

Charities' Costs Sap Aid For Vets

By Matthew Kauffman, *Hartford Courant*
November 10, 2005

From daybreak on the East Coast to nightfall in the West, young men with telephone headsets line the cubicles of professional call centers, pleading with a patriotic nation.

"The American Veterans Coalition is dedicated to helping veterans right here in (state calling) who are homeless or in desperate need," reads a script created for a Seattle-area charity run by businessman Robert M. Friend. "The Foundation provides assistance for these veterans in the form of food, shelter, clothing, job search assistance and any other reasonable request.

"Do you think you could support our efforts with a gift of \$75?"

Most of the people called will hang up before the pitch is over. But this is a numbers game, and with a relentless telephone campaign, professional fundraisers in 2003 collected almost \$1 million for the American Veterans Coalition and three other charities created simultaneously by Friend.

But that dialing came at a staggering cost. Under Friend's deal with the solicitors, fundraisers pocketed 85 cents of every dollar raised. Of the money left over, half was spent on printing and administrative costs, including the rented mailbox that served as the charities' official address. The other half, Friend paid in salaries to himself and his wife.

And money spent on food, shelter or clothing for those desperate veterans?

\$0.

With Veterans Day approaching and a war raging in Iraq, Americans are opening their wallets to support homeless vets, paralyzed vets, jobless vets. Faced with a blizzard of telephone and mail solicitations, Americans donate more than \$1 million a day to veterans' groups.

But while helping veterans is a well-established and popular cause, a computer analysis by The Courant of hundreds of veterans' charities across the nation shows that, as a group, they lag far behind other nonprofits in the efficiency of their fundraising and the amount of money devoted to charitable services.

A handful of veterans' groups spend almost nothing on veterans' causes, diverting 90 percent or more of their money to administrative and fundraising costs. Scores of others claim hefty spending on charitable programs, but only by including a large portion of the cost of their fundraising drives as charitable expenses.

At the Foundation for American Veterans in Michigan, just 6 cents of every dollar raised goes to services for veterans. At the American Ex-Prisoners of War Service Foundation in Tennessee, it's 2 cents. At the American Veterans Relief Foundation in California, not even a penny.

"It's disgusting," said Trent Stamp, president of Charity Navigator, a nonprofit watchdog group in New Jersey. "You can't respect your donors if you think that people who write you a check are entitled to have 2 or 3 cents of every dollar reach veterans."

But under current laws and court rulings, almost nothing can be done about it.

Expensive Tactics

Americans have been donating to veterans' groups for more than a century, and the most successful military charities have grown into \$100-million-a-year household names. But The Courant's review showed that veterans' charities large and small still rely on expensive fundraising tactics, fueling their reputations for inefficiency.

Using financial data provided by GuideStar, a Virginia-based organization that compiles information reported by more than 1 million registered nonprofits, The Courant analyzed 286 veteran-related charities. The list generally excluded military associations, such as the American Legion and VFW posts, as well as museum and memorial funds and charities that raise less than \$25,000, the threshold for filing a detailed IRS return.

Among the findings: Veterans' groups are more than twice as likely as other charities to use professional solicitors, which typically keep 70 to 90 cents of every dollar they raise. As a result, veterans' charities overall spend a vastly greater percentage of their budgets on fundraising, leaving less money available to help ex-GIs struggling with health care, housing or financial problems.

"We actually get a lot of calls from people looking for a good veterans charity," said Daniel Borochoff, president of the American Institute of Philanthropy. He doesn't have an answer for them. Of 13 veterans' groups rated by the institute, one received a grade of C-plus and the rest earned D's and F's. The culprit in many cases: excessive fundraising costs.

Excluding small charities, American nonprofits report spending about 2 percent of their budgets on fundraising, according to the IRS. For the veterans' groups reviewed by The Courant, that figure exceeds 17 percent, and for veterans' charities that use professional fundraisers, it's 31 percent.

Likewise, charities nationwide say they spend 82 percent of their money on charitable causes, rather than fundraising and administrative expenses. For veterans' groups, the figure is 71

percent.

That gap alone amounts to at least \$150 million a year in lost charitable spending. But it doesn't tell the whole story, because loose accounting standards and weak enforcement make it easy for nonprofits to appear better on paper than they really are - by underreporting fundraising costs or treating administrative expenses as charitable program services.

Nearly half the veterans' groups reviewed by The Courant that raise money directly from the public claim to spend nothing on fundraising. And many count money paid in taxes, accounting fees, mailing-list rentals and even commissions to professional fundraisers as dollars spent for charitable services.

But others make no effort to mask their pennies-on-the-dollar numbers.

In Santa Ana, Calif., the American Veterans Relief Foundation has raised millions from the public in support of its mission of "helping veterans when they need it most." According to the charity, that includes assisting with mortgage payments and medical bills, sending "Thinking of You" packages to patients in VA hospitals and giving money to build veterans' memorials.

But out of \$3.6 million raised and spent in four years through March 2005, the foundation has paid out just \$21,000 in grants and assistance to veterans and veterans' groups. That's 58 cents in help for every \$100 donation.

And while veterans got \$21,000, professional fundraisers have collected nearly \$3 million.

William Peterson, who stepped down earlier this year as the foundation's president, said he accepted the post at the request of a friend, whom he did not identify. He would not answer questions about the charity, but said that he had not been actively involved in running the group.

Instead, the entire operation was run until recently by a for-profit business that shared office space with the American Veterans Relief Foundation and two other charities. In 2003, SR-1 Financial Services was paid \$640,000 by the charities for "administration," under an agreement in which the for-profit firm kept all but a small portion of the money turned over by professional fundraisers.

SR-1's take in 2003 was 18 times what the charities spent helping those in need.

A receptionist at the American Veterans Relief Foundation said SR-1 Financial Services is no longer in business. And in a financial audit filed with the state of Illinois in August, an accountant for the charities reported that charity officials have been interviewed in connection with a federal grand jury investigation involving the financial company.

Hitting Pay Dirt

At the American Veterans Coalition in Washington state, where veterans didn't see a single penny in 2003, the charity made a slight improvement in 2004. Last year, the group - which

raised about \$1.1 million from the public - gave \$14,500 to established veterans' groups and wrote a \$500 check to one veteran's family. The rest went for fundraising, salaries, administrative costs and public awareness campaigns.

The direct take for veterans: 1.4 cents on the dollar.

It's not how charity President Robert Friend said it would be. In the group's application for tax-exempt status with the IRS, Friend and his wife, Shao Mei Wang, who serves as vice president, said they planned to spend about half their budget on direct assistance to needy veterans.

"There will not be a cookie-cutter approach to aiding clients, but rather an attempt to assess the client's individual needs in such a way as to make the client feel as if they have been noticed by those beyond their family and immediate caregivers," the pair wrote.

But while veterans have seen little from the American Veterans Coalition, Friend, Wang and their fundraisers have hit pay dirt. Between the coalition and three other charities that share the same Gig Harbor, Wash., mailbox, Friend and Wang paid themselves just under \$140,000 last year - eight times what they gave away in grants. Meanwhile, fundraising fees for the four charities approached \$1.8 million.

Friend said his salary is justified.

"That's for four charities. You should see how much work goes into running four charities," he said. "You should come sit in this chair and do this work, and do these registrations, and every rule and regulation that every state requires of you, see the expenses involved, the time that's involved, the 80 to 100 hours a week you have to put in to get this done."

He said he had no control over fundraising costs. "You have to understand that in the fundraising industry, it's very difficult to raise money without professional fundraisers," he said. "Whenever you have professional fundraisers, it brings the amount of money that can be given away down substantially, because there's such a high cost for using a good-quality fundraiser."

In the IRS application, Friend and Wang wrote that they expected fundraising to account for 20 percent of costs; in 2003 and 2004, it was 85 percent.

It's a misjudgment any novice might make. But Friend and Wang were not new to the nonprofit game. For three years before setting up the American Veterans Coalition, the couple ran a group in California called Tomorrow's Abundance, which raised money purportedly to help veterans, children with cancer and the blind. In that group's final year of operation, Friend and Wang raised and spent about \$450,000 - 94 percent of which went for fundraising, administrative expenses and salaries for the couple.

Asked about the representations in his IRS filing, Friend said he would only answer questions in writing and hung up the phone. He did not respond to a series of questions later e-mailed to him.

Diane Besunder, a spokeswoman for the IRS, said the agency could not respond to actual or hypothetical questions about how charities spend their money, and instead provided a summary of IRS rules covering activities that can lead to revocation of a nonprofit's tax-exempt status.

Revocations, however, are rare, and the IRS has acknowledged to Congress that its resources for investigating charities have declined steadily. Between 1996 and 2001, for example, the number of tax forms filed by nonprofits jumped 25 percent, while the IRS staff charged with examining those forms dropped 15 percent.

The Senate Finance Committee is considering ways to improve oversight of nonprofits, where abuses cost the U.S. Treasury billions annually in unwarranted tax deductions. Rick Cohen, executive director of the National Committee for Responsive Philanthropy, said charities should be re-evaluated periodically to weed out those that aren't performing.

"I think for some veterans' organizations, and probably for others as well, maybe at one point they performed a valued mission, but you can't tell anymore, from their expenditures," Cohen said. "And that's probably a rationale for why some entity on a regular basis, maybe every five years or every 10 years, ought to be looking at whether a nonprofit is still delivering a valued mission warranting their tax-exempt status."

`Straitjacketed'

Although federal officials grant nonprofit status, regulation of charities is mostly left to the states. But First Amendment protections require attorneys general to prove dishonesty or theft - not simply wild inefficiency - before they can take action against a charity.

Two years ago, Connecticut Attorney General Richard Blumenthal brought suit against Connecticut Vietnam Veterans Inc. and its fundraiser, American Trade and Convention Publication Inc., which kept as much as 87 cents of every dollar raised.

But it was misuse of funds by the charity's president and the fundraiser's failure to file registration papers that led to the suit - not the paltry return on fundraising.

"We can take action against fraud and deception," Blumenthal said. "But we're straitjacketed in many significant areas, such as excessive amounts going to telemarketers or paid solicitors."

Blumenthal accused the charity's president, Edward Frederick of East Haven, of diverting tens of thousands of dollars in donated funds, which he used in part to buy liquor, cigarettes, lingerie and memberships in two online dating services. Frederick was later convicted on criminal larceny charges.

But nonprofit watchdogs say they don't believe fraud is the primary reason small veterans' charities are often inefficient. Instead, they say, many are simply naive about financial issues, making them easy targets for opportunistic fundraisers.

"It's a sector rife with amateurs," Stamp said. "A lot of people enter this sector with good

intentions. It's an emotional cause. People have seen their loved ones come back - or not come back - and want to do something to help."

That leads to a lot of look-alike charities that discover they don't have the means to raise money on their own.

"If your organization does and sounds exactly like every other organization, then you rely on a professional fundraiser," Stamp said. "It's a short-term, scorched-earth policy where you don't really care about the sector as a whole and you just want to get yours now."

One Man. \$4 Million.

At the National Veterans Services Fund in Darien, Phil Kraft takes a dozen calls a day from veterans who are down on their luck or getting the runaround from the federal government. It's a one-man operation, and Kraft ran it last year with \$125,000 collected by professional fundraisers.

Kraft has been counseling vets for 14 years, and from his perspective, he runs a lean operation. But the \$125,000 that Kraft sees started out as \$4.3 million in donations from the public, before fundraising costs ate away nearly 98 cents of every dollar.

That makes the National Veterans Services Fund among the least efficient of the 286 charities evaluated by The Courant. But Kraft is unapologetic.

"It's that necessary evil, that price you pay to stick around," he said. "If it were possible for some wonderful donor to say, 'Look, here's \$1 million. Go do good deeds,' I would call the fundraisers and say, 'You know guys, it's been fun. So long.' But that's just not going to happen."

Kraft's direct-mail soliciting is done by Direct Response Consulting Services of McLean, Va., which takes a 75 percent cut. Additional printing and other fundraising costs left the charity with only 2.2 cents on the dollar.

But Kraft has nothing but praise for Direct Response, saying the company is continuously reinvesting in the business and thinking up new fundraising ideas.

"It's constantly being plowed back in," Kraft said of the company's fees. "I don't think Direct Response is buying real estate in Florida or anything."

Not Florida, perhaps. But the fundraiser's principals have done well in their home state of Virginia. Co-founder Byron C. Hughey has lived since 1992 in a six-bedroom house with a four-car garage and a pool in McLean, valued in 2003 at \$2.2 million. His business partner, Jerry Watson, lives 2 miles away in a 13-room house worth \$2 million.

Still, Kraft says high-commission fundraising is the only way he can survive, even if it means that millions in donations don't reach their intended target.

"If we're getting 25 percent of every dollar that the direct-mail fundraiser makes, that's 25 percent of something, which is better than 100 percent of nothing," Kraft said. "It's hackneyed, but it's the truth."

That rings hollow to Borochoff, the American Institute of Philanthropy president.

"That's what they say - 'It's money that we wouldn't ordinarily have' - even though it's totally disrespecting the people who gave it," Borochoff said. "Giving is a fixed pie. And money given to this guy is money not available to another charity - a more efficient charity."

Borochoff believes lawmakers should set reasonable limits on how much tax-exempt groups can spend on fundraising. He said he would favor laws requiring that large charities representing popular causes - including veterans - spend no more than 35 percent of their budgets on fundraising. Newly formed charities, those with budgets under \$500,000 a year and those that advocate for controversial causes would be exempt.

It is a proposal unlikely to find much support on the nation's highest court. The U.S. Supreme Court has consistently shot down state laws that attempted to put a cap - any cap - on how much professional fundraisers can pocket from solicitation campaigns.

The rationale: Limiting how groups can raise money might hamper the ability of advocates to advance causes, a right the court has ruled is guaranteed by the First Amendment. It is a frequent defense offered by nonprofits and fundraisers who support the status quo: Advocacy groups promoting civil rights 50 years ago or AIDS awareness 25 years ago might never have found a willing fundraiser for their controversial or unpopular causes if state laws put a limit on how much the solicitors could keep.

The court has also struck down laws that would require paid fundraisers to tell all potential donors how much of their contribution would go to charity, ruling that it would amount to "forced speech."

"I wish we could require that every telemarketer say in the first or second sentence: 'Please contribute, but you should know that 90 cents will go to the paid solicitor and only 10 cents will go to the veterans' group that you want to support,'" Blumenthal said. "That should be as straightforward as the ingredients on a box of cereal. But the Supreme Court has said that we can't require that message."

In the most recent Supreme Court case, the Illinois attorney general brought fraud charges against a fundraiser that pocketed 85 cents of every dollar raised for a veterans' group called Vietnow. The court ruled in 2003 that states can sue if a fundraiser lies to potential donors about how much money is sent to a charity. But the court maintained its ban on laws that arbitrarily limit how much fundraisers can keep.

The case took 12 years to move through the courts, and in that time, not much has changed. Vietnow is still around, and it still uses professional fundraisers. In its most recently reported year, the charity received 11.2 cents for every dollar raised, among the worst returns of the

hundreds of charities analyzed by The Courant.

Rich Sanders, president of Vietnow, based in Rockford, Ill., said he runs an all-volunteer organization that has no choice but to use professional fundraisers. And he said veterans' charities don't have the same advantage as charities raising money for high-profile causes, such as disaster relief after hurricanes and tsunamis, where media coverage often drives sympathetic donors.

"I don't know that those same people wake up in the morning and say, 'You know, I think there are probably some homeless veterans on the streets that probably could use some help,'" Sanders said. "We have to have somebody ring that doorbell, so to speak, and say, 'Would you consider contributing to some veterans?'"

"We do look, we shop the market whenever our contracts come up with our fundraisers," Sanders said. But he said he hasn't found a fundraiser willing to give him a better deal. "If we could find that, we'd definitely be there."

Errol Copilevitz, a Kansas City lawyer who represents fundraisers and nonprofits, said telemarketers earn their high commissions by assuming all of the risks of a fund drive, with no upfront investment by the charities. He also said caller-ID and do-not-call lists have made it more expensive to raise money for charities, and he has a ready response when donors gripe about how little the charities net from their donations.

"When I get into a heated discussion with someone about that," Copilevitz said, "the first question I fire at them is: 'When's the last time you called up a charity that you wanted to support and asked them how to send a check to them?'"

Reporting Tricks

In an effort to empower consumers, several states now publish annual reports of fundraising drives, listing how much was raised for each charity and what percentage was kept by the fundraiser. Some states also have online charity searches that report basic financial information, including pie charts showing how much the charity says it spends on programs and fundraising.

But many nonprofits that report respectable numbers - with a high percentage of expenses apparently devoted to charitable services - spend most of that money on "public awareness," "public outreach" or "membership" campaigns that are primarily fundraising drives.

The Freedom Alliance in Dulles, Va., claims it spent 82 cents of every dollar in 2003 on program services. But that included \$2.7 million - more than half the charity's entire budget - in costs related to fundraising campaigns that were treated as "educational" costs.

The Disabled Veterans Associations in Ohio reports that just 30 percent of its spending goes to charitable services, a figure that helped it earn a failing grade from one charity-rating agency. But even the majority of that money is paid directly to a professional fundraiser, who inserts an

"information piece" in each mailed request for money. Excluding the fundraiser's fees, the charity spent just 9 cents of every dollar helping veterans.

Even the largest veterans' charities count huge amounts from their fundraising campaigns as charitable programs.

The Disabled American Veterans' main operation in Cincinnati spent \$118 million last year, including \$54 million originally listed as fundraising costs. But the group shifted \$21 million into program services, counting it as a "public awareness outreach" program to donors, thereby dropping its apparent fundraising costs from 48 percent of spending to 28 percent.

Still, the DAV's use of in-house fundraising staff allows it to keep a far higher percentage of donations than it would if it relied on professional fundraisers. And while direct-mail solicitations are expensive, Susan Loth, director of fundraising for the DAV, said the method makes business sense.

"That is how we acquired our donors for a long time, and so once you acquire a donor that way, that is how the donor continues to give," Loth said. "To completely eradicate that business model would be foolish, because you'd just cut off your lifeline."

With wide variations in how nonprofits allocate their spending, watchdogs say it is important for donors to dig into a charity's finances, including what it reports on the Form 990 federal tax return that most larger charities file. But that rarely happens.

Earlier this year, Public Agenda, a nonpartisan research organization, assembled focus groups in six cities to assess how donors feel about charities. Everyone on the panels had voted in the last election, given at least \$300 to charity, belonged to a civic group and served as a volunteer.

But not one had ever looked at a nonprofit's tax return.

Joyce Glenn never bothered to do much research when veterans' groups came calling at her Muncie, Ind., home.

"They send me papers all the time - the Veterans of Foreign Wars, the veterans of this and that - and I always send a little money back," Glenn said.

That changed after a call from a fundraiser for the American Veterans Coalition. Glenn's son, a veteran, was killed in a car accident four years ago, and her county veterans' affairs office helped with his funeral.

"I felt it was time to give some back to Delaware County," Glenn said. "So I told him that I would donate if it was going to the Delaware County veterans. He said fine."

But when Glenn received an envelope to send in her donation, she discovered the money wasn't destined for a local group.

"It just made me mad. I kept insisting that the only way that I would donate through them would be for it to go to the Delaware County veterans. And then they sent me literature and my check was to go to somewhere else. And I thought, 'No, this is not right.'"

John Paul Schaffer used to be on the other end of calls like those. Schaffer, of Parkersburg, W.Va., began working for a telemarketing company called Civic Development Group as a 17-year-old high school student who was thrilled to be making \$7 an hour.

Schaffer's pitch would typically start at \$75, and then drop to \$50, and then \$35. "If the answer was still no, you'd say, 'The vets really need your help. Why don't I just put you down for a 'booster' amount of \$25?'"

And then he'd try \$15.

For common resistance lines - "I'm on a fixed income" or "I have to check with my spouse" - Schaffer kept a sheet on one wall of his cubicle, with time-tested comebacks to keep the call going.

"You pitch them until they hang up on you, basically," Schaffer said. "It's really rude."

But he said he understands the economics for charities. "They're usually guaranteed 15 percent. And all they have to do for that is give the professional fundraiser permission to use their names," he said. "The shame is that that much has to be wasted so that little bit gets through."

Bracing For An Influx

In the meantime, workers at the Seattle Vet Center, about 25 miles from the American Veterans Coalition's mailbox, are bracing for an influx of veterans returning from Iraq and Afghanistan.

"This is a prolonged period of conflict that we've been in, and we're going to have more veterans, and so the need is going to be greater now that it has been in the past," said Karl Shaffer, a social worker at the VA-funded center.

Veterans make up at least a quarter of the nation's homeless population, and counselors at the center often refer vets to local shelters and other social-service agencies that rely on donations. They know there are unmet needs and that legitimate nonprofit agencies could do more, if they had more.

"It's so gratifying when the money gets to the right place and to watch the good it does and the gratitude that veterans have for it," Shaffer said. "If there was more money there, they would sure do more with it."

It is those lost opportunities that most frustrate charity watchdogs.

"That's the tragedy in this whole thing: That you have sympathetic donors who believe in the

cause, who want to support veterans, and you have veterans who need support," said Stamp, of Charity Navigator. "And somehow or another, you have inefficiencies or abuses in the middle which cause donor and recipient not to get matched up.

"That's absolutely the tragedy in this."

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