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GIVING

## How Donated Dollars Turn Into Pennies

By PETRA BARTOSIEWICZ

**R**AISING money for the children of slain police officers has proved a costly proposition for the International Narcotic Enforcement Officers Association. Since 1997, this nonprofit group, based in Albany, has used a professional fund-raising company that hits the phones to seek donations on its behalf. Its 2002 drive seemed a success, raising over \$428,000. But that was before the fund-raiser's cut. The association's final take was a little over \$57,000, just 13 percent of the total.

"It's low, but it's better than nothing," said John Bellizzi, the association's executive director. "This year we'll probably have to cut down on scholarships." In past years, the association has received a higher percentage of the donations, but the rate declined after the fund-raiser complained of increased overhead costs, Mr. Bellizzi said.

Nonprofit organizations, especially small groups like police and firefighter associations, have long used professional fund-raisers to help raise cash through phone campaigns, often losing the bulk of the donations to the fund-raiser's fee, generally a percentage stated in a contract. The arrangement, though an inefficient, scorched-earth method of raising cash, is common and perfectly legal, say officials in state attorneys general offices who track the nonprofit sector.

In the long term, such practices are "really bad for the charitable sector, because people are eventually going to wake up and stop giving," said Trent Stamp, executive director of Charity Navigator, which runs a charity-rating site ([charitynavigator.org](http://charitynavigator.org)).

Industry groups like the Direct Marketing Association, which represents marketing professionals including fund-raisers, say low returns for some charities may result more from their start-up costs than from fund-raisers' behavior. "Certainly there are some bad apples out there, but it's not enough to castigate the entire fund-raising community," said Senny Boone, executive director of the Nonprofit Federation of the Direct Marketing Association.

How can donors know how much of their gifts are going to a worthy cause? It is a complex calculus, one

that consumers are unlikely to delve into deeply when interrupted by a phone call at dinner time. Professional fund-raisers collected \$184 million in telemarketing campaigns on behalf of charities registered in New York in 2002. Of that, two-thirds went to fund-raiser fees, according to the state attorney general's office.

Groups like the Wise Giving Alliance of the Better Business Bureau urge people to ask what portion of contributions go to fund-raising costs. Anything above 35 percent, they say, should raise eyebrows.

Online guides also provide information. Charity Navigator and GuideStar.org list financial statements, and Better Business Bureaus track donor complaints.

Charitable giving by Americans reached \$241 billion last year, up \$6.6 billion from 2002, according to the Giving USA Foundation, a group that tracks the philanthropic sector; individuals contributed \$179 billion of that.

For nonprofits seeking to generate funds without running up high overhead, hiring an outside fund-raiser can be an attractive option. Large institutions, like some universities or hospitals, can afford an in-house fund-raising staff, but smaller nonprofits often turn to a professional.

"It is hard raising money," said Pete Fennelly, spokesman for the Cancer Fund of America, a charity that employs several outside fund-raisers. "We can't raise enough funds doing bake sales or car washes."

Commercial fund-raisers are subject to Federal Trade Commission regulations and fair-business standards, and the Internal Revenue Service monitors tax compliance by charities and nonprofits. For the most part, however, oversight is left to state attorneys general. "It's relatively archaic that we don't have any national body to oversee charitable fund-raising," Mr. Stamp said. "This is not the mom-and-pop sector that it once was; this is big business."

In recent years, attorneys general in states like New York and California have called for tighter restrictions on fund-raisers. But as recently as May 2003, the United States Supreme Court has held that imposing fee limits on fund-raisers would violate their First Amendment rights. Instead, most states have taken smaller steps, like requiring professional fund-raisers to register and file financial reports.

"These are for-profit companies, and they do need to cover their expenses," Ms. Boone said. "Regulators want the easy solution of assigning a particular percentage return, which is fine when you're dealing with the for-profit sector, but that doesn't work with nonprofits because you're depending on volunteer donations."

In its fund-raising effort, Mr. Bellizzi's officers association hired the Civic Development Group of Edison, N.J. A national telemarketing company that often raises funds for police and firefighter groups, it collected \$15 million for seven nonprofits in New York in 2002 and kept all but \$2 million, according to the state attorney general's office. The company has been sued in 12 states and by the Federal Trade

Commission, in most cases accused of misleading prospective donors about where their money would go. It has agreed to about \$900,000 in settlements since 1995.

For a report last October on "Dateline NBC," company managers were taped giving a pep talk to employees. "Go get them!" one unidentified manager exhorted. "Ever so politely, with your foot right on their jugular."

Mr. Bellizzi said he had not been aware of the "Dateline" report or of the lawsuits against Civic Development. "I'm not happy with it," he said. "This may be a reason for us to look further."

A spokeswoman for Civic Development declined to comment.

TELEMARKETING fund-raisers are unlikely to disappear anytime soon. Although the National Do Not Call Registry, introduced last year, has cut down on phone solicitations in general, charities and the fund-raisers they hire are not bound by it. As a result, charity watchdog groups say, commercial telemarketers squeezed by the registry are moving to the nonprofit sector, which may mean that consumers will receive as many fund-raising calls as they did in the past, but for causes, not products.

Consumer advocates say donors should plan gifts in advance and give only to groups they have researched thoroughly. The New York attorney general's office offers an annual "Pennies for Charity" report listing professional fund-raisers who solicit by phone for nonprofit groups. It lists the percentages fund-raisers receive from money they raise ([www.oag.state.ny.us/charities/charities.html](http://www.oag.state.ny.us/charities/charities.html)).

Many professionals in nonprofit fund-raising blanch at the enormous commissions charged to charities, even if the charities themselves are willing to accept a dismal return rate rather than no donations at all.

"Sometimes it's too easy to hire an outsider who comes in with a good sales pitch," said Walter Sczudlo, executive vice president of the Association of Fundraising Professionals, a group representing more than 26,000 fund-raisers. It requires members to sign a code of ethics, pledging not to accept compensation on a percentage basis when raising money for charities. "There's nothing wrong with making a profit," Mr. Sczudlo said. "But the problem is making a profit off the back of the charitable sector."