Los Angeles Times

A TIMES INVESTIGATION

For-profit fundraisers collect loads, but nonprofits see a sliver

The problem affects charities large and small, and causes including child and animal welfare, health research and opposition to drunk driving.
By Charles Piller and Doug Smith
Los Angeles Times Staff Writers

July 6, 2008

For 24 years, Citizens Against Government Waste has exposed pork-barrel spenders and rallied tax critics.

Its "Pig Book" and "porker" awards, meant to shame congressional leaders who exploit the public purse, have made the group a media darling and a political force.

But when it comes to policing its own fundraising practices, America's self-proclaimed "#1 taxpayer watchdog" seems to have lost its bite.

Records filed with the California attorney general's office show that over the last decade, for-profit fundraisers for the nonprofit kept more than 94 cents of every donated dollar. Yet donors could write off the full contribution on their tax returns.

"It's a rip-off of the taxpayer," said Pablo Eisenberg, senior fellow at Georgetown Public Policy Institute and a philanthropy scholar.

A Times investigation found hundreds of other examples of charities that pocketed just a sliver of what commercial fundraisers collected in their names. Some didn't get a dime or even lost money.

According to a comprehensive review of state records filed over a decade, the problem of paltry returns extends well beyond what has been reported in recent years among benevolent societies for police, firefighters and veterans. It affects charities large and small, well-known and obscure. It spans a range of causes, including child and animal welfare, health research and opposition to drunk driving.

In more than 5,800 campaigns on behalf of charities that were registered with the state attorney general from 1997 to 2006, the fundraisers reported taking in $2.6 billion. They kept nearly $1.4 billion -- about 54 cents of every dollar raised.

These numbers reflect only part of the problem. Though commercial fundraisers are required to file detailed fundraising reports with the state, many do not, and the law is not aggressively enforced because of limited staffing.

For-profit campaigns, which often employ telemarketing, mass mailings or one-time events, account for a small fraction of $223 billion in charitable giving each year in the United States. But they collect significant sums and help shape public perceptions of charities. Pairing computer-controlled dialing systems with low-wage workers, such firms can reach a large number of people in a short time.

"If I could forget about what percentage was going where," said Dan Halfeldt, former sales manager at one Phoenix-based telemarketer for nonprofits, "I could really say, 'Wow, I'm raising money for something good.' "

The firm, Midwest Publishing Inc., consistently offered among the lowest returns by large fundraisers. It did not respond to written questions about its operations.

The fundraising business is growing. More than 300 fundraisers have registered in California. Since 2000, the number of campaigns and amounts raised by for-profit firms has risen by about two-thirds.

Among the charities that netted little from such campaigns were the Humane Society of the United States, the American Breast Cancer Foundation, the Christian social-action group Concerned Women for America, the National Right to Life Committee and Students Against Destructive Decisions.

Among The Times' findings:

* More than 100 charities raised $1 million or more from commercial appeals but netted less than 25 cents per dollar. Fundraisers got the rest.

* In 430 campaigns, charities got nothing: All $44 million donated went to fundraisers. In 337 of those cases, charities actually lost money, paying fees to fundraisers that exceeded the amount raised.

* In hundreds of other campaigns, charities apparently entered into contracts that limited their share of donations to 20% or less, no matter how successful the campaign.

* Groups with strong emotional or patriotic appeal -- those supporting animals, children, veterans and public safety workers, for instance -- often fared worst. Missing-children charities received less than 15% of more than $28 million raised on their behalf.

Many nonprofits rely heavily on set-rate contracts and aim their campaigns toward a mass audience, which is less efficient than targeting a defined set of donors.

In general, charities argue that it takes money to make money and that the benefits of commercially run campaigns may not show in state filings.

For instance, Citizens Against Government Waste said that its telemarketing was meant to find donors who would give regularly, not necessarily to raise a large sum in a single campaign.

To critics, that argument often excuses wastefulness or profiteering -- and every charity pays for that.

Some charities "take advantage of American generosity," said Bennett Weiner, an executive with the Better Business Bureau research program Wise Giving Alliance. They "accomplish very little, siphon off good money from the community and tarnish the well for more legitimate nonprofits."

By donating to inefficient charities, said Daniel Borochoff, president of the American Institute of Philanthropy, "you are taking money out of the mouth of a hungry kid."

Urgent accounts

"Where are the children? Where did they go?" a child's mournful voice sings on the website of Operation Lookout -- National Center for Missing Youth. "Are they held captive or do they run free? . . . Oh, where can they be?"

The group's online, telemarketing and door-to-door outreach materials offer urgent accounts of runaways or kidnapping victims -- and equally urgent pleas for cash.

Commercial firms reported having raised more than $6 million for Operation Lookout, based in Everett, Wash., since 1999. Less than $1 million reached the charity.

A current contract between the fundraiser and the charity sets a minimum 15% return on donations. In practice, over the years, 15% has been the maximum. In each year from 2000 to 2006, it received exactly 15% -- not a penny more or less -- of funds collected in its name by commercial fundraiser Midwest Publishing.

Operation Lookout did not respond to requests for comment.

The charity has posted a defense of its fundraising on its website, blaming accounting requirements for distorting its results: "In some instances, accounting rules require that we combine volunteer recruitment, calls to action and public education making them appear as a 'fundraising' expense."

Neither of the nation's two major accounting standards bodies has ruled that such costs must be combined.

Based on tax returns and other sources, the American Institute of Philanthropy ferrets out hidden costs of fundraising by charities -- including but not limited to commercial campaigns. It estimated that Operation Lookout spent 84 cents to raise each dollar in its 2006 budget of $2.1 million, a worse record than all but 18 of more than 500 rated charities.

The philanthropy institute normally considers up to 35 cents to raise a dollar as a reasonable cost.

The Times analysis of commercial campaigns in California found inefficiency to be typical among missing-child groups: On average more than 85 cents per dollar went to the fundraiser.

However, some charities of this kind eschew commercial fundraisers, including the National Center for Missing and Exploited Children. Ernie Allen, its chief executive, said groups that rely on minuscule returns taint the entire field.

Patty Wetterling co-founded the Jacob Wetterling Foundation in 1990, after her 11-year-old son was kidnapped at gunpoint. Jacob has not been found.

"Missing children's organizations spring up out of crisis," she said. "Fundraisers exploit these devastating situations."

But groups shouldn't allow themselves to be overcharged by fundraisers over and over, she said. They "need to learn."

6% for the charity

Vickie Bouska, a retiree in Hiawatha, Iowa, became a donor to Citizens Against Government Waste after she heard leaders' arguments on television and received a fundraising letter. The group addressed her fears about the future.

"I'm scared to death of what we're leaving our children," she said. "The Chinese or the Canadians are going to own us, because no one in Washington can close the pocketbooks."

But she was stunned to learn from a reporter how much money the group ceded to its commercial fundraisers. Of $879,000 raised in the decade examined, $49,000 -- 6% -- reached the charity.

"They aren't really getting the money," Bouska said, "so why am I sending it?"

Thomas Schatz, president of the Washington, D.C.-based group founded by industrialist

J. Peter Grace and muckraking journalist Jack Anderson, defended its fundraising.

"The purpose of telemarketing is not always to 'come out ahead,' though that's always the goal, but to reinforce [donors] for the future," he said.

The Los Angeles-based fundraiser Facter Direct, which conducted the group's telemarketing campaigns, declined to comment on its work for Citizens Against Government Waste. On average, state data show, it returns 39% of what it raises to its clients, slightly less than the industry norm.

"The numbers on the surface don't always tell the whole story, said the firm's president, Tom Siegel. "Organizations are not stupid. They recognize the cost of telemarketing and the annoyance of it. But . . . they recognize that it's one of the most effective ways to raise money" over the long run.

Schatz noted that the telemarketing campaigns reported to the state reflect a small portion of his organization's overall fundraising. Direct mail by commercial solicitors -- an approach used by the group for two decades -- provides most of its approximately $5.4 million in annual revenue and is more efficient, he said.

It proved impossible to verify that claim, because only one direct-mail campaign of behalf of Citizens Against Government Waste was registered with the state, as required, in the 10-year period. That one showed no revenue.

Citizens Against Government Waste suggested that its overall fundraising was highly efficient -- costing just 19 cents per dollar raised, according to its 2006 tax return.

But the group came up with that figure by designating most direct-mail and telemarketing costs as "services." The practice is legal if information, such as criticism of pork-barrel projects, is included in fundraising pitches. The American Institute of Philanthropy estimated the actual cost of the group's overall fundraising at 69 cents per dollar.

Some other economic-policy nonprofits steer clear of commercial fundraisers, emphasizing foundation grants and direct contact with donors.

Telemarketing and mass mailings can raise awareness, but "there's always something about it that rubs me the wrong way," said Ryan Alexander, president of Taxpayers for Common Sense in Washington, D.C. "It's important that people know that their dollars are going to the mission."

Joseph Bast, president of the Heartland Institute, a Chicago nonprofit that promotes free-market approaches to environmental and social problems and accepts corporate donations, said he didn't trust telemarketers to safeguard his group's image, especially when returns can be low.

"It's not a very good risk," he said.

Costs and credibility

American generosity has its limits. The charitable pie in the U.S. has accounted for about 2% of the gross domestic product since 1970.

Meanwhile, the number of charities has risen dramatically. More than 1.9 million nonprofits -- one for every 150 U.S. citizens -- fill gaps in government services, give voice to diverse views and compete fiercely for this limited share of donor dollars.

Tax laws, designed to encourage giving, don't take into account how much money reaches the charitable cause. Donors to commercially run drives can write off the entire donation, even if most of it goes to the fundraiser.

Lawmakers periodically have considered reining in the fundraising industry. But the U.S. Supreme Court has limited their options by upholding the free-speech rights of fundraisers and charities.

Recently, public confidence has been shaken by news of inefficient for-profit fundraisers used by police and firefighter charities. And congressional hearings depicted some veterans' charities as little more than shells that enrich fundraisers and executives.

In a national survey conducted in March, 70% of those polled said charities waste "a great deal" or "a fair amount" of their funds.

Charities "may be losing their most prized possession: their reputation for caring," said Paul C. Light, a professor of public service at New York University who wrote the survey and has studied nonprofit governance for more than two decades.

Many charities hire for-profit fundraisers precisely because they need help selling themselves to a skeptical public. They can be "a godsend and a lifesaver," particularly for charities without staff fundraisers, said Diana Aviv, chief executive of Independent Sector, a trade group for nonprofits.

Limited information is available about such firms; most are privately held and many shun the media.

Those that specialize in nonprofits with long-standing patron networks tend to offer better returns. New York-based telemarketer DCM Inc. works exclusively for arts groups, including the Los Angeles Philharmonic, targeting ticket buyers and former donors. It enjoys one of the best records in the business, returning, on average, 72 cents per dollar raised.

"I don't think that telemarketing is a great contribution to Western civilization, but art is," said Phil Miller, DCM's president. "We provide a good service for great organizations."

Even so, many charities get stuck with unfavorable terms.

A contract between Michigan-based TeleService USA and the veterans charity VietNow makes donor lists "the exclusive property" of the fundraiser. If the charity switches fundraisers, it would lose access to past supporters -- the most likely future donors.

TeleService USA, which delivered to its clients, on average, 11 cents per dollar raised, did not respond to requests for an interview.

Hundreds of charities follow the practice used by Operation Lookout, many accepting set-rate contracts that deliver a sliver of gross donations. For small charities, the contracts seem to minimize risk: Fundraisers pay upfront costs, and charities get guaranteed -- if often small -- returns.

But major charities are the dominant users of for-profit fundraising, whether to raise money for basic costs or to expand a donor base. Among 1,614 charities with commercial campaigns registered in California, 100 accounted for 73% of gross donations. Just two, Paralyzed Veterans of America and the American Diabetes Assn., together took almost 14%.

In theory, large charities use for-profit firms more efficiently because they can tap long-standing donor networks. In practice, they do little better than small ones.

Fundraisers for these major groups, meanwhile, reaped a windfall. Those for the 100 top-grossing charities received nearly $977 million, and firms for just the top two pocketed $171 million combined.

"Often the most popular causes . . . solicit everyone under the sun to get a few dollars from almost everyone," said Borochoff, of the American Institute of Philanthropy. "That's a really expensive way to raise money."

Donors often have no idea where their money goes.

Disillusioned donor

Pamela Kay Weeks lost both breasts to cancer. After she recovered, she received letters and calls from the American Breast Cancer Foundation, a Baltimore charity that listed research as a priority. Hoping to spare others what she suffered, Weeks wrote a check -- the first of many.

"I'm not a wealthy person," said Weeks, 51, an executive secretary who lives in Sneads, Fla. "I've given what I can."

Weeks thought her donations were headed for a philanthropic powerhouse. But the foundation is one of the nation's least efficient charities, according to the American Institute of Philanthropy and Charity Navigator, another watchdog group.

In 2006 just 2.5% of the American Breast Cancer Foundation budget went to research and 10.5% to mammograms or other services unrelated to fundraising.

In reports filed with the California attorney general from 2003 through 2006, the foundation said it raised $5.8 million from fundraisers, netting just $700,000, or 12%.

The foundation had a particularly close link to one fundraiser, although there was no sign of it in state files.

Phyllis Wolf, executive director of the foundation, created the charity in 1997 with her son Joseph Wolf and two friends. The son worked for the foundation in its early years, then began a for-profit fundraising firm called Non Profit Promotions.

From 2002 through 2006, the foundation paid Non Profit Promotions an average of almost $3 million annually, according to foundation tax returns. That's not illegal, but it violated conflict-of-interest policies used by several large charities and a model policy by the Better Business Bureau.

And despite state laws requiring fundraisers to submit results, no reports by Non Profit Promotions were on record in California or other states whose files were checked by The Times.

Neither Phyllis Wolf nor Joseph Wolf replied to written questions about their fundraising.

Weeks was surprised -- and saddened -- to hear where most of the donors' money went.

"I figured that a lot of it goes to paying people to research cancer," she said. "It's unreal, hard to believe."

charles.piller@latimes.com

doug.smith@latimes.com

Researchers Maloy Moore and Scott Wilson contributed to this report.

If you want other stories on this topic, search the Archives at latimes.com/archives.