The State of Israel
Ministry of the Interior
Registrar of Non-Profit Organizations

In-Depth Audits – Criteria for the Refusal of a Request for Certification of Proper Management

1. The opinion of the accountant regarding the financial reports must be clear-cut and without reservations. If there are reservations, then a refusal should be issued unless the accountant is convinced that these reservations can be accepted.
2. There is reason to believe that the assets of the organization are not being used to meet the objectives of the organization.
3. There is reason to believe that the organization is carrying out improper transactions with interested parties or related bodies.
4. There is reason to believe that profits or wages are being paid through subsidiary, related or parent companies.
   In addition, the direction of these financial transactions should be examined: from the company to the organization (positive) or from the organization to the company (negative).
   It is important to mention that the transfer of funds from the organization to another body is in itself not permitted unless the organization can prove that it is not benefiting from the transfer.
5. There is reason to believe that members of the Committee have grossly violated their oath of office.
6. Excessive salaries received by Committee members. In other words, the organization is paying more per Committee meeting than is permitted by the Bylaws for Government Corporations. (Copies of the Bylaws for Government Corporations have been distributed to you.)
   Salary payments to Committee members must be in accordance with clause 26a and 33 of the Law of Non-Profit Organizations.
   In addition, salaries should not exceed reasonable levels even if they do not violate clauses 26a and 33 of the Law.
7. There is reason to believe that loans were received or granted by the organization in order to distribute profits or to finance inappropriate activities.
8. In the case of transfer of funds from one organization to another, a Certificate of Proper Management should not be granted under any of the following conditions: if the transfer of funds does not serve the objectives of the organization or if in the opinion of the auditor, the transfer is improper.
9. Payment in cash, support or grants:
   Payment of large sums in cash is prohibited.
   This rule should be applied beginning with the fiscal year 1998.
   An organization that transferred sums of cash in the past must prove that the funds were indeed used for appropriate purposes.
   Signed declarations are required from the recipients of the grants as well as a commitment from the organization that it will no longer make payments in cash.
10. Prohibition of employing relatives of Committee members:

Not more than 25% of the organization's salaried employees can be relatives of the Committee members. (An organization which violates this prohibition will be issued a refusal.)
If 25% of employees are relatives of Committee members, refusal should be recommended. Furthermore, if 25% of total salary expenses are paid to relatives of Committee members, then refusal should also be recommended.
Thus, refusal is recommended based on number of personnel or total salary expenses.

11. If the size of the organization's deficit creates a suspicion that it will not be able to continue as an "ongoing business", the organization must explain this situation. If the explanation does not eliminate the suspicion, then the request for certification should be refused.
12. There is reason to believe that the organization is distributing profits in violation of the law.
13. There is a suspicion of improprieties within the organization.
14. The organization has unexplained financial expenses.
15. It should be checked whether the organization is holding illegal lotteries. Lotteries are acceptable if the prizes are of negligible amounts. However, in this case, the organization should be notified that it is prohibited to hold lotteries and the organization should commit itself in writing not to hold additional lotteries.
16. Proper management requires that a description of activities should appear in the titles of the bookkeeping accounts. The absence of this description will not automatically result in a refusal but the organization will have to supply additional details on request.