

STATE OF MARYLAND

EXECUTIVE DEPARTMENT

LARRY HOGAN
GOVERNOR

BOYD K. RUTHERFORD
LT. GOVERNOR



**OFFICE OF THE SECRETARY OF STATE
STATE HOUSE**

ANNAPOLIS, MARYLAND 21401
(410) 974-5521
TOLL FREE 888-874-0013
FAX (410) 974-5190
TDD: 800-735-2258

JOHN C. WOBENSMITH
SECRETARY OF STATE

December 1, 2016

The Honorable Lawrence J. Hogan, Jr.
Governor of Maryland
The State House, 100 State Circle
Annapolis, Maryland 21401

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate of the State of Maryland
H-107 State House
Annapolis, Maryland 21401

The Honorable Michael E. Busch
Speaker of the House of the State of Maryland
H-101 State House
Annapolis, Maryland 21401

RE: HB150/Ch. 73, 2015 -MSAR #10632

Dear Governor Hogan, Senate President Miller, and House Speaker Busch:

Please accept the attached final report of the Charitable Enforcement and Protection Workgroup created under House Bill 1352 during the 2014 legislative session. House Bill 150 signed into law during the 2015 legislative session extended the workgroup and changed reporting dates to reflect the extension of the workgroup.

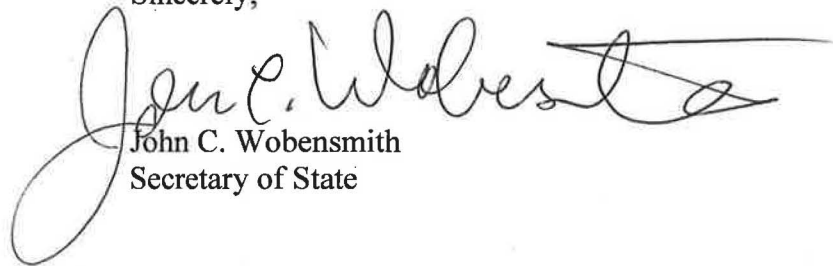
During the extension, the workgroup continued to focus on easing filing burdens and improving service delivery to the nonprofit sector. Specifically, topics discussed included improving the website of the Office of the Secretary of State by adding Frequently Asked Questions pages for various areas of interest for the non-profit sector and development of electronic filing systems.

As explained in greater detail in the attached report, the workgroup's successes were many and include a significant update to the annual registration forms, a change in the charity regulations to allow for automatic filing extensions, and an increase in the threshold for financial reviews and audits.

I'd like to draw your attention to the Conclusion which highlights substantial operational improvements and enforcement successes which enhanced service delivery for the nonprofit sector and the public in support of our efforts as guardians of the Public Trust and Charities.

If you have any questions or concerns, please feel free to contact Assistant Secretary of State, Kathy Smith at (410) 260-3856 or email at kathleen.smith1@maryland.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "John C. Wobensmith". The signature is fluid and cursive, with a large loop at the end.

John C. Wobensmith
Secretary of State

- cc. Sarah T. Albert, Mandated Reports Specialist, Department of Legislative Services (5)
Zenita Hurley, Director of Legislative Affairs & Civil Rights, Office of the Attorney General
Josaphine B. Yuzuik, Assistant Attorney General, Office of the Secretary of State
Michael Schlein, Investigator, Office of the Secretary of State

INTRODUCTION

The Charity Enforcement and Protection Workgroup created under House Bill 1352 convened on July 1, 2014 to study the information that should be reported to the Secretary of State by charitable organizations, charitable representatives, and fund-raising counsel and how that information can be most effectively and efficiently collected without imposing an unnecessary burden on those subject to reporting. The Workgroup created is also to study how the information reported by charitable organizations should be shared within and among government agencies or made publicly available to promote the goals of protecting the public from unscrupulous solicitations and fraud and facilitating the prevention and correction of any misuse or misapplication of charitable assets.

As of the filing of this final report, members of the Workgroup included:

1. Kathleen Smith, Chair, Office of the Secretary of State
2. Josaphine Yuzuik, Co-Chair, Assistant Attorney General
3. Michael Schlein, Office of the Secretary of State
4. Jonathan May, Maryland State Bar Association, Rosenberg Martin Greenberg, LLP
5. Melanie Styles, Foundations, Abell Foundation
6. Carole Carlson, Maryland Association of Certified Public Accountants, The Rights and Resources Initiative
7. Karl Emerson, General Public, Montgomery McCracken
8. Shana Roth-Gormley, Nonprofits, Community Law Center
9. Chris Cash, National Association of State Charities Officials, Colorado Dept. of State
10. Kyle Roberts, Internal Revenue Service
11. Kate McGuire, Fundraising, The Arc of Baltimore

SUCCESSES OF THE WORKGROUP

Since it started, the Workgroup has been focused on ways to ease filing burdens on charitable organization, improve operations within the Office of the Secretary of State (the “Office”), and improve communications with the donating public and nonprofit sector.

As summarized in the interim report filed December 1, 2015, MSAR #10631, in 2015, a major accomplishment of the Workgroup was to approve a motion to change a regulatory requirement regarding automatic filing extensions for charitable organizations. Also, in 2015, the Workgroup began discussions about raising the audit threshold requirements.

In 2016, the Workgroup continued its focus on easing filing burdens and improving service delivery to the nonprofit sector. Specifically, topics discussed included improving the website of the Office by adding Frequently Asked Questions pages for various areas of interest for the non-profit sector and development of a more effective electronic registration system. Moreover, at the final meetings of the Workgroup, the Office reported on recent, successful enforcement efforts and about the State's renewed commitment to effective and efficient enforcement of the Maryland Solicitations Act.

The Workgroup's successes to date include: updating the registration forms, creating instructions for completion of the forms, a change in the regulation to allow for automatic extensions, supporting the increase in the threshold for financial reviews/audits, and providing information to include on the website to better educate the public and non-profits. The following is a summary of each of the Workgroup meetings in 2016, which provide greater detail on the more recent successes of the Workgroup.

FEBRUARY 3, 2016 MEETING

During the first meeting of 2016, the Workgroup reviewed the prior year's work, discussed the status of the Charity Division at the Office and the proposed Senate Bill 10, which would raise the threshold for financial reviews and audits from \$200,000 and \$500,000, respectively; to \$300,000 and \$750,000, respectively. The Office informed the Workgroup that the Secretary of State provided testimony in favor of this change in the law. The Workgroup endorsed raising the thresholds at a prior meeting.

The Workgroup proposed updating the content on the Secretary of State's website to include more frequently asked questions, dividing them among the categories of donors, charities, and paid solicitors. The group discussed ways to improve the search functionality on the website to facilitate searches by solicitors so the public can view contracts and real time results of fundraising agreements between charities and solicitors.

APRIL 13, 2016 MEETING

During the second meeting of 2016, in anticipation of the regulation change to permit automatic filing extensions for charities, the Workgroup reviewed and suggested edits to registration letters including wording for automatic extensions to the registration deadlines. The Workgroup's input informed the final registration letters regarding automatic extensions.

The group was provided an overview of filing requirements for professional solicitors and public safety solicitors. Feedback was solicited to determine opportunities for improvement. As a point of comparison, Colorado's requirements and availability of data to the public was discussed. The group discussed why public safety solicitors should be required to disclose if they are, or are not, a public safety solicitor. Colorado's electronic filing system and data collection was implemented at the same time their law was enacted. For this reason, Colorado does not face the same challenges Maryland currently faces, as they did not need to transition from paper to an online filing system. Maryland currently receives paper filings that contain data. The group discussed challenges to converting to an online filing system.

An update was provided about plans to bring delinquent registrants into compliance. Workgroup members offered suggestions and recommended that, in time, after the current delinquent charities are adequately addressed, the State could consider approaching non-compliant universities from across the country who solicit alumni/alumnae and others in Maryland. The Workgroup analyzed how IRS data could be used to find charities that should be registered in Maryland. Colorado shared its past efforts to use the IRS data indicating that they were labor intensive.

JUNE 8, 2016 MEETING

During the third meeting of 2016, the Workgroup continued discussions about frequently asked questions that the Office could consider updating on its website; both content and layout were discussed. Recommendations included creating categories of frequently asked questions to include: donors, charities, and paid solicitors. A further recommendation was to provide a brief answer to questions with the option to click a link to obtain more detailed explanations.

The group discussed the merits of using email reminders to notify charities about upcoming registration deadlines. The Workgroup acknowledged U.S. Mail and phone contact is a necessary communication method for a small percentage of charities that do not use e-mail regularly. While email will lower costs, it may not be helpful for all organizations. The group grappled with how to target organizations that would not be responsive to email notifications.

The rise in online giving platforms was discussed. Companies are using available IRS public information to solicit on behalf of charitable organizations. It has been reported that unauthorized solicitations have included citizens without permission from the charitable organizations whose names are being used. All agreed that it would be helpful to know how many organizations benefit from this form of online giving platforms and possibly doing a survey to learn more about the topic.

AUGUST 10, 2016 MEETING

At the fourth meeting of 2016, the Workgroup finalized discussions on frequently asked questions, wanting to ensure they are specific to Maryland. The group brainstormed burning issues in the charity sector to ensure the Workgroup addressed as many topics as possible before the formal end of the Workgroup.

Topics of interest for this meeting included: the regulation of professional solicitors and the existence of at least one caging¹ company based in Maryland, and the Office's educational sessions in the future. Educational sessions could include charities and donors, as well as an annual Maryland conference for charities.

The recently issued National Taxpayer Advocate report was discussed. The report contains an explanation that the IRS is granting 501(c)(3) statuses to organizations that use the IRS Form 1023-EZ to apply for it, but that 37% of the time, the organization should not have qualified for 501(c)(3) statuses. It is a subject we will need to consider in the future.

OCTOBER 12, 2016 MEETING

¹ Caging refers to the processing of incoming donations and pledges from direct mail fundraising.

At the fifth meeting of 2016, the Workgroup discussed Maryland's requirement that organizations provide alternative home or business addresses for their board of directors. Currently, alternative addresses are required by statute. It was noted that Maryland is the only state in the country that requires alternative addresses. In light of heightened awareness and sensitivity to security and cyber-security breaches, concerns about safety were discussed. A discussion followed indicating that board of directors and others no longer feel secure providing personal home addresses and phone numbers on public documents. Retired board members can no longer provide a business address as an alternative address, resulting in the use of their home address.

When discussing addresses, the Workgroup urged the State to continue to collect a physical address for each charity. Recognizing the risks, Colorado does not like making home addresses public, but requires a physical address when the charity provides a Post Office Box as a mailing address.

The Workgroup urged that the State allocate resources to fight fraud and to protect the public, stating that the public wants increased enforcement action. Two decades ago, after Pennsylvania's largest charity fraud was discovered, Pennsylvania still struggled to get additional funding and personnel. The Workgroup stressed the need to continue to seek information that will be helpful to identify fraud as part of registration and to use the information supplied in 990s and audits to flag potential problems.

They discussed whether information should be gathered from charities if that same information may be available from other sources. The Workgroup discussed why charities should register directly with the Secretary of State's Office, even if they provide the same information to other sources.

The Workgroup also discussed the \$25,000 filing threshold in Maryland, which used to be the same as the filing threshold with the IRS. The IRS raised their filing threshold to \$50,000 several years ago, but Maryland law did not. Most states did not change their registration thresholds when the IRS raised the threshold. States like keeping the registration threshold lower than the IRS threshold because it brings smaller organizations under regulation of the states. This provides opportunities to educate smaller organizations on what is required under the law and best practices as they grow.

The Workgroup summarized successes of the Workgroup and provided an opportunity for members to raise any additional issues that could be considered to improve filing burdens and service delivery to the nonprofit sector.

NOVEMBER 9, 2016 MEETING

At the sixth and last meeting of 2016, the Workgroup was briefed on the successes of the Charities Division in the current fiscal year, starting on July 1, 2016. The Division has taken enforcement actions on over 1,500 delinquent organizations, lowered its delinquent registrations by 19%, and began enforcement actions on two new areas: (1) incomplete registrants and (2) charities receiving less than \$25,000 per year in donations that are required to file fund-raising notices. Enforcement actions have been taken on 24% of incomplete registrants and 26.5% of the charities that have not filed fund-raising notices.

Members of the Workgroup who attended shared highlights from the 2016 National Association of State Charity Officials Conference, (which was held in October in Washington, DC). This annual meeting gathers state charity regulators in collaboration with the National Association of Attorneys General to discuss enforcement and regulatory matters. A public day was offered to private sector stakeholders to open lines of communication and help facilitate compliance. Topics on the public day included: donor advised funds, crowdfunding, and best practices for non-profits.

The Workgroup discussed the merits of raising the registration threshold from \$25,000 to \$50,000. The financial impact to both the charities and the Office of the Secretary of State was considered. Currently, organizations that receive less than \$25,000 per year are exempt from paying a filing fee to the Office, but must file an Exempt Organization Fund-Raising Notice if soliciting in Maryland. A change would allow organizations receiving less than \$50,000 per year to be exempt from paying a filing fee, but would be required to file the Exempt Organization Fund-Raising Notice if soliciting in Maryland. This action could result in a loss of revenue to the State. A discussion followed about whether a change could revenue neutral.

The Workgroup recommended studying and revising fee levels for organizations that register with the State. It was discussed that there is value in both revisiting the fee structure, which has not changed in 30 years and as a fairness matter to address a burden on smaller charities who currently pay the same fee as charities with large revenues. Maintaining the current

percent of fee distribution of funds to General Funds (2/3 of fees) and Special Funds (1/3 of fees) was also discussed.

The Workgroup recommended increased funding to the Office for enforcement of the Maryland Solicitations Act. Adjusting the fee structure would increase revenue to the Special Fund and support the resources essential to enforce the Maryland Solicitations Act. The Workgroup expressed concerns about inadequately funding the Office, recognizing that revenues from the General Fund to the Office continue to be cut as they have for the last several years. The Workgroup acknowledged the Office must find ways to increase Special Funds revenue. A new fee structure in which wealthier charities pay a proportionately larger fee was discussed.

Also discussed, were fees paid by paid solicitors and fundraising counsel. In Maryland, approximately 300 contracts are held by professional fundraisers, most of whom are located out of State, yet, not one fee is assessed per contract, often valued in the hundreds of thousands of dollars, in some cases, millions of dollars. Other States, like Colorado assess a fee for each contract. These fundraisers consume a significant amount of resources in enforcement efforts. The Workgroup urged the State to consider assessing a fee for each contract to assist in defraying the costs associated with enforcement efforts needed to regulate this group. The group posed the question: Who should pay for enforcement, versus who causes the larger problems?

A motion was made for the Office to support legislation to eliminate the alternative address requirement for board of directors found in the Maryland Solicitations Act. This motion was approved by the Workgroup.

The Workgroup recommended that the Office study the registration thresholds for fees, create a tiered fee structure, and distribute no less than the current 1/3 of the fees to the Special Fund to support enforcement efforts. They further recommended assessing a fee for each contract performed by fundraising professionals and designating 100% of those fees to the Special Fund to support enforcement efforts.

The Office shared recently gathered statistics from their office on delinquent charities and other enforcement efforts, which are found in the Conclusion of this report.

CONCLUSION

From start to finish, the Workgroup fulfilled its mission and studied suggestions aimed at easing the filing burden on charities, while improving the operational effectiveness and efficiencies of the Office. As explained above, the suggestions provided by the Workgroup to improve service delivery to donors and the non-profit sector, and to build capacity for enforcement of the protection of charitable assets, will require additional resources. In short, the Office has come a long way with the limited resources, and remains committed to staying on this path to achieve effective and efficient charitable enforcement, which would necessarily ease the and processing burden on the Office of the Secretary of State. Also discussed, was how to better share information and communicate with the public, the non-profit sector, and considerations for the enforcement of protecting charitable assets. The workgroup provided suggestions for the Office of the Secretary of State's consideration to improve service delivery to donors and the non-profit sector, and build capacity for enforcement of the protection of charitable assets.

The Workgroup formally ends on December 1, 2016. The Office of the Secretary of State and the Workgroup mutually recognize the value of engaging stakeholders and encouraging dialogue. To that end, the Office plans to meet informally with the members of the Workgroup to continue dialogue, elicit insights and suggestions to improve the Office's customer service to all stakeholders, namely, the public, donors, and charities.

As indicated in the data below, the Office, under the leadership of Secretary Wobensmith, has created and is acting on plans to enhance customer service initiates and ramp up enforcement efforts. In the last fourteen months, the Office has hired an AAG, Investigator, Paralegal, and completed a re-organization plan, which includes a newly created Internal Auditor position. The Workgroup commended Secretary Wobensmith for his leadership and vision to right the ship as indicated in the successes illustrated below:

In FY '17 YTD, in the 1st Quarter great strides were made:

- **Registered Charities:** 19% increase in Registered Charities, in part because of enforcement efforts. These numbers reflect, in part, Charities who have come into compliance because of enforcement actions.
- **Delinquent Charities:** Steady improvement: 5% decrease in Delinquent Charities and dramatic 19% decrease in the 1st Q of FY '17. Imagine the success ahead if we were fully staffed!

Enforcement Actions: No substantive enforcement actions have taken place in nearly 10 years, as reflected in FY '15. That said, with a strategic lens and plan in hand, which includes increasing enforcement staffing, 510 enforcement actions took place in the last 6 weeks of FY '16. Those enforcement actions more than tripled to 1,590 enforcement actions in the 1st Q of FY '17.

Additionally, the Office has identified two areas that were never previously tracked, let alone enforcement actions taken.

The first is known as First Dollars, these are small charities who raise more than \$25k and are not required to complete the entire registration process, but are required to file with our office. Year to date for FY '17, 2,973 charities meet this criteria, but have not filed or not completed their filing. Enforcement actions have been taken with 24% of these charities for a total of 700.

The second area not previously tracked is incomplete registrants. These charities began, but did not complete the registration process. There were 945 incomplete registrants at the start of FY '17. Of them, 250, or 26.5% have had some enforcement action.

It's true, the previous administration neglected enforcement. We however, have a deep appreciation of the Public Trust that's at stake when donors give to charities. As evident in the data shared in this report, unlike our predecessors, we created plans to enhance Customer Service initiatives and ramped up enforcement efforts. We've hired an AAG, Investigator, Paralegal, and have just completed a re-organization plan which includes an Internal Auditor, who will support enforcement activities by auditing delinquent charities as a first responsibility.

Please note that the FY 2017 YTD numbers of registered charities recorded in the table below also represents charities who have come into compliance as a direct result of our enforcement activities.

Equally remarkable are the Customer Service efforts that eradicated an 11-week backlog in processing applications from charities. The Office is current and processes applications daily: no backlogs. Similarly impressive was the eradication of the backlog of thousands of documents that required scanning, scanning is also accomplished daily.

The Workgroup correctly noted these and other enormous improvements that occurred during this last year, as well as improvements made to documents, the website and more.

Charities:	FY 2015	FY 2016	FY 2017 YTD
# Charities Registered	11,110	13,474	13,333
# Delinquents	2,517	2,385	1,922
Enforcement Actions Regarding Delinquents	0	510	1,590

Newly Tracked Charities Activities:

First Dollar Enforcement Activities			2,973
Enforcement Actions Taken	0	0	700 (24%)
Incomplete Registration			945
Enforcement Actions Regarding Delinquents	0	0	250 (26.5%)

In short, the Office has come a long way, has a long road ahead, and is short on resources to accomplish its Mission to protect the Public Trust. The Office will be grateful for the support of the Legislature to support the recommendation of the Workgroup and enhance funding to the Office in support of its efforts as guardians of the Public Trust and Charities.

Appendices

Appendix A: Minutes from Workgroup meeting on February 3, 2016

Appendix B: Minutes from Workgroup meeting on April 13, 2016

Appendix C: Minutes from Workgroup meeting on June 8, 2016

Appendix D: Minutes from Workgroup meeting on August 10, 2016

Appendix E: Minutes from Workgroup meeting on October 12, 2016

Appendix F: Minutes from Workgroup meeting on November 9, 2016

APPENDIX A

Charitable Enforcement and Protection Workgroup

Meeting Date: February 3, 2016

Meeting Time: 1:30PM to 3:30PM

Attendees In Person:

Josie Yuzuik, OAG/SOS

Kathy Smith, Secretary of Secretary

Michael Schlein, Secretary of State

Kate McGuire, The Arc Baltimore

Harry Bogdan, Maryland Nonprofits

Attendees by Phone:

Karl Emerson, Public, Montgomery McCracken

Carole Carlson, The Rights and Resources Initiative

Approval of November 2, 2015 Minutes

One change to the November 2, 2015 minutes to add an s to Emerson on page 2. A motion was made to amend the minutes with that addition and the motion passed.

Update from Charities and Legal Services Division

Automatic Extensions-Michael Schlein reported on the forthcoming proposed regulatory change to COMAR 01.02.04.03 to remove the requirement that charities submit a written request for an extension to file annual reports. Proposed change due to be published March 18, 2016 following by and assuming no objections, anticipated change to be effective May 23, 2016.

Donor's Beware-Kathy Smith provided update on the Donor's Beware press release issued around the holidays. Part of annual reminders issued to the public through the Charitable Giving Information Program. The group discussed outlets for public information on charitable giving: SOS website, libraries, schools, etc.

Audit Thresholds-The group discussed SB 10, which proposes to increase the audit threshold from \$500,000 to \$750,000-this is the minimum gross income amount by which the registration statement of a charitable organization must include an audit by an independent certified public accountant. SB 10 also proposed to amend the range of \$300,000 but less than \$750,000 of gross income amounts by which the registration statement of a charitable organization must include a specified review. The Secretary of State testified in support of the changes.

Staffing increases-Kathy reported that the Secretary of State's Office will be hiring additional staff for the Charities and Legal Services Division. Specifically, one (1) investigator, one (1) paralegal Investigator, and one (1) Charity Processor.

Backlog of charity registrations-Secretary of State's Office continues to address the backlog and intends to be day to day. The Office of the Secretary of State is in the process of issuing notice to organizations who have been delinquent for three years or more. Two groups identified: (1) organizations that have filed exempt fundraising notices in the past, but have been delinquent for three years or more in filing exempt notices and (2) organizations with pending new registrations that have been incomplete for three years or more. For charities that file full registration statements each year, approximately 25% are not current with late fees and penalties outstanding.

Discussion of FAQs Page on the Secretary of State's website

Group discussed value of linking to the IRS's life cycle of a charity.

Discussed FAQs for donor beware and FAQs for registration issues.

Attendees were asked to provide Mike with specific topics.

Carole suggested a topic on when a charity is raising money online for a specific individual or family e.g. Go Fund Me, etc.

Kate suggested FAQs for professional fundraisers and asked where they would belong on the website.

Group discussed including a filing cycle FAQ to highlight dates of interest including the filing deadline for the Maryland Comptroller's Office in addition to the SOS filing deadlines.

Kathy suggested a non-profit governance helpful links FAQ to include the following:

- Fiduciary responsibilities
- 990s and Board education
- Reference Section to Maryland Nonprofits Standards of Excellence, IRS Governance documents, and Independent Sector materials, etc.

2015 Workgroup Reporting Submitted to the Legislative

Kathy brought up the final year end reports of the workgroup submitted in December 2015. Asked for thoughts, comments, and questions and if everyone had a chance to review.

Kate suggested adding paid solicitors to the topics going forward.

Henry questioned if there was a way to search by professional solicitor-to find out the corporate arrangements. In Colorado, for eg., you can search by solicitor to find accounting reports and minimum % requirements for each charity.

Currently, the Secretary of State's Office provides 5 numbers and the % of total revenue

Wrap Up (Topics for Next Meeting)

The following were suggested to pass for discussion in CY 2016:

- Role of the AAG
- Professional Solicitors
- Feedback on the FAQs suggested for the website

APPENDIX B

Charitable Enforcement and Protection Workgroup

Meeting Date: April 13, 2016

Meeting Time: 10:00AM to 12:00PM

Attendees In Person:

Josie Yuzuik, OAG/SOS

Kathy Smith, Secretary of Secretary

Michael Schlein, Secretary of State

Lorraine Parks, Secretary of State

Kate McGuire, The Arc Baltimore

Melanie Styles, Abell Foundation

Attendees by Phone:

Karl Emerson, Public, Montgomery McCracken

Carole Carlson, The Rights and Resources Initiative

Christopher Cash, Colorado Secretary of State's Office

Jonathan May, Maryland State Bar Association

Approval of February Minutes

A motion was made to accept minutes from the February 3, 2016 meeting and was approved.

Update from Charities and Legal Services Division

Enforcement News: Josie Yuzuik briefly reported on a recent enforcement action involving a veteran's charity. The Secretary of State's Office issued a Cease and Desist Order against an organization, Southern Maryland Veterans Association, its Director and its Assistant Director. A two day administrative hearing was held in March 2016. A final decision has not yet been issued by the Secretary of the State.

In addition to the formal administrative enforcement action, the Charities and Legal Services Division continues to see an increase in the number of complaints.

Staffing News: A full time investigator is anticipated to start in early May 2016. The Division is also hiring a full time employee to assist with processing mail to start around the same time. A full time contractual paralegal position will be advertised in May 2016 by the Office of the Attorney General to work for the AAG for the Secretary of State's Office.

Update on SB 10-Audit Thresholds

Michael Schlien reported that SB 10 and its counterpart in the House passed with no opposition. The Governor is anticipated to sign it, and it will be effective October 1, 2016. SB 10 increases the audit threshold from \$500,000 to \$750,000-this is the minimum gross income amount by which the registration statement of a charitable organization must include an audit by an independent certified public accountant. SB 10 also amends the range of \$300,000 but less than \$750,000 of gross income

amounts by which the registration statement of a charitable organization must include a specified review.

Proposed Charity Regulation Changes

Automatic Extensions Regulation. Michael Schlein reported that he received no comments or objections to the proposed regulatory change to COMAR 01.02.04.03 recently published. This change will remove the requirement that charities submit a written request to the Office of the Secretary of State for an extension to file annual reports. The change is anticipated to be effective June 6, 2016.

Registration Notices. The group discussed how to word the new registration notice in light of the automatic extensions. Michael Schlein shared that he has samples from the other jurisdictions that have automatic extensions including Washington and Connecticut. One way is to provide the charity with the dates that the extension is good through as well as the due date for the registration. A plan was discussed to circulate a draft notice to the workgroup for review and comment.

State Affiliated Entities Regulation. Michael Schlein reported the proposal is to tie the threshold in the regulation to that found in the statute. Michael will be accepting public comments from Mid-May to Mid-June.

Professional Solicitors

Lorraine Parks from the Secretary of State's Office provided an overview of the requirements for professional solicitor and public safety solicitor filings.

The group discussed disclosure requirements for public safety solicitors who offer to take pictures. The group discussed whether solicitors for police and fire organizations should disclose whether they are actually a police officer or firefighter.

Michael Schlein and Lorraine Parks reported on an enforcement action that took place many years ago against public safety solicitors who misrepresented that they were out of state solicitors and not local police and fireman.

Chris Cash shared Colorado's disclosure requirements for public safety solicitors, and the start and end reports that show the result of a fundraising campaign.

Website Review

The group reviewed Colorado's website. Colorado did not have a paper system to transition from as Maryland does.

Michael Schlein shared that Maryland currently receives the paper fundraising reports, both the interim and final reports from professional solicitors.

Kathy Smith provided an update on the plan to move to online filing. She shared that a meeting was recently held with the Maryland Department of Information Technology (DoIT), at which time, they were informed about the volume of paper filings received by the Charities and Legal Services Division and that the Division wants an online platform that is robust and customer friendly, easy to use and navigate. A preliminary plan from DoIT is anticipated by the end of the fiscal year. It is anticipated to be an incremental plan.

FAQs on the Secretary of State's Website

Colorado sites, and others, use FAQs as a method to convey important information.

Melanie Abell suggested a working meeting to further develop FAQs for the Maryland site. Kate McGuire shared that a technical review should follow a content review of FAQs.

Kathy Smith asked the group to email questions that they want to see on the website's FAQ section. The next meeting or the meeting after can review the content of those questions.

Role of the AAG

Josie Yuzuik reported that together with supporting enforcement actions, she provides advice on day to day legal issues confronting the agency.

A contractual paralegal will be hired in the coming months .

Delinquent Charity List

The group discussed the number of charities who are delinquent, approx.. 3100 out of 13,000 who register in Maryland.

Michael Schlien shared that the number of delinquent charities ebbs and flows.

Kathy Smith shared that new staff will be cross trained to help cut down on delinquent charities. Strategies are being developed to address this problem.

Karl Emerson shared that once the delinquent list goes down, efforts to be proactive about delinquent charity registration could be considered including informing educational institutions of their obligation to register, go to Guidestar and the IRS for reports on nonprofits with Maryland contributions and cross reference to see who is not registered in Maryland. He cautioned that when he was with Pennsylvania, a staff of 8, was not enough to use the reporting IRS data in proactive enforcement efforts.

Chris Cash reported that Colorado has done this in the past, but the project is a "beast."

Wrap Up and Topics for Next Meeting

- Content review of submitted FAQs

APPENDIX C

Charitable Enforcement and Protection Workgroup

Meeting Date: June 8, 2016

Meeting Time: 10:00AM to 12:00PM

Attendees In Person:

Josie Yuzuik, OAG/SOS

Michael Schlein, Secretary of State

Melanie Styles, Abell Foundation

Attendees by Phone:

Karl Emerson, Public, Montgomery McCracken

Carole Carlson, The Rights and Resources Initiative

Christopher Cash, Colorado Secretary of State's Office

Jonathan May, Maryland State Bar Association

Kathy Smith, Secretary of Secretary

Shana Roth Gormley, Community Law Center

Approval of April Minutes

A motion was made to accept minutes from the April meeting and was approved.

Spreading the Word on Automatic Extensions Regulation.

The group started with a discussion on how to spread the word on the new regulation allowing automatic extensions- COMAR 01.02.04.03. This change removed the requirement that charities submit a written request to the Office of the Secretary of State for an extension to file annual reports. The change is effective June 6, 2016. It is anticipated the following will be used to spread the word:

- MSBA's Business Law and Tax Sections
- Secretary of State's Website
- Third party filers
- Greater Washington Roundtable
- Association of Baltimore Area Grant makers and the D.C. Regional Association
- Chambers of Commerce

FAQS

Michael Schlein provided a list of topics and questions that the Charities and Legal Services Organization are frequently asked. This includes:

- Does a government grant count as a charitable contribution?

Kathy Smith suggested different buttons for FAQs as follows: Donor, Professional Solicitor, and then broken down further with topics including: Wise Giving, Donating a Vehicle. Suggestion included providing brief answers and embeds links to provide greater detail on certain topics.

Karl Emerson pointed that more and more states are emailing approval registration notices (UT, for eg), which saves on postage and is proof that the approval has been received by the charity.

Michael Schlein shared that the SOS's current database only prints letters for mailing.

Karl Emerson shared CT is now doing renewal reminders by email only.

Kathy Smith pointed out the need for updated information and a charity and a back-up email for each charity in consideration of potential for high turnover in certain organizations.

Shana Roth Gormley explained email is easier, but do not want to exclude others who do not use email; many of the clients that are seen at the Community Law Center do not use email and almost always have to follow up by telephone;

Kathy Smith-questions how to best target groups that do not use email only-neighborhood associations and community groups, for eg.

Melanie Styles-Shared that the Abell Foundation has moved to online only-smaller organizations respond by paper, which if fine, too.

Michael Schlein shared that it would be good to have a paperless preference.

Colorado-only only, but never been a paper based system;

Online Giving Platforms:

The group discussed the rise in online giving platforms, and companies who use public information from the IRS to list 501(c)(3).

Outstanding issue on whether these companies have to register with the state and whether they have to have the nonprofit's permission to list the nonprofit on their giving platforms.

Michael Schlein shared that if online giving platforms are soliciting for pay in Maryland, then they are a professional solicitor without authorization.

Karl Emerson shared that many are for profits companies who solicit, and recalled one company was required to change their policy.

Kathy Smith and Michael Schlein suggested a need for more data on whether this is an issue for Maryland nonprofits.

Josie Yuzuik suggested it would helpful to know if Maryland nonprofits benefit from online giving platform.

The group discussed putting together a survey for Maryland nonprofits to provide input on this topic.

APPENDIX D

Charitable Enforcement and Protection Workgroup

Meeting Date: August 10, 2016

Meeting Time: 10:00am – 12:00pm

Attendees in Person

Kathy Smith, Secretary of State

Josie Yuzuik, OAG/SOS

Michael Schlein, Secretary of State

Kayla Wilson, OAG/SOS

Melanie Styles, Abell Foundation

Kate McGuire, The Arc Baltimore

Harry Bogdan, Maryland Nonprofits

Attendees by Phone

Karl Emerson, Public, Montgomery McCracken

Carole Carlson, The Rights and Resources Initiative

Approval of June Minutes

A motion was made to accept minutes from the June meeting and the motion was approved.

Automatic Extension Regulation

The discussion began with a brief talk about platforms to provide the public with notice regarding the Automatic Extension Regulation.

Michael Schlein confirmed the notice would be published at the top of the Charities site and that there is currently a notice listed on the site in another location.

FAQs

Michael Schlein confirmed that government grants do not count as charitable contributions according to statute.

The group wants to ensure that FAQs are specific to Maryland.

NASCO Conference – Public Day

Josie Yuzuik briefly provided an overview of NASCO.

Kathy Smith requested the circulation of the NASCO registration link to charitable organizations and contacts known by Kate McGuire and Henry Bogdan.

Josie Yuzuik mentioned that NAAG has a new committee for charities and that they would be in attendance.

Activities at Secretary of State's Office

Michael Schlein mentioned that the charity office now has 4 charity officers. The office has contacted 858 delinquent charities and has responses from 366 of those charities.

Additionally, in 2015, 26 investigations took place, 9 cases were closed, and there were 7 enforcement actions. Compared to 2016 where to date, there are 42 active investigations, 48 cases closed, 21 enforcement actions and 18 cold cases have been re-opened and put to rest.

Josie Yuzuik is hiring a paralegal to provide additional support to the office.

Michael Schlein stated that charities will be able register online in the future and at this time the dead links on the site have been fixed and updates are continuously in progress.

Kathy Smith explained that the Department of Information Technology is revamping the entire state system, including the Charities site.

Karl Emerson mentioned the Single Portal project and its benefits to charity enforcement groups across the country.

Successes of Workgroup

Michael Schlein advised that there was information gathered for website updates once online filing is active. Electronic document submissions are accepted via email, but payment at this time has to be sent through the mail.

Kathy Smith advised that there would be research about whether credit cards may be accepted electronically in the future.

Michael Schlein advised that the enforcement group wants to make sure that whatever process used is efficient and makes things easier for charities.

Josie Yuzuik mentioned the success of the Wise Giving press release.

Kate McGuire mentioned the addition of Josie as a success for the workgroup.

Burning Issues

Kate McGuire mentioned paid solicitors and whether they are being investigated.

Michael Schlein stated that there were a couple of paid solicitors being investigated this year among the 42 open cases.

Kathy Smith mentioned the need for educational sessions in the future to educate charities and donors about paid solicitors and other matters that affect charities. She also suggested a yearly conference in Maryland to provide information to charities.

Carole Carlson mentioned that there is a "caging" (a direct mail processing service) located in Hagerston, Md.

Henry Bogdan provided a brief explanation of the 1023-EZ and the issues it presents in vetting charities. He shared a statistic from the National Taxpayer Advocate report that 37% of the 1023-EZ filers are not legally eligible as charities.

Henry Bogdan brought up a National Association of Nonprofit Organizers (NANO) which has been implying they use names provided from United Way to solicit funds of \$150/person to be a part of the board of governors for the organization.

Josie Yuzuik suggests getting an auditor for charitable enforcement team.

Online Giving

Michael Schlein talked about crowdfunding sites and the impact it has on the future of charitable giving.

Kate McGuire mentioned that The Arc has received donations through Network for Good, a site they did not register for and has also registered for another crowdfunding site where they receive donations.

Michael Schlein advised that charities from out of state that solicit donations in Maryland, even via the internet must register. He mentioned that each state has their own procedure for charities who solicit out of state and who receive donations from out of state.

APPENDIX E

Charitable Enforcement and Protection Workgroup (CEPW)

Meeting Date: October 12, 2016

Meeting time 10:00am to 12:00pm

Attendees In Person:

Kathy Smith, Secretary of State
Josie Yuzuik OAG/SOS
Michael Schlein, Secretary of State
Melaine Style, Abell Foundation
Louis L. Dukes, Jr, OAG/SOS

Attendees by Phone:

Jonathan May, Maryland State Bar Assoc.
Karl Emerson- Public, Montgomery McCracken
Christopher Cash, Colorado Secretary of State

Approval of August 2016 Minutes

Motion was made to accept the minutes.

NASCO Conference-Public Day on Monday October 17, 2016

The group discussed the upcoming NASCO Conference and with particularity the public day.

Successes of the Workgroup to Date

Michael Schlein gave a synopsis of the history and primary objective of the Charitable Enforcement and Protection Workgroup (CEPW) since its existence.

Group discussed the earlier successes with condensing and approving the registration forms.

Michael Schlein shared the regulation changes that have recently been implemented-automatic extensions and audit thresholds.

Michael Schlein gave an estimated completion date for the electronic registration document on the website and a program designed to flag organizations that do not submit IRS forms 990.

Kathleen Smith discussed there is better information available on the website as a result of the workgroup recommendations. She discussed current and pending changes that will come to the

Charitable Organizations Division's website that would make the system more user friendly searching for a organization.

Karl Emerson commends the Secretary of State's office for including the charities' registration number on the website, and for the automatic extensions now available to charitable organizations who file annually with the Secretary of State's Office. changed.

Discussion on requirement of alternative addresses for board of directors

Michael Schlein responded to Karl's question regarding address verification for organization and the major concern regarding the location of victims.

Christopher Cash raised an issue with organizations using P.O. Box address instead of their physical address.

Issues of safety and security were also raised. People are not comfortable with having to make their home address public in order to serve on a nonprofit board. Those that no longer work cannot provide an alternative business address and must provide a home address.

Burning/Unresolved Issues of the Workgroup

Kathleen Smith asked for the group's input on what they can do as a unit to improve CEWG to better serve our citizens.

Christopher Cash expressed his approval of the Single Filing Portal System.

Kathleen Smith asked the group what was the requirement that makes an organization "legitimate", when citizens call and ask if an organization is real or a good charity.

Christopher Cash discussed the guidelines in Colorado and how they are not allowed to say if the charity organization is good or bad. They are only allowed to say if the organization is active. Chris also refer citizens to various organizations like Watch Dog or Wise Giving for personal education.

Jon May mentioned that we should continue to determine if information is available elsewhere, and that the state should consider receiving from a third party, instead of demanding it directly from charities. The group discussed the value of receiving information directly from the charities for enforcement purposes, and to encourage greater transparency and accountability of charities.

The group discussed the \$25,000 filing threshold for Maryland and how it used to be the same as the filing threshold with the IRS. The filing threshold at the IRS increased to \$50,000 years ago but states have not raised their filing thresholds, hoping instead to bring those smaller charities in to register because it provides an educational benefit.

2015 Workgroup Reporting Submitted to the Legislative

Karl Emerson commended the Secretary of State's office for bringing on Josie and Louis to provide legal assistance with enforcement actions. It was also suggested with a legal group now in progress, this opportunity would allow Michael to focus more on the investigative side of things.

Christopher Cash discussed various organizations in his area that attempts to defraud the citizens.

Kathleen Smith asked Chris could provide her with an email of regarding what red flags should they look for, and what is important of the various groups and/or organizations that make attempts to defraud the citizens in hopes to create some type of "Red Flag Cheat Sheet".

Wrap Up (Topics for Next Meeting)

Michael Schlein will be submitted a draft final report of the work group by the Charity Enforcement and Protection Workgroup (CEPW) for review.

Kathleen Smith suggested that the participants of the workgroup give their opinion on how effective they have been with handling the concerns of the public when called regarding charities or registering.

APPENDIX F

Charitable Enforcement and Protection Workgroup (CEPW)

Meeting Date: November 09, 2016

Meeting time 10:00am to 12:00pm

Attendees In Person:

Kathy Smith, Secretary of State
Josie Yuzuik OAG/SOS
Michael Schlein, Secretary of State
Louis L. Dukes, Jr, OAG/SOS
Jonathan May, Maryland State Bar Assoc.

Attendees by Phone:

Melaine Style, Abell Foundation
Karl Emerson- Public, Montgomery McCracken
Christopher Cash, Colorado Secretary of State
Henry Bogdan, Maryland Non-Profits
Shana Roth-Gormley, Nonprofits, Community Law Center

Approval of October 2016 Minutes

Motion was made to accept the minutes.

NASCO Conference Wrap-Up

The group discussed the NASCO Conference and their outlook from what the conference provided and the involvement of Amazon Smile and Facebook regarding charity donations.

Michael Schlein discussed the issues regarding charity issues, solicitation and non-cash donations.

Christopher Cash addressed the matter of clothing bin issues, crowd funding and non-cash goods.

Charity Division Improvements- Statistics

Kathleen Smith shared with the group the elevating productivity of the Charity division demonstrating the enormous increase in registration compliance and charitable enforcement.

Overview of Annual Workgroup Report

Michael Schlein discussed the details of past meetings with the work group, crowd funding, solicitation and guidelines to improve the office.

Karl Emerson shared the same sentiments as Michael regarding the work group and the accomplishment made over the last year.

Jonathan May commented on the group being a good thing and how change is always good.

Motion recommending removal of requirement of “alternative addresses” for Board of Directors from the Maryland Solicitation Act.

Kathleen Smith spoke on the matter of organizations providing “alternative address.”.

Michael Schlein spoke on the change and how Maryland is the only state to require an alternative address of board members. He shared it would need to be a legislative change.

A motion was made for the Office to support legislation to eliminate the alternative address requirement for board of directors found in the Maryland Solicitations Act. This motion was approved by the Workgroup.

Open Discussion of the Maryland Solicitations Act.

Michael Schlein started the discussion on raising the registration threshold from \$25,000 to \$50,000. The financial impact to both the charities and the Office of the Secretary of State was considered.

Jonathan May offered a revenue neutral way to lessen the burden on smaller charities who must currently register with the State. Currently, charities that receive less than \$25,000 per year in charitable donations are exempt from paying a filing fee to the Office, but must file an Exempt Organization Fund-Raising Notice if soliciting in Maryland. Mr. May proposed that a change that would permit organizations receiving less than \$50,000 per year to be exempt from paying a filing fee, but would be required to file the Exempt Organization Fund-Raising Notice if soliciting in Maryland

The group discussed that there is value in both revisiting the fee structure, which has not changed in 30 years and as a fairness matter to address a burden on smaller charities who currently pay the same fee as charities with large revenues. Maintaining the current percent of fee distribution of funds to General Funds (2/3 of fees) and Special Funds (1/3 of fees) was also discussed.

The Workgroup recommended increased funding to the Office for enforcement of the Maryland Solicitations Act. Adjusting the fee structure would increase revenue to the Special Fund and support the resources essential to enforce the Maryland Solicitations Act. The Workgroup expressed concerns about inadequately funding the Office, recognizing that revenues from the General Fund to the Office continue to be cut as they have for the last several years. The Workgroup acknowledged the Office must find ways to increase Special Funds revenue. A new fee structure in which wealthier charities pay a proportionately larger fee was discussed.

Also discussed, were fees paid by paid solicitors and fundraising counsel.

Michael Schlien shared that, in Maryland, approximately 300 contracts are held by professional fundraisers, most of whom are located out of State, yet, not one fee is assessed per contract, often valued in the hundreds of thousands of dollars, in some cases, millions of dollars.

Chris Cash shared that Colorado assess a fee for each contract.

The Workgroup urged the State to consider assessing a fee for each contract to assist in defraying the costs associated with enforcement efforts needed to regulate this group. The group posed the question: Who should pay for enforcement, versus who causes the larger problems?

Kathleen Smith asked for recommendations on the matter.

Kathleen Smith inquired on the statute and when was its origin and how much has the times (economy) has changed since then.

Michael Schlein asked Chris how is the law applied in Colorado regarding filing fees under twenty-five thousand and Chris replied that the organizations just file exempt.

Jonathan May suggested that a modest fee should be applied for registering an organization.

Shana Roth-Gormely expressed her concern regarding the increase of the filing fees and how it may create a barrier for organizations that may have insufficient funds to cover the fee.

The Workgroup recommended that the Office study the registration thresholds for fees, create a tiered fee structure, and distribute no less than the current 1/3 of the fees to the Special Fund to support enforcement efforts. They further recommended assessing a fee for each contract performed by fundraising professionals and designating 100% of those fees to the Special Fund to support enforcement efforts.

Workgroup Successes

Kathleen Smith provided the workgroup with statistics on the increase in enforcement activities, and other successes of the workgroup.

Karl Emerson commends Secretary of State's Office on how we are getting the charity organizations into compliance and the consideration regarding the automatic extension concerning registration.

Jonathan May approves of the collective effort from everyone's involvement with the workgroup and believes this could be a potential model for up and coming groups.

Henry Bogdan also agreed with Jonathan May and would encourage the group to continue. Henry also commented on the website and looking forward to its completion.

The Workgroup commended Secretary Wobensmith for his leadership and vision to right the ship as indicated in the successes achieved.

Moving Forward

Kathleen Smith suggested that the work group should meet quarterly to discuss any new changes and updates regarding charity organizations. The group unanimously agreed with the suggestion.

Jonathan May suggested an informal meeting with the work group.

Wrap Up

Michael Schlein will be submitting a draft final report of the work group by the Charity Enforcement and Protection Workgroup (CEPW) for review no later than December 1, 2016.

Kathleen Smith gave thanks and appreciation to all the participants for their time and input on making the Work Group such a major success.