such advances as expenses or relief distributed for the purpose of the consolidated accounts which are prepared early in each month up to the end of the preceding month. Further accounts are kept, entitled "area advances accounted for" and "area expense analyses," and, when the detail of disbursements has been received from the overseas areas and audited, this detail is placed in these accounts and a more correct, but necessarily more delayed, statement of the position is prepared.

Since the field of relief activity is so far distant from the headquarters office in New York, and since the transportation conditions and inaccessibility of the areas make a ready clearing of accounts impossible, New York has advanced to each area capital funds of sufficient size to permit the orderly continuation of relief activities for a period of two months should the source of income be suddenly curtailed at any time.

These advances automatically create an overdraft of funds advanced on the overseas areas' books as compared with appropriations granted to the area and the executive committee has, therefore, made capital appropriations of sufficient size to offset the advances made.

Most of the area disbursements are, of course, made in foreign currencies. All New York controlling accounts are in dollars, the conversion and resulting exchange differences being taken care of on the area books. In a few outlying districts, however, expenditures are still recorded in the foreign currency and reported to the head office in that currency for conversion at the average monthly rate and for inclusion on the national headquarters books.

Considerable difficulty was experienced during the early days in the reconciliation of inter-area accounts. This work has been considerably facilitated during recent years by the establishment

of the overseas director general's office in Constantinople and by the use of the suspense ledger in New York.

An advice received from area "A," for instance, affecting area "B" is journalized as a definite transaction so far as area "A" is concerned on the New York books; but the contra entry affecting area "B" is placed in area "B" account in the suspense ledger. Here the entry remains until advice is received from area "B," when the suspense entry is transferred to the regular account of that area. At the time when area "A" originates an advice to New York, it also originates a memorandum advice to area "B," which that area promptly picks up on its books prior to the dispatch of its confirming advice to New York.

The need for accounts showing not only the monthly and yearly operations but also the accumulated figures since the organization of Near East Relief has rendered advisable the use of accumulative accounts. An example of these accounts is found in the area appropriation credit account which represents appropriations granted to the areas. No debit entries are passed to this account except cancellations of appropriations made and the account is never balanced off, the total carrying forward from year to year and the yearly figures being obtained by comparison with previous statements. In order to ascertain the undrawn appropriations at any time, comparison must be made with the area advance account which shows only advances made against appropriations.

DONATIONS IN KIND

In addition to the large amount of cash handled by Near East Relief, numerous contributions are received in the form of food-stuffs, particularly condensed milk and old clothing. These were originally handled by Near East Relief, but during more recent years they have been handled by Near East Agency.

Near East Agency is a subsidiary of Near East Relief. It does not handle any cash whatever, and all its expenses are paid by Near East Relief. It undertakes the collection, storing and shipping of all contributions in kind. Clothing, for instance, is collected by Near East Agency, New York, which issues to the contributor a receipt at the rate of 30 cents a pound. Near East Agency, New York, then ships this clothing to Near East Agency warehouses in the overseas area. Near East Relief areas requiring clothing, requisition it from the appropriate Near East Agency overseas warehouses. Advice of requisitions is rendered

to Near East Relief, New York, which charges the Near East Relief area "advance account" at 31 cents a pound. All freight and shipping charges have already been borne by Near East Relief and are accumulated on the New York books under "accounts receivable—affiliated societies." When the debit is made to the area "advance account" a sum sufficient to clear the debit on the Near East Agency account is credited to that account and the balance is credited to contributions on the Near East Relief books. It will thus be seen that no contributions in kind are recognized in the Near East Relief accounts until they are utilized in the overseas areas. The difference of 1 cent per pound between the price at which the contributor is credited and the price at which the area is charged provides, approximately, for the shipping and storage charges.

The chartered accountants auditing the overseas areas render semi-annual reports on the Near East Agency overseas warehouses.

NEAR EAST INDUSTRIES

Another subsidiary of Near East Relief is Near East Industries. This subsidiary sponsors and supervises the industrial work carried on in the Near East and arranges for the sale of the product in America and Europe.

Near East Relief supplied the original capital for the foundation of Near East Industries workshops which have, since that time, been practically self-supporting except for a subsidy granted by Near East Relief. This subsidy is charged in the relief expense accounts of the areas on the theory that it is the difference between a living wage and what the old and infirm could obtain in the more competitive commercial factories.

Cost records are maintained by Near East Industries and any slight profit or loss is absorbed periodically by Near East Relief.

FINANCING

The financing of the overseas areas has always been a problem to Near East Relief. In its early days in 1915 its funds were carried to the areas almost entirely by missionaries and other Americans and Europeans who were on the field and ready to serve. War conditions prevailed in those days, and it was frequently necessary to send funds from America to London or Paris, from London or Paris to Geneva and from there to the interior of Turkey or southern Russia.

The system of financing by drafts was developed as conditions settled down and there was a time when, owing to violent fluctuations in exchange rates and lack of banking facilities, Near East Relief drafts became one of the most acceptable currencies in the Near East. During these days drafts were drawn in dollars on Near East Relief in New York with an alternative of drawing them in sterling or francs on certain English and French banking institutions. Accounts were maintained with these branches for several years and then an agreement was entered into by which, although current balances had been withdrawn, drafts in sterling and in francs were still honored in London or Paris and then cabled to New York for charge against the Near East Relief accounts maintained in the headquarters accounts there.

The use of the Near East Relief drafts as currency naturally led to their getting into the hands of obscure merchants and traders, and there are still outstanding drafts approximating \$50,000, issued between 1915 and 1923. It is most probable that the majority of these drafts will never be presented for payment and have, in fact, been lost or destroyed.

For some years past the issuing of drafts has been controlled entirely by the New York office. Drafts are prepared by that office based upon the amount of appropriation granted to an area for the month, making due allowance for any purchase, clothing shipment or other charge which may already have been made against the appropriation. These drafts are signed by a representative of the treasurer, dated the first of the month for which they apply and mailed out from New York to reach the area in time for current use. When they are mailed from New York they are charged to the area "advance account" and credited to "drafts authorized." Before these drafts can be negotiated in the overseas areas they must be countersigned by the area managing director or his representative and by the representative of the area director of finance and supply. The drafts are then sold in the open market or utilized in payment of accounts and at that time the New York office is advised of their negotiation by means of the return of duplicate copies of the drafts bearing the countersignatures and indicating to whom they were endorsed and the date on which they were negotiated. Upon receipt of these advices the New York office charges "drafts authorized" and sets up a liability under "drafts advised." The negotiated drafts reach New York and are presented by various banks for

payment, when "drafts paid" is debited. At the end of each month the financial statement prepared by Near East Relief shows the amount of drafts authorized but not negotiated and the amount of drafts negotiated but not presented for payment, the total of these two items representing the liability of Near East Relief for drafts passed to the credit of the overseas areas. It has been the practice to write back in the published accounts the amount of postdated drafts outstanding at the reporting date.

The accounts of Near East Relief do not place any value on the workshops, orphanages and equipment in the overseas areas, as it is considered that they are of no value to any other concern and are only of value to Near East Relief, itself, during the continuance of its work, which always may terminate at quite short notice.