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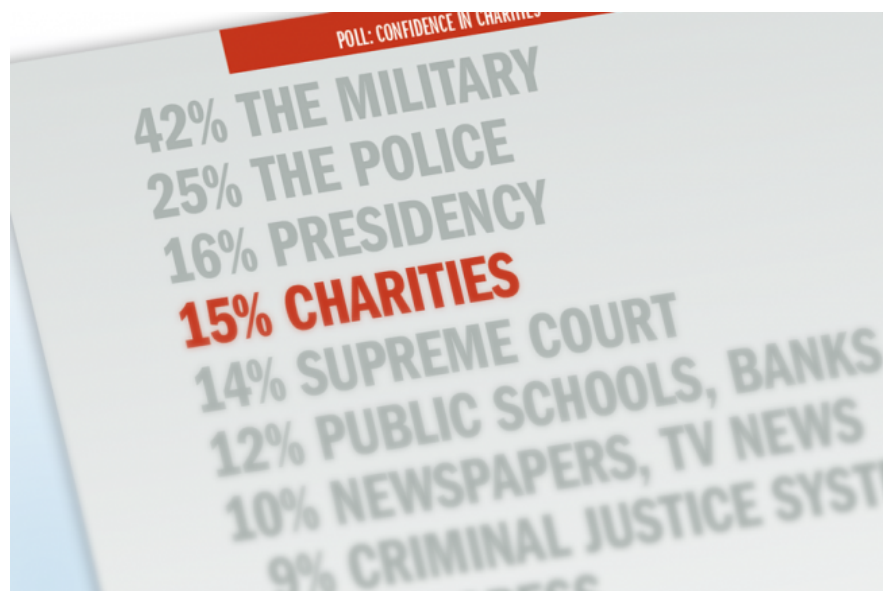
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NEWS AND ANALYSIS

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## Chronicle Survey Says 35% of Americans Lack Confidence in Charities

Many people say they lack confidence in nonprofits. Here's why charities should listen.



By Suzanne Perry

When Emily Rafferty, who was then president of the Metropolitan Museum of Art, found herself seated next to John Boehner, the Republican speaker of the House, at a dinner last spring, she decided to ask him what were the biggest concerns elected officials had about the nonprofit world.

She expected him to say something about taxes. "Usually with the charitable sector in Washington, the conversation is all about tax deductions," she says. "That's the biggest concern people seem to have," she says.

Instead, he said: "Abuse of the system."

Ms. Rafferty, who recently retired, told that anecdote at a fundraising conference in New York in June, saying she wanted to remind fundraisers that as the people who talk to donors and accept their checks, they are in a position to ensure that "the integrity of an institution stays sacred."

The story is another reminder that reports of charity fraud or mismanagement, which Ms. Rafferty says she thinks influenced Mr. Boehner's response, can fuel doubts about organizations that rely heavily on the public trust — to raise money, attract volunteers, and justify tax exemptions and deductions.

A new *Chronicle* nationwide poll found that 62 percent of Americans have a "great deal" or "fair amount" of confidence in charitable organizations. But there were signs of skepticism: About 35 percent said they have "not too much" confidence in charities or "none at all." That represents a sizable number of turned-off potential donors.

Only 13 percent said charities are very good at spending money wisely. And 41 percent think their leaders are paid too much.

Understanding those views is crucial, say nonprofit researchers. A new study, *Money for Good 2015*, concluded that charities could raise more money if they better understood how donors think — noting that giving has not risen much above 2 percent of gross domestic product since the 1970s.

In focus groups and online surveys of people with household incomes of at least \$80,000, the top donor concern, named by 49 percent, was "how the organization uses my money."

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## WHO HAS "A GREAT DEAL" OR A "FAIR AMOUNT" OF CONFIDENCE IN CHARITIES:

- 18- to 29-year-olds: 66%
  - People 65 and older: 54%
  - Women: 66%
  - Men: 57%
  - College graduates: 73%
  - People with some college: 56%
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Donors also expressed concern about how charities operate, some agreeing, for example, that "I am not sure who benefits from the work a nonprofit does," "I have concerns about 'enabling' others," and "nonprofits always seem to be in crisis."

Hope Neighbor, a partner at Camber Collective, which published the study, says the nonprofit world should do more to teach donors about how charities work and what they achieve. "I don't think there's any way an individual nonprofit can move the needle on the way Americans think about charity," she says. "It's absolutely critical we have sectorwide messaging."

### Donor Skepticism

Ms. Neighbor is not alone in wishing that nonprofit leaders would take the question of public skepticism more seriously.

Doug White, director of the master of science in fundraising program at Columbia University, is among a small group of nonprofit advocates who regularly push the charitable world to do more to promote ethical behavior and call out bad actors.

He notes that charities get higher confidence marks than government or business, but that's no reason to relax.

"You want to have 100 percent of people who are confident in charities or zero percent that don't have confidence."

His dream? To start a foundation that would build public confidence by helping donors understand how charities operate so they can make better giving decisions — and ensure that charities are actually helping society. "It's about making society better," he says, "in a way that government and business don't."

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### **WHO THINKS CHARITIES DON'T SPEND MONEY WISELY:**

- People age 65 or older: 41%
  - People ages 30 to 49: 29%
  - Republicans: 38%
  - Democrats: 22%
  - Whites: 36%
  - Nonwhites: 27%
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Emmett Carson, chief executive of Silicon Valley Community Foundation, compares nonprofit scandals to the sexual-abuse charges against Catholic priests. "No one thinks that every Catholic priest engages in abuse," he says. "But the fact that one Catholic priest may do it and be protected tarnishes the entire priesthood."

He has been arguing for at least a dozen years that nonprofit leaders need to repudiate organizations that act unethically; establish "defensible" benchmarks for appropriate nonprofit executive compensation (a topic that often invites public criticism); and build public trust by speaking out in a more unified way about the big issues of the day.

His proposal: The philanthropic world, which has an abundance of national and regional associations, should consolidate to better serve as "the conscience of the nation" on issues like income inequality and the racial education gap. That could include merging its two most prominent membership associations, Independent Sector and the Council on Foundations, he says.

### **Little Oversight**

The concern about spending is no doubt fueled by news coverage of charity scandals. Most recently, media outlets across the country carried stories about four allegedly sham cancer charities that the Federal Trade Commission and state regulators said had bilked consumers out of \$187 million over four years through deceptive fundraising practices that benefited family and friends.

The charities had been operating for years before the regulators were able to crack down on them.

ProPublica and NPR have published a series of articles in recent months questioning how the American Red Cross spent donations for Haiti relief, prompting Congressional inquiries.

But the system for monitoring unethical or illegal behavior is frayed. A General Accountability Office report issued last December concluded that the Internal Revenue Service's ability to oversee charities had been hampered by staffing and budget cuts, with a consequent drop in the number of audits. While state regulators are working together more closely — on the sham-cancer-charity case, for example — many lack the resources to properly oversee the country's burgeoning number of charities.

Yet the nonprofit world has few mechanisms for policing itself. National and state trade associations have adopted codes of ethics, like Independent Sector's 33 Principles for Good Governance and Ethical Practice, which outlines ways charities should comply with the law, monitor their finances, disclose relevant information to the public, govern their organizations effectively, and conduct ethical fundraising efforts.

But critics say such efforts are toothless because there is no penalty for violations. Diana Aviv, in an interview just before she left her job as Independent Sector's chief executive to head the charity Feeding America, suggested that setting up a system with teeth would be harder than it looks. Independent Sector is a voluntary association, she says, and if it started investigating its members, they could just choose to withdraw.

One way to create effective oversight, she says, would be to set up an independent body, financed by government and mandatory fees from foundations and nonprofits, that would conduct investigations — and it would have to be armed with subpoena power.

The Panel on the Nonprofit Sector, a group of nonprofit leaders that was set up in 2004 to advise Congress when it was considering a charity legislative package, debated proposing a government body like the Charity Commission, which registers and regulates charities in England and Wales.

But they concluded that oversight should remain at the IRS, Ms. Aviv says, given that few political appointees ran the agency, "and that Congress likely would not create a new structure that would be an improvement on the status quo."

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### **WHO SAYS IT'S VERY IMPORTANT TO KNOW THAT CHARITIES SPEND LOW AMOUNTS ON SALARIES, ADMINISTRATION, AND FUNDRAISING BEFORE MAKING A GIFT:**

- People earning at least \$75,000: 62%
- People earning \$30,000 to \$49,900: 43%

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While Ms. Aviv likes the idea of an independent body, she says lobbying for one isn't top priority. Instead, she says, she favors ensuring that state and federal oversight officials have enough money. "It's not acceptable that we are put in the position that because lawmakers are angry with the IRS on a bunch of other issues, they keep cutting funds in a way that makes it impossible for that agency to answer the telephone, let alone do serious oversight."

### **Few Examples**

The closest the charity world has to a self-regulatory system is the Evangelical Council for Financial Accountability, a group set up in 1979 following a financial scandal involving a Catholic order, the Pallotine Fathers in Baltimore.

Its nearly 2,000 Christian-charity members must follow seven standards — for example, setting executive compensation according to specific guidelines and publishing truthful communications — and are accredited each year. They can be suspended or terminated for failing to follow the standards.

The website lists all members in good standing as well as former members, along with an explanation about why they left. For example, the Christian Life Ministries was "terminated for failure to provide complete renewal information" this year. The Wesley Biblical Seminary resigned last year while under review for compliance with two standards: one asking organizations to honor a donor's intent and another asking them to adopt controls that ensure they operate in a responsible and legal manner.

It's a voluntary association and has no authority over nonmembers, so is not a perfect system. Still, Dan Busby, the group's president, says he is surprised that no other parts of the nonprofit world have followed suit. "Thirty-five years later," he says, "we're the only peer-accountability group in the church or nonprofit world that exists."

### **Timely Information**

Technology is proving to be a game changer in terms of shining more light on nonprofit operations, making it easier for donors or regulators to spot mismanagement or fraud. Form 990 tax documents are easily available at online sites like GuideStar and Charity Navigator, offering insights into executive compensation, fundraising costs, and good governance policies in areas such as conflicts of interest.

But finding timely information about charity finances remains frustratingly hard.

The most recent Forms 990 posted for many charities are for the 2013 fiscal year. And there is still no equivalent in the nonprofit world to the Financial Industry Regulatory Authority, a group authorized by Congress to write and enforce rules governing securities firms. It issues investor alerts, highlights fraud and scams, and offers a database to check whether firms have been subject to complaints or regulatory action.

Take the recent collapse of FECS Health and Human Services, a big Jewish charity that announced in January it was shutting down amid a \$19.4-million shortfall. John MacIntosh, a partner at SeaChange Capital Partners, a nonprofit merchant bank, conducted an analysis of the shutdown, which sent shock waves through New York's social-service groups, disrupting millions of dollars of government contracts for job services and other help to poor and disabled people.

Mr. MacIntosh fears the charity's failure will anger state and city officials, who will wonder why "nonprofits just can't get it right, and prompt them to propose cosmetic changes, like caps on executive compensation or administrative costs.

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### **WHO THINKS GIFTS FOR THE POOR SHOULD GET BIGGER TAX BREAKS THAN THOSE TO OTHER CAUSES:**

- Democrats: 23%
  - Republicans: 15%
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He pointed to factors including risky investments, limited philanthropy, and insufficient overhead payments by government contracts. But one had to do with reporting requirements: In terms of useful details, he says, the Forms 990 and audited financial statements that nonprofits file pale in comparison with the Form 10-K that public companies must complete annually. Those offer information "in plain English" about the nature and structure of the business, risk factors, financial data, corporate governance, and executive compensation.

If FEES had been required to file a similarly comprehensive report each year, he says, the public and the board might have detected red flags while there was still time to intervene. He encourages nonprofits to think of ways to communicate more timely information, praising efforts by a small number of groups to hold quarterly-earnings-type conference calls.

### **Negative Publicity**

Media outlets that write about charity scandals often get tremendous reader response, but some argue that journalism contributes to the public-trust problem because it is so uneven.

David Cay Johnston, a veteran reporter formerly of the *New York Times*, says it reflects the "Madonna-whore" complex: "Either you're a goody-goody nonprofit or you're evil, not recognizing that most of it is in between."



Kendall Taggart, then a reporter at the Center for Investigative Reporting, worked on a project in 2013 to identify "America's Worst Charities," those that spent most of the money they raised on commercial fundraisers instead of on helping people.

"I was most surprised at how hungry the public seemed to be to understand the charitable sector," says Ms. Taggart, now an investigative reporter at BuzzFeed News.

Readers nominated more than 400 additional organizations that the reporters should scrutinize, she says, many expressing anger that regulators were not doing more to crack down on abuses. Yet "I don't think the nonprofit sector is covered very well," she says. "Everyone seems to touch on it, but I can't think of a single national reporter really focusing on it."

Some critics argue that media coverage, in fact, overstates the amount of charity wrongdoing.

Dan Pallotta, a marketing executive, author, and speaker, has built a new group, the Charity Defense Council, around the thesis that nonprofits are unfairly tarnished by negative media coverage, especially of their spending on overhead and executive pay.

He has been on a crusade to change the way people think about such costs since the 1990s, when his former for-profit fundraising company faced disputes with charities over expenses for bike rides and walks the company organized. The Charity Defense Council, about to hire its first executive director, hopes to raise millions of dollars for advertising and other campaigns to change public perceptions of nonprofits.

"It's a massive, massive, massive job to change the way the public thinks about something," Mr. Pallotta says. The council hoped to raise money by organizing a three-day march earlier this year but called it off after it attracted little interest.

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## WHO THINKS ALL DONATIONS SHOULD GET THE SAME TAX BREAKS:

- Those earning \$50,000 to \$74,900: 90%
  - Other income groups: 70% to 79%
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The group, which includes prominent nonprofit leaders on its advisory board, issued its first media-watchdog report in August, criticizing the ProPublica-NPR report on the Red Cross. (ProPublica defended its work, saying the findings were based on Red Cross documents and accounts from a dozen current and former charity employees.)

### Widespread Misinformation

Mr. Carson of the Silicon Valley Community Foundation proposes a different approach. He says a nonprofit-association body should help journalists distinguish between good and bad actors, asking independent investigators to examine allegations of misconduct.

For example, in addition to the reports about the American Red Cross, news stories have raised questions about the Clinton Foundation's operations. "I say questions because I don't know what the facts are," he says. "But it would seem that our infrastructure institutions should help the public interpret what is reasonable and customary, what is unusual, and what is inappropriate."

Mr. Delaney of the National Council of Nonprofits says reporters who call his office often lack knowledge about nonprofits — for example confusing those that have the right to support political campaigns and 501(c)(3) charities, which do not. "We hear people saying we're not giving to charitable organizations again if the money is given to partisan purposes," he says.

He wishes that journalism schools required students to take a course in nonprofits and thinks foundations should consider financing journalism education.

But he asks himself whether the money would be better spent solving social problems. "Do we want to be worried about public opinion or public lives?" he says. "For those organizations that rely on direct public support for donations, certainly you can't ignore [public opinion]. You also can't ignore the human pain and suffering that needs to be addressed."

*Send an e-mail to Suzanne Perry.*

*This article is part of:*

HOW NONPROFITS CAN GAIN THE PUBLIC'S TRUST

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